

Accounting Standards Interpretation (ASI) 7¹

Disclosure of deferred tax assets and deferred tax liabilities in the balance sheet of a company

Accounting Standard (AS) 22, Accounting for Taxes on Income

ISSUE

1. The issue is how should deferred tax assets and deferred tax liabilities be disclosed in the balance sheet of a company.

CONSENSUS

2. In case of a company, deferred tax assets should be disclosed on the face of the balance sheet separately after the head 'Investments' and deferred tax liabilities should be disclosed on the face of the balance sheet separately after the head 'Unsecured Loans'.

BASIS FOR CONCLUSIONS

3. Paragraph 30 of Accounting Standard (AS) 22, Accounting for Taxes on Income, provides as follows:

“30. Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.”

From the above, it may be noted that the deferred tax assets and deferred

¹ Published in 'The Chartered Accountant', November 2003, pp. 490. The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

tax liabilities should be disclosed separately from current assets and current liabilities.

4. Part I of Schedule VI to the Companies Act, 1956, does not contain a specific head for disclosure of deferred tax assets/liabilities. Section 211(1) of the Companies Act, 1956, provides that every balance sheet of a company shall be prepared in the form set out in Part I of Schedule VI, *or as near thereto as circumstances admit*. It is, therefore, clear that format of balance sheet as set out in Part I of Schedule VI to the Companies Act, 1956, has in-built flexibility to accommodate necessary modifications. A deferred tax asset is normally more liquid (realisable) as compared to fixed assets and investments and less liquid as compared to current assets. Therefore, in case of a company, it is appropriate to present the amount of the deferred tax assets after the head 'Investments'. Similarly, keeping in view the nature of a 'deferred tax liability', it is appropriate that the same is presented in the balance sheet of a company after the head 'Unsecured Loans'.