Chapter Tests of FR of
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Solution of FR Test 7: Ind AS 12 & 115

Q 1

(i) The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is Rs. 50,00,000. However, no deferred tax asset can be recognised unless there is convincing evidence that there is a prospect of being able to reduce tax liabilities in the foreseeable future. Taxable profits of Rs.20,00,000 is anticipated based on convincing evidence. Hence, deferred tax asset of Rs.6,00,000 (20,00,000 X 30%) is recognized.

(ii) The development costs have a carrying value of Rs. 19,25,000 (Rs. 21,00,000 – (Rs. 21,00,000 x 1/3 x 3/12)).

The tax base of the development costs is Rs.10,50,000 since the relevant tax deduction of 50% has already been claimed.

The deferred tax liability will be Rs. 2,62,500 (Rs. 8,75,000 x 30%). All deferred tax liabilities are shown as non-current.

(iii) The carrying value of the loan at 31st March, 2022 is Rs. 54,78,000 (Rs. 50,00,000 – 20,000 + (Rs. 49,80,000 x 10%)).

The tax base of the loan is Rs. 50,00,000.

This creates a deductible temporary difference of Rs. 4,78,000 (Rs. 54,78,000 – Rs. 50,00,000) and a potential deferred tax asset of Rs. 1,43,400 (Rs. 4,78,000 x 30%).

Due to the availability of taxable temporary difference (in part ii above), DTA can be recognised.

Summary of Treatment:

	Item	**Carrying Amount in Balance Sheet**	**Tax Base**	**Temporary Difference**	**Impact**
i.	Taxation Loss	0	50,00,000	50,00,000 Deductible	DTA of Rs.6,00,000
ii	Development Costs	19,25,000	10,50,000	8,75,000 Taxable	DTL of Rs.2,62,500
iii	Loan	54,78,000	50,00,000	4,78,000 Deductible	DTA of Rs.1,43,400

Q 2 In the given case, the entity has made sale of two goods – machine and space parts, whose control is transferred at a point in time. Additionally, company agrees to hold the spare parts for the customer for a period of 2-4 years, which is a separate performance obligation. Therefore, total transaction price shall be divided amongst 3 performance obligations –

(i) Sale of machinery
(ii) Sale of spare parts
(iii) Custodial services for storing spare parts

Recognition of revenue for each of the three performance obligations shall occur as follows:

- **Sale of machinery:** Machine has been sold to the customer and physical possession as well as legal title passed to the customer on 31st March, 2023. Accordingly, revenue for sale of machinery shall be recognised on 31st March, 2023.

- **Sale of spare parts:** The customer has made payment for the spare parts and legal title has been passed to specifically identified goods, but such spares continue to be physically held by the entity. In this regard, the company shall evaluate if revenue can be recognized on bill-n-hold basis if all below criteria are met:

a)	**b)**	**c)**	**d)**
the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement)	the product must be identified separately as belonging to the customer	the product currently must be ready for physical transfer to the customer	the entity does not have the ability to use the product or to direct it to another customer
↓	↓	↓	↓
The customer has specifically requested the entity to store goods in their warehouse, owing to close proximity to customer's factory.	The spare parts have been specifically identified and inspected by the customer	The spares are identified and segregated, therefore, ready for delivery.	Spares have been segregated and cannot be redirected to any other customer

All conditions of bill-and-hold are met and hence, company can recognize revenue for sale of spare parts on 31st March, 2023.

- **Custodial services:** Such services shall be given for a period of 2 to 4 years from 31st March, 2023. Where services are given uniformly and customer receives & consumes benefits simultaneously, revenue for such service shall be recognized on a straight line basis over a period of time.

Q 3 Current tax= Taxable profit x Tax rate = 4,50,000 x 25% = Rs.1,12,500

Journal Entry:	Rs.
Profit & loss A/c Dr.	1,12,500
To Current Tax	1,12,500

Deferred tax:

Machine's carrying amount according to Ind AS is Rs.5,40,000 (6,00,000 – 60,000)
Machine's carrying amount for taxation = Rs.4,50,000 thousand (6,00,000 – 1,50,000)
Taxable Temporary difference = 5,40,000 – 4,50,000 = Rs.90,000

Deferred Tax Liability = 90,000 x 25% = Rs.22,500

Journal Entry:	
Profit & loss A/c Dr.	22,500
To Deferred Tax Liability	22,500

Tax reconciliation in absolute numbers:

Profit before tax according to Ind AS	5,00,000
Applicable tax rate	25%
Tax	1,25,000
Expenses not deductible for tax purposes (40,000 x 25%)	10,000
Tax expense (Current and deferred) (1,12,500 + 22,500)	1,35,000

Tax rate reconciliation

Applicable tax rate	25%
Expenses not deductible for tax purposes (10,000 / 5,00,000)	2%
Average effective tax rate (1,35,000 / 5,00,000)	27%

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