



Taxes

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Lecture -3

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Topic covered

Taxes : Introduction

Leases : Objectives

Current Tax

Deferred Tax

Cause of Temporary Differences

Deferred Tax Calculation

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Taxes : Introduction

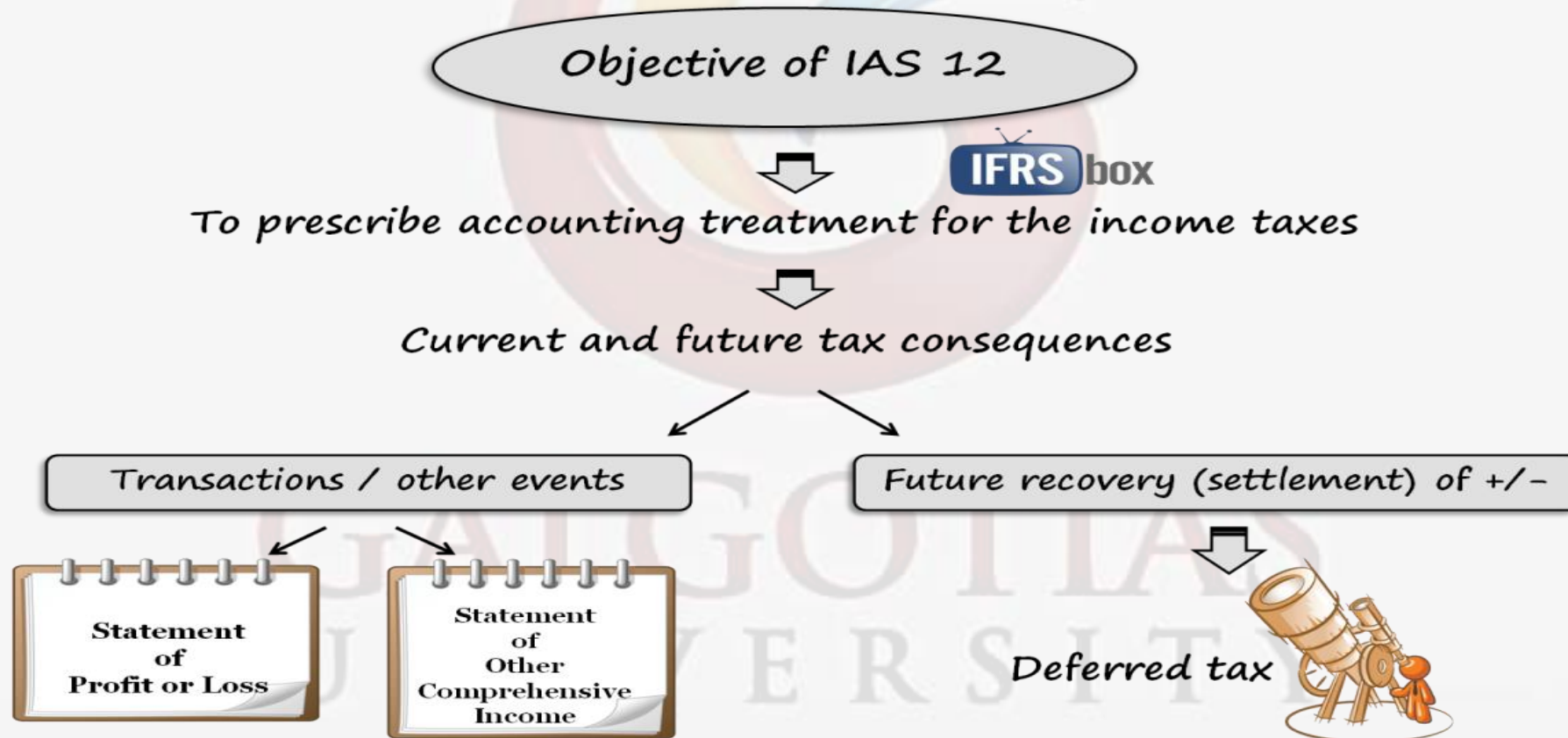
IAS 12 was reissued in October 1996 and is applicable to annual periods beginning on or after 1 January 1998.

IAS 12 Income Taxes states that there are two elements of tax that will need to be accounted for:

Current tax (the amount of tax payable/recoverable in respect of the taxable profit/loss for a period).

Deferred tax (an accounting adjustment aimed to match the tax effects of transactions to the relevant accounting period).

Leases : Objectives



Current Tax

Income tax

Standard income tax working:

Current year estimate	X
Under/over provision	X/(X)
Increase/decrease in deferred tax	X/(X)

Tax expense X

Tax expense will be shown in Statement of Profit or Loss

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Deferred Tax

Deferred tax arises because profits can be recognised for accounting purposes in one period and for tax in another.

Deferred tax is the estimated future tax consequences of transactions and events recognised in the financial statements of the current and previous periods.

Deferred tax arises because of temporary differences.

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Cause of Temporary Differences

Accelerated capital allowances :

Non-current assets are written off very quickly after purchase.

means that companies can claim a lot of tax relief when non-current assets are new, but relatively little when the assets are older.

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Cause of Temporary Differences

In the short term more tax relief is claimed in the tax calculation than depreciation is charged in the statement of profit or loss.

difference is reversed in the longer term when depreciation catches up with the taxable capital allowances.

Accelerated capital allowances mean that tax on profit is delayed, so there is a deferred tax liability.

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Deferred Tax Calculation

Step 1: Calculate the temporary difference (or sometimes given)

It may be calculated as:

Carrying amount	X
Tax base	(X)
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Temporary difference	X
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Deferred Tax Calculation

Step 2: Apply the tax rate to the temporary difference to find the year end deferred tax liability (or is sometimes given). This liability is included in NCL in SFP.

Step 3: Account for the movement in deferred tax in tax expense (which is the difference between the opening DT liability (on trial balance) and closing DT liability (step 2)).

References

Financial Reporting (Fr) - Study Text, The Association Of Chartered Certified Accountants (ACCA). Kaplan Publishing

<https://www.ifrsbox.com/ias-12-income-taxes/>

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The logo of Galgotias University is a stylized circular emblem composed of several overlapping, curved segments in shades of yellow, orange, and blue, creating a sense of motion or a globe.

Thank You

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