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FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - II

Ind AS 41 : AGRICULTURE

1) **Scope -** applies to biological assets (except bearer plants), agricultural produce at the point of harvest, and government grants related to these biological assets.

2) It does not apply to land related to agricultural activity, intangible assets related to agricultural activity, government grants related to bearer plants, and bearer plants. However, it does apply to produce growing on bearer plants

3) **Definitions :-**
   a) Biological Asset – A living animal or plant
   b) Agricultural Produce - The harvested product from biological assets
   c) Agricultural Activity - the management of the biological transformation & harvest of biological assets for sale or for conversion into agricultural produce
   d) Harvest – It is the detachment of produce from a biological asset or the cessation of a biological asset's life processes
   e) Costs to Sell - The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes

4) **Initial Recognition -** An entity recognises a biological asset or agriculture produce only when
   a) the entity controls the asset as a result of past events,
   b) it is probable that future economic benefits will flow to the entity, and
   c) the fair value or cost of the asset can be measured reliably

5) **Measurement -** Biological assets are measured on initial recognition and at subsequent reporting dates at fair value less estimated costs to sell, unless fair value cannot be reliably measured. It is assumed that fair value can be reliably measured for most biological assets. However, if at the time any biological asset is initially recognised, it does not have a quoted market price in an active market and for which alternative fair value measurements are determined to be clearly unreliable then the asset is measured at cost less accumulated depreciation and impairment losses. If circumstances change and fair value becomes reliably measurable, a switch to fair value less costs to sell is required

6) Agricultural produce is measured at fair value less costs to sell at harvest. This measurement is considered the cost of the produce at the time Ind AS 2 or any other standard applies.

7) The gain on initial recognition of biological assets at fair value less costs to sell and changes in fair value less costs to sell of biological assets during a period, are included in profit or loss

8) A gain on initial recognition (e.g. as a result of harvesting) of agricultural produce at fair value less costs to sell are included in profit or loss for the period in which it arises.

9) Unconditional Govt. Grant for a Biological Asset should measured at fair value less costs to sell are recognised in profit or loss when the grant becomes receivable
10) Conditional Govt. Grant for a Biological Asset(including where the grant requires an entity not to engage in certain agricultural activity), should be recognised in profit or loss only when the conditions have been met.

11) If Govt. Grant relates to a Biological Asset measured at Cost – Acc. Depre. – Acc. Impairment Loss(because its fair value could not be reliably measured), then Ind AS 20 should be applied.

Ind AS 12 : INCOME TAXES

1) **The objective of Ind AS 12 is to prescribe the accounting treatment for income taxes.**

2) **DEFINITIONS**

a) **Tax Base -** The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes

b) **Temporary Differences -** Differences between the carrying amount of an asset or liability in the statement of financial position and its tax bases

c) **Taxable Temporary Differences -** Temporary differences that will result in taxable amounts in determining taxable profit (or tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled

d) **Deductible Temporary Differences -** Temporary differences that will result in amounts that are deductible in determining taxable profit (or tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled

e) **Deferred Tax Liability(DTL) -** The amounts of income taxes payable in future periods in respect of taxable temporary differences

f) **Deferred Tax Asset(DTA) -** The amounts of income taxes recoverable in future periods in respect of deductible temporary differences

g) **Current Tax -** Current tax for the current and prior periods is recognised as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due. Current tax assets and liabilities are measured at the amount expected to be paid to (recovered from) taxation authorities, using the rates/laws that have been enacted or substantively enacted by the balance sheet date

h) **Temporary Difference =** Carrying Amount – Tax Base

i) **DTL/DTA =** Temporary Difference X Tax Rate

j) **Tax Base -** The tax base of an item is crucial in determining the amount of any temporary difference, and effectively represents the amount at which the asset or liability would be recorded in a tax-based balance sheet. For Eg :-

   a. **PPE -** The tax base of property, plant and equipment that is depreciable for tax purposes that is used in the entity's operations is the unclaimed tax depreciation permitted as deduction in future periods

   b. **Receivables -** If receiving payment of the receivable has no tax consequences, its tax base is equal to its carrying amount etc

3) **Recognition of DTL & DTA -** A deferred tax liability is recognised for all taxable temporary differences. A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

4) **Measurement of Deferred Tax -** Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period. The measurement reflects the entity's expectations, at the end of the reporting period, as to the manner in which the carrying amount of its assets and liabilities will be recovered or settled.

5) DTL/DTA should not be discounted to its Present Value

6) Tax Expense = Current Tax + Deferred Tax

7) DTL & DTA should be set-off if permissible under the tax laws. Otherwise they need to be shown separately

8) The company needs to disclose the breakup of DTL & DTA.

PROBLEMS ON Ind AS 12 – INCOME TAXES

Q.1. 1. Cost of asset purchased in year 1 = 200 lakhs
2. Depreciation
   a) Book at 20%
   b) Income tax 100%
3. PBDT = 200 lakhs each for years 1 to 5
4. Rate of tax = 50%

Calculate deferred tax and show journal entries.

Q.2. 1. Profit before tax for year 1 and year 2 = ₹ 200 lacs each
2. Provision for interest on loan from Financial Institutions in year 1 = ₹ 20 lacs paid in year 2

Rates of tax = 50%

Calculate deferred tax and show journal entries.

Q.3. Krishna Ltd. started business on 1st April 2017. The following details are available from the books of account and other records of Krishna Ltd.

Profit before depreciation and taxes

	₹
2017 - 2018	15,00,000
2018 - 2019	18,00,000
2019 - 2020	25,00,000
2020 - 2021	30,00,000

The company purchased the following machines :

Date of purchase	Amount (₹)
1. 4. 2017	4,00,000
1. 4. 2018	3,00,000
1. 4. 2020	4,00,000

The company charges depreciation on machines @ 15% p. a. by WDV method, whereas the rate of depreciation for tax purpose is 25% p. a. The company has no other fixed assets. Tax rates for the five relevant years were 50%, 45%, 40%, 35% and 35% respectively.

You are required to prepare the profit and loss statement showing the provision for taxes As per Ins AS 12.

Q.4. A company ABC Ltd. prepares its accounts annually on 31st March. The company has incurred a loss of ₹ 1,00,000 in the year 2017 and made profits of ₹ 50,000 and 60,000 in year 2018 and year 2019 respectively. It is assumed that under the tax laws, loss can be carried forward for 8 years and tax rate is 40% and at the end of year 2017, it was virtually certain, supported by convincing evidence, that the company would have sufficient taxable income in the future years against which unabsorbed depreciation and carry forward of losses can be set-off. It is also assumed that there is not difference between taxable income and accounting income except that set-off of loss is allowed in years 2018 and 2019 for tax purposes.

Q.5. Rama Ltd. a listed company started business on 1st April, 2017. The following details are available from the books of account and other records of Rama Ltd.

Profit before depreciation and taxes.

	₹
2017 – 2018	14,45,500
2018 - 2019	18,20,200
2019 - 2020	24,56,560
2020 - 2021	30,22,280

The Company purchased the following machines :

Date of purchase	Amount (₹)
1. 4. 2017	3,45,000
1. 4. 2018	2,75,000
1. 4. 2020	3,62,000

The Company charges depreciation on machines @ 15% p.a. (WDV) whereas the rate of depreciation for tax purpose is 25% p.a. The Company has no other fixed assets. Tax rates for the five relevant accounting years were 50%, 45%, 40%, 35% and 35% respectively.
You are required to prepare the profit and loss statement showing the provision for taxes.

Q.6. The following details are available in the books of ABC Ltd.

Particulars	**₹ in Lakhs**
Provision for tax :	
For 2017 - 2018	200
For 2018 - 2019	300
For 2019 - 2020	250
Advance tax paid :	
For 2017 - 2018	175
For 2018 - 2019	350
For 2019 - 2020	270

ABC Ltd. estimates its Deferred Tax Liabilities to be ₹ 100 lakhs and its Deferred Tax Assets to be ₹ 20 lakhs. How will the above be disclosed?

Q.7. Dilemma Ltd. has operating profit before taxes and depreciation of ₹ 500 Lacs in each of the 3 years. The company purchased a microcomputer for ₹ 240 Lacs in the beginning of Year 1. The expenditure was fully allowed as a deduction U/s 35 of the Income - tax Act.
However the company has decided to amortise the expense over its useful life of 3 years in its books.
The tax rates in the 3 years are :
Year 1 40%
Year 2 38%
Year 3 35%

(a) If it is assumed that future tax rates are known only one year ahead, pass journal entries for all the three years.
(b) If it is assumed that future tax rates are known two years ahead, pass journal entries for all the three years.

Q.8. Omega Limited is working on different projects those are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statement during 2017, 2018 and 2019 for ₹ 11,00,000, ₹ 16,00,000 and ₹ 21,00,000 respectively. However, for Income - tax purpose, it has adopted the completed contract method under which it has recognised revenue of ₹ 7,00,000, ₹ 18,00,000 and ₹ 23,00,000 for the years 2017, 2018 and 2019 respectively. Income - tax rate is 35%. Compute the amount of deferred tax asset / liability for the years 2017, 2018 and 2019.