A FINANCIAL READING IN THE DEFERRED TAX EQUATION

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Abstract:

This manuscript translates the requirements for converting the tax on profits calculated according to the tax requirements into the tax that is supposed to be calculated on the accounting profit, by modeling a conceptual equation in order to refer to it when measuring temporary differences. The first goal of this translation was to show that the deferred tax does not affect the accounting profit except in abnormal cases when tax rates change, while the second goal of the translation is to arbitrate the scientific contributions of previous studies to the model equation for deferred tax, to find out the new financial data that these studies gave. In the end, this financial readout concluded that the scientific contributions that were modeled had contained superficial data and did not provide any additional financial information, because they had based their data outside of the model.

Key Words: income tax, deferred tax charges, deferred tax products, tax laws, net accounting profit.

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1. Introduction

The requirements of International Accounting Standard No. 12 "Income Taxes" came with the deferred tax technique as a means to hide the tax effects of the temporary differences that result between the accounting profit and the taxable profit, by showing the accounting profit as if it was subject to tax according to the accounting requirements (CNPCDP, 2014), By creating hypothetical taxes, which appear in the financial statements in compliance with the accounting principles without prejudice to the credibility of the net accounting profit that was reached by the accounting and financial department of the entity, Temporary differences arise when the accounting profit is calculated according to certain bases, then when moving to the tax requirements, these bases are dealt with in a different way or are taken into consideration at a specific time, The accountant is obliged to show these changes in the appendix for determining the tax profit. This appendix aims to determine the tax profit according to the tax requirements. In this case, the accountant is required to show all these differences and reflect them in the appendix during future financial years. Thus, two types of taxes will be noted in the financial statements. A class that is declared to the tax authorities, and a class that is shown accounting for the balance between the accounting and tax requirements, in order to follow up the tax effects of the differences that result between the accounting and fiscal results, where deferred taxes constitute one of the control techniques that the accountant adopts in order to follow up and indicate how to reverse them in future periods. Determining the financial significance of the deferred tax caused great fatigue to the users of the financial statements and caused a huge number of researchers in the field of deferred tax accounting to be in turmoil because of this issue, (Görlitz & Dobler, 2021), Therefore, it is considered one of the controversial issues in the organization and practice of financial accounting, and everything related to its research (Chludek, 2011), Discussions about the concepts and criteria that were presented to the economic public led to strong turmoil, as to whether these taxes provided financial reading only, or that they might be used in the management of profits.

From the perspective of the conceptual framework of international accounting standards, the financial statements must be characterized by credibility and transparency (IFRS, 2018), This is the reason for the inclusion of International Accounting Standard No. 12 "Income Taxes" to increase the transparency of the financial statements of the economic establishment, and therefore, if financial accounting research indicate that the greater the importance of the value of the accounting variable, the higher the quality of profits, There is no doubt that this will lead to a decrease in earnings management practices (Görlitz & Dobler, 2021). In this context, we pose the following problem: ***How does International Accounting Standard No. 12 "Income Taxes" raise the quality of the financial statements?***

Our motive for this review is to evaluate the outcome of scholarly contributions to research published in high-quality peer-reviewed academic journals, offered by (Görlitz

& Dobler, 2021). What distinguishes our paper from other research is that we built the base that the deferred tax equation came to achieve, then we indicated the case in which this equation is shattered, our research paper provides a powerful and in-depth look at assessing the informational benefit of tax deferred. The remainder of this paper is structured as follows. Section 2 "summarizes the previous studies, theoretical foundations, and hypothesis development". Section 3 "Deferred tax mathematical model". Section 4 "presents and discusses the results and evaluates the results of previous studies". Section 5 "describes the implications for future research". Section 6 "presents the conclusion".

2. Previous studies, theoretical foundations and hypotheses development

2.1. Previous studies

The experimental studies presented by the two researchers proved (Görlitz & Dobler, 2021), Most of what was reached as a result of the application of this technique and its relationship to disclosure, is the existence of a huge amount of studies related only to the importance of disclosing the deferred tax, as the latter translated the benefit of presenting it in the balance sheet only, in other words, most of what the studies concluded is that it helps in forecasting tax cash flows. On the other hand, the two researchers (Görlitz & Dobler, 2021) indicated there are opinions that reject the use of this technique because it contributes to an increase in potential errors. Other studies have also argued that there is an ongoing disagreement among preparers, standard setters, and users of financial statements about whether there is any benefit from implementing deferred taxation, The results of Eierle et al 2007 survey related to the cost relationship concluded the perceived benefit of applying the deferred tax technique, That 21% of the sample were unable to assess the informational benefit of the deferred tax disclosures (Chludek, 2011).

What distinguishes our study from previous studies is the necessity to determine what is the informational benefit or added value that the subject of deferred tax provides to the subject of disclosure in the financial statements, by linking this benefit to the credibility of the net accounting profit, so that we can evaluate the importance of deferred tax on the quality of profits, and its reflection on earnings management.

2.2. Theoretical foundations and hypothesis development

Accounting principles are applied to the expenses and products resulting from the employment of assets and liabilities in order to calculate the accounting result (IFRS, 2018), then it is treated in another way when applying the principles of the tax system and tax laws in order to determine the tax result. This door opens the way for studying the differences arising between accounting and tax requirements, as the accounting basis for the transaction represents every charge or product that affects the accounting result before taxes, whether the effect is directly in the income statement, or indirectly at the level of the statement of changes in equity (Digit, n.d.), As a result of the process of employing assets and liabilities, a group of expenses and products is created, which are recorded in the company's journal and then displayed in the income statement after ensuring the integrity of the balances during the financial year (Digit, n.d.), Where deferred taxes are calculated and inspected in order to allow the concerned financial year to bear taxes only on the results of the financial year that it had to bear if there were no temporary imbalances between the accounting and tax results (CNPCDP, 2014), Therefore, it will always be noted that tax procedures or results will not allow it to be recovered or paid (CNPCDP, 2014), Because they are hypothetical taxes, and based on the above requirements, we put forward the following hypothesis: ***H1: The deferred tax technique can maintain the reliability of the accounting profit in all financial years as if it had not been disclosed in the absence of temporary differences, because it is prepared according to the accounting requirements.***

On the other hand, according to what is currently in effect by the tax authorities in each country, tax laws are prepared every financial year, so in any tax project, it is expected that the tax rates to which companies are subjected will be modified, This is because the main goal of the tax authorities in each country will seek to collect the largest amount of taxes, and establishments cannot interfere in tax policies, unless the tax authorities allow the conclusion of agreements or contracts with companies, Thus, when deferred tax assets and liabilities are modified, deferred tax charges and products are modified in the income statement, due to a change in the tax rate to reflect the transition to the new rate. (Ashish Kumar , n.d.), Based on this paragraph we include the hypothesis below: ***H2: The deferred tax technique can breach the credibility of accounting profit if tax rates change from year to year.***

3. Deferred tax mathematical model

The aim of this review is to link the accounting requirements with the deferred tax technique, so that we can derive a quality criterion for measuring the reliability of accounting profit, when tax rates are stable and when they change.

3.1. Description and measurement of variables

Deferred taxes are economic taxes, which may represent "tax products" on the result to be achieved or may represent "tax charges" on the result that must be paid during future financial periods (CNPCDP, 2014), These taxes arise between the temporary differences arising from the difference between the accounting result (including the items carried forward to the equity result) and the tax result (Boussaid, Yahi, & Boussad, 2013), It may also arise from some items that are settled in the balance sheet if they have a tax consideration (CNPCDP, 2014), Through the previous definition, we note that deferred taxes arise through one reason, which is the emergence of temporary differences between accounting and fiscal requirements, due to the existence of discrepancies in recognition between the principles of recognition of items according to accounting requirements and their tax equivalents, and all of this, for one reason, which is the difference between the accounting objective and the tax equivalent. The main goal of accounting focuses on providing financial statements that achieve the principle of a true image (EWM, 2020), So that users can read it and make their decisions about the economic establishment (IFRS, 2018), Accordingly, the establishment must treat its operations with respect for the general principles of accounting. In contrast, the main goal of tax authorities is to achieve the largest amount of tax revenues (The World Bank , n.d.). That is, through this principle, we conclude that the processing of items in relation to tax requirements will be random, we will find that it sometimes focuses on achieving the cash basis, and at other times it is consistent with the accounting requirements. Through the above requirements, we will be able to model the equation that the deferred tax technique came to achieve.

3.1.1. The independent variables

Both the accounting profit before tax and the accounting profit after tax are considered independent variables, because the transactions carried out by the establishment are presented in the items of the financial statements according to their accounting principles, so we will take the net accounting profit as a standard for comparison when applying the deferred tax technique, We will also highlight the costs and products that appear in the income statement to facilitate modeling the equation, Speaking of the accounting basis for the income statement items, it represents every charge or product that affects the accounting result before taxes, and therefore the presentation of the items in the income statement must fulfill the following principles in general. When preparing the income statement, we disclose the charges and outputs before they occur based on certain data it indicates that it will happen, for example, the interest payable or due for collection is recorded based on certain schedules that the accountant draws or that he requests from the bank dealing with him, Such as the bank loan amortization schedule, the amortized cost schedule of financial instruments, This is in response to the hypothesis of accrual accounting and the principle of independence of courses, In response to the previous principles, We also do the recognition of receivable stock products that are recognized after obtaining the dividend decision (PwC, 2021), Moreover, in order for the information to be presented with credibility, the estimated charges must be recognized based on a correct and accurate methodology and Not to be confused with tax requirements, For example, depreciation should be recognized based on correct estimates of depreciation periods to accurately reflect the consumption of the economic benefits of the underlying asset, This will be achieved by relying on experts or the technical interest of the facility, and it is absolutely not necessary to use the depreciation periods or depreciation methods specified by the tax authorities. Also, in order to respond to the principle of caution, we recognize provisions for impairment of assets based on the correct indicators adopted to measure each item, such as indicators that give us an estimate of the realizable value of a depreciable asset under IAS 36, or the realizable value of the sale of goods under IAS 02. We also recognize provisions payable, based on previous events for which resources are expected to come out to amortize them after identifying the item under which provisions are formed, in addition, we also recognize changes in exchange profits and losses at the end of the financial year, based on the applicable data for determining exchange rates, in accordance with the accrual basis of accounting. On the other hand, a reasonable degree of caution must be taken into account in making the necessary provisions for the preparation of estimates within the conditions of doubt, in such a way that the products are not overvalued or the charges are undervalued (Loi 07/11, 2007).

Therefore, if the above principles are dropped on the deferred tax technique, so that the result of each year is independent of the others with all its charges and products, it is impossible for this technique to penetrate the credibility of the accounting profit, in other words, when we subject the accounting profit to tax, it must result in the same net accounting profit in The case when we not putted the deferred tax technique, because the deferred tax technique is an accounting technique, and the accounting techniques should not affect the net accounting profit because they are independent variables, Thus, we point out that deferred tax is considered one of the output of accounting measurement, and its presence in the balance sheet meets the principle of independence of cycles only. In other words, deferred tax is not dealt with as an item subject to economic reality, but is dealt with on its legal basis. For this reason, we believe that IAS 12 “Income Taxes” does not allow the calculation of the present value of deferred taxes, in order to deduct their time value, until they are recognized in the balance sheet and to be a possibility of reversing them in future periods is possible (Taxmann, 2021).

3.1.2. Dependent variables

The income tax calculated according to the tax requirements is considered a dependent variable for the accounting profit, because it contributes to reducing part of the accounting profit. Where it was classified as a dependent variable due to its variable nature, as the income tax cannot be determined until the charges and outputs that appear in the income statement are remeasured according to what is taxable.

3.2. Mathematical modeling of variables

The deferred tax amounts should not affect the amount of net accounting profit by increase or decrease under the assumption that the differences between the accounting and tax profits are temporary only, that is, the establishment must achieve the following equality***: ”Accounting profit before tax (1 - income tax rate) = Accounting profit before tax - income tax according to tax requirements - deferred tax charges + Extinguish of deferred tax charges + deferred tax products - Extinguish of deferred tax products”.***

Achieving the previous equation indicates that the establishment respected the principle of independence of cycles and the accrual basis of accounting for all charges, products and contracts that were the subject of a temporary difference, as the previous equation must be achieved in all the financial years touched by the temporary difference and the periods in which the temporary difference was settled, In order for the financial statements to be characterized by the honest presentation of the items and the comparability of the financial statements.

3.3. Applied extrapolation of the variables on the elements of the income statement

3.3.1. View status and variables

Since the income statement adopted by companies contains temporary and permanent differences, it is not possible for us to analyze the financial statements to discover the financial significance of the deferred tax. Therefore, we will analyze the deferred tax relationship with the net accounting profit by presenting the following scientific case:

During the year 2022, the hypothetical annual turnover of the global company (X) amounted to 100,000 MU, this company maintains regular accounting in accordance with international accounting and financial reporting standards.

This company resides in a country that requires it to pay a percentage of its annual income of 10%. The tax authorities of this country prepare draft tax laws during each financial year, which allows the establishment residing in this country to know the percentage of income tax that will be paid in the following year. In September of the year 2022, the tax authorities of this country issued the draft tax laws for the year 2023, where the change included adjusting the income tax rate to X%, and the tax authorities obligate companies to deduct charges on the date of realization of their cash basis when calculating tax profit.

We assume that the international company obtained a long-term loan during the year 2022 to finance its internal operations, under a certain interest rate. The method of payment of loan installments was made according to a fixed interest payment method of 10,000 MU, and loan installments are paid at the beginning of each period.

Where we will build a table that analyzes the differences between tax and accounting requirements according to two cases, in the first case we will assume the tax rate (X%) that was published in the decrees of the tax laws for the year 2023 issued in September 2022 is 10%, then in the second case we will assume that it is equal to 11 %. The effect of deferred taxes will be projected in a separate table on the data that allows determining the taxable profit and the taxable accounting profit and explaining their meaning in each case.

3.3.2. Projection of fixed rates of the dependent variables on the independent variable

The following tables present the result of applying deferred tax according to a fixed tax rate of 10% and its compatibility with the tax rates that were deducted from the accounting profit during the years 2022 and 2023:

Table 1. Differences analysis between financial accounting and tax accounting:

The first part of the table: analysis of the differences			
Elements	2022	2023	TOTAL
Accounting basis for interest payable: reduced in the income statement 2022 (1)	(10,000)	The settlement is recorded in the balance sheet	(10,000)
Tax basis for interest payable: deductible in the year of actual payment 2023 (2)	0	(10,000)	(10,000)
The nature of the difference (3)			temporary
Deferred taxes to be canceled when calculating tax profit (4): 10% (5)	(1,000)	1,000	0
The nature of deferred taxes that appear in the income statement	deferred tax product	Extinguish of the deferred tax product	

The second part of the table: the accounting record		
31/12/2022	**Debtor**	**Creditor**
Interest charges on long-term borrowings	10,000	
Long-term financial receivables		10,000
Recognition of interest payable		
31/12/2022	**Debtor**	**Creditor**
deferred tax assets	1,000	
deferred tax product		1,000
Register of the deferred tax asset and product: 10,000 x 0.1		
01/01/2023	**Debtor**	**Creditor**
Long-term financial receivables	10,000	
Bank account		10,000
Payment of interest		
31/12/2023	**Debtor**	**Creditor**
deferred tax product	1,000	
deferred tax assets		1,000
Extinguish of the asset and deferred tax product: 10,000 x 0.1		

(1): The interest payable will be recognized before being paid according to the accrual hypothesis, as it will be reduced when calculating the accounting profit during the year 2022, Therefore, its cumulative amount will appear at the end of 2022 in the amount of 10,000 MU, in contrast, when the facility pays interest during the year 2023, the cumulative amount of interest payable will disappear from the balance sheet. **(2):** The interest payable should be reduced in the appendix to the determination of profit according to the tax requirements during the year 2023 because this is the year that the cash basis is achieved. **(3):** We note that the nature of the difference is temporary because the same amount was recognized during two different financial periods, meaning that the difference between tax and accounting requirements will be zero when deducting the accounting basis from the interest tax basis: 10,000 – 10,000 = 0. **(4):** The tax profit determination appendix is the appendix that must be presented to the tax authorities when declaring the profits to be paid. When declaring it, the effect of temporary differences represented in deferred taxes must not be shown. The form of this appendix may differ from one country to another, except that the tax reference must be reversed. Deferred payments that appear on the income statement. In our case, the deferred tax product will be combined with the accounting profit during the year 2022, which will appear in the income statement, which will have to show a negative sign when declaring it to the tax authorities, until it is removed from the tax base. In the year 2023, it will be reduced from the accounting profit because its cash basis has been achieved, which requires showing it with a positive sign when filling out the appendix for determining the tax profit. We will find that the horizontal sum of the taxes eliminated in the appendix is 0, which gives another indication that the difference is temporary. **(5):** 10% represents the tax rate expected to prevail during the year 2023, as this amount is published in the tax regulations during the month of September of the year 2022.

Prepared by us based on deferred tax requirements

Table 2. Accounting and tax profit determination:

Elements of calculating profit tax	**2022**	**2023**
Virtual business number	100,000	100,000
Total taxable revenue	**100,000**	**100,000**
Interest expense payable		(10,000)
Total charges deductible		**(10,000)**
Profit according to tax requirements	**100,000**	**90,000**
Income tax for the year 2022: 10%	10,000	
Income tax for the year 2023: 10%		9,000
Elements of calculating net accounting profit	**2022**	**2023**
Virtual business number	100,000	100,000
Total revenue before tax	**100,000**	**100,000**
Interest expense that appears in the income statement	(10,000)	0
Total charges before tax	**(10,000)**	**0**
Accounting profit before tax	**90,000**	**100,000**
Income tax according to the tax requirements for the years 2022 and 2023	(10,000)	(9,000)
Deferred tax charges (to be reduced)	0	0
Extinguish of deferred tax charges (to be added)	0	0
deferred tax products (to be added)	1,000	0
Extinguish of deferred tax products (to be reduced)	0	(1,000)
net accounting profit **	**81,000**	**90,000**

** Net accounting profit = accounting profit before tax - income tax according to tax requirements - deferred tax charges + Extinguish of deferred tax charges + deferred tax products - Extinguish of deferred tax products.

Prepared by us based on deferred tax requirements

3.3. Project the variable rates of the dependent variables on the independent variable

The following tables show the result of applying deferred tax at a rate expected to be prevailing at 11% and its compatibility with the tax rates that were deducted from the accounting profit during the years 2022 and 2023:

Table 3. Differences analysis between financial accounting and tax accounting:

The first part of the table: analysis of the differences			
Elements	2022	2023	TOTAL
Accounting basis for interest payable: reduced in the income statement 2022 (1)	(10,000)	The settlement is recorded in the balance sheet	(10,000)
Tax basis for interest payable: deductible in the year of actual payment 2023 (2)	0	(10,000)	(10,000)
The nature of the difference (3)			temporary
Deferred taxes to be canceled when calculating tax profit (4): 11% (5)	(1,100)	1,100	0
The nature of deferred taxes that appear in the income statement	deferred tax product	Extinguish of the deferred tax product	
The second part of the table: the accounting record			
	31/12/2022	**Debtor**	**Creditor**
Interest charges on long-term borrowings		10,000	
Long-term financial receivables			10,000
Recognition of interest payable			
	31/12/2022	**Debtor**	**Creditor**
deferred tax assets		1,100	
deferred tax product			1,100
Register of the deferred tax asset and product: 10,000 x 0.11			
	01/01/2023	**Debtor**	**Creditor**
Long-term financial receivables		10,000	
Bank account			10,000
Payment of interest			
	31/12/2023	**Debtor**	**Creditor**
deferred tax product		1,100	
deferred tax assets			1,100
Extinguish of the asset and deferred tax product: 10,000 x 0.11			

(1): The interest payable will be recognized before being paid according to the accrual hypothesis, as it will be reduced when calculating the accounting profit during the year 2022, Therefore, its cumulative amount will appear at the end of 2022 in the amount of 10,000 MU, in contrast, when the facility pays interest during the year 2023, the cumulative amount of interest payable will disappear from the balance sheet. **(2):** The interest payable should be reduced in the appendix to the determination of profit according to the tax requirements during the year 2023 because this is the year that the cash basis is achieved. **(3):** We note that the nature of the difference is temporary because the same amount was recognized during two different financial periods, meaning that the difference between tax and accounting requirements will be zero when deducting the accounting basis from the interest tax basis: 10,000 – 10,000 = 0. **(4):** The tax profit determination appendix is the appendix that must be presented to the tax authorities when declaring the profits to be paid. When declaring it, the effect of temporary differences represented in deferred taxes must not be shown. The form of this appendix may differ from one country to another, except that the tax reference must be reversed. Deferred payments that appear on the income statement. In our case, the deferred tax product will be combined with the accounting profit during the year 2022, which will appear in the income statement, which will have to show a negative sign when declaring it to the tax authorities, until it is removed from the tax base. In the year 2023, it will be reduced from the accounting profit because its cash basis has been achieved, which requires showing it with a positive sign when filling out the appendix for determining the tax profit. We will find that the horizontal sum of the taxes eliminated in the appendix is 0, which gives another indication that the difference is temporary. **(5):** 11% represents the tax rate expected to prevail during the year 2023, as this amount is published in the tax regulations during the month of September of the year 2022.

Prepared by us based on deferred tax requirements

Table 4. Accounting and tax profit determination.

Elements of calculating profit tax	2022	2023
Virtual business number	100,000	100,000
Total taxable revenue	**100,000**	**100,000**
Interest expense payable		(10,000)
Total charges deductible		**(10,000)**
Profit according to tax requirements	**100,000**	**90,000**
Income tax for the year 2022: 10%	10,000	
Income tax for the year 2023: 11%		9,900
Elements of calculating net accounting profit	**2022**	**2023**
Virtual business number	100,000	100,000
Total revenue before tax	100,000	100,000
Interest expense that appears in the income statement	(10,000)	0
Total charges before tax	(10,000)	0
Accounting profit before tax	**90,000**	**100,000**
Income tax according to the tax requirements for the years 2022 and 2023	(10,000)	(9,900)
Deferred tax charges (to be reduced)	0	0
Extinguish of deferred tax charges (to be added)	0	0
deferred tax products (to be added)	1,100	0
Extinguish of deferred tax products (to be reduced)	0	(1,100)
net accounting profit (**)	**81,100**	**89,000**

(**): Net accounting profit = accounting profit before tax - income tax according to tax requirements - deferred tax charges + Extinguish of deferred tax charges + deferred tax products - Extinguish of deferred tax products.

Prepared by us based on deferred tax requirements

4. Descriptive analysis of the results, discussion and evaluation of the results of previous studies

4.1. Descriptive analysis of the results

Table 1 and Table 3 provide how to predict the taxes that must be paid in 2023, because IAS 12 indicates that deferred tax must be applied according to the rate that should prevail. While Table 2 and Table 4 present the position of tax profit and net accounting profit at each tax rate.

4.2. Applied results

This equation must be achieved for all financial years: ***"Accounting profit before tax (1 – income tax rate) = accounting profit before tax – income tax according to tax requirements – deferred tax charges + Extinguish of deferred tax charges + deferred tax products – Extinguish of tax products deferred"***, the result of the second part of the equation is shown in the income statement. So, we have to check if the result of the first part of the equation is true:

4.2.1. Applying the equation to the result of the income statement with fixed tax rates (10% - 10%)

We note that the Financial year have not been affected after applying the deferred tax technique when tax rates are stable, as we will notice that the year 2022 has not been affected if we apply the first part of the equation to it, because it will give us the same result as the year 2022 in the income statement as follows: ***90,000 (1 - 0.1) = 81,000 MU, , and we will find the same result if we apply the first part of the equation to the year 2023: 100,000 (1 - 0.1) = 90,000 MU.***

4.2.2. Applying the equation to the result of the income statement with variable tax rates (10% - 11%)

We note the impact of the year 2022: ***90,000 (1 - 0.1) = 81,000 won, where the net accounting profit affected by the fictitious tax products was: 81,100 - 81,000 = 100 MU. On the other hand, we note that the year 2023 has not been affected: 100,000 (1 - 0.11) = 89,000 MU***.

4.3. The final results

When we assumed the income tax rate to be constant during the years 2022 and 2023, we noticed that the equation was achieved in all financial years, because it respected the principle of independence of cycles in all financial years. Therefore, we conclude that the role of the deferred tax disclosure in the income statement is to adjust the tax calculated according to the fiscal requirements to match the tax that it is supposed to be calculated according to the accounting requirements. On the other hand, the change in tax rates from year to year led to the failure to achieve the goal of IAS12, because it adds or deducts from the accounting profit imaginary tax amounts, which leads to breaching the principle of independence of cycles.

The goal achieved by the deferred tax in the income statement must be re-achieved in the balance sheet. It is true that the superficial reading of the balance sheet will give one result, which is reading the cash flows of taxes in future periods, but the deep reading gives deeper and more significant results, and we will not be able to reach this indication until we assume that permanent differences do not exist.

According to the equation we presented, under the assumption that there are no permanent differences, if we take the income statement and remove the dependent variables associated with the tax requirements (we remove the current income tax and deferred taxes), we will get the same net accounting profit if we impose the tax rate on the accounting profit However, this subjection is based on accounting requirements only, so that we do not use deferred tax. The accounting accrual basis links the income statement to the balance sheet, as, every deferred tax charge that is reduced from the accounting profit will be matched by an increase in deferred tax liabilities, and every deferred tax charge that is closed to be incorporated into the accounting profit will be matched by a decrease in deferred tax liabilities, and every tax product is Incorporating it into the accounting profit will be offset by an increase in deferred tax assets, and every deferred tax product that is closed to reduce it from the accounting profit will be offset by a decrease in deferred tax assets, Thus, through the previous reading, if we bring a statement of financial position for several comparative years, and we delete the income taxes calculated according to the tax requirements and we delete all deferred taxes, we will get the following equation: ***"The general total of assets – (total liabilities excluding income tax + tax value The accrued income that resulted from subjecting the accounting profit to tax) = (total assets excluding deferred tax assets + deferred tax assets) – (total liabilities + the amount of income tax payable calculated according to tax requirements + the amount of deferred tax liabilities)"***. Through this equation, we will obtain the same net accounting profit that will appear to us in the income statement when deducting the liabilities from the total assets.

4.4. Evaluate the results of previous studies

4.4.1. Selection and presentation of the field of studies to be evaluated

We identified the field of studies to be evaluated within the limits of what the researchers presented (Görlitz & Dobler, 2021) as a summary of the results of 72 experimental studies, the latter dealing with the importance of applying deferred tax and managing profits, as we did not evaluate all the results because the stages of updating International Accounting Standard No. 12 coincided With some research that was presented since 1997, for this reason we chose the studies that came after the updated version of the year 2016 for the standard, because the requirements of this version affect most of the items of the financial statements, and to study the extent of the contribution of these new studies in presenting the informational benefit that deferred taxes provide to users of the lists Finance. The number of studies we evaluated was 6 studies, 5 of which were related to the importance of deferred tax, and one study included the relationship of deferred tax to profit management.

4.4.2. Interpretation and criticism of previous studies

The studies presented in Table [5] in the Appendix were criticized based on the interpretation of their results, and taking into account whether this result was just a superficial reading of the role of deferred tax in the statement of financial position, or if it made a new contribution to the statement of the informational benefit of deferred taxes for users when reading the financial statements.

4.4.3. Evaluate and analyze the results of previous studies

When interpreting and analyzing the results of previous studies in Table [5], all studies examining the predictive role of deferred taxes in the statement of financial position were rejected, as it will be rejected if the models of these studies do not specify the relationship of deferred tax to net accounting profit, and the contribution will be conservatively accepted whenever I came close to defining the relationship between deferred tax and net accounting profit. According to our assessment, the number of rejected studies amounted to 5 studies out of 6, because they were studying deferred tax links to future profits without specifying the purpose of that. Because if the statement of financial position was built on the basis of the accrual hypothesis according to the requirements of IAS01, there is no doubt that the information presented in it gives predictive information when superficially extrapolated into the balance sheet.

4.4.4. Arranging priorities and discovering the reasons for the weakness of previous contributions in clarifying the informational benefit of deferred taxes in the financial statements

With regard to the scientific contributions of the studies presented in 2019, the study (Hanna JD, 2019) was more advanced than my studies (Mear K, 2019) and (Kovermann J, 2019), because the study (Hanna JD, 2019) dealt with the issue of deferred taxes in the field of The financial crisis, as it was able to reach the relationship of deferred tax with net accounting profit in light of the development of tax rates before and after the crisis. However, it was not successful because of linking the results of the study to the superficial reading of the statement of financial position. As for the studies presented in 2018, the study (Moore JA, 2018)was more developed than the study (A, 2018), because the study (Moore JA, 2018) came close to determining the relationship of deferred tax to net accounting profit, when he indicated that the paid taxes The permanent differences reflect negatively on the quality of profits, in contrast to deferred taxes derived from accounting planning and measurement processes that were not noticed to affect the quality of profits Net. As for the scientific contributions presented in the year 2017, we find a study (Inamura Y, 2017), where it was also a small contribution, because it did not contribute to determining the relationship of deferred tax to the quality of profits, but it was giving a superficial reading of the statement of financial position.

Thus, we find that the number of studies rejected due to blind superficial reading of deferred taxes in the statement of financial position amounted to 5 studies, namely: (Inamura Y, 2017), (A, 2018), (Mear K, 2019), and (Kovermann J, 2019), Then followed by the study (Hanna JD, 2019), which was more developed in terms of field of study. On the other hand, we believe that the best study that came close to determining the relationship of deferred tax with net accounting profit is the study (Moore JA, 2018).

5. Implications for future research

Our literature review has a number of implications for future research on financial accounting for deferred taxation, which we consider to be an area of little fertility for empirical research. In this section, we present systemic and content-related implications, thus suggesting avenues for future research.

5.1. Systematic implications

Our in-depth analysis of the study of the relationship of deferred tax with net accounting profit indicates that the group of empirical studies that grew from 1997 to 2021 does not provide opportunities to analyze the treatment of the total effects of deferred taxes on the financial statements, because this technique does not affect the net accounting profit, but rather It is a reflection of the high philosophy reached by the accountant only. For example, it is true that there are several variables that may constitute reasons for applying this technique, but it does not give any financial addition. Moreover, studying the relationships between deferred tax and other variables will always have a superficial result. Reaching such results is an indication that water has been proven to be water. In other words, you, as a user of the financial statements, are good at reading and analyzing them, after taking the comparative financial position statement, and upon your superficial reading of the deferred tax, you will find that the decrease in the deferred tax on assets is an indication that the items that were the subject of a temporary difference have been tax recovered, because the associated tax basis has become deductible in accordance with tax requirements, Also, the decrease in the deferred tax on assets is an indication that the items that were the subject of a temporary difference, the tax was paid on them because their tax basis became subject to tax, and therefore what will you benefit from if the results of the research that are conducted, which indicates that the higher the applicable charges For future deduction were the deferred tax assets on the rise? In other words, if the statement of financial position provides this information, why would you need to prove it again? For this reason, we point out that the issue of deferred tax can be linked to the extent of adherence to accounting principles, or the philosophical reasons that prevent establishments from applying deferred tax technique can be researched and linked to the degree of proficiency and control of accounting and tax requirements, We also believe that it is possible to conduct empirical analyzes on the financial statements of the economic establishments that disclose deferred taxes, and to find out whether they consider the deferred tax technique an independent variable Or an variable dependent to the financial statements.

5.2. Effects in the content

Our in-depth analysis reveals that changing tax rates caused a breach in the credibility of the deferred tax formula, so economic crises can be a good area for research into the extent to which the credibility of accounting profit has been breached.

6. Conclusion

This study was a proof of the true role of disclosing the deferred tax, by showing its relationship to the net accounting profit and its impact on it. We found that the deferred tax raises the quality of the financial statements by maintaining the credibility of the net accounting profit in all financial years, that's when the tax rate on profits is fixed, Because deferred taxes are an accounting technique used to monitor temporary differences, and its goal is to match the tax on corporate profits calculated according to the fiscal requirements of the tax on corporate profits that we are supposed to record according to accounting requirements, and therefore there can be absolutely no relationship between deferred tax and profit management, because it is just a hypothetical technique that raises the quality of the financial statements, and its association with the future forecasting of the taxes to be paid or refunded is an emphatic link based on real and not random tax projects, and therefore whenever it is applied more widely to the items of the financial statements, this indicates that the establishment is aware of the tax requirements. We also point out that it is logical for the establishment to avoid applying the deferred tax technique, if income tax rates change from one financial period to another (Since IAS12 did not make this observation, we consider it to have fallen into inconsistency by neglecting this requirement).

The presentation of the deferred tax in the financial statements provides the users of the financial statements with one main piece of information, which is represented in the extent to which the establishment has reached in understanding the accounting and tax requirements for charges and products. In other words, proving this tax in the financial statements is an indication that the company's accountant has reached a high degree of proficiency.

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8. APENDEX

Table. 5: Projection of the deferred tax formula on the results of previous studies, to discover new financial information

Data from studies classified in A	Interpretation and evaluation of the contribution result
Author: (Mear K, 2019) This study dealt with the benefit of accounting from allocating taxes (deferred tax), to predict future paid taxes and future tax expenses, and it was concluded that deferred taxes increase the explanatory power of regression models, when future paid taxes or future tax expenses are the dependent variable. Where the result of the study was that the deferred tax increases the ability to predict future taxes, especially with the exclusion of the previous losses of the company.	**Interpretation of the study result**: As for excluding the losses of previous years when using the netting technique in the balance sheet between the deferred tax assets and the deferred tax liabilities, we will get the net taxes to be paid or refunded meaning that we can derive the prediction from the superficial reading of the balance sheet. Then deferred tax is a dependent variable. So, we conclude that the author built his study on the basis that the deferred tax affects the credibility of the net accounting profit. **The result of the study evaluation:** rejected **Reason for rejection:** First, because it gives a superficial reading of the role of deferred tax. Second, the objective on which the study was based is invalid, because it considered deferred tax to be a dependent variable.
Author: (Kovermann J, 2019) The aim of the study was to study the extent to which future profits or losses are expected to be realized from the sale of shares, and their relationship to deferred tax. The result of the study was that the total net deferred tax assets in the year preceding the IPO is positively related to the company's performance after the IPO.	**Interpretation of the result of the study:** The variable book values of shares constitute a temporary difference if the tax regulations give the facility the ability to anticipate its own profits and losses. In other words, if the tax requirements allow these losses to be deducted in the future, or those profits are subject to taxation in future profits, then the deferred tax technique is applicable. **The result of the study evaluation:** rejected **Reason for rejection:** Because it gives a superficial reading of the role of deferred tax
Author: (Hanna JD, 2019) The study addressed many issues that were not directly addressed in previous studies. As the contribution of market participants in assessing net deferred tax assets and liabilities, the extent to which the regulatory environment affected the assessment of net deferred tax assets during an economic downturn, the extent to which government guarantees could affect how deferred tax assets are evaluated. Where the result of the study was that during the financial crisis, the relationship of net total deferred tax assets with the components of the data was a negative relationship with stock prices.	**Interpretation of the result of the study:** Regarding the scientific contribution of the result of the study, it is not new because IAS12 indicated in the 2016 edition that the expectation of a decline in the value of shares will constitute a deferred tax asset, if this decline in value allows the tax requirements of the country to be deducted from the tax profits for future periods. The objective raised by the study was somewhat interesting when the economic downturn was referred to, because in this case the credibility of the profits that were disclosed might be destroyed if the tax rates change from one financial year to another, but the study did not express the general situation of income taxes. During the economic downturn and its relationship to the deferred tax. **The result of the study evaluation:** rejected. **Reason for rejection:** Because it gives a superficial reading of the role of deferred tax

	related to expected losses on shares. The study was not linked to changing tax rates, if any.
Author: (Moore JA, 2018) The study evaluated the correlations between the measures of book differences and the differences associated with the measures of the costs of loans granted (interest rates, security requirements). After analyzing the book differences, it was noted that the temporary differences are positively related in terms of levels and variance with these granted debts, unlike the permanent differences. Moreover, book differences were significantly higher with financial institutions that had large lenders with higher stakes than with tax planning companies. Then the results were explained that these permanent differences may lead to a large extent to affect the quality of profits, with the exception of cases where these differences are temporary, because the taxes imposed on them in this case are planning taxes. The result of the study was that deferred tax burdens are positively associated with private debt costs.	**Interpretation of the result of the study:** First, the debts granted within the framework of investment are usually valued at amortized cost (meaning that the book value that will appear in the statement of financial position will be less or higher than its nominal value according to the interest rate approved in the update, and according to the desire of the establishment to keep these tools Financial, the greater the desire to keep these instruments, the higher the safety requirements and the risk ratio will be higher). Each update if the tax requirements do not take into account these imaginary differences. Secondly, since the company contributes large shares in the market, this means that it has a strong financing capacity, which may have made it conclude many loan contracts granted, which were issued at a discount, because the book difference derived from the issuance discounts will result in a deferred tax deduction, which will be offset in the income statement. A deferred tax burden, as this deferred tax deduction will be canceled in proportion to the reversal of the deferred tax burden along the maturity period, and this explains the positive correlation of the deferred tax burden with the granted debts. Thirdly, we note that the study indicated that the quality of profits was affected due to the permanent differences in book values, because the latter contributes to a certain percentage by disrupting the quality of profits, because it will not be included in the future earnings pool, which will result in income taxes that are not refundable or payable in future periods. That is, this will be reflected in increasing the percentage of penetration in the quality of accounting profit. **The outcome of the study evaluation:** conservatively accepted. **Reason for acceptance**: Because it referred to the relationship of deferred tax with accounting profit. **Reason for reservation**: Because it gives a superficial reading of the role of deferred tax.
Author: (A, 2018) In this study, the author provided evidence that the evaluation allowance for deferred tax assets helps in predicting the future creditworthiness of the company, according to the provisions of SFAS No. 109, the company records a deferred tax asset provided that it expects to achieve sufficient taxable income to realize the asset in the form of tax savings in the future. Where it was concluded that the appraisal provisions are positively related	**Interpretation of the result of the study:** According to IAS12, shares constitute a temporary difference if profits and losses resulting from the change in their book value are expected, and that is if the tax requirements allow deducting these losses or that those profits are subject to tax in future profits. Thus, there is no doubt that the losses expected to be deducted in the future will result in a deferred tax asset, because these tax assets will be reflected in the balance sheet and tax

to the future creditworthiness of the company.	products will be removed from the income statement when the tax basis for these losses is achieved. **The result of the study evaluation:** rejected. **Reason for rejection:** Because it gives a superficial reading of the role of deferred tax.
Author: (Inamura Y, 2017) This paper investigates the information content of deferred taxes in the Japanese debt market, by analyzing the relationship between deferred taxes and debt cost. It was concluded that deferred tax liabilities are positively associated with private debt costs, while deferred tax assets are not.	**Interpretation of the result of the study:** Private debt instruments valued at amortized cost, if they were granted at an issuance discount, they would result in deferred tax liabilities, and if they were issued at an issuance premium, they would result in deferred tax assets. **The result of the study evaluation:** rejected. **Reason for rejection:** Because it gives a superficial reading of the role of deferred tax.

Source: Prepared by us based on the bibliographic appendices of the two researchers (Görlitz & Dobler, 2021)