

FA Module 13: Deferred taxes assets and liabilities (overview)

(The attached PDF file has better formatting.)

Readings: chapter 13

- § 5 unused tax losses and tax credits
- § 6 recognition and measurement of current and deferred tax

[§7 (presentation and disclosure, and §8 (comparison of IFRS and U.S. GAAP) are not on the syllabus.]

Know the major influences on deferred tax assets and liabilities:

- Taxable temporary differences
- Deductible temporary differences
- Changes in income tax rates
- Operating loss carry-forwards
- Valuation allowances

Review the exercises for accounts receivable, research and development costs, deferred revenue; prepaid expenses; unrealized capital gains and losses; depreciation methods; and inventory accounting methods on the discussion forum; the final exam problems are similar.

The proper way to compute deferred tax assets and liabilities is the balance sheet method described in the textbook (and in the IFRS and SFAS statements): compare the carrying value of the asset or liability with its tax basis. Two other methods are simpler (intuitive):

- The income statement method compares taxable income with pre-tax income on the statement of total comprehensive income.
- The reversal method considers the tax liability or refund if the asset or liability were liquidated now.

The exercises explain when each method is simplest.