AS 22 Accounting for Taxes on Income

Introduction

AS 22 Accounting for Taxes on Income: The objective of this Standard is to prescribe accounting treatment of taxes on income. Taxable income may be significantly different from the accounting income posing problems in matching of taxes against revenue for a period.

Scope

- Taxes on income include all domestic and foreign taxes which are based on taxable income.
- This AS does not specify when, or how, an enterprise should account for taxes that are payable on distribution of dividends and other distributions made by the enterprise.

Definitions:-

For the purpose of this statement, the following terms are used with the meaning specified:-

Accounting Income (Loss):- The net profit or loss for a period, as reported in the statement of profit and loss, before deducting income tax expense or adding income tax saving. (PBT)

Taxable Income (Tax Loss):- The amount of income (loss) for a period, determined in

accordance with the tax laws, based upon which income tax payable (recoverable) is determined.

Tax Expense (Tax Saving):- The aggregate of current tax charged or credited to the statement of profit and loss for the period. The amount of tax payable is reckoned as an item of expense, against the income on which the tax is levied.

Current Tax: - The amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.

Deferred Tax: - The effect of timing differences.

Timing Differences: - The differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.

Permanent Differences: - The differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently

Recognition

- Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.
- Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets (DTA).

Disclosure

- Assets and liabilities representing current tax should be offset if:
  - – legal right of set off exists;
  - – assets and liabilities are intended to be settled on a net basis
- Assets and liabilities representing deferred tax should be offset if:
  - – legal right of set off exists;
  - – assets and liabilities relate to taxes levied by same governing taxation laws
- Deferred tax assets and liabilities to be distinguished from current tax, current assets and current liabilities and presented under a separate heading in balance sheet

AS 26 – Intangible Assets

Introduction

The purpose of this standard is to prescribe the recognition and measurement criteria for intangible assets that are not covered by other Standards**.**

Applicability

Accounting standard 26 is applicable to enterprises in Level I, II and III except:

intangible assets that are covered by another AS.

- financial assets.
- mineral rights and expenditure.
- intangible assets arising in insurance enterprises from contracts with policyholders.
- In respect of termination benefits.

Recognition of Intangible Assets

An intangible asset should be recognized (i.e. accounted as asset) if & only if:

- It is probable to expect future economic benefits from the assets.

- Cost can be measured reliably.

Measurement principles

- It should be recognised initially at cost.
- The cost of separately acquired intangible asset will be included price paid, duties, taxes paid and any other expenses incurred directly to bring it into usable condition.
- If acquired in exchange, fair value of asset given up.

Intangible assets can be acquired if they are identifiable i.e. can be separately identified generally by contractual rights from Goodwill and are controlled by the entity. Knowledge of production process giving competitive advantage can be considered an intangible if the Company has patents i.e. legal rights and controls over the same.

Internally Generated Intangible Asset

To assess whether an internally generated intangible asset meets the criteria for recognition, an enterprise classifies the generation of the asset into:

- a research phase; and
- a development phase.

Expenditure of Research phase

Such expenditure is to be charge off in the statement of profit and loss as an expense.

Expenditure on Development phase

An intangible asset arising from development phase can be recognised if and only if following can be demonstrated:

- The technical feasibility.
- Intention to complete it.
- Ability to sale or use it.
- Capability to generate economic benefit like existence of market for it or for products generated from it.
- Availability of technical, financial & other resources to complete the development.
- Ability to reliably measure the expenditure during development.

It is important to note that all of the above conditions should be met to permit recognition of intangible asset in development phase.

Disclosure

The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) the useful lives or the amortisation rates used;

(b) the amortisation methods used;

(c) the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) a reconciliation of the carrying amount at the beginning and end of the period showing: