

A - 2

a) Taxable Profit

	Rs. (Million)
Accounting profit	20
Add:	
Amortization of development cost	5
Depreciation of property, plant and equipment	7
Provision for doubtful debts	3
Accrued expenses	10
	25
	45
Less:	
Depreciation of property, plant and equipment	6
Prepaid expenses	5
	11
Taxable profit	34

b) Calculation of deferred tax

	CV	TB	TTD	DTD
	Rs. (m)	Rs. (m)	Rs. (m)	Rs. (m)
Property, plant and equipment	45	34	11	
Development cost	15		15	
Prepaid expenses	5		5	
Debtors	20	25		5
Closing stock	40	40		
Cash	20	20		
Bank	20	20		
Vehicles	5	5		
Deferred tax	10	10		
	180	154		
Share capital	100	100		
Retained earnings	70	54		
Accrued expenses	10			10
	180	154	31	15
Net taxable difference	31 - 15	=	16	
Deferred tax liability	16 X 35%		=	5.4

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a) Statement of comprehensive income

	Rs. (000)	Rs. (000)
Income statement		
Sales		150,500
Less: cost of sales	75,500	

Depreciation	20,434	(95,934)
Gross profit		54,566
Operating expenses		(12,050)
Profit before tax		42,516
Tax expense		
Current tax		6,611
Deferred tax		8,293 (14,904)
Profit after tax		27,612
Other comprehensive income		--
Total comprehensive income		27,612

a) Statement of changes in equity

	Ordinary share capital Rs. (000)	Retained earnings Rs. (000)	Total Rs. (000)
B/f balances	50,000	15,000	65,000
Effect of prior year error		(143)	(143)
Restated balances	50,000	14,857	64,857
Total comprehensive income for the year	--	27,612	27,612
	50,000	42,469	92,469

b) Statement of financial position

Property, plant and equipment	115,791
Stock	15,600
Trade debtors	15,500
Current tax paid	5,000
Cash and bank	15,125
	167,016
Capital	50,000
Retained earnings	42,469
	92,469
Employee benefits	4,500
Bank balance	15,000
Trade creditors	40,000
Deferred tax	8,436
Current tax	6,611
	74,547
	167,016

W-1 Calculation of current tax

Rs. (000)

Rs. (000)

Profit before tax		42,516
Add:		
Accounting depreciation	20,434	
Provision for doubtful debts	10,000	
Stock at NRV	2,000	
Employee benefits	4,500	36,934
Less:		
Tax depreciation		(25,062)
Taxable profit		54,388
Un-used tax loss b/f		(35,500)
Net taxable profit		18,888
Current tax for the year		6,611

W-2 Calculation of deferred tax

	CV Rs. (000)	TB Rs. (000)	TTD Rs. (000)	DTD Rs. (000)
Assets				
Property, plant and equipment	115,791	75,188	40,603	
Stock	15,600	17,600		2,000
Trade debtors	15,500	25,500		10,000
Current tax paid	5,000	5,000		--
Cash and bank	15,125	15,125		--
	<u>167,016</u>	<u>133,413</u>		
Liabilities				
Employee benefits	4,500	--		4,500
Bank balance	15,000	15,000	--	--
Trade creditors	40,000	40,000	--	--
	<u>59,500</u>	<u>55,000</u>		
Equity				
Capital	50,000	50,000	--	--
Retained earnings	57,516	28,413	--	--
	<u>107,516</u>	<u>78,413</u>		
	<u>167,016</u>	<u>133,413</u>	40,603	16,500

Deferred tax closing	8,436
Deferred tax opening	(143)
Deferred tax for the year	<u>8,293</u>

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a) Calculation of current and deferred tax

There will be no current tax liability

The deferred tax charged to income statement is Rs. 36,050

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Income statement for the year

	Rs. (000)	Rs. (000)
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Sales		1,000
Cost of sales	780	
Depreciation not recognized		
Furniture	15	
Motor vehicles	27	
Plant and machinery	60	(882)
Gross profit		118
Less: operating expenses	(230)	
Finance cost	(15)	
Add: interest income	35	(280)
Loss before tax		(162)
Calculation of taxable profit		
Accounting loss		(162)
Add: Accounting depreciation	102	
Provision for bad debts	10	
Provision for warranty	50	162
Less: Interest income	35	
Accrued expenses	10	
Tax depreciation		
Furniture	15	
Motor vehicles	22.50	
Plant and machinery	20	(102.50)
Taxable loss		(102.50)
No current tax provision is required		

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Calculation of opening deferred tax liability

Particulars	Carrying value	Tax Base	Taxable Temporary differences	Deductible Temporary differences
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
Furniture	150	100	50	--
Motor Vehicles	270	150	120	
Plant and machinery	250	100	150	
Debtors	120	140		20
Provision for warranty	300	--		300
Accrued expenses	50	--		50
Un-used tax losses carried forward	--	150		150
			320	520
Net deductible				200
Opening deferred tax			200x.35=70	
Calculation of closing deferred tax				
Furniture	135	85	50	

Motor Vehicles	243	127.50	115.50	
Plant and machinery	340	80	260	
Debtors	250	280		30
Provision for warranty	350	--		350
Accrued expenses	40	--		40
Un-used tax losses carried forward				252.50
			425.50	672.50
Opening deferred tax asset				70
Closing deferred tax		$(672.50-425.50) \times 35$		86.45
Net increase in deferred tax				16.45
The deferred tax to be charged to revaluation surplus		$150 \times 35 = 52.50$		
The deferred tax recognized in income statement is		$(70 + 52.50 - 86.45) = 36.05$		

b) The concept of tax base is as under: -

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Tax base of an asset

The tax base of an asset is the amount that will be **deductible for tax purposes against any taxable economic benefits** that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability

The tax base of a liability is **its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods.**

In the case of revenue which is **received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.**

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a)

	Rs. (000)	Rs. (000)
Calculation of taxable profit		
Accounting profit		250,500
Add: -		
Accounting depreciation	24,750	
Amortization of development cost	5,000	
Advance income	10,000	
Provision for penalty	5,000	
Accrued expenses	5,000	49,750
Less: -		
Tax depreciation	8,000	<u>(8,000)</u>
Taxable profit		<u>292,250</u>
Current tax for the current year	@35%	102,287.50

Calculation of deferred tax

Closing temporary differences	CV	TB	TTD	DTD
Property, plant and equipment	74,250	32,000	42,250	-
Development cost	20,000	-	20,000	-
Advance income	10,000	-	-	10,000
Accrued expenses	5,000	-	-	5,000
Total			<u>62,250</u>	15,000
Net taxable temporary difference			<u>47,250</u>	
Deferred tax liability closing balance			16,537.50	
Opening temporary differences				
Property, plant and equipment	80,000	40,000	40,000	
Development cost	25,000	-	25,000	
Total			<u>65,000</u>	-
Net taxable temporary difference			<u>65,000</u>	
Deferred tax liability opening balance			22,750	
Deferred tax for the year				
Opening balance				22,750
Deferred tax charged to revaluation surplus	(19,000*.35)			6,650
To profit and loss account				<u>(12,862.50)</u>
Closing balance				<u>16,537.50</u>

Tax expense for the year				
Current tax			102,287.50	
Deferred tax			<u>(12,862.50)</u>	89,425
Tax on accounting profit	250,500*.35			87,675
Effect of: -				
Penalty	(5,000*.35)			1,750
				<u>89,425</u>

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	Rupees
Current	
- for the year (W-1)	8,294,853
- for prior years (1,800,000 x 35%)	(630,000)
	7,664,853
Deferred (W-2)	6,402,753
	14,067,606

W-1: Computation of tax expense for the year	Rupees
Accounting profit before tax (177,633,594 + 375,000 + 512,500 - 122,106,875 - 9,385,542 - 1,815,212 - 562,500 - 2,237,500 - 6,150,000)	36,263,465
Less: Admissible deduction/Inadmissible income	
Income under FTR - Dividend	512,500
Lease rentals paid (Rs. 1,750,222 + Rs. 2,061,359)	3,811,581
Tax depreciation	8,501,758
Bad debts written off	200,000
Accounting Gain on sale of machines	375,000
	13,400,839

Add: Inadmissible deduction/Admissible income	
Interest paid on leases	1,750,222
Depreciation on leases	1,815,212
Accounting depreciation	9,385,542
Donations	562,500
Bad debts expense	853,750
Tax gain on sale of machines (650,000 + 375,000 - 450,000)	575,000
	14,942,226
Taxable income	37,804,852
Less: Assessed tax losses	(14,251,700)
	23,553,152
Tax on normal income @ 35%	8,243,603
Tax on dividend income @ 10%	51,250
Total tax liability - current	8,294,853

W-2: Computation of deferred tax expense for the year

	Carrying amount	Tax base	Difference
	Rupees		
Taxable temporary differences			
Fixed assets - owned	110,187,500	95,098,242	15,089,258

		(W-3)	
Fixed assets - leased	17,152,115	-	17,152,115
Deductible temporary differences			
Obligation under finance lease	(15,436,900)	-	(15,436,900)
Provision for bad debts	(653,750)		(653,750)
Net temporary difference			16,150,723
Deferred Tax Liability as of December 31, 2008 (16,150,723 x 35%)			5,652,753
Add: Deferred tax asset as of December 31, 2007			750,000
Deferred tax expense for the year			6,402,753

W-3: Tax base of owned fixed assets

	Rupees
Tax WDV - opening	96,550,000
Addition	7,500,000
Disposal	(450,000)
Tax Depreciation	(8,501,758)
	95,098,242