Applied Finance and Accounting
Vol. 4, No. 1, February 2018
ISSN 2374-2410 E-ISSN 2374-2429
Published by Redfame Publishing
URL: http://afa.redfame.com

International Accounting Standard 12 –"Income Tax" and Aspects for Discussion

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Received: June 12, 2016 Accepted: September 11, 2017 Available online: September 24, 2017

doi:10.11114/afa.v4i1.2667 URL: https://doi.org/10.11114/afa.v4i1.2667

Abstract

International accounting standard 12-Income tax – regulates accounting methodic of profit tax and demands that the enterprises must account the deferred tax asset and the deferred tax liability. For this reason, the net profit indicator published in the financial statement of the enterprises is unrealistic which in one hand contradicts to requirements of basic qualitative characteristics a financial statement such as Relevance and Faithful Representation and in another hand, it allows of fraud in the financial statement.

The aim of this study is to substantiation necessity of simplification of the IAS 12 – Income Tax. In the article is affirmed that accounting of the deferred tax asset and deferred tax liability derives many problems for the enterprises and the investors. They also have not an analytical role in the financial analysis of the enterprises. That is why, the leadership of the enterprises avoids to using mentioned standard 12 – Income Tax - in Georgia. This study gives the recommendation that in the IAS 12 - Income tax – bring in the changes, which will be simplified by the method of profit tax accounting in the enterprises and it will eliminate the existing problems of accounting the profit tax.

Keywords: income (profit) tax, the accounting profit, taxable profit, deferred tax liability, deferred tax asset, real net profit

1. Introduction

1.1 Important of Research

The profit is the important indicator at the macro and micro levels. Profit is a substantial source of state budget revenues, investor dividends, reinvestment of the enterprises and stimulating employees. Accordingly, the profit tax volume impacts on the investors' profit, reinvestment in enterprise and, revenues of the state budget. Therefore, ordered accounting of profit tax is an important event for the management of enterprises and for the each State. Therefore, the income tax policy in the state and its accounting issues are very topical in all states. Due to such importance, the IAS Board has created an IAS 12 – Income tax (2012) – that gives recommendations on profit tax accounting.

Because the International Accounting Standard has its own requirements, and own tax legislation operates in states, are different from each other the Accounting Profit and the Tax Profit. The difference between them is the deferred tax asset (or liability). From that, the IAS 12 –Income Tax (2012) – demands to account a Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL). But their accounting generates a lot of questions on which have not been answered. Accounting the deferred tax asset and deferred tax liability is a very controversial issue. These issues have been debated now for over 40 years (Wong, 2006).

In the introduction of the standard 12 – Income Tax (2012) we reading: the principal issue in accounting for the income tax is to reflect the results for taxable amounts of the current and future tax consequences of (a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's statement of financial position; and (b) transaction and other events of the current period that are recognized in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions (p.1).

In the given definition, the term “recovery (settlement)”, in our opinion, it should not be understood that any cash flow return on the enterprise from the state budget or on contrary, the enterprise must transfer additional money to the budget in the future at the end a year. Circulation of the advanced value (advanced capital) in the business is a logical process and occurs in companies always even if do not exists profit tax. Namely, the advanced value (money spent) for the short-time assets will be returned back several times during a year, while the value advanced in the long-term assets, like the fixed assets, is returned back to an entity once during several years, and finally, after the full amortization of advanced value becomes equal to zero.

Using the method of accounting the Deferred Tax Asset and Deferred Tax Liability in practice arises: to falsification to the presented net profit in a Profit & loss statement; the enterprises carry extra costs about to assessing, accounting deferred tax asset (liability) and, preparing the special report of the real net profit for the owners. In the result, deferred tax liability accounting model was not spreading in Georgia but, I am agreement with them.

1.2 Object of the Study and Literature Review

The object of this study is International Accounting Standard 12 – Income Tax (2012), which regulates the accounting methodic of profit tax in the world and, the research subject is the difference between Accounting Profit and Taxable Profit which will be the Deferred Tax Asset (DTA) or the Deferred Tax Liability (DTL).

The literature about the Deferred Tax asset and Deferred Tax Liability is numerous. Among them, we were interested in the critical essence literature about the problems of indicators: deferred tax asset and the deferred tax liability. They write about the diverse problems for Deferred Tax Asset and Liability. For example, Norman Wong (2006) wrote: one area of accounting that will be affected dramatically is deferred taxes, which historically has been a complex and controversial issue (p. 55).

Tresno Eka Jaya (2016) says: Deferred Tax has no effect on tax penalties. Based on the results of the study, found that the Deferred Tax no significant effect on tax penalties and fines, these results indicate that the deferred tax is not used as a reference to fines and penalties (p. 376).

By opinion Aletkin (2011) the results of the conducted research testify to the existence of problems that are expressed in the absence of a proper justification for the formation of deferred tax assets arising in connection with losses in the practice of domestic organizations (p. 15).

By results of the research, Rina Trisnavaty; Wiyadi; Destia Nugraheni (2015) write, that: results of the analysis for deferred tax variable shows that it has no effect on earnings management, so the difference value between the deferred tax assets with deferred tax debt is not affecting earnings management. This occurs because the value of deferred tax expense which is owned by their respective companies. This situation indicates the amount of tax borne by the company. This situation prompted the company to get additional funds to solve that obligation. Management will hesitate or afraid to take advantage of tax-deferred cash flow, therefore the agent turned their attention to a wide range of other policy for doing earning management. The result is consistent with research conducted by Zamrudah (2009) which found that no effect of deferred tax expense in earnings management to avoid decreasing profit and avoid reporting losses both in the growing stage (growth) and mature (p. 22).

By Jiraskova; Simona; Molin, Jan (2014) the result of analysis shows the relationship between profit under IFRS and tax base. As is desirable for tax administration, there is also a relatively close linear dependence between the tax base and the accounting profit – a high value of the correlation coefficient (p. 57).

Mejzlik, Ladislav; Vitek, Loes; Roe, Jana (2014) denote, that On the one hand, the use of IFRS helps investors in making more rational decisions about their investments. On the other hand, IFRS brought into the discussions on tax policy a fundamental question: should governments allow companies to abandon national accounting rules and calculate their results using only IFRS? If this were to happen, governments would de facto lose control of reporting for not only accounting profits, but also tax base, which is more or less closely dependent on accounting results. However, the author argues that the basic features and functions of IFRS can be used to fulfill the objectives of the tax laws and therefore can be used for the purposes of corporate taxation (p. 20).

By the results of the research Vuckovic- Milutinovic, S. Lukic, R. (2013), the positions of deferred taxes usually are not considered as important for the evaluation of companies’ performances. Therefore, they are not a subject of more detailed analysis, what was the expected outcome a survey conducted. If they do not carry out a detailed analysis of deferred taxes positions, respondents are asked in the last question to name the main reasons for such a treatment. Given answers point out to three main reasons: (1) The most common reason is that these positions do not appear in material amounts, frequently they are even virtually “neglected”; (2) The second stated reason is that there does not exist adequate disclosure in companies’ financial statements, which would enable quality analysis and (3) The third reason lies in the complexity of such analysis (p. 36).

Purina Marina (2016) writes: the IFRS provide comparable financial data despite the differences in national tax and accounting legislation. The users of financial statements need to pay their attention to the following facts: reports under IFRS can provide the users with relevant and comparable information about the deferred taxes; at the same time, the deferred taxes as such greatly influenced by local tax legislation (p. 383).

I am agreement with the conceptions and conclusions of the above-mentioned researchers. Their conclusions more reinforce the results of my research. But no one is not put a question: maybe abolition the requirement for accounting Deferred Tax Asset and Deferred Tax Liability? Our research is dedicated to finding the answer to this question.

2. Methods and Data

In the article are used research methods, such as:

- Of analytical and synthetically thinking;
- The quantitative and qualitative analysis;
- Method essential analysis of financial statement - Financial reporting information how much corresponds with the requirements of the qualitative characteristics of the financial statement to help inform users get the right decisions;
- Dual accounting method of business operations;
- Professional judgment method (2012) - which aim is to establish opinions by specialists about reflecting in the accounting and reporting of events and circumstances in the context of the conceptual basis of the financial statements.

In the research are used primary, secondary and experimental data. In the study is mainly used the conditional date on which based is prepared experimental Profit & Less Reports. In additional is used the interviews method with accountants and auditors of the enterprises in Georgia about two questions: do you accounting for the deferred tax liabilities (assets) and, if you do not figure out why? The survey comprised 80% of SMEs, of Joint Stock Companies and, of Commercial Banks.

3. Results and Discussions

3.1 The Theoretical Basis of Accounting Profit Tax with IAS 12 – Income Tax

IAS 12 – “Income Taxes” founded the theoretical definitions of the following basic indicators (IAS 12. 2012) such as:

Accounting profit is the amount of net profit or loss recognized according to the international accounting standards, for a reporting period, before deducting tax expense.

Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the rule established by taxation authorities, upon which income taxes are payable (recoverable).

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax. **Current tax** is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax assets are the amounts of income taxes recoverable in future periods: in respect of deductible temporary differences, the carryforward of unused tax losses and carryforward of unused tax credits.**Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

The tax base(BDO. 2016) 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(BDO. 2016**) 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.

The accounting value of the assets (liabilities) differs from their tax base, accordingly, arises the Accounting Profit and Tax Profit. Some differences may be the timing or the temporary.Temporary differences are differences between the carrying amount of an asset or liabilities at the statement of financial position and its tax basis. It should be noted that whereas all timing differences are temporary differences, not all temporary differences are timing differences. In the case of timing differences that are also temporary differences, the main difference is in the approach rather than the result. The temporary differences create the deferred tax liability or deferred tax asset. The Standard requires that the entities must account the deferred tax assets and deferred the tax liabilities. For this reason must be account the timely and temporary differences (Michael Raine; Deloitte Oliver. 2014).

Measurement and recognition of the above-mentioned indicators create the theoretical basis for an accounting income tax. We shortly show methods of accounting profit tax, presented in IAS 12.

So, Deferred Tax liability (DTL) or Deferred Tax Asset (DTA) will arise because the accounting profit and tax profit indicators are different from each other. But now we will not calculate the tax profit because it is determined by the requirements of the Tax Cody of the state and it is not the main interest of this article too.

The procedures of recognition and measurement of all the above-listed indicators are too laborious and at the same time contains a high probability of error, especially in cases where the assets' revaluation and impairment take place.

3.2 The Problem of Submitting the Real Net Profit in the Financial Statements

A difference between the amounts of tax accounting and tax profits may be the deferred tax asset or deferred tax liability. If the accounting profit is higher than the tax profit arises the deferred tax liability. While the deferred tax (taxable) asset arises when the accounting profit is less than the tax profit.

There are several indicators of the profit in the Profit & Loss statements of an entity: gross profit, operating profit, annual profit (profit before tax), net profit and retained profit. The accounting profit amount is calculated on the based on the principles of International Financial Reporting Standards (IFRS). Therefore, the accounting profit, i.e. the profit before taxation (or annual profit), is a difference between actual incomes and expenses recognized in accrual principle.

Assume that there are for the four-year period the following experimental indicators of the accounting and tax profits existed in an enterprise (see Table 1). For each year, we have determined the net profit indicators. As a rule, net profit is the difference between of annual profits and profit taxes expenses (profit tax rate is 15%).

As shown in Table 1, sometimes, the accounting profit is higher or less than the tax profit. When the accounting profit is higher than the taxable profit, occurs the deferred tax liability. If the accounting profit is less than the tax profit the deferred tax asset occurs.

Besides, three indicators of the net profit (b, c, and d) are calculated in the 1 Table. So, a question is: Which of them corresponds to reality, or which of them reflects an actual net profit that is retained on the enterprise for distribution between the owners. For example, which actual profit should be distributed to the shareholders as the dividends: 4675 GEL if 4250 GEL in the first year; 4930 GEL or 4900 GEL in the second year (see Table 1) i.e. No one, all they are unrealistic.

Table 1. Indicators of the Accounting, Taxable and Real Net Profit (in GEL) (Lari is Georgian the money unit. 1 GEL = $2,4)

Indicators	Year I	Year II	Year III	Year IV
1. Accounting profit	5500	5800	7000	8000
(a^1). profit tax 15% (5500*15%=825, and so on)	(825)	(870)	(1050)	(1200)
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Net profit (b)	4675	4930	5950	6800
2. Tax profit	5000	6000	7000	8800
(a^2). profit tax 15%(5000*15%= 7590 (and so on)	(750)	(900)	(1050)	(1320)
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Net ptofit (c)	4250	5100	5950	7480
Deference:				
Deferred tax asset	-	30	-	120
Deferred Tax Liabilities (825-750 = 75 atc)	75	-	-	-
Real Net Profit (d). ($1 – 2.a^2$) or, (5500-750 = 4750 act)	4750	4900	5950	6680

As a rule, a taxable amount calculated on the base tax profit is to be transferred to the State Budget. Thus, based on the above-provided example, in the first year, the entity have will transfer to the budget 750 GEL, not 825 GEL. The deferred tax liability equals to 75 GEL (825 – 750), which will have presented in the Accounting Balance Sheet. Therefore, the actual sum to be transferred to the budget is to 750 GEL (15% of 5000), so the net profit 4750 GEL (5500 – 750) remains at the disposal of an enterprise, because, the real profit is 5500 and the real taxation is 750.In the second year, the real profit is 5800 and the real taxation is 900 GEL (not 870) have to be transferred to the State Budget and 4900 GEL (5800 – 900) the real net profit left at the disposal of the enterprise and so on.

At the same time, because the deferred tax liability existed in the first year and the deferred tax asset is to 30 GEL (900 -870) in the second year, the balance sheet of the deferred tax liability will have 45 GEL (75 – 30).

Numeric indicators illustrated in Table 1, also clearly confirm that neither the deferred tax liability and not the deferred tax asset has no an impact on the cash flows transferable to the Budget from the enterprise. This enhances the research interest how much necessity is accounting the deferred tax asset (and liability).

According to the International Accounting Standards, the costs of income tax is to be recognized on the base the accounting profit in the Profit & Loss Statement, while the deferred tax asset or the deferred tax liability must be presented in the Balance Sheet. Thus, for determining an actual net profit, the indicator of the net profit recognized in the Profit & Loss report, should be corrected by the amount of the deferred tax liability (or asset). For example, in the first year, a net profit from the accounting profit was 4675 GEL (see Table 1), while the deferred tax liability – 75 GEL (825 – 750). So, the actual net profit for the shareholders is a sum4750 GEL (4675 + 75) that is the same if the tax to be paid real to the Budget is deducted from the accounting profit (5500 -750 = 4750).In the second year, the deferred tax asset is 30 GEL, from the same first table. Correspondingly, the actual net profit is 5800 – 900 =4900 GEL etc. In the fourth year, the deferred tax asset equals to 120 GEL (1320 – 1200). By correcting to the net profit, we will receive the actual indicator of the net profit, which amounts to6680 GEL (6800 – 120), this is the same as 8000 – 1320 = 6680.

Thus, analysis of the first table data indicates that the deferred tax asset (liability) does not affect on the cash flows from the enterprise to the Budget and therefore no on the future cash flows.

3.3 Accounting Approaches of the Profit Tax Operations

The International Accounting Standard 12 the – Income Tax requires an entity must accounting the deferred tax asset and the deferred tax liability. Two methods of accounting the deferred taxes are known: Accounting by the method of deferring and Method of liability. Sometimes the first one is called as the profit&loss reporting obligation method, while the second – is the balance obligation method IAS 12 – "Income Taxes" requires the entities to apply the second method (Norman Wong. 2006).

The accounting items with the first approach (in GEL).	The accounting items with the second approach (in GEL).
I Year: Accrual of the Profit tax – 825 1. Dr – costs of the profit tax - 825 Cr – liability to the Budget - 750 Cr – the deferred tax liability - 75 Transfer to budget: 1. Dr – liability to the Budget – 750 Cr – Cash account – 750	I Year: Accrual of the Profit tax – 825 1. Dr – costs of the income tax – 750 Cr – liability to the Budget – 750 2. Dr - Costs of the income tax – 75 Cr – The Deferred Tax Liability – 75 Transfer to budget: Dr – liability to the Budget – 750 Cr – Cash account – 750
II Year: Accrual of the Profit tax – 870 1. Dr – costs of the profit tax - 870 Dr – the deferred tax asset - 30 Cr – liability to the Budget – 900 2. Dr – the deferred tax liability – 30 Cr – the deferred tax asset - 30 Transfer to budget: 2. Dr – liability to the Budget – 900 Cr – Cash account – 900	II Year: Accrual of the Profit tax – 870 1. Dr - Costs of the income tax - 900 Cr - Liability to the budget – 900 2. Dr - deferred tax liability – 30 Cr - Costs of the income tax – 30 (900 - 30 = 870) Transfer to budget: Dr – liability to the Budget – 900 Cr – Cash account – 900
III Year: Accrual of the Profit tax – 1050 1. Dr – costs of the profit tax - 1050 Cr – liability to the Budget – 1050 Transfer to budget: 2. Dr – liability to the Budget – 1050 Cr – Cash account – 1050	III Year: Accrual of the Profit tax – 1050 1. Dr – costs of the profit tax - 1050 Cr– liability to the Budget – 1050 Transfer to budget: 2. Dr – liability to the Budget – 1050 Cr – Cash account – 1050
IV Year: Accrual of the Profit tax – 1200 1. Dr – Costs of the income tax – 1200 Dr – Deferred tax asset – 120 Cr – Liability to the budget – 1320 Correct: 2. Dr – Deferred tax liability – 45 Cr – Deferred tax asset – 45 Transfer to budget – 1320 3. Dr – Liability to the budget – 1320 Cr – Cash account – 1320	IV Year: Accrual of the Profit tax – 1200 1. Dr – costs of the income tax - 1320 Cr – Liability to the budget – 1320 2. Dr – Deferred tax liability – 45 Cr – costs of the income tax – 45 3. Dr – Deferred tax asset - 75 (120 -45) Cr – Costs of the income tax – 75 Transfer to budget – 1320 4. Dr – Liability to the budget – 1320 Cr – Cash account – 1320

Scheme1. The approaches of accounting the operations of profit tax (in GEL)

About accounting of deferred tax liability and asset exists two approaches. With one approach the deferred tax liability and asset are regulated by each other. So, deferred tax assets and liabilities can be offset only in certain restricted scenarios (Directors Guide. 2009).In the second approach, the deferred tax liability and deferred tax assets are regulated by the tax expenses. As a result in the balance sheet of the enterprises will be present the net deferred tax liability or net deferred tax asset. We will show the both approaches. Both these approaches give the same result. By us in the scheme 1, is given the accounting items about the operations of profit tax with the both approaches on the base information of the first table.

From the scheme 1, it clearly shows that in the state budget annually has been transferred the tax amount calculated on the base tax profit. It is inadmissible to making corrections an amount to be paid with deferred tax asset or deferred tax liability. So, if they will not accounting, have not change any substantial.

In the second year, because the deferred tax liability took place in the first year and the deferred tax asset in the second year, which is less than the deferred tax liability, it will reduce (compensate) the deferred tax liability and remain as 45 GEL (75 – 30).As to the third year difference occurs, therefore the accounting and the tax profits coincide to each other, so only one accounting operation must be carried out. While the balance of the deferred tax liability of the previous year – 45 GEL will remain unchanged. As to the fourth year**,** two accounting operation will be needed. In this year, the deferred tax asset is higher than the remains of the deferred tax liability of the previous year. Therefore, the latter will be covered.

As required by the Standards, an enterprise should not representation in its financial statements the balances of both: the deferred tax liability and the deferred tax asset at the same time. In the Balance Sheet must be presented net deferred liability. By this reason, because the 45 GEL balance of the deferred tax liability existed in the third year, it will be compensated by the deferred tax asset in the fourth year and, the balance of the deferred tax asset will be 75 GEL (120 – 45) or will be deducted from the costs (see scheme 1).

As shown in Scheme 1, with the both approaches the deferred tax liability and deferred tax asset are compensated. Even will not be accounting of the overlap (compensated) operations, then the remains of the deferred tax asset and the deferred tax liability in the Balance Sheet will be endlessly accumulated, that cannot be considered advisable. Here we will remark that we do not agree with the accounting methodic given in the scheme 1.

As a rule, each country operates its own national tax system, which regulates the rules of calculation of the income tax. Namely, in Georgia, the Tax Code does not provide the right of deduction of all costs. Thus a profit calculated according to the requirements of the Tax Code is the Taxable Profit. In during current year, the enterprises will transfer profit tax amount to the budget accordingly to the profit of the previous year. At the end of a current year, when a factual tax profit of an enterprise already is known, the amount of difference between a real amount of the profit tax and the already paid amounts, the enterprise the suitable amount will be transferring at the State Budget additional (.;e back).But these transfers are not connected with the deferred tax liability (or asset).

Consequently, deferred tax liability and the deferred tax assets are registered in the same name accounts. There should be any one of the types of remains every year. The liability with the state budget shall be recognized in according on the base of the taxable profits. And, the tax expense is registered on the basis of the earning accounting profit. That's why "In the general purpose financial statements a dilemma regarding the reporting on the future effects of temporary differences appeared i.e. deferred taxes. It violates the relationship between accounting income and expense in the income statement and leads to distortions in net profit after tax (SAVKA VUĈKOVIĆ-MILUTINOVIĆ and RADOJKO LUKIĆ. 2013.p.26). We agree with this opinion and first of all, we have the description of net profit indicators

4. The Results of the General Financial Analysis

4.1 The Deferred Tax Liability (Asset) in Practice

In according the requirements of IAS 12- Income Tax, the Deferred Tax Liability in the company`s Balance Sheet is presented into long-term liabilities, while the Deferred Tax Asset is presented in the long-term assets. And, profit tax expenses with is calculated on the base of taxable profit, are disclosures in the Profit & Loss Statement of the companies.

In Georgia, income tax accounting was previously based on so-called the flow-through model. "This model means that only current taxes that are explicitly determined in a tax return should be incorporated into financial statements. In this way, deferred taxes are not the subject of the reporting (SAVKA VUĈKOVIĆ-MILUTINOVIĆ and RADOJKO LUKIĆ, 2013).

In Georgia implementation, of the deferred tax asset (Liability) accounting model began from the 2001 year. Hence was unavoidable IAS 12 – income tax - became the mandatory basis for preparing financial statements. But, accounting of deferred tax asset (DTA) and deferred tax liability (DTL) has not been established in Georgia. This was a fact that the enterprise management did not see the practical need for these indicators (DTA and DTL).

We examined of 2014-2015 years financial statements of famous enterprises in Georgia. Accounting of the DTA and the DTL occurs only in the 20% of the biggest companies in Georgia. In the all commercial banks are accounting deferred tax liability and deferred tax asset, not freely but by compulsory legislation.

In result in this companies' statement of Financial Position (Balance Sheet) was presented the DTA and DTL. The survey shows that in some enterprises (except the commercial banks) the deferred asset represents 25-35% of the total long-term assets and the deferred tax liability 35% and sometimes, 100% of the long-term liabilities. In the small and the medium enterprises at all do not account the DTL and DTA. Almost all the enterprises` management ignores to the indicators DTA and DTL. So, the deferred tax liability and the deferred tax asset are the forgotten numbers. Approximately the similar situations are in the other states, for example in Serbia (SAVKA VUĈKOVIĆ-MILUTINOVIĆ and RADOJKO LUKIĆ. 2013).

History of the use 12^{th} standard in Georgia ended with the fact that the government has changed the rule of profit taxation, as it is in Estonia. Such as, only the distributed profit (dividends) will be taxed. And, tax profit is calculated now, but the deferred liability (asset) do not account. Even this fact indicates that the requirement of the 12^{th} standard about to accounting deferred tax liability (asset) is the groundless and, in addition, the IAS 12(Income Tax) disables the international function.

After we were interested in research the analytical nature of these mentioned indicators: the deferred tax liability and the deferred tax asset.

4.2 The Role Deferred Tax Liability (Asset) in the Financial Analysis of Companies

With for purpose of researching the analytical character of the deferred tax assets and deferred tax liabilities, we have based on the conception that they should have an impact on the financial stability, liquidity, profitability and, cash flow of the companies.

The analysis of the first table data showed that the deferred tax asset and deferred tax liabilities do not affect the cash flows in the direction of the budget. And while the future cash flows are evaluated during the planning stage, if there is a deferred tax liability, the management may consider it`s in the plan. But for this reason, it is not necessary to register (accounting) a tax liability (asset). These figures are calculated in the tax report and the management will be guided by it. The previous year`s deferred tax liabilities (asset) do not corrections to the current year's profit tax, as the latter is calculated on the basis of the current year's tax profit.

The deferred tax liability, with belongs to long-term liabilities, is not the real obligation, as the enterprise never needs a cash resource to cover it.It is adjusted by a deferred tax asset (or tax expense).The deferred tax liability does not apply for calculation of the solvency company and the financial stability indicators. It is also not necessary to calculate long-term solvency because it never needs to be repaid with money. But, it able distortion the coefficients: the ratio of liabilities with assets; the ratio of liabilities with capital equity; the structure coefficients of liabilities act. For calculate the financial stability coefficients, the deferred tax liability should be deducted from the sum of the balance sheet.

I would like to note that the deferred tax asset is not a kind of resource that is spent on providing products (or services). It is an abstract data that have no a physical face and have no a financial substantial. Therefore, it cannot influence on the costs of product (service) and on the formation of the profit. It is the difference between of the accounting and the tax profit indicators that are the result of the peculiarities of capital turnover invested in material resources and of different legislative requirements. With this, the deferred tax asset may not place take into the calculation of liquidity coefficients of enterprises which are the ratio between current assets and current liabilities. So, deferred tax asset is the non-real resource and the non-real expense but, it can to distortion the total assets and the coefficients: ROA (profit /total assets); operating profitability of the assets (operating profit / total assets act.); the coefficient concentration of liability (liability/total assets) act, all the coefficients will be rigged where has been used the total assets indicator. Therefore, the amount of the deferred tax asset must be deducted from the total sum of the asset. Consequently, they are superfluous numbers in financial analysis of the enterprise.

And, how we have spoken above, tax expense in the profit & loss statement is recognized on the basis of the accounting profit. In result is unreal the net profit indicator and accordingly – ROE (net profit/shareholders) and other indicators, with will be calculated on the base of the net profit too. For this reason, external users of financial reporting information will not be able to make an objective analysis and make the right decisions. So, we do not agree with the opinion that the deferred tax liability (asset) is important in the financial analysis of enterprise.

Thus, the theoretical and practical analysis of results of accounting method tax profit (in according to requirements IAS 12 – Income Tax) is demonstrated: the indicators of the deferred tax asset, deferred tax liabilities and the falseness profit do not have any analytical importance in the financial stability of enterprises. They are lifeless and useless numbers that do not characterize to the financial position of the enterprise in no one aspect. Due to all the above, to demand the accounting of the deferred tax assets and of the deferred tax liabilities are not advisable. Therefore, we conclude that are necessary to changes in the rules of the accounting profit tax.

4.3 Possible Changes in the Profit & Loss Reporting

According to the current regulations by IAS 12 and as a result of the accounting operations considered above in the scheme 1, the tax expense and net profit are presented in the profit & loss reports follows (see Table 2).

Table 2.The fragment from the Profit & Loss Report as per the current regulations IAS 12 (in GEL)

Indicators	Year I	Year II	Year III	Year IV
1.Accounting profit (profit before tax)	5500	5800	7000	8000
2.Tax expense (15% on the base accounting profit)	(825)	(870)	(1050)	(1200)
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Net profit	4675	4930	5950	6800

Of course, the information provided in Table 2 regarding the profit tax and the net profit, is not important for the users, because it does not correspond to reality. For example, here the profit tax amount in the first year - 825 GEL is calculated on the base the accounting profit, which is not transferred to the Budget. So, realistic it is that cash flow size, which is objectively transferred to the Budget from an enterprise.

Thus, we may conclude that the indicator of net profit presented in the Profit & Loss reporting is not that part of the annual profit, which remains at the disposal of enterprises' owners(shareholders) in real and, the logical connection between real expenses and profit indicators has been breaching. Also, the analytical role of the Profit &Loss Report is significantly reduced. For eliminating these shortcomings in the profit & loss statement the costs must present for the amount, with be calculated on the base tax profit. Therefore, this part of the Profit & Loss reporting needs perfection because it is not the use for the users of financial information. Correspondingly, at annually it is sufficient to the one simple accounting item registration (E.g. in the first year):

Dr – Costs of the profit tax – 750 GEL (from the tax profit)

Cr – Profit tax to be paid – 750 GEL etc.

If will not accounting of the deferred tax asset and of the deferred tax liability, considerably will simplify to the profit tax accounting rules. After the use of this accounting approach of profit taxation, the fragment of the Profit & Loss statement in Table 2 will be changed in the following way (see Table 3).

Table 3.Fragment of the Profit &Loss Report after the proposed simplification IAS 12 (in the GEL)

Indicators	Year I	Year II	Year III	Year IV
1. The Accounting Profit	5500	5800	7000	8000
2. The Costs of profit tax (15% on the base Taxable Profit)	(750)	(900)	(1050)	(1050)
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Net profit	4750	4900	5950	6680

The net profit indicators presented in Table 3, are just those sums of the net profit, which remain actually at the disposal of the entity and which should be distributed among the owners, or directed for the formation of various reserves, or used for calculating income from one share, etc.

Thus, a sum of the net profit presented in the Profit & Loss reports as per the currently existing methodology now is unrealistic. It is not that part of the profit, which remains actually at the disposal of entity owners. The reason of this is, first of all, that settlements with the budget take place from the tax profit of each year and regardless the fact whether the deferred tax asset or the deferred tax liability existed in the previous year. By the same reason, they have no impact on the cash flows. In addition, the tax expense is forged in the Profit & Loss reports.

On the based the analytical study the indicators of deferred tax liability (an asset) of the enterprises`, we can be concluded that these indicators haven't reflected in companies' liquidity, financial sustainability, and profitability; these figures do not participate in the calculations of liquidity and profitability of enterprises; the deferred tax liability is not an obligation of enterprise to cover with money; the deferred tax asset does not provide any economic benefit. Shush, the Deferred Tax Asset and Deferred Tax Liability in the Balance Sheet are lifeless numbers. Consequently, we don't approve the presentation of deferred tax asset and liability into the Balance Sheet of the enterprises.

Also, in some countries operates its own tax legislation, such as taxes on the reinvested profit and, the indicators of the deferred tax assets (liabilities) cannot be comparable worldwide and IAS-12 loses its global nature. Some economist writes: the IFRS provide comparable financial data despite the differences in national tax and accounting legislation. The users of financial statements need to pay their attention to the following facts: reports under IFRS can provide the users with relevant and comparable information about the deferred taxes; at the same time, the deferred taxes as such greatly influenced by local tax legislation (Marina Purina, 2016).

In our opinion IFRS should not interfere in tax policy of the countries, the while IAS – "Income Taxes" requires that the tax costs should be calculated from the Accounting Profit, as a result, it interferes in the tax policy of countries. International Standard must regulate to the rules of calculation of the annual accounting profit indicator, not more. Generally, the issues of determination and recognition to the sum of the profit tax expense must not be of International Accounting Standards objective.

5. Conclusions and Recommendations

Thus, the debate about the accounting of deferred tax liability and deferred tax asset is lengthened for five decades. Nevertheless, the problems are not diminished, more they multiply. As a result of our research, we did discover that to accounting the deferred tax liability (asset) is unnecessary procedures, because: these indicators have no effect on the tax amount and on cash flows to the state budget because the tax is calculated on the base the tax profit of the current period; the amount of the deferred tax liability (asset) in the balance sheet are the useless and lifeless indicators; they have no connected with the liquidity, the financial stability, the business activity indicators and the profitability of the enterprises; they distort indicators of the company's assets, liabilities, tax expenses and, net profit in the financial statement; the analytical importance of financial statements decreases; it is necessary to prepare special reporting for owners about real net profit, which is associated with additional expenses; IAS 12 - Income Tax - interferes in the national tax policy of the countries involuntarily. International Standard must regulate to the rules of calculation sense of the profit before tax (the accounting profit). All these problems will not exist if the deferred tax liability (asset) will not be accounted.

Based on the above, in the standard 12 – Income tax – will be making following unavoidable changes:

- The IAS 12 – income tax must be negation the demand about to accounting the Deferred Tax Liability and Deferred Tax Asset;
- In the Profit & Loss Reporting the current tax expense should be recognized on the base tax profit and not on the base of the accounting profit;
- The Deferred tax liability and the Deferred Tax Asset will be calculated only in the tax declaration without their accounting.

As a result implementation of the recommendations introduced in this Article, an analytical value of the profit & loss statements and balance sheet will be increased, accounting procedures of the profit tax will be simplified considerably and, the enterprises will be released from the costs of excessive audit services.

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