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DEFERRED TAX ASSETS AND LIABILITIES IN THE SYSTEM OF FINANCIAL STATEMENTS

Gohar Kostanyan
Armenian State University of Economics
Ph.D. in Economics, Associate Professor
arianna25@mail.ru
ORCID ID: https://orcid.org/0009-0009-5304-1678

Gohar Harutyunyan*
Armenian State University of Economics, Lecturer
harutyunyan.gohar.76@mail.ru
ORCID ID: https://orcid.org/0009-0008-9435-9589

Abstract: The research is devoted to the principles of calculation and accounting of deferred tax assets and liabilities of organizations, approaches to their practical application. The reasons for the differences that arise, as well as the methods of their recognition and assessment, are discussed. The article refers to international accounting standards and the current legislative framework of the Republic of Armenia. The impact of deferred tax assets and liabilities on the reliability of the formation of indicators of financial statements of organizations is revealed.

Keywords: deferred tax asset, deferred tax liability, temporary difference, income tax expense, compensation, financial statements.

JEL code: M40

Research aims: to identify the areas of influence of deferred tax assets and liabilities on the indicators published in financial statements

Research novelty: models for the formation of deferred tax assets and liabilities were analyzed, commenting on the nature of their impact on the indicators of published financial statements.

Introduction

According to the Conceptual Framework for the Development of Accounting and Financial Reporting, financial statements are an information basis for making informed economic decisions by interested users. At the same time, the statement of financial position (balance sheet) acts as the main source of information that allows, firstly, to determine the growth of the organization's net assets in general, and secondly, to calculate the possible market price of the organization's investments, which largely depends on the items that form net assets, and not on the net profit of the reporting year. In this regard, international accounting standards are aimed at reflecting not only current events, but also future assets and liabilities.

A typical example of the balance sheet approach to accounting and reflecting assets and liabilities is IAS 12 "Income Taxes". One of the advantages of reflecting deferred tax assets and liabilities in the balance sheet is increased transparency of financial statements.

The introduction of IFRS and IAS required and remains relevant to this day the alignment of accounting elements with international standards. The latter, in turn, requires the expansion of the analytical capabilities of financial statements. As a result of the

deepening differences between accounting profit and tax profit indicators, users of the reports do not have the opportunity to understand the income tax indicator of the reporting year reflected in the Profit or Loss Statement without drawing parallels with deferred tax assets and tax liabilities.

Parallel maintenance of financial and tax accounting, as well as their identification, is one of the current problems of accounting today. Both accounting require transparency and accountability. Therefore, there is a need to clarify the reflection of the differences between them in financial statements.

Literature review

The differences in the recognition and accounting of assets, liabilities, income, and expenses between tax and financial accounting have been addressed by researchers such as James Van Horn and John Wachovich, noting that it is quite difficult for analysts to interpret deferred tax liabilities when performing financial analysis: "... judging by the position of this item on the balance sheet, it is included in the liabilities of the organization, many analysts and especially accountants cannot agree on whether to consider it as a current liability, as equity, or as another element of financial analysis" (p. 221). The deferred tax asset is interpreted in the same way.

The nature of financial accounting for deferred taxes is inherently future-oriented. Since deferred taxes indicate the probable deductions or burden of future income taxes and help users of financial statements assess the financial position of a company or group. The financial accounting of deferred taxes is

inevitably subject to assessment to manage uncertainty and make strategic judgments (Brower and Naarding 2018).

Financial and tax accounting have different objectives. The ultimate goal of financial accounting is to present reliable financial statements, while the goal of tax accounting is to regulate the tax relations of organizations in accordance with the relevant code in order to accurately present tax calculations(Movsisyan, T. 2020). In practice, adjustments to financial and tax profits can only be made through calculations in the presented report (Tshughuryan, A. 2009).

Given the fact that deferred tax assets and liabilities are items of the statement of financial position that affect the financial stability of organizations, their accounting is of considerable interest to investors for making decisions (Jude Edeigba, Jude Edeigba, Vincent Konadu Tawiah, 2023).

Analysis

International Accounting Standard 12 "Income Taxes" addresses and defines both current and deferred taxes. According to the standard, the definition and accounting for current tax is relatively clear: it is based on tax legislation and financial accounting rules. The complexity arises when it is necessary to consider the impact of accounting for current items on future taxes. In such cases, a deferred tax asset (DTA) and a deferred tax liability (DTL) arise.

The current income tax expense-liability arising from the comparison of income and expenses for the reporting period (the rate established by the legislation in force in the country is applied) is formulated and reflected in the financial statements as follows:

Dr Income tax expense

Cr Income tax payable

Article 5 of IAS 12 provides certain definitions that facilitate the analytical process of accountants, as well as the reliable presentation of financial statements:

Accounting profit: is the profit or loss of the organization for the reporting period before deducting the expense for tax.

Taxable profit (loss): is the profit (loss) determined by tax legislation for a given period from which income taxes are paid/compensated.

Current tax: is the amount of income tax payable for the reporting period.

Deferred tax liabilities: is the amount of income tax payable in future periods related to taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods relating to deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits.

Temporary differences: are differences between the carrying amount of an asset or liability recognized in the financial statements and its tax base.

The main distinction between current and deferred taxes can be summarized as follows.

Current tax is the amount of actual income tax payable in the reporting period, while deferred tax is a financial accounting measure used to reconcile the tax accounting effects of transactions with the financial accounting effects.

IAS 12 requires an entity to recognize and recognize a liability in the financial statements for unpaid taxes relating to current or prior periods. Excess taxes paid should be recognized as an asset (paragraph 12). Current tax is recognized as an expense and a liability in the reporting period, except for:

- ✓ Taxes arising from business combinations that are included in goodwill (IAS 12, paragraph 19)
- ✓ Taxes from transactions that affect only equity, for example, adjustments to the opening balances of an entity's assets and liabilities in accordance with IAS 8 to change an accounting policy or to correct a material error.

The measurement of deferred taxes is one of the most complex and at the same time important processes in accounting, it aims to reflect the future tax consequences of the compensation or settlement of the carrying amounts of assets and liabilities. If the subsequent effect of transactions is not recognized, then profit may be overstated, which will lead to an increase in earnings per share (EPS), and therefore an increase in dividend payout, as well as a distortion of the share price.

Deferred taxes arise from temporary differences. The calculation of deferred tax can be represented by the following simple formula:

DT = (CV - TB) x t

Where:

DT (Deferred Tax) – Deferred tax

CV (Carrying Value) – Carrying value of an asset or liability

TB (Tax Base) – Tax base

t – Tax rate

The formula scientifically substantiates the idea that "temporary differences" between accounting and tax accounting must be equalized sooner or later. The difference "CV – TB" shows the cumulative amount of this difference, and "t" (tax rate) allows you to calculate its monetary impact on the size of future cash flows.

The main purpose of deferred tax accounting is to reflect the tax consequences that may arise in future periods in connection with the compensation or settlement of the current carrying values of the assets and liabilities of organizations. According to IAS 12, deferred taxes arise and are formed on the basis of temporary differences, the basis of which is the difference between the carrying amount of an asset or liability and its tax base.

Taxable temporary differences are those differences that lead to the emergence of taxable amounts in future periods, when the asset is recovered or the liability is settled. These form Deferred tax liabilities.

Deductible (deductible) temporary differences are those differences that give rise to amounts that are subject to deduction in determining future taxable profit. These, in turn, form Deferred tax assets.

DTA represents the amounts of income tax that are subject to payment in future periods. Most often, they arise in the following situations:

- ✓ Accelerated depreciation: When the depreciation rates used for tax purposes exceed the accounting rates.
- ✓ Revaluation of assets. Under IAS 16, the revaluation surplus of fixed assets increases the carrying amount but does not usually change the tax base, creating a taxable temporary difference.

Deferred taxes should be measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on the rates that were in effect at the reporting date (in the case of Armenia, the 18% corporate tax rate). It is also important to note that deferred tax assets and liabilities should not be discounted. They are always classified as non-current in the statement of financial position.

Table 1. Deferred tax description

Indicator	Deferred tax asset (DTA)	Deferred tax liability (TL)
Definition	Income tax recoverable in future periods	Income tax payable in future periods
Formula	Book Value < Tax Base	Book Value > Tax Base
Recognition condition	Existence of future taxable profit	Almost always recognized
Impact on profit	Reduces tax expense	Increases tax expense

The simplest situations for accounting for a deferred tax asset and tax liability and presenting them in financial statements are:

MODEL 1: Deferred tax liability. Application of accelerated depreciation of an asset for tax purposes. Suppose an organization has acquired equipment worth 1,000,000 AMD.

- ✓ Financial accounting: Straight-line method, 5 years (200,000 AMD per year).
- ✓ Tax accounting: Accelerated method, 2 years (500,000 AMD per year).
- ✓ Income tax rate: 18%:

Calculation data (At the end of the first year)

Indicator	Financial accounting (Book value)	Tax accounting (Tax base)	Difference (Taxable temporary)
Equipment	800 000 AMD	500 000 AMD	300 000 AMD

Calculation of deferred tax liability:
ADT = 300,000 X 18% = 54,000 AMD
Accounting formulation:

Dr Income tax expense (Deferred).....54,000
Cr Deferred tax liability.....54,000

MODEL 2. Deferred tax asset. At the end of the year, the organization formed a reserve for unused vacations in the amount of 500,000 AMD.

- ✓ Financial accounting: The expense is recognized at the time of formation of the reserve (IAS 19), according to the accrual principle.
- ✓ Tax accounting: The expense is allowed to be deducted only at the time of actual payment (Tax Code of the Republic of Armenia).

Calculation data

Indicator	Carrying amount (Liability)	Tax base	Difference (Temporary deductible)
Vacationer Reserve	500,000 AMD	0 AMD	500,000 AMD

Calculation of deferred tax asset:
ADT = 500,000 X 18% = 90,000 AMD
Accounting formulation:

Dr Deferred tax asset.....90,000
Cr Income tax refund (income) 90,000

These models show that the APA and the APA are not actual cash flows at the moment, but expected future economic benefits or outflows. The recognition of APA requires significant management judgment in predicting future profitability, which is often the subject of audit reviews.

In financial statements, the situations of these models always show the relationship between the Comprehensive Financial Results and the Statement of Financial Position, since as an item "Profit Tax Expense/Compensation" it is reflected in the income statement, and as a Deferred Tax Asset or Deferred Tax Liability in the corresponding items of the Non-Current Assets and Non-Current Liabilities sections of the balance sheet.

A special area of deferred tax assets is deferred tax losses, which are one of the most delicate issues in scientific and practical terms. Unlike ordinary temporary differences, this is not a balance

sheet difference of an asset or liability, but a right to deduct future taxable profit. According to IAS12, a deferred tax asset for unused tax losses should be recognized only to the extent that it is probable that the entity will have future taxable profit against which the loss can be utilized. Below is a situation when a tax loss is carried forward to future periods, resulting in the formation of a deferred tax asset.

MODEL 3. As of the results of 2024, Alfa CJSC incurred a tax loss of 10,000,000 drams, calculated in accordance with the Tax Code of the Republic of Armenia.

- ✓ The current tax rate is 18%.
- ✓ Forecast. The company's strategic plan, according to the analysis, shows that the company will have a profit in 2025-2026, and it will be sufficient to cover the taxable loss.

1. Calculation of deferred tax asset as of the end of the 2024 reporting year: Since the loss can be reduced by the amount of future income taxes, the asset is formulated as:

Dr Deferred tax asset……1 800 000
Cr Income tax expense……1 800 000

The deferred tax calculation was made by applying the tax loss to the tax rate effective in the reporting period (according to IAS 12, deferred tax assets and liabilities should be calculated according to the rates effective in the given period).

This formulation improves the financial statements by reducing the net loss in the Statement of Profit or Loss and Other Comprehensive Income.

2. The repayment or use of the APA in 2025 looks like this:

In 2025, the company worked in profit and received taxable profit of 6,000,000 AMD.

- ✓ The actual income tax payable is 0 AMD, since the previous year's loss actually covers the profit of the reporting year.
- ✓ The used part of the deferred tax asset will be: 6,000,000x 18%=1 080 000 AMD, which will be recorded in current accounting:

Dr Income tax expense…… 1 080 000
Cr Deferred tax asset…… 1 080 000

The application of such a model in practice should be prudent, as the following cases may arise:

1. Impairment factor. If the auditor doubts the generation of future profits, then the DTA cannot be recognized or the amount must be impaired. This is often used as a "profit management" tool.

2. Time limitation. According to the RA Tax Code, losses can be carried forward for 5 years following the reporting period. If the company does not manage to use the tax loss, the deferred tax asset must be written off.

3. Presentation in financial statements. A DTA should always be classified as a non-current asset, regardless of when it is expected to be repaid.

Conclusion

A systematic review of deferred tax assets and liabilities allows us to make the following summary:

- ✓ The inevitability of separation of financial and tax accounting, and therefore different sizes of the same indicators reflected in financial statements and tax calculations.
- ✓ The expediency of using deferred tax assets as a management tool. It will allow to increase the optimization of financial statements, while maintaining the factor of non-distortion of credibility.
- ✓ The impact on the financial stability indicators of the organization. Ignoring deferred tax liabilities can lead to artificial overestimation of net profit, and therefore net assets, which in turn increases investment risks, undermines the credibility of financial statements.
- ✓ Development of regulations and mechanisms by the accounting professional community between the RA tax legislation and IAS and IFRS to disclose the nature of deferred taxes in the notes to the financial statements.

In summary, it can be stated that improving the methodology for accounting for deferred taxes not only contributes to the need to apply international standards, but also is one of the cornerstones of transparency and quality management of an organization's financial statements.

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ՀԵՏԱԶԳՎԱԾ ՀԱՐԿԱՅԻՆ ԱԿՏԻՎՆԵՐՆ ՈՒ ՊԱՐՏԱՎՈՐՈՒԹՅՈՒՆՆԵՐԸ ՖԻՆԱՆՍԱԿԱՆ ՀԱՇՎԵՏՎՈՒԹՅՈՒՆՆԵՐԻ ՀԱՄԱԿԱՐԳՈՒՄ

Գոհար Կոստանյան
Հայաստանի պետական տնտեսագիտական համալսարան
տնտեսագիտության թեկնածու, դոցենտ

Գոհար Հարությունյան
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դասախոս

Բանալի բառեր - հետաձգված հարկային ակտիվ, հետաձգված հարկային պարտավորություն, ժամանակավոր տարբերություն, շահութահարկի ծախս, փոխհատուցում, ֆինանսական հաշվետվություններ:

Հետազոտությունը նվիրված է կազմակերպությունների հետաձգված հարկային ակտիվների և պարտավորությունների հաշվարկման և հաշվառման սկզբունքներին, դրանց գործնական կիրառության մոտեցումներին: Քննարկվում են առաջացող տարբերությունների պատճառները, ինչպես նաև դրանց ճանաչման և գնահատման մեթոդները: Հոդվածում անդրադարձ է կատարվում հաշվապահական հաշվառման միջազգային ստանդարտներին և ՀՀ գործող օրենսդրական դաշտին:

Հետաձգված հարկերի հաշվառման մեթոդաբանության կատարելագործումն ոչ միայն նպաստում է միջազգային ստանդարտների կիրառման անհրաժեշտություն, այլ նաև հանդիսանում է կազմակերպության ֆինանսական հաշվետվությունների թափանցիկության և որակյալ կառավարման անկյունաքարերից մեկը:

Բացահայտվել են հետաձգված հարկային ակտիվների և պարտավորությունների ազդեցությունը կազմակերպությունների ֆինանսական հաշվետվությունների ցուցանիշների ձևավորման արժանահավատության վրա: Վերլուծվել են հետաձգված հարկային ակտիվների և պարտավորությունների ձևավորման մոդելներ՝ մեկնաբանելով դրանց ազդեցության բնույթը հրատարակվող ֆինանսական հաշվետվությունների ցուցանիշների վրա:

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