© May 2018| IJIRT | Volume 4 Issue 12 | ISSN: 2349-6002

Deferred Tax Accounting Disclosure Practices of Indian Companies - An Analytical Study

Savitha P. R.

Assistant Professor, Department of Commerce, Government First Grade College, Srirangapatna

Abstract- Purpose: A true and fair disclosure of information on deferred tax in companies' annual reports is needed to understand the significance of deferred tax by the users of accounting information. The level of awareness on deferred tax among the listed companies in India is high as the Accounting Standard on Deferred taxes is mandatory for Indian companies. Though Accounting standards prescribe the standard rules to be followed to disclose the information on deferred tax, the way of disclosure of deferred tax is not unique among the companies in India. The study aims to identify the extent of disclosure of deferred tax assets and deferred tax liabilities in annual reports of listed companies in India and to understand the level of awareness of deferred tax among companies.

Methodology: This study is conducted based on secondary data from the annual reports of ten sample companies for the year 2017-18. A hypothesis is formulated to reveal the facts about the level of disclosure of deferred tax among the sample companies. The study used descriptive statistics, and the inferential statistical tool ANOVA is applied for the logical analysis of data. The result of the present study indicated that listed companies in India have been disclosing the deferred tax accounting information as per AS 22 and Indian Accounting Standard (Ind.AS) 12-Income Taxes replaced AS 22 after the implementation of IFRS in India.

Findings: The study revealed the fact that there exists a difference in the level of disclosure of deferred tax assets and deferred tax liabilities in the annual reports of listed companies in India.

Practical Implication: The result of the study will facilitate an understanding of the concept and disclosure practice of deferred tax.

Originality/Value: The study will enrich the domain knowledge through systematic financial statement analysis.

Keywords: Deferred tax accounting, AS- 22, Ind AS- 12, Timing difference. Deferred Tax Assets, Deferred Tax Liability.

I. INTRODUCTION

The main aims of deferred tax accounting are to bridge the gap between accounting income and taxable income and match expenses against revenue. Deferred Tax Accounting was introduced in India in the year 2001. Accounting Standard 22 – Accounting for taxes on income, later Indian Accounting Standard 12-Income Tax, Accounting Standard Interpretation (ASI)7 have prescribed standards for disclosure of deferred tax accounting in financial statements. A true and fair disclosure of deferred taxes enhances the quality of financial information. Accounting standards on Income Taxes have a significant impact on companies' financial statements. A true and fair disclosure of information on deferred tax in companies' annual reports is needed to understand the significance of deferred tax by the users of accounting information. Accounting Standards on Income Taxes are expected to increase transparency in financial statements concerning deferred tax matters. The standard adds several qualitative and quantitative disclosures of deferred tax in financial statements. However, disclosure of deferred tax accounting slightly differs among the companies listed in India.

CONCEPT OF DEFERRED TAX:

Deferred tax refers to tax liabilities or assets that a company anticipates in the future due to temporary differences between the accounting income and taxable income. These differences can arise because of the different rules used for accounting and for tax purposes. Timing differences and permanent differences create the deferred taxes.

Deferred Tax Assets (DTA) and Deferred Tax Liability (DTL) are key elements of deferred tax. Deferred Tax Liability occurs when taxable income is less than the accounting income during the accounting period. DTL causes deferment to future periods, and the company will have to pay them when the temporary differences reverse. Changes in the methods of depreciation create the deferred tax liability when depreciation as per income tax is more than the depreciation as per the accounting method. Deferred Tax Assets (DTA) occur when the taxable income is higher than the accounting income of the current accounting period, and the company will have to pay the taxes in advance. DTA saves the taxes in the future when it is reserved in the future. Example: Loss carryforwards from previous years can be used to offset future taxable income, creating a deferred tax asset. Timing differences and permanent differences create deferred taxes.

II. REVIEW OF LITERATURE

A group of researchers has emphasized the valuation of deferred taxes in the financial statement (Eli Amir and et. al. 1977; Richard Sansgig, 1998; and Benjamin C. Ayers, 1998). Eli Amir (1977) has examined the value relevance of deferred tax components disclosed in the financial statement. Richard Sansging (1998) in their study on valuing deferred tax liabilities interpreted that deferred taxes are economic burdens. Douglas A. Shackelford and et. All (2001) about the study on empirical tax research in accounting with the objective of study to trace the development of archival, microeconomic-based empirical income tax research in accounting, anticipated that tax research in accounting to incorporate better knowledge. The study conducted by James Potebra and et. All (2007) concluded that there is substantial heterogeneity across the firms in their deferred tax position and opined about the major components of deferred tax assets and liabilities and their significance. There are studies in India on deferred tax accounting. Bhagwan Jagwani (2007) the AS 22 provisions and showed light on certain aspects of AS 22 like positive impact, grey areas, ethics of Indian companies in financial reporting, and issues raised by corporate India since the introduction of the Accounting standard on Taxes on Income. Sasidharan K.P and Mahesh Gupta (2010) in a study highlighted the different interpretations among companies, auditors, the Accounting Standard Board, and The Technical Director of ICAI on the rule of recognition of deferred tax liability for special created and maintained under section 36 (c) of Income Tax Act and concluded that the revision of AS 22 on the line of IAS 12 as a part of convergence with IFRS. The study by Anand Bakta (2011) concentrated on the income statement approach under Indian GAAP and the balance sheet approach under IFRS. Deferred taxes affect the company's profitability as they relate to investment planning and decisions by the users of accounting information.

III. NEED FOR THE STUDY

The concept of deferred tax is a new one to the many users of accounting information. The earlier studies stated that the concept of deferred tax is not as familiar as Income Tax. The knowledge of deferred tax among the users of financial information is very imperative. Deferred tax assists in reporting the financial information accurately, planning and management the tax in a wise manner, and it also helps to understand the effect of future tax on investment decisions by the investors. The users of financial information can able to better understand the concept of deferred tax and its effects only when it is disclosed in the financial statement.

DISCLOSURE OF DEFERRED TAX:

Schedule VI of the Companies Act, 1956 does not specify the presentation of deferred tax assets and liabilities in financial statements. Indian Accounting Standard 12 on Income Taxes requires that deferred tax assets and deferred tax liabilities should be distinguished from the assets and liabilities representing current tax for the period. An enterprise should disclose deferred tax assets and liabilities under a separate heading, separately from current assets and current liabilities. It is appropriate to present deferred tax liabilities immediately after the 'Reserves and Surplus' because they are like quasi-equity. Similarly, it is appropriate to present the deferred tax assets immediately after the fixed assets. The disclosure rule of Ind.AS 12 also includes the following:

- The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in notes to accounts.
- In the case of deferred tax assets arising from the unabsorbed deprecation or loss, evidence supporting recognition should be disclosed.

- Deferred tax should be distinguished from advance tax/tax provision/tax refund due.
- Deferred tax assets and liability can be set off as per the standards; in case it is not possible to set them off they should be shown separately.
- The Institute of Chartered Accountants of India holds a different view. ASI (7) issued by the ICAI requires that in the case of a company, deferred tax assets should be disclosed on the face of the Balance sheet separately after the head 'Investment' and deferred tax liabilities should be disclosed on the face of the balance sheet after the head unsecured loans.

IV. OBJECTIVES OF THE STUDY

The key objectives of the study include:

1. To study the extent of disclosure of deferred tax assets and deferred tax liabilities in the annual reports of listed companies in India.
2. To understand the level of awareness of deferred tax assets and deferred tax liabilities disclosure among the listed companies in India.

4.1 THE HYPOTHESIS OF THE STUDY:

H1: "There exists a difference in the level of disclosure of deferred tax assets and deferred tax liabilities in the annual reports of listed companies in India."

H0: "There exists no difference in the level of disclosure of deferred tax assets and deferred tax liabilities in the annual reports of listed companies in India."

V. METHODOLOGY

a) Sample: The sample companies for the study include the top ten companies based on market capitalization as of 31st March 2018. These companies include Reliance Industries Limited, Tata Consultancy Services Limited, HDFC Bank Limited, Hindustan Unilever Limited, ITC Limited, HDFC Limited, Infosys Limited, State Bank of India, ICICI Bank Limited and Kotak Mahindra Bank Limited.

b) Data: The study is based on secondary data. The data are primarily collected from the annual reports of the sample companies and other published sources on Indian accounting standards on income taxes. The period of study covers one year. The data of the study was collected from the financial statements published in annual reports for the year 2017-18 of the selected companies.

c) Research Tools: The content analysis method was used to analyze the data. A customized structured questionnaire is used to identify the data on deferred tax on its different aspects like reliability, presentation and disclosure, and understandability. A Weightage like 1, 2, 3, 4, and 5 was assigned to the data identified based on the degree of its relevance. Descriptive statistical tools like mean and variance, and Inferential statistical tool ANOVA are used to achieve the research objectives.

DATA ANALYSIS AND INTERPRETATION:

Table 1: Reliability

Company	DT effects on Income statement	Usefulness of information to investor	Feedback	DT effects on earnings	Mean
Reliance Industries Ltd	3	2	1	2	2.75
TCS Limited	5	5	4	2	4
HDFC Bank Ltd	3	3	2	1	2.25
Hindustan Unilever Ltd.	3	2	2	1	2
ITC Ltd	4	3	3	2	3
HDFC Ltd	3	2	2	1	2
Infosys Limited	5	4	3	2	3.5
State Bank of India	2	3	2	1	2
ICICI Bank Ltd.	3	3	2	2	2.5
Kotak Mahindra Bank Ltd	3	2	2	2	2.25

(Source: Compiled by Author)

Table 1 shows that the mean value of reliability of disclosure of deferred tax is high in TCS Limited, which is 4 than the other companies. It revealed that TCS Limited has a higher level of reliability of deferred tax disclosure in annual reports.

Table 2: Faithfull Presentation and Disclosure						
Company	Disclosure in Balance Sheet	Disclosure in income statement	Break-up of DT	Disclosure of nature of evidence	Number of explanations	Mean
Reliance Industries Ltd	4	4	4	1	3	3.2
TCS Limited	4	5	5	2	3	3.8
HDFC Bank Ltd	3	4	5	2	2	3.2
Hindustan Unilever Ltd.	4	3	3	4	1	3
ITC Ltd	4	4	3	2	2	3
HDFC Ltd	3	3	4	2	2	2.8
Infosys Limited	5	5	5	2	4	4.2
State Bank of India	4	4	3	2	1	2.8
ICICI Bank Ltd.	4	4	3	2	1	3
Kotak Mahindra Bank Ltd	4	4	3	2	1	3.4

(Source: Compiled by Author)

Table 2 shows that the mean value of faithful presentation and disclosure of deferred tax in the annual report is higher in Infosys Limited with 4.2 which is more than in the other companies. It is noticed that Infosys Limited duly comply the practices of presentation and disclosure of deferred tax in the balance sheet, in the income statement, and also in notes to accounts where the company disclosures the break-up of deferred tax along with relevant information on deferred tax compared to other sample companies.

Table 3: Understandability						
Company	Manner of report	Size of glossary	Measurement Explanation	Number of Tables	DT and EPS	Mean
Reliance Industries Ltd	2	3	3	2	2	2.4
TCS Limited	4	4	4	4	3	3.8
HDFC Bank Ltd	3	3	3	2	2	2.6
Hindustan Unilever Ltd.	3	4	3	3	2	3
ITC Ltd	4	3	3	4	3	3.4
HDFC Ltd	3	3	2	3	1	2.4
Infosys Limited	4	4	4	3	3	3.6
State Bank of India	3	4	2	2	2	2.6
ICICI Bank Ltd.	3	3	3	4	2	3
Kotak Mahindra Bank Ltd	3	4	3	2	2	2.8

(Source: Compiled by Author)

Table 3 reveals that TCS Limited has a higher mean value of 3.8 than other sample companies regarding the understandability of deferred tax accounting disclosure in annual reports. It states that the understandability of deferred tax information disclosure is comparatively more in TCS than in other companies relating to manner of report, size of glossary, explanation of measurement, number of tables used, and effect of deferred tax on Earning Per Share.

Table 4: Overall Disclosure				
Company	Reliability	Faithfull disclosure	Understandability	Mean
Reliance Industries Ltd	2.75	3.2	2.4	2.78
TCS Limited	4	3.8	3.8	3.87
HDFC Bank Ltd	2.25	3.2	2.6	2.68
Hindustan Unilever Ltd.	2	3	3	2.67
ITC Ltd	3	3	3.4	3.13
HDFC Ltd	2	2.8	2.4	2.40
Infosys Limited	3.5	4.2	3.6	3.77
State Bank of India	2	2.8	2.6	2.47
ICICI Bank Ltd.	2.5	3	3	2.83
Kotak Mahindra Bank Ltd	2.25	3.4	2.8	2.82

(Source: Complied by Author)

Graph 1: Overall Disclosure of Deferred Tax

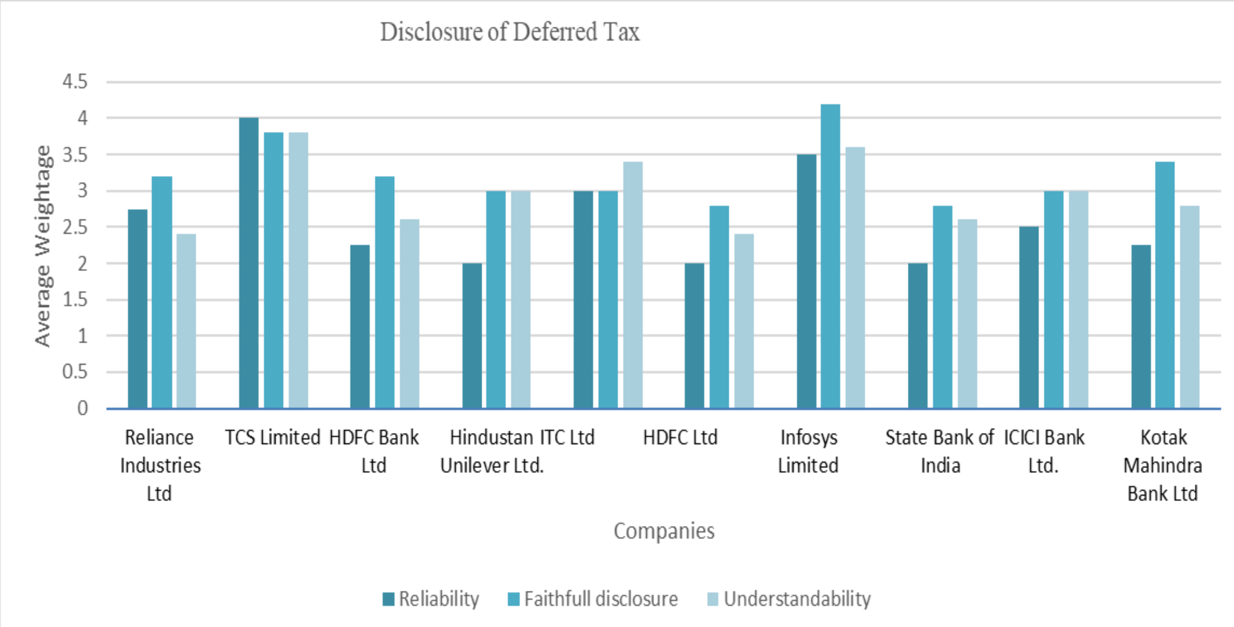

Table 4 and Graph 1 show the mean value of the overall disclosure of each company. The table shows that TCS Limited has a high mean value of overall disclosure which is 3.87 followed by Infosys Limited with a mean value of 3.77. It reveals that TCS Limited has a higher level of disclosure of deferred tax accounting information when compared to other companies relating to reliability, faithful presentation disclosure, and understandability.

Testing of Hypothesis:
H_0: There exists no difference in the level of disclosure of deferred tax assets and deferred tax liabilities in the annual reports of listed companies in India.

Table-5 Result of ANOVA

Factors	Sum of Squares	df	Mean of square	F	P value
Between companies	10.772	9	1.197	4.418	.003*
Within companies	5.418	20	.271		
Total	16.191	29			

*P value is significant at 0.05 levels.

Table 5 shows the result of ANOVA, P value is 0.003 which is less than 0.05. Therefore, the null hypothesis is rejected and the research hypothesis is accepted. The result proves that "There exists a difference in the level of disclosure of deferred tax assets and deferred tax liabilities in the annual reports of listed companies in India."

LIMITATION OF THE STUDY: The main limitations of the study include; it is based on secondary data; the size of the sample is restricted to 10 listed companies and the period of study is one year. The study is mainly based on the information on deferred taxes disclosed in the financial statements of sample companies.

CONCLUSION

Deferred tax is a critical accounting concept that ensures the accurate matching of income and tax expenses over time. By recognizing deferred tax liabilities and assets, companies can better reflect their financial health and future tax obligations in their financial statements. Understanding and managing deferred tax is essential for accurate financial reporting, effective tax planning, and informed investment analysis.
The Indian Accounting Standard 12 Income Taxes is mandatory for all Indian companies. Ind.AS 12 clearly prescribed the rule for recognition, measurement, presentation, and disclosure of deferred taxes in the financial statements of companies. The study noticed that companies have a high level of awareness of

disclosure of deferred tax assets and deferred tax liabilities and also reveals that the manner of disclosure of deferred tax is different from one company to another company.

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