NAS 09

NEPAL ACCOUNTING STANDARDS ON INCOME TAXES

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Nepal Accounting Standard,09 Income Taxes (NAS 09) is set out in paragraphs 1- 90 and Appendices A,B. All the paragraphs have equal authority. Paragraphs in **bold italic type** state the main principles. NAS 09 should be read in the context of its objective, the *Preface to Nepal Accounting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. NAS 02 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

(a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's balance sheet; and

(b) transactions and other events of the current period that are recognised 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 recognise a deferred tax liability (deferred tax asset), with certain limited exceptions.

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in the income statement, any related tax effects are also recognised in the income statement. For transactions and other events recognised directly in equity, any related tax effects are also recognised directly in equity. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill or negative goodwill arising in that business combination.

This Standard also deals with the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in the financial statements and the disclosure of information relating to income taxes.

Scope

1. ***This Standard shall be applied in accounting for income taxes.***

2. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

3. This Standard does not deal with the methods of accounting for government grants or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

4. This Standard applies to all companies including Public Sector Business Entities except tax exempt organisations as prescribed by Income Tax Act, 2002.

Definitions

5. ***The following terms are used in this Standard with the meanings specified:***

    <u>Accounting profit</u> is net profit or loss for a period before deducting tax expense.

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

Tax expense (tax income) ***is the aggregate amount included in the determination of net 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 liabilities ***are the amounts of income taxes payable in future periods in respect of taxable temporary differences.***

Deferred tax assets ***are the amounts of income taxes recoverable in future periods in respect of:***

(a) ***deductible temporary differences;***

(b) ***the carry forward of unused tax losses; and***

(c) ***the carry forward of unused tax credits.***

Temporary differences ***are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:***

(a) ***taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or***

(b) ***deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.***

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

A business combination is the bringing together of separate entities into one economic entity as a result of one entity uniting with or obtaining control over the net assets and operations of another entity.

6. ***Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).***

Tax Base

7. The tax base 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.

Examples

1. A machine cost 100. For tax purposes, depreciation of 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal. Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. *The tax base of the machine is 70.*

2. Interest receivable has a carrying amount of 100. The related interest revenue will be taxed on a cash basis. *The tax base of the interest receivable is nil.*

3. Trade receivables have a carrying amount of 100. The related revenue has already been included in taxable profit (tax loss). *The tax base of the trade receivables is 100.*
4. A loan receivable has a carrying amount of 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is 100.*

8. The tax base 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. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

Examples

1. Current liabilities include accrued expenses with a carrying amount of 100. The related expense will be deducted for tax purposes on a cash basis. *The tax base of the accrued expenses in nil.*
2. Current liabilities include interest revenue received in advance, with a carrying amount of 100. The related interest revenue was taxed on a cash basis. *The tax base of the interest received in advance is nil.*
3. Current liabilities include accrued expenses with a carrying amount of 100. The related expense has already been deducted for tax purposes. *The tax base of the accrued expenses is 100.*
4. Current liabilities include accrued fines and penalties with a carrying amount of 100. Fines and penalties are not deductible for tax purposes. *The tax base of the accrued fines and penalties is 100.*[1]
5. A loan payable has a carrying amount of 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is 100.*

9. Some items have a tax base but are not recognised as assets and liabilities in the balance sheet. For example, research costs are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset.

10. Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: that an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery of settlement were to have no tax consequences.

11. In consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In

other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the group.

Recognition of current tax liabilities and current tax assets

12. ***Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.***

13. ***The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset.***

14. When a tax loss is used to recover current tax of a previous period, an entity recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the entity and the benefit can be reliably measured.

Recognition of deferred tax liabilities and deferred tax assets

taxable temporary differences

15. ***A deferred tax liability shall be recognised for all taxable temporary differences, unless the deferred tax liability arises from:***

- ***(a) the initial recognition of an asset or liability in a transaction which:***
  - ***(i) is not a business combination; and***
  - ***(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).***

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 36.

16. It is inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods. When the carrying amount of the asset exceeds its tax base, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a taxable temporary difference and the obligation to pay the resulting income taxes in future periods is a deferred tax liability. As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. This makes it probable that economic benefits will flow from the entity in the form of tax payments. Therefore, this Standard requires the recognition of all deferred tax liabilities, except in certain circumstances described in paragraphs 15 and 36.

Example

An asset which cost 150 has a carrying amount of 100. Cumulative depreciation for tax purposes is 90 and the tax rate is 25%.

The tax base of the asset is 60 (cost of 150 less cumulative tax depreciation of 90). To recover the carrying amount of 100, the entity must earn taxable income of 100, but will only be able to deduct tax depreciation of 60. Consequently, the entity will pay income taxes of 10 (40 at 25%) when it recovers the carrying *amount of the asset. The difference between the carrying amount of 100 and the tax base of 60 is a taxable temporary difference of 40. Therefore, the entity recognises a deferred tax liability of 10 (40 at 25%) representing the income taxes that it will pay when it recovers the carrying amount of the asset.*

17. Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences. The following are examples of temporary differences of this kind which are taxable temporary differences and which therefore result in deferred tax liabilities:

    (a) interest revenue is included in accounting profit on a time proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable recognised in the balance sheet with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected;

    (b) depreciation used in determining taxable profit (tax loss) may differ from that used in determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities in determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated (if tax depreciation is less rapid than accounting depreciation, a deductible temporary difference arises, and results in a deferred tax asset); and

18. Temporary differences also arise when:

    (a) the cost of a business combination that is an acquisition is allocated to the identifiable assets and liabilities acquired by reference to their fair values but no equivalent adjustment is made for tax purposes (see paragraph 19);

    (b) assets are revalued and no equivalent adjustment is made for tax purposes (see paragraph 20);

    (c) the tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an entity benefits from non-taxable government grants related to assets (see paragraphs 21 and 30); or

    (d) the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest (see paragraphs 35-42).

Business combinations

19. In a business combination that is an acquisition, the cost of the acquisition is allocated to the identifiable assets and liabilities acquired by reference to their fair values at the date of the exchange transaction. Temporary differences arise when the tax bases of the identifiable assets and liabilities acquired are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which

results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 63).

Assets carried at fair value

20. Nepal Accounting Standards permit certain assets to be carried at fair value or to be revalued (see, for example NAS 06 *Property, Plant and Equipment).* In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:
    (a) the entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or
    (b) tax on capital gains is deferred if the proceeds of the disposal of the asset are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.

Initial recognition of an asset or liability

21. A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction which led to the initial recognition of the asset:
    (a) in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or negative goodwill (see paragraph 19);
    (b) if the transaction affects either accounting profit or taxable profit, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in the income statement (see paragraph 55);
    (c) if the transaction is not a business combination, and affects neither accounting profit nor taxable profit, an entity would, in the absence of the exemption provided by paragraphs 15 and 22, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an entity to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently (see example on next page). Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

Example Illustrating Paragraph 21 (c)

An entity intends to use an asset which cost 1,000 throughout its useful life of five years and then dispose of it for a residual value of nil. The tax rate is 40%. Depreciation of the asset is not deductible for tax purposes. On disposal, any capital gain would not be taxable and any capital loss would not be deductible.

As it recovers the carrying amount of the asset, the entity will earn taxable income of 1,000 and pay tax of 400. The entity does not recognise the resulting deferred tax liability of 400 because it results from the initial recognition of the asset.

In the following year, the carrying amount of the asset is 800. In earning taxable income of 800, the entity will pay tax of 320. The entity does not recognise the deferred tax liability of 320 because it results from the initial recognition of the asset.

Deductible temporary differences

22. A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from:

(a) the initial recognition of an asset or liability in a transaction which:

(i) is not a business combination; and

(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 41.

23. It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow form the entity of resources embodying economic benefits. When resources flow from the entity, part or all of their amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognised. In such cases, a temporary difference exists between the carrying amount of the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise to a deferred tax asset in respect of the income taxes that will be recoverable in future periods.

Example

An entity recognises a liability of 100 for accrued product warranty costs. For tax purposes, the product warranty costs will not be deductible until the entity pays claims. The tax rate is 25%.

The tax base of the liability is nil (carrying amount of 100, less the amount that will be deductible for tax purposes in respect of that liability in future periods). In *settling the liability for its carrying amount, the entity will reduce its future taxable profit by an amount of 100 and, consequently, reduce its future tax payments by 25 (100 at 25%). The difference between the carrying amount of 100 and the tax base of nil is a deductible temporary difference of 100. Therefore, the entity recognises a deferred tax asset of 25 (100 at 25%), provided that it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments.*

24. The following are examples of deductible temporary differences which result in deferred tax assets:

    (a) retirement benefit costs may be deducted in determining accounting profit as service is provided by the employee, but deducted in determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset as economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid;

    (b) research costs are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period. The difference between the tax base of the research costs, being the amount the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset;

    (c) in a business combination that is an acquisition, the cost of the acquisition is allocated to the assets and liabilities recognised, by reference to their fair values at the date of the exchange transaction. When a liability is recognised on the acquisition but the related costs are not deducted in determining taxable profits until a later period, a deductible temporary difference arises which results in a deferred tax asset. A deferred tax asset also arises where the fair value of an identifiable asset acquired is less than its tax base. In both cases, the resulting deferred tax asset affects goodwill (see paragraph 63); and

    (d) certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

25. The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity

recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

26. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences the same taxable entity which are expected to reverse:

    (a) in the same period as the expected reversal of the deductible temporary difference; or

    (b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

    In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

27. When there are insufficient taxable temporary differences relating to the same taxable entity, the deferred tax asset is recognised to the extent that:

    (a) it is probable that the entity will have sufficient taxable profit relating to the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising form these deductible temporary differences will itself require future taxable profit in order to be utilised; or

    (b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

28. Tax planning opportunities are actions that the entity would take in order to create or increase taxable income in a particular period before the expiry of a tax loss or tax credit carry forward. For example:

    (a) electing to have interest income taxed on either a received or receivable basis;

    (b) deferring the claim for certain deductions from taxable profit;

    (c) selling, and perhaps leasing back, assets that have appreciated but for which the tax base has not been adjusted to reflect such appreciation; and

    (d) selling an asset that generates non-taxable income (such as, a government bond) in order to purchase another investment that generates taxable income.

    Where tax planning opportunities advance taxable profit from a later period to an earlier period, the utilisation of a tax loss or tax credit carry forward still depends on the existence of future taxable profit from sources other than future originating temporary differences.

29. When an entity has a history of recent losses, the entity considers the guidance in paragraphs 32 and 33.

Initial recognition of an asset or liability

30. One case when a deferred tax asset arises on initial recognition of an asset is when a non-taxable government grant related to an asset is deducted in arriving at the carrying amount of the asset but, for tax purposes, is not deducted from the asset's depreciable amount (in other words its tax base); the carrying amount of the asset is less than its tax base and this gives rise to a deductible temporary difference. Government grants may also be set up as deferred income in which case the difference between the deferred income and its tax base of nil is a deductible temporary difference. Whichever method of presentation an entity adopts, the entity does not recognise the resulting deferred tax asset, for the reason given in paragraph 21.

Unused tax losses and unused tax credits

31. A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utlised.

32. The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 79 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

33. An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

    (a) whether the entity has sufficient taxable differences relating to the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;

    (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;

    (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and

    (d) whether tax planning opportunities (see paragraph 28) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

    To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Re-assessment of unrecognised deferred tax assets

34. At each balance sheet date, an entity re-assesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria set out in paragraphs 22 or 31. Another example is when an entity re-assesses deferred tax assets at the date of a business combination or subsequently (see paragraphs 64 and 65).

Investments in subsidiaries, branches and associates and interests in joint ventures

35. Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

    (a) the existence of undistributed profits of subsidiaries, branches, associates and joint ventures;

    (b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and

    (c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

    In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements prepares as per NAS 01: *Presentation of Financial Statements* if the parent carries the investment in its separate financial statements at cost or revalued amount.

36. An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

(a) the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and

(b) it is probable that the temporary difference will not reverse in the foreseeable future.

37. As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not

recognise a deferred tax liability. The same considerations apply to investments in branches.

38. An entity accounts in its own currency for the non-monetary assets and liabilities of a foreign operation that is integral to the entity's operations (see NAS 11 *The Effects of Changes in Foreign Exchange Rates).* Where the foreign operation's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in the foreign currency, changes in the exchange rate give rise to temporary differences. Because such temporary differences relate to the foreign operation's own assets and liabilities, rather than to the reporting entity's investment in that foreign operation, the reporting entity recognises the resulting deferred tax liability or (subject to paragraph 22)asset. The resulting deferred tax is charged or credited in the income statement (see paragraph 54).

39. An investor in an associate does not control that entity and is usually not in a position to determine its divided policy. Therefore, in the absence of an agreement requiring that the profits of the associate will not be distributed in the foreseeable future, an investor recognises a deferred tax liability arising from taxable temporary differences associated with its investment in the associate. In some cases, an investor may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount. In such cases, the deferred tax liability is measured at this amount.

40. The arrangement between the parties to a joint venture usually deals with the sharing of the profits and identifies whether decisions on such matters require the consent of all the venturers or a specified majority of the venturers. When the venturer can control the sharing of profits and it is probable that the profits will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

41. An entity shall recocognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:

(a) the temporary difference will reverse in the foreseeable future; and

(b) taxable profit will be available against which the temporary difference can be utilised.

42. In deciding whether a deferred tax asset is recognised for deductible temporary differences associated with its investments in subsidiaries, branches and associates, and its interests in joint ventures, an entity considers the guidance set out in paragraphs 26 to 29.

Measurement

43. Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

44. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled,

based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

45. Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

46. When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse.

47. The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

48. In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

    (a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and

    (b) the tax base of the asset (liability).

    In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

Example A

An asset has a carrying amount of 100 and a tax base of 60. A tax rate of 20% would apply if the asset were sold and a tax rate of 30% would apply to other income.

The entity recognises a deferred tax liability of 8 (40 at 20%) if it expects to sell the asset without further use and a deferred tax liability of 12 (40 at 30%) if it expects to retain the asset and recover its carrying amount through use.

Example B

An asset with a cost of 100 and a carrying amount of 80 is revalued to 150.No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is 30 and the tax rate is 30%. If the asset is sold for more than cost, the cumulative tax depreciation of 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

The tax base of the asset is 70 and there is a taxable temporary difference of 80. If the entity expects to recover the carrying amount by using the asset, it must generate taxable income of 150, but will only be able to deduct depreciation of 70. On this basis, there is a deferred tax liability of 24 (80 at 30%). If the entity expects to recover the carrying amount by selling the asset immediately for proceeds of 150, the deferred tax liability is computed as follows:

	Taxable		***Deffered***
	Temporary Difference	*Tax Rate*	*Tax Liability*
Cumulative tax depreciation	*30*	*30%*	*9*
Proceeds in excess of cost	*50*	*nil*	*-*
Total	*80*		*9*

(note: in accordance with paragraph 57, the additional deferred tax that arises on the revaluation is charged directly to equity)

49. Deferred tax asset and liabilities shall not be discounted.

50. The reliable determination of deferred tax assets and liabilities on a discounted basis requires detailed scheduling of the timing of the reversal of each temporary difference. In many cases such scheduling is impracticable or highly complex. Therefore, it is inappropriate to require discounting of deferred tax assets and liabilities. To permit, but not to require, discounting would result in deferred tax assets and liabilities which would not be comparable between entities. Therefore, this Standard does not require or permit the discounting of deferred tax assets and liabilities.

51. Temporary differences are determined by reference to the carrying amount of an asset of or liability. This applies even where that carrying amount is itself determined on a discounted basis, for example in the case of retirement benefit obligations.

52. The carrying amount of a deferred tax asset shall be reviewed at each balance sheet date. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Recognition of current and deferred tax

53. Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself. Paragraphs 55 to 65 implement this principle.

Income statement

54. Current and deferred tax shall be recognised as income or an expense and included in the net profit or loss for the period, except to the extent that the tax arises from:

(a) a transaction or event which is recognised in the same or a different period, directly in equity (see paragraph 57 to 62); or

(b) a business combination that is an acquisition(see paragraph 63 to 65).

55. Most deferred tax liabilities and deferred tax asset arise where income or expense is included in accounting profit in one period, but is included in taxable profit (tax

loss) in a different period. The resulting deferred tax is recognised in the income statement. Examples are when:

(a) interest, royalty or dividend revenue is received in arrears and is included in accounting profit on a time apportionment basis in accordance with NAS 07 Revenue, but is included in taxable profit (tax loss) on a cash basis; and

(b) costs of intangible assets have been capitalised and are being amortised in the income statement, but were deducted for tax purpose when they were incurred.

56. The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:

(a) a change in tax rates or tax laws;

(b) a re-assessment of the recoverability of deferred tax assets; or

(c) a change in the expected manner of recovery of an asset.

The resulting deferred tax is recognised in the income statement, except to the extent that it relates to items previously charged or credited to equity (see paragraph 59).

Items credited or charged directly to equity

57. Current tax and deferred tax shall be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

58. Nepal Accounting Standards require or permit certain items to be credited or charged directly to equity. Examples of such items are:

(a) a change in carrying amount arising from the revaluation of property, plant and equipment (see NAS 06 *Property, Plant and Equipment*);

(b) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of a fundamental error (see NAS 02 *Accounting Policies, Changes in Accounting Estimates & Errors*);

59. In exceptional circumstances it may be difficult to determine the amount of current and deferred tax that relates to items credited or charged to equity. This may be the case, for example, when:

(a) there are graduated rates of income tax and it is impossible to determine the rate at which a specific component of taxable profit (tax loss) has been taxed;

(b) a change in the tax rate or other tax rules affects a deferred tax asset or liability relating (in whole or in part) to an item that was previously charged or credited to equity ; or

(c) an entity determines that a deferred tax asset shall be recognised, or shall no longer be recognised in full, and the deferred tax asset relates (in whole or in part) to an item that was previously charged or credited to equity.

In such cases, the current and deferred tax related to items that are credited or charged to equity is based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned, or other method that achieves a more appropriate allocation in the circumstances.

60. NAS 06 *Property*, *Plant and Equipment* does not specify whether an entity shall transfer each year from revaluation surplus to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an entity makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of property plant or equipment.

61. When an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of both the asset revaluation and the adjustment of the tax base are credited or charged to equity in the periods in which they occur. However, if the revaluation for tax purposes is not related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of the adjustment of the tax base are recognised in the income statement.

62. When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. This amount is referred to as a withholding tax. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends or can be deducted from the amount payable to its shareholder.

Deferred tax arising from a business combination

63. As explained in paragraphs 19 and 24 (c), temporary differences may arise in a business combination that is an acquisition. In accordance with, an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria in paragraph 22) or deferred tax liabilities as identifiable assets and liabilities at the date of the acquisition. Consequently, those deferred tax assets and liabilities affect goodwill or negative goodwill. However, an entity does not recognise deferred tax liabilities arising from goodwill itself (if amortisation of the goodwill is not deductible for tax purposes) and deferred tax assets arising from non- taxable negative goodwill which is treated as deferred income.

64. As a result of a business combination, an acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised prior to the business combination. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree. In such cases, the acquirer recognises a deferred tax asset and takes this into account in determining the goodwill or negative goodwill arising on the acquisition.

65. When an acquirer did not recognise a deferred tax asset of the acquiree as an identifiable asset at the date of a business combination and that deferred tax asset is subsequently recognised in the acquirer's consolidated financial statements, the resulting deferred tax income is recognised in the income statement. In addition, the acquirer:

    (a) adjusts the gross carrying amount of the goodwill and the related accumulated amortisation to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset at the date of the business combination; and

(b) recognises the reduction in the net carrying amount of the goodwill as an expense.

However, the acquirer does not recognise negative goodwill, nor does it increase the carrying amount of negative goodwill.

Example

An entity acquired a subsidiary which had deductible temporary differences of 300. The tax rate at the time of the acquisition was 30%.The resulting deferred tax asset of 90 was not recognised as an identifiable asset in determining the goodwill of 500 resulting from the acquisition. The goodwill is amortised over 20 years. 2years after the acquisition, the entity assessed that future taxable profit would probably be sufficient for the entity to recover the benefit of all the deductible temporary differences.

The entity recognises a deferred tax asset of 90 (300 at 30%) and, in the income statement, deferred tax income of 90. It also reduces the cost of the goodwill by 90 and the accumulated amortisation by 9 (representing 2 years' amortisation). The balance of 81 is recognised as an expense in the income statement. Consequently, the cost of the goodwill, and the related accumulated amortisation, are reduced to the amounts (410 and 41) that would have been recorded if a deferred tax asset of 90 had been recognised as an identifiable asset at the date of the business combination.

If the tax rate has increased to 40%, the entity recognises a deferred tax asset of 120 (300 at 40%) and, in the income statement, deferred tax income of 120. If the tax rate has decreased to 20%, the entity recognises a deferred tax asset of 60 (300 at 20%) and deferred tax income of 60. In both cases, the entity also reduces the cost of the goodwill by 90 and the accumulated amortisation by 9 and recognises the balance of 81 as an expense in the income statement.

Presentation

Tax assets and tax liabilities

66. Tax assets and tax liabilities shall be presented separately from other assets and liabilities in the balance sheet. Deferred tax assets and liabilities shall be distinguished from current tax assets and liabilities.

67. When an entity makes a distinction between current and non- current assets and liabilities in its financial statements, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

Offset

68. An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:

(a) has a legally enforceable right to set off the recognised amount ; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

69. Although current tax assets and liabilities are separately recognised and measured they are offset in the balance sheet. An entity will normally have a legally enforceable right to set off a current tax asset against a current tax liability.

70. In consolidated financial statements, a current tax asset of one entity in a group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

71. An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

72. To avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, this Standard requires an entity to set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

73. In rare circumstances, an entity may have a legally enforceable right of set- off and an intention to settle net, for some periods but not for others. In such rare circumstances, detailed scheduling may be required to establish reliably whether the deferred tax liability of one taxable entity will result in increased tax payment in the same period in which a deferred tax asset of another taxable entity will result in decreased payments by that second taxable entity.

Tax expense

Tax expense (income) related to profit or loss from ordinary activities

74. The tax expense (income) related to profit or loss from ordinary activities shall be presented on the face of the income statement.

Exchange differences on deferred foreign tax liabilities or assets

75. NAS11 *The Effects of Changes in Foreign Exchange Rates* requires certain exchange differences to be recognised as income or expense but does not specify where such differences shall be presented in the income statement. Accordingly, where exchange differences on deferred foreign tax liabilities or assets are recognised in the income statement, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.

Disclosure

76. The major components of tax expense (income) shall be disclosed separately.

77. Components of tax expenses (income) may include:

(a) current tax expense (income);

(b) any adjustments recognised in the period for current tax of prior periods;

(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;

(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;

(f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;

(g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 52; and

the amount of tax expense (income) relating to those changes in accounting policies and fundamental errors which are included in the determination of net profit or loss for the period in accordance with the allowed alternative treatment in NAS 02 *Accounting Policies, Changes in Accounting Estimates & Errors*.

78. The following shall also be disclosed separately:

(a) the aggregate current and deferred tax relating to items that are charged or credited to equity;

(b) tax expense (income) relating to extraordinary items recognised during the period;

(c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or

(ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;

(d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;

e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses , and unused tax credits for which no deferred tax asset is recognised in the balance sheet;

(f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised (see paragraph 36);

(g) in respect of each type of temporary difference, and in respect of each type of unused tax credits:

(i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;

(ii) the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet;

(h) in respect of discontinued operations, the tax expense relating to:

(i) the gain or loss on discontinuance; and

(ii) the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented; and

(i) the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements.

79. An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

(a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

(b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

80. An entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.

81. An entity discloses the nature and amount of each extraordinary item either on the face of the income statement or in the notes to the financial statements. When this disclosure is made in the notes to the financial statements, the total amount of all extraordinary items is disclosed on the face of the income statement, net of the aggregate related tax expense (income). Although financial statement users may find the disclosure of the tax expenses (income) related to each extraordinary item useful, it is sometimes difficult to allocate tax expense (income) between such items. Under these circumstances tax expense (income) relating to extraordinary items may be disclosed in the aggregate.

82. The disclosures required by paragraph 78 (c) enable users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and understand the significant factors that could affect that

relationship in the future. The relationship between tax expense(income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit(tax loss), the effect of tax losses and the effect of foreign tax rates.

83. In explaining the relationship between tax expenses (income) and accounting profit, an entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.

84. The average effective tax rate is the tax expense (income) divided by the accounting profit.

85. It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint ventures (see paragraph 36).Therefore, this Standard requires an entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entitys are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.

86. Paragraph 80 requires an entity to disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.

87. An entity required to provide the disclosures in paragraph 80 may also be required to provide the disclosures related to temporary differences associated with investment in subsidiaries, branches and associates or interests in joint ventures. In such cases, an entity considers this in determining the information to be disclosed under paragraph 80. For example, an entity may be required to disclose the aggregate amount of temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognised (see paragraph 78(f). If it is impracticable to compute the amounts of unrecognised deferred tax liabilities (see paragraph 85) there may be amounts of potential income tax consequences of dividends not practicably determinable related to these subsidiaries.

88. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities .Similarly, where changes in tax rates or tax laws are enacted or announced after the balance sheet date, an entity discloses any significant effects of those changes on its current and deferred tax assets and liabilities (see NAS 05 Events After the Balance Sheet Date).

Example illustrating paragraph 83

In 20X2, an entity has accounting profit in its own jurisdiction (country A) of 1,500 (20X1: 200) and in country B of 1,500 (20X1: 500). The tax rate is 30%in country A and 20% in country B. In country A, expenses of 100 (20X1: 200) are not deductible for tax purposes.

The following is an example of reconciliation to the domestic tax rate.

	20X1	*20X2*
Accounting profit	*2,500*	*3,000*
Tax at the domestic rate of 30%	*50*	*900*
Tax effect of expenses that are not deductible for tax purposes	*60*	*30*
Effect of lower tax rates in country B	*(50)*	*(150)*
Tax expense	*760*	*780*

The following is an example of a reconciliation prepared by aggregating separate reconciliations for each national jurisdiction. Under this method, the effect of differences between the reporting entity's own domestic tax rate and the domestic tax rate in other jurisdictions does not appear as a separate item in the reconciliation. An entity may need to discuss the effect of significant changes in either tax rates, or the mix of profits earned in different jurisdictions, in order to explain changes in the applicable tax rate(s), as required by paragraph 78(d)

Accounting profit	*2,500*	*3,000*
Tax at the domestic rates applicable to profits in the country concerned	*700*	*750*
Tax effect of expenses that are not deductible for tax purposes	*60*	*30*
Tax expense	*760*	*780*

Compliance with International Accounting Standards

89. Compliance with this NAS ensures compliance in all material respects with IAS 12 Income Taxes.

Effective date

90. This Nepal Accounting Standard becomes operative for financial statements covering periods beginning on or after 01 Shrawan 2064 corresponding to 17 July 2007.

Appendix A

Examples of temporary differences

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning.

A. Examples of Circumstances that Give Rise to Taxable Temporary Differences

All taxable temporary differences give rise to a deferred tax liability.

Transactions that affect the income statement

1. Interest revenue is received in arrears and is included in accounting profit on a time apportionment basis but is included in taxable profit on a cash basis.
2. Revenue from the sale of goods is included in accounting profit when goods are delivered but is included in taxable profit when cash is collected. *(note: as explained in B3 below, there is also a deductible temporary difference associated with any related inventory).*
3. Dezreciation of an asset is accelerated for tax purposes.
4. Development cost have been capitalised and will be amortised to the income statement but were deducted in determining taxable profit in the period in which they were incurred.
5. Prepaid expenses have already been deducted on a cash basis in determining the taxable profit of the current or previous periods.

Transactions that affect the balance sheet

6. Depreciation of an asset is not deductible for tax purposes and no deduction will be available for tax purposes when the asset is sold or scrapped. (*note: paragraph 15 (a) of the Standard prohibits recognition of the resulting deferred tax liability unless the asset was acquired in a business combination, see also paragraph 21 of the Standard).*
7. A borrower records a loan at the proceeds received (which equal the amount due at maturity), less transaction costs. Subsequently, the carrying amount of the loan is increased by amortisation of the transaction costs to accounting profit. The transaction costs were deducted for tax purposes in the period when the loan was first recognised. (*notes: (1) the taxable temporary difference is the amount of transaction costs already deducted in determining the taxable profit of current or prior periods, less the cumulative amount amortised to accounting profit; and (2) as the initial recognition of the loan affects taxable profit, the exception in paragraph 15(a) of the Standard does not apply. Therefore, the borrower recognises the deferred tax liability).*
8. A loan payable was measured on initial recognition at the amount of the net proceeds, net of transaction costs. The transaction costs are amortised to accounting profit over the life of the loan. Those transaction costs are not deductible in determining the taxable profit of future, current or prior periods. (*notes: (1) the taxable temporary difference is the amount of unamortised transaction costs; and (2) paragraph 15(a) of the Standard prohibits recognition of the resulting deferred tax liability).*

9. The liability component of a compound financial instrument (for example a convertible bond) is measured at a discount to the amount repayable on maturity, after assigning a portion of the cash proceeds to the equity component. The discount is not deductible in determining taxable profit (tax loss). *(notes: (1) the taxable temporary difference is the amount of unamortised discount; and (2) an entity recognises the resulting deferred tax liability and charges the deferred tax directly to the carrying amount of the equity component, see paragraph 57 of the Standard. In accordance with paragraph 54, subsequent changes in the deferred tax liability are recognised in the income statement as deferred tax expense (income).*

Fair value adjustments and revaluations

10. Financial assets or investment property are carried at fair value which exceeds cost but no equivalent adjustment is made for tax purposes.

11. An entity revalues property, plant and equipment (under the allowed alternative treatment in NAS 06 *Property, Plant and Equipment)* but no equivalent adjustment is made for tax purposes. *(note: paragraph 57 of the Standard requires the related deferred tax to be charged directly to equity).*

Business combinations and consolidation

12. The carrying amount of an asset in increased to fair value in a business combination that is an acquisition and no equivalent adjustment is made for tax purposes. *(note: on initial recognition, the resulting deferred tax liability increases goodwill or decreases negative goodwill, see paragraph 63 of the Standard).*

13. Amortisation of goodwill is not deductible in determining taxable profit and the cost of the goodwill would not be deductible on disposal of the business.

14. Unrealised losses resulting from intra group transactions are eliminated by inclusion in the carrying amount of inventory or property, plant and equipment.

15. Retained earnings of subsidiaries, branches, associates and joint ventures are included in consolidated retained earnings, but income taxes will be payable if the profits are distributed to the reporting parent. *(note: paragraph 36 of the Standard prohibits recognition of the resulting deferred tax liability if the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future).*

16. Investments in foreign subsidiaries, branches or associates or interests in foreign joint ventures are affected by changes in foreign exchange rates. *(notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; and (2) paragraph 36 of the Standard prohibits recognition of the resulting deferred tax liability if the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future).*

17. An entity accounts in its own currency for the cost of the non-monetary assets of a foreign operation that is integral to the reporting entity's operations but the

taxable profit or tax loss of the foreign operation is determined in the foreign currency. *(notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; (2) where there is a taxable temporary difference, the resulting deferred tax liability is recognised, because it relates to the foreign operation's own assets and liabilities, rather than to the reporting entity's investment in that foreign operation (paragraph 38 of the Standard); and (3) the deferred tax is charged in the income statement, see paragraph 54 of the Standard).*

Hyperinflation

18. Non-monetary assets are restated in terms of the measuring unit current at the balance sheet date and no equivalent adjustment is made for tax purposes. *(notes: (1) the deferred tax is charged in the income statement; and (2) if, in addition to the restatement, the non-monetary assets are also revalued, the deferred tax relating to the revaluation is charged to equity and the deferred tax relating to the restatement is charged in the income statement).*

B. Examples of circumstances that give rise to deductible temporary differences

All deductible temporary differences give rise to a deferred tax asset. However, some deferred tax assets may not satisfy the recognition criteria in paragraph 22 of the Standard.

Transactions that affect the income statement

1. Retirement benefit costs are deducted in determining accounting profit as service is provided by the employee, but are not deducted in determining taxable profit until the entity pays either retirement benefits or contributions to a fund. *(note: similar deductible temporary differences arise where other expenses, such as product warranty costs or interest, are deductible on a cash basis in determining taxable profit).*
2. Accumulated depreciation of an asset in the financial statements is greater than the cumulative depreciation allowed up to the balance sheet date for tax purposes.
3. The cost of inventories sold before the balance sheet date is deducted in determining accounting profit when goods or services are delivered but is deducted in determining taxable profit when cash is collected. *(note: as explained in A2 above, there is also a taxable temporary difference associated with the related trade receivable).*
4. The net realisable value of an item of inventory, or the recoverable amount of an item of property, plant or equipment, is less than the previous carrying amount and an entity therefore reduces the carrying amount of the asset, but that reduction is ignored for tax purposes until the asset is sold.
5. Research costs (or organisation or other start up costs) are recognised as an expense in determining accounting profit but are not permitted as a deduction in determining taxable profit until a later period.
6. Income is deferred in the balance sheet but has already been included in taxable profit in current or prior periods.

7. A government grant which is included in the balance sheet as deferred income will not be taxable in future periods. *(note: paragraph 22 of the Standard prohibits the recognition of the resulting deferred tax asset, see also paragraph 30 of the Standard).*

Fair value adjustments and revaluations

8. Financial assets or investment property are carried at fair value which is less than cost, but no equivalent adjustment is made for tax purposes.

Business combinations and consolidation

9. A liability is recognised at its fair value in a business combination that is an acquisition, but none of the related expense is deducted in determining taxable profit until a later period. *(note: the resulting deferred tax asset decreases goodwill or increases negative goodwill, see paragraph 63 of the Standard).*

10. Negative goodwill is included in the balance sheet as deferred income and the income will not be included in the determination of taxable profit. (*note: paragraph 22 of the Standard prohibits recognition of the resulting deferred tax asset).*

11. Unrealised profits resulting from intragroup transactions are eliminated from the carrying amount of assets, such as inventory or property, plant or equipment, but no equivalent adjustment is made for tax purposes.

12. Investments in foreign subsidiaries, branches or associates or interests in foreign joint ventures are affected by changes in foreign exchange rates. *(notes: (1) there may be a taxable temporary difference or a deductible temporary difference; and (2) paragraph 41 of the Standard requires recognition of the resulting deferred tax asset to the extent, and only to the extent, that it is probable that: (a) the temporary difference will reverse in the foreseeable future; and (b) taxable profit will be available against which the temporary difference can be utilised).*

13. An entity accounts in its own currency for the cost of the non-monetary assets of a foreign operation that is integral to the reporting entity's operations but the taxable profit or tax loss of the foreign operation is determined in the foreign currency. *(notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; (2) where there is a deductible temporary difference, the resulting deferred tax asset is recognised to the extent that it is probable that sufficient taxable profit will be available, because the deferred tax asset relates to the foreign operation's own assets and liabilities, rather than to the reporting entity's investment in that foreign operation (paragraph 38 of the Standard); and (3) the deferred tax is recognises in the income statement, see paragraph 54 of the Standard).*

C. Examples of circumstances where the carrying amount of and asset or liability is equal to its tax base

1. Accrued expenses have already been deducted in determining an entity's current tax liability for the current or earlier periods.

2. A loan payable is measured at the amount originally received and this amount is the same as the amount repayable on final maturity of the loan.
3. Accrued expenses will never be deductible for tax purposes.
4. Accrued income never be taxable.

Appendix B

Illustrative computations and presentation

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning. Extracts from income statements and balance sheets are provided to show the effects on these financial statements of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Nepal Accounting Standards.

All the examples in this appendix assume that the entities concerned have no transaction other than those described.

Example 1 – depreciable assets

An entity buys equipment for 10,000 and depreciates it on a straight line basis over its expected useful life of five years. For tax purposes, the equipment is depreciated at 25% per annum on a straight line basis. Tax losses may be carried back against taxable profit of the previous five years. In year 0, the entity's taxable profit was 5,000. The tax rate is 40%.

The entity will recover the carrying amount of the equipment by using it to manufacture goods for resale. Therefore, the entity's current tax computation is as follows:

	Year				
	1	2	3	4	5
Taxable income	2,000	2,000	2,000	2,000	2,000
Depreciation for tax purpose	2,500	2,500	2,500	2,500	0
Taxable profit (tax loss)	(500)	(500)	(500)	(500)	(2,000)
Current tax expense					
(income) at 40%	(200)	(200)	(200)	(200)	800

The entity recognises a current tax asset at the end of years 1 to 4 because it recovers the benefit of the tax loss against the taxable profit of year 0.

The temporary differences associated with the equipment and the resulting deferred tax asset and liability and deferred tax expense and income are as follows:

	Year				
	1	2	3	4	5
Carrying Amount	8,000	6,000	4,000	2,000	0
Tax base	7,500	5,000	2,500	0	0
Taxable temporary difference	500	1,000	1,500	2,000	0
Opening deferred tax liability	0	200	400	600	800
Deferred tax expense (income)	200	200	200	200	(800)
Closing deferred tax liability	200	400	600	800	0

The entity recognises the deferred tax liability in years 1 to 4 because the reversal of the taxable temporary difference will create taxable income in subsequent years. The entity's income statement is as follows:

	Year				
	1	2	3	4	5
Income2,000	2,000	2,000	2,000	2,000	
Depreciation	2,000	2,000	2,000	2,000	2,000
Profit before tax	0	0	0	0	0
Current tax expense (income)	(200)	(200)	(200)	(200)	800
Deferred tax expense (income)	200	200	200	200	(800)
Total tax expense (income)	0	0	0	0	0
Net profit for the period	0	0	0	0	0

Example 2 –deferred tax assets and liabilities

The example deals with an entity over the two year period, X5 and X6. In X5 the enacted income tax rate was 40% of taxable profit. In X6 the enacted income tax rate was 35% of taxable profit.

Charitable donations are recognised as an expense when they are paid and are not deductible for tax purposes.

In X5, the entity was notified by the relevant authorities that they intend to pursue an action against the entity with respect to sulphur emissions. Although as at Ashad X6 the action had not yet come to court the entity recognised a liability of 700 in X5 being its best estimate of the fine arising from the action. Fines are not deductible for tax purposes.

In X2, the entity incurred 1,250 of costs in relation to the development of a new product. These costs were deducted for tax purposes in X2. For accounting purposes, the entity capitalised this expenditure and amortised it on the straight line basis over five years. At 3X/3/X4, the unamortised balance of these product development costs was 500.

In X5, the entity entered into an agreement with its existing employees to provide health care benefits to retirees. The entity recognises as an expense the cost of this plan as employees provide service. No payments to retirees were made for such benefits in X5 or X6. Health care costs are deductible for tax purposes when payments are made to retirees. The entity has determined that it is probable that taxable profit will be available against which any resulting deferred tax asset can be utilised.

Buildings are depreciated for accounting purposes at 5% a year on a straight line basis and at 10% a year on a straight line basis for tax purposes. Motor vehicles are depreciated for accounting purposes at 20% a year on a straight line basis and at 25% a year on a straight line basis for tax purposes. A full year's depreciation is charged for accounting purposes in the year that an asset in acquired.

At 1/4/X6, the building was revalued to 65,000 and the entity estimated that the remaining useful life of the building was 20 years from the date of the revaluation. The revaluation did not affect taxable profit in X6 and the taxation authorities did not adjust the tax base of the building to reflect the revaluation. In X6, the entity transferred 1,033 from revaluation reserve to retained earnings. This represents the difference of 1,590 between the actual depreciation on the building (3,250) and equivalent depreciation based on the cost of the building (1,660, which is the book value at 1/4/X6 of 33,200 divided by the remaining useful life of 20 years), less the related deferred tax of 557 (see paragraph 60 of the Standard).

Current tax expense

	X5	X6
Accounting profit	8,775	8,740
Add		
Depreciation for accounting purposes	4,800	8,250
Charitable donations	500	350
Fine for environmental pollution	700	-
Product development costs	250	250
Health care benefits	2,000	1,000
	17,025	18,590
Deduct		
Depreciation for tax purposes	(8,100)	(11,850)
Taxable Profit	8,925	6,740
Current tax expense at 40%	3,570	
Current tax expense at 35%		2,359

Carrying amounts of property, plant and equipment

Cost		*Building Vehicles*	*Motor*	*Total*
Balance at 3X/3/X4		50,000	10,000	60,000
Additions X5		6,000	-	6,000
Balance at 3X/3/X5		56,000	10,000	66,000
Elimination of accumulated depreciation on revaluation at 1/4/X6		(22,800)	-	(22,800)
Revaluation at 1/4/X6		31,800	-	31,800
Balance at 1/4/X6		65,000	10,000	75,000
Additions X6		-	15,000	15,000
	65,000	25,000	90,000	
Accumulated Depreciation		5%	20%	
Balance at 3X/3/X4		20,000	4,000	24,000
Depreciation X5		2,800	2,000	4,800
Balance at 3X/3/X4		22,800	6,000	28,800
Revaluation at 1/4/X6		(22,800)	-	(22,800)
Balance at 1/4/X6		-	6,000	6,000
Depreciation X6		3,250	5,000	8,250
Balance at 3X/3/X6		3,250	11,000	14,250
Carrying Amount				
3X/3/X4	30,000	6,000	36,000	
3X/3/X5	33,200	4,000	37,200	
3X/3/X6	61,750	14,000	75,750	

Tax base of property, plant and equipment

Cost		*Building Vehicles*	*Motor*	*Total*
Balance at 3X/3/X4		50,000	10,000	60,000
Additions X5		6,000	-	6,000
Balance at 3X/3/X5		56,000	10,000	66,000
Additions X6		-	15,000	15,000
Balance at 3X/3/X6		56,000	25,000	81,000
Accumulated Depreciation		10%	25%	
Balance at 3X/3/X4		40,000	5,000	45,000
Depreciation X5		5,600	2,500	8,100
Balance at 3X/3/X6		45,600	7,500	53,100
Depreciation X6		5,600	6,250	11,850
Balance 3X/3/X6		51,200	13,750	64,950
Tax Base				
3X/3/X4	10,000	5,000	15,000	
3X/3/X5	10,400	2,500	12,900	
3X/3/X6	4,800	11,250	16,050	

Deferred tax assets, liabilities and expense at 3X/3/X4

	Carrying Amount	*Tax Base*	*Temporary Differences*
Accounts receivable	500	500	-
Inventory 2,000	2,000	-	
Product development costs	500	-	500
Investments 33,000	33,000	-	
Property, plant & equipment	36,000	15,000	21,000
TOTAL ASSETS	72,000	50,500	21,500
Current income taxes payable	3,000	3,000	-
Accounts payable	500	500	-
Fines payable	-	-	-
Liability for health care benefits	-	-	-
Long term debt	20,000	20,000	-
Deferred income taxes	8,600	8,600	-
TOTAL LIABILITIES	32,100	32,100	
Share capital	5,000	5,000	-
Revaluation surplus	-	-	-
Retained earnings	34,900	13,400	
TOTAL LIABILITIES/EQUITY	72,000	50,500	-
TEMPORARY DIFFERENCES	21,500		
Deferred tax liability	21,500 at 40%		8,600
Deferred tax asset	-		-
Net deferred tax liability			8,600

Deferred tax assets, liabilities and expense at 3X/3/X5

		Carrying Amount	*Tax Base*	*Temporary Differences*
Accounts receivable		500	500	-
Inventory 2,000		2,000	-	
Product development costs		250	-	250
Investments 33,000		33,000	-	
Property, plant & equipment		37,200	12,900	24,300
TOTAL ASSETS		72,950	48,400	24,550
Current income taxes payable		3,570	3,570	-
Accounts payable		500	500	-
Fines payable		700	700	-
Liability for health care benefits		2,000	-	(2000)
Long term debt		12,475	12,475	-
Deferred income taxes		9,020	9,020	-
TOTAL LIABILITIES		28,265	26,265	(2,000)
Share capital		5,000	5,000	-
Revaluation surplus		-	-	-
Retained earnings		39,685	17,135	
TOTAL LIABILITIES/EQUITY		72,950	48,400	-
TEMPORARY DIFFERENCES				22,550
Deferred tax liability	24,550 at 40%			9,820
Deferred tax asset	(2000) at 40%			(800)
Net deferred tax liability				9,020
Less: Opening deferred tax liability				(8,600)
Deferred tax expense (income) related to the origination and reversal of temporary differences				420

Deferred tax assets, liabilities and expense at 3X/4/X6

	Carrying Amount	*Tax Base*	*Temporary Differences*
Accounts receivable	500	500	-
Inventory 2,000	2,000	-	
Product development costs	-	-	-
Investments 33,000	33,000	-	
Property, plant & equipment	75,750	16,050	59,700
TOTAL ASSETS	111,250	51,550	59,700
Current income taxes payable	2,359	2,359	-
Accounts payable	500	500	-

Fines payable	700	700	-
Liability for health care benefits	3,000	-	(3000)
Long term debt	12,805	12,805	-
Deferred income taxes	19,845	19,845	-
TOTAL LIABILITIES	39,209	36,209	(3000)
Share capital	5,000	5,000	-
Revaluation surplus	19,637	-	-
Retained earnings	47,404	10,341	
TOTAL LIABILITIES/EQUITY	111,250	51,550	-
TEMPORARY DIFFERENCES			56,700

Deferred tax liability	59,700 at 35%		20,895
Deferred tax asset	(3,000) at 35%		(1,050)
Net deferred tax liability			19,845
Less: Opening deferred tax liability			(9,020)
Adjustment to opening deferred tax liability resulting from reduction in tax rate		22,550 at 5%	1,127
Deferred tax attributable to revaluation surplus 31,800 at 35% (11,130)			
Deferred tax expense (income) related to the origination and reversal of temporary differences			822

Illustrative disclosure

The amounts to be disclosed in accordance with the Standard are as follows:

Major components of tax expense (income) (paragraph 76)

	X5	*X6*
Current tax expense	3,570	2,359
Deferred tax expense relating to the origination and reversal of temporary differences:	420	822
Deferred tax expense(income)resulting from reduction in tax rate	-	(1,127)
Tax expense	3,990	2,054

Aggregate current and deferred tax relating to items charged or credited to equity (paragraph 78(a))

Deferred tax relating to revolution of building	-	(11,130)

In addition, deferred tax of 557 was transferred in X6 from retained earnings to revalution reserve. This relates to the difference between the actual depreciation on the building and equivalent depreciation based on the cost of the building.

Explanation of the relationship between tax expense and accounting profit (paragraph 78(c))

The Standard permits two alternative methods of explaining the relationship between tax expense (income) and accounting profit. Both of these formats are illustrated below.

(i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed.

	X5	X6
Accounting profit	8,775	8,740
Tax at the applicable tax rate of 35% (X5:40%)	3,510	3,059
Tax effect of expenses that are not deductible in determining taxable profit:		
Charitable donations	200	122
Fines for environmental pollution	280	-
Reduction in opening deferred taxes resulting from reduction in tax rate	-	(1,127)
Tax expense	3,990	2,054

The applicable tax rate is the aggregate of the national income tax of 30% (X5: 35%) and the local income tax rate of 5%.

(ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed

	X5	*X6*
	%	*%*
Applicable tax rate	40.0	35.0
Tax effect of expenses that are not deductible for tax purposes:		
Charitable donations	2.3	1.4
Fines for environmental pollution	3.2	-
Effect on opening deferred taxes of reduction in tax rate	-	(12.9)
Average effective tax rate (tax expense divided by profit before tax)	45.5	23.5

The applicable tax rate is the aggregate of the national income tax rate of 30% (X5: 35%) and the local income tax rate of 5%.

An explanation of changes in the applicable tax rate(s) compared to the previous accounting period (paragraph 78(d))

In X6, the government enacted a change in the national income tax rate from 35% to 30%.

In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:

(i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;

(ii) the amount of the deferred tax income or expense recognised in the income statement for each period presented, if this is not apparent from the changes in the amounts recognised in the balance sheet (paragraph 78(g))

	X5	***X6***
Accelerated depreciation for tax purposes	9,720	10,322
Liabilities for health care benefits that are decducted for tax purposes only when paid	(800)	(1,050)
Product development costs deducted from taxable profit in earlier years	100	-
Revaluation, net of related depreciation		10,573
Deferred tax liability	9,020	19,845

(note: the amount of the deferred tax income or expense recognised in the income statement for the current year is apparent from the changes in the amounts recognised in the balance sheet)

Example 3- Business combinations

On 1 Shrawan X 5 entities A acquired 100% of the shares of entity B at a cost of 600. A amortises goodwill over 5 years. Goodwill amortisation is not deductible for tax purposes. The tax rate in A's tax jurisdiction is 30% and the tax rate in B's tax jurisdiction is 40%.

The fair value of the identifiable assets and liabilities (excluding deferred tax assets and liabilities) acquired by A is set out in the following table, together with their tax base in B's tax jurisdiction and the resulting temporary differences

	Cost of Acquisition	*Tax Base*	*Temporary Differences*
Property, plant and equipment	270	155	115
Accounts receivable	210	210	-
Inventory	174	124	50
Retirement benefit obligations	(30)	-	(30)
Accounts payable	(120)	(120)	-
Fair value of the identifiable assets and liabilities acquired, excluding deferred tax	504	369	135

The deferred tax asset arising from the retirement benefit obligations is offset against the deferred tax liabilities arising from the property, plant and equipment and inventory (see paragraph 71 of the Standard).

No deduction is available in B's tax jurisdiction for the cost of the goodwill. Therefore, the tax base of the goodwill (in B's jurisdiction) is nil. However, A recognises no deferred tax liability for the taxable temporary difference associated, in B's tax jurisdiction, with the goodwill.

The carrying amount, in A's consolidated financial statements, of its investment in B is made up as follows:

Fair value of identifiable assets and liabilities acquired, excluding deferred tax	504
Deferred tax liability (135 at 40%)	(54)
Fair value of identifiable assets and liabilities acquired	450
Goodwill (net of amortisation of nil)	150
Carrying amount	600

At the date of acquisition, the tax base, in A's tax jurisdiction, of A's investment in B is 600. Therefore, no temporary difference is associated, in A's jurisdiction, with the investment.

During X5, B's equity (incorporating the fair value adjustments made on acquisition) changed as follows:

At 1 Shrawan X5	450
Retained profit for X5 (net profit of 150, less dividend payable of 80)	70
At 3X Ashad X5	520

A recognises a liability for any withholding tax or other taxes that it will suffer on the accrued dividend receivable of 80.

At 3X Ashad X5, a liability for any withholding tax or other taxes that it will suffer on the accrued dividend receivable, is as follows:

Net assets of B	520
Goodwill (net of amortisation of 30)	120
Carrying amount	640

The temporary difference associated with A's underlying investment is 40 as follows:

Cumulative retained profit since acquisition	70
Cumulative amortisation of goodwill	(30)
	40

If A has determined that it will not sell the investment in the foreseeable future and that B will not distribute its retained profits in the foreseeable future, no deferred tax liability is recognised in relation to A's investment in B (see paragraphs 36 and 37 of the Standard). Note that this exception would apply for an investment in an associate only if there is an agreement requiring that the profits of the associate will not be distributed in the foreseeable future (see paragraph 39 of the Standard). A discloses the amount (40) of the temporary difference for which no deferred tax is recognised (see paragraph 78(f) of the Standard).

If A expects to sell the investment in B, or that B will distribute its retained profits in the foreseeable future, A recognises a deferred tax liability to the extent that the temporary difference is expected to reverse. The tax rate reflects the manner in which A expects to recover the carrying amount of its investment (see paragraph 47 of the Standard). A credits or charges the deferred tax to equity to the extent that the deferred tax results from foreign exchange translation differences which have been charged or credited directly to equity (paragraph 57 of the Standard). A discloses separately:

(a) the amount of deferred tax which has been charged or credited directly to equity (paragraph 78(a) of the Standard); and

(b) the amount of any remaining temporary difference which is not expected to reverse in the foreseeable future and for which, therefore, no deferred tax is recognised (see paragraph 78(f) of the Standard).