Classification of Deferred Tax Assets and Deferred Tax Liabilities: An Evaluation of FASB's Attempt at Standards Simplification

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The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-17 with the goal of simplifying accounting for income taxes. The new rule eliminates the requirement to classify deferred tax assets and liabilities as current and noncurrent in a classified balance sheet and now requires all deferred tax items to be classified as noncurrent. The purpose of this investigation is to review the historical background of the shifting deferred tax classification issue, analyze the exposure draft comment letters, and evaluate the new standard with respect to the FASB's Conceptual Framework, the accounting for similar items, and the FASB Simplification Initiative.

INTRODUCTION

In 2014, the Financial Accounting Standards Board (FASB) launched a Simplification Initiative in an attempt to (1) reduce complexity of financial reporting and (2) improve (or at least maintain) its decision usefulness (FASB, 2014). As a part of the Simplification Initiative, the U.S. standard-setting body issued an Exposure Draft (ED) in January 2015 of two proposed codification updates, one of which sought to simplify accounting for income taxes (FASB, 2015a). The proposal would eliminate the requirement to classify deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as current and noncurrent in a classified balance sheet. Under the general rule at the time, a DTA or DTL was classified based upon the underlying classification of the asset or liability giving rise to the deferred item. Under the ED, all DTAs and DTLs would be classified as noncurrent, conforming to the international accounting rules (International Accounting Standards Committee [IASC], 1975).[1] Respondents' remarks in twenty-nine comment letters received during the exposure period were somewhat mixed, but most respondents agreed with the FASB proposal. In November 2015, the FASB issued the final standard: *Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (ASU 2015-17) (FASB 2015c), confirming its position in the ED.

The purpose of this paper is to first review the historical background of the deferred tax classification issue to gain perspective and chronicle the shifting changes in the DTA/DTL classification rules since the first guidance was issued in *Accounting Principles Board (APB) Opinion 11* (American Institute of Certified Public Accountants [AICPA], 1967). Then the ED comment letters will be analyzed to help determine the arguments for and against the change. The new FASB position will then be evaluated with respect to the FASB's own Conceptual Framework, the accounting treatment of parallel items, and the objectives of Simplification Initiative.

HISTORICAL BACKGROUND

Accounting Principles Board Opinion 11

The accounting profession's first foray into setting rules for accounting for income taxes was *APB Opinion 11, Accounting for Income Taxes* (AICPA, 1967). This opinion explored various methods of accounting for income taxes including the deferred method and the net-of-tax method. Although there was some dissent among APB members, they settled on the deferred method as the best way to measure income tax expense on the income statement. The deferred method focused more on determination of income than valuation of deferred tax assets and liabilities. In fact, deferred tax assets and liabilities were virtual balance sheet plug figures after income tax expense and the current tax liability were determined. A major criticism of the method was that the deferred tax credit eventually became meaningless--just the result of a mechanical process. If tax rates changed in subsequent periods, the tax effect of timing differences entered the deferred tax credit account at one tax rate and was reversed later at a different tax rate. (Smith & Freeman, 1992).

The APB believed deferred charges and deferred credits relating to timing differences do not represent receivables or payables in the usual sense. Under Opinion 11, deferred tax assets and liabilities were classified in a balance sheet as current or noncurrent based on the classification of assets or liabilities related to the timing differences. For example, if installment receivables are treated as a current asset, the deferred liabilities representing the tax effects of uncollected installment sales should be classified as current. By the same token, if an estimated liability for warranties is classified as current, the deferred charge representing the tax effect of such a provision would also be a classified as current (AICPA, 1967, para. 57).

The APB further stated that deferred tax items should be reported in two categories: one for the net current amount and the other for the net noncurrent amount. The APB believed this presentation would be consistent with the "customary distinction between current and noncurrent categories and recognizes the close relationship among the various deferred tax accounts, all of which bear on the determination of income tax expense" (AICPA, 1967, para. 57). The APB maintained that the current portions of such deferred charges and credits should be those amounts relating to assets and liabilities classified as current.

Statement of Financial Accounting Standards 37

In July 1980, the FASB clarified how deferred taxes should be classified on the balance sheet. *Statement of Financial Accounting Standards (FAS) 37* (FASB, 1980) states that deferred income taxes related to an asset or liability should still be classified the same as the related asset or liability. A temporary difference is related to an asset or liability if the reduction of the asset or liability causes the temporary difference to reverse. Some timing differences, however, are not related to an asset or liability, like net operating loss carryforwards, and the FASB stated in those cases they should be classified according to the expected reversal date of the timing difference (FASB, 1980).

Statement of Financial Accounting Standards 96

Statement of Financial Accounting Standards 96 (FASB, 1987) brought with it a new approach to accounting for income taxes. Aligning more with the definition of assets and liabilities in its Conceptual Framework, the FASB chose an asset/liability method whereby deferred tax assets and liabilities are directly calculated in a schedule based on the tax effects in future years when the temporary differences reverse. Income tax expense is calculated as the current part of the expense (per the tax return) plus/minus the change in the deferred accounts. Deferred tax assets are recognized only in limited situations when future deductible amounts exceeded future taxable amounts under a complex system of netting. Under this new approach, the classification of deferred tax assets and liabilities changed as well—based strictly on the timing of the reversals of the existing temporary differences. For example, when tax depreciation is in excess of book depreciation in Year 1 of an plant asset's life, and the temporary difference reverses over the next three years, the amount of the reversal in Year 2 is recognized as the current portion of the deferred tax liability.

Statement of Financial Accounting Standards 109

Statement of Financial Accounting Standards 109 (FASB, 1992) was an effort to simplify the scheduling of the reversals of temporary differences. The former complex netting of taxable amounts and deductible amounts in FAS 96 gave way to recognizing *all* deferred tax liabilities (based on *all* future taxable amounts) and *all* deferred tax assets (based on *all* future deductible amounts). There was also a new approach to classification: Deferred tax items related to the underlying asset or liability would be classified the same as the asset or liability. For example, differences between book and tax depreciation would result in a deferred tax liability being classified as long-term since the classification of depreciable assets themselves is long-term. Deferred tax items not related to an asset or liability (like DTAs arising from net operating loss carryforwards), however, would be classified according to the reversal date of the temporary differences. There are also items which could be classified partially as current and partially as non-current. An example would be the current and noncurrent components of warranty obligations (Leahey & Carmichael, 1993). This treatment is consistent with the provisions in FAS 37. All *current* deferred tax assets and deferred tax liabilities are netted and presented as a single amount, and all *noncurrent* tax assets and liabilities are netted and presented as a single amount for each tax jurisdiction. Valuation allowances are allocated by tax jurisdiction between current and noncurrent deferred tax assets on a pro-rata basis. Total deferred tax liabilities, total deferred tax assets, the total valuation allowance, and the net change in the valuation allowance must be disclosed in the financial statements.

The Simplification Initiative

In 2014, the FASB launched a tightly-focused initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. The projects have been intended to improve or maintain the usefulness of the information reported to investors while reducing cost and complexity in financial reporting. The FASB recognizes that there is a trade-off between providing useful information and the cost and complexity of the information. The FASB is continually striving to find the "sweet spot" between the two end points of the tradeoff (FASB, 2014). One of these projects simplifies the classification of deferred tax items.

ACCOUNTING STANDARDS UPDATE 2015-17

In the spirit of the Simplification Initiative, FASB's latest incarnation of the deferred tax classification rules, *ASU 2015-17 (ASU Topic 740)*, eliminates the requirement for entities presenting a classified statement of financial position to classify deferred tax assets and liabilities as current and noncurrent (FASB, 2015c). Entities will now have to offset all deferred tax assets and liabilities (and any valuation allowance) for each tax jurisdiction within each tax component and present that net deferred tax asset/liability as a *single noncurrent amount*. Some preparers believe that classifying all deferred taxes as noncurrent should simplify tax reporting because it will eliminate the need to separately identify the net current and net noncurrent deferred tax asset/liability for each tax jurisdiction (including allocating valuation allowances into current and noncurrent amounts) (KPMG, 2015, p. 1).

As an example, if after scheduling all of its temporary differences, a company at the reporting date has total deferred tax assets of $100,000 (net of any valuation allowance) and total deferred tax liabilities of $400,000, it would report on its balance sheet a net noncurrent deferred tax liability of $300,000. As such, the former netting of current and noncurrent amounts separately is no longer needed.

The effective date of *ASU 2015-17* for public companies was December 15, 2016. For other business entities, the effective dates will be December 15, 2017 for annual reports and December 15, 2018, for interim periods within annual reports. See Table 1 for a comparison of the accounting policies and the accompanying treatment for classification of deferred tax items across previous authoritative pronouncements. The basis of classification of deferred tax items appears in the fourth column from the left in the table.

TABLE 1
COMPARISON OF ACCOUNTING METHODS AND CLASSIFICATION OF DEFERRED TAX ITEMS

Pronouncement	Accounting Method	Financial Statement Focus	Basis of Classification of DTAs & DTLs	Netting Procedures
Opinion 11	Deferred Method	Income Statement	Related Asset/Liability	One Net Current Amount & One Net Noncurrent Amount
FAS 37	Deferred Method	Income Statement	Related Asset/Liability or Reversal of Timing Differences	One Net Current Amount & One Net Noncurrent Amount
FAS 96	Asset/Liability Method	Balance Sheet	Reversal Dates of Temporary Differences[2]	One Net Current Amount & One Net Noncurrent Amount
FAS 109	Asset/Liability Method	Balance Sheet	Related Asset/Liability or Reversal Dates of Temporary Differences	One Net Current Amount & One Net Noncurrent Amount for Each Tax Jurisdiction
ASU 2015-17 (ASC Topic 740)	Asset/Liability Method	Balance Sheet	All Noncurrent	One Net Noncurrent Amount for Each Tax Jurisdiction

ANALYSIS OF COMMENT LETTERS

Twenty-nine comment letters were received by the FASB during the exposure period for the ED (FASB, 2015b). It is interesting to note that the number of comment letters is relatively small compared to those associated with most ASC update exposure drafts. Also, 14 of the 29 comment letters were dated May 29, 2017, the last day of the comment period. The small number of respondents could call into question whether the responses represent the collective sentiment of the accounting, business, and financial community. The letters came from CPA firms, companies, and various other stakeholder organizations. Most of the letters provided a detailed rationale for the stakeholder's position.

Of those 29 respondents, 26 favored the FASB's proposal to classify all deferred tax items as noncurrent on a classified balance sheet. Three respondents thought that a current/noncurrent approach to classification should be continued. Of those respondents favoring the new classification approach, 12 agreed that prospective treatment of the change is appropriate; eight more respondents favored prospective treatment, but with an option to report the change retrospectively. Six respondents preferred the retrospective method only, and three respondents did not respond to the transition issue.

Eight respondents believed transition costs for the new rule would not be significant, while all others did not respond. Almost all of the respondents favoring the new classification rule were satisfied with the transition dates, and 10 supported permitting early adoption. Only four respondents thought the transition period was too long or too short.

The primary criticism among respondents of the current/noncurrent classification rules was the inconsistency of classifying some deferred tax positions based on the asset/liability to which they relate, while others are classified based on the expected timing of the reversals of temporary differences (PriceWaterhouseCoopers, 2015). Others maintained the current/noncurrent classification does not always

reflect when the deferred amount will be recovered or settled. One CPA firm argued that a temporary difference related to a current asset/liability that is reversing in the following year may be replaced with a new temporary difference for a similar asset/liability arising in the same year (Deloitte & Touche, 2015). Ernst & Young (2015) cited an example: a deferred tax liability related to a LIFO inventory reserve is classified as current, even though the related temporary difference will not reverse in the foreseeable future. Even if the related deferred tax item is classified as current, *net* tax receipts/payments in the next year may not be affected.

Another criticism was the allocation of the valuation allowance under current GAAP. The valuation allowance related to a DTA between current and noncurrent portions is apportioned pro rata based on the current/noncurrent portions of the DTA. Several respondents saw this approach as anti-intuitive, arbitrary, or providing no useful information.

There was consensus among respondents for the prospective method of applying the new update. They believed the prospective method would be simpler, less costly, and less confusing to users. Retrospective application, they submitted, could also have indirect implications to compensation arrangements and debt covenants based on financial ratios (BDO, 2015). However, 14 respondents favored either (1) the retrospective method or (2) the retrospective method as an option to the prospective method. The retrospective method, it was argued, would make the financials of the company more comparable for the periods presented in the financial statements. One respondent, however, quipped that "comparability" is not a sufficient reason for retrospective adoption (Silicon Valley Tax Directors Group, 2015).

The three respondents desiring to continue the dual classification of deferred tax items, however, did make some compelling arguments. They observed that deferred taxes "turn over" like many other assets and liabilities. Many times some portion of the deferred item will reverse during the next 12-month period. For example, even if the balance of net subscription revenue does not vary much from year to year, it does not mean there is not a current portion being recognized each year. The deferred taxes on subscription revenue represent prepayments of taxes on revenue to be recognized in future periods (California Society of Certified Public Accountants, 2015).

The most compelling argument for retaining the current rules was made by Pfizer (2015). The pharmaceutical company pointed out that current GAAP was itself originally issued as simplification guidance. Requiring the deferred tax item take the same classification as its underlying asset or liability was a practical expedient to determining classification by using the time period of reversal of the temporary difference. If a temporary difference did not relate to an asset or liability, then the practical expedient had to be abandoned and the periods of reversal considered. Furthermore, predicting whether a temporary difference is going to reverse over the next 12 months is not complex and is a common practice in determining the classification of other current items. The company stated, "Given the choice between two practical expedients, we favor the one that is most representationally faithful" (Pfizer, 2015, p. 5). One respondent preferring noncurrent classification of deferred taxes even admitted "The balance sheet classification of deferred taxes is not frequently cited as a source of complexity in practice" (BDO, 2015, p. 1).

DISCUSSION

Some preparers had indicated to the FASB that complying with FAS 109 is costly and the resulting information provides little benefit to users (KPMG, 2015). They argued the classification of deferred taxes is not always consistent with *when* the deferred tax amounts are expected to be recovered or settled. The FASB agreed the classification of deferred tax items as current and noncurrent under FAS 109 generally does not reflect when the taxable amount or deductible amount reverses in the future. This is the case when the classification relates to a specific asset or liability. The FASB also believed its former standard was too complex and costly, and it did not provide useful information to users (FASB 2015c, BC para. 5). Miller and Bahnson (2011) noted the classification scheme in FAS 109 produces a non-useful anomaly with regard to classification: recognition of deferred assets and liabilities is based on the

classification of the related asset/liability—not when taxes will be saved or paid—diminishing the usefulness of the balance sheet.

Interestingly enough, the FASB considered mandating the classification of deferred tax items in *ASU 2015-17* based strictly on the reversal time of temporary differences. However, not all reversals create a cash flow (as in the case of NOL carryforwards), and some periods of reversal would be impractical to determine (as in the case of the reversal of temporary differences for available-for-sale securities) (FASB, 2015c, BC para. 6). The FASB noted that while not conceptually pure, it believes the new classification approach does reduce complexity and cost without sacrificing the usefulness of information to users (FASB, 2015, BC para. 7).

Definition of Current Assets

On the point of FASB noting the new standard is not conceptually pure, let us consider the definitions presented in the authoritative literature. *Statement of Financial Accounting Concepts (FAC) 6* defines assets as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (FASB, 1985, p. 6). More specifically, a current asset is defined by the Committee on Accounting Procedure (CAP) in *Accounting Research Bulletin (ARB) 43* as "cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business" (AICPA, 1953, Chapter 3A, para. 4). Expanding on the notion of the operating cycle, the CAP stated, "A one-year time period is to be used as a basis for the segregation of current assets in cases where there are several operating cycles occurring within a year" (AICPA, 1953, Chapter 3A, para. 5). The Accounting Standards Codification affirms "current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business" (FASB, n. d., *Accounting Standards Codification (ASC) Master Glossary*). The ASC also indicates that prepaid taxes are included in the current asset category (FASB, n. d., ASC para. 210-10-45-1).

Definition of Current Liabilities

In *FAC 6*, liabilities are defined as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events" (FASB, 1985, p. 6). Current liabilities in ARB 43 are defined as "obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities (AICPA, 1953, Chapter 3A, para. 7). ARB 43 also states that current liabilities "include obligations that, by their terms, are due on demand or will be due on demand within one year (or operating cycle, if longer) from the balance sheet date, *even though liquidation may not be expected within that period* (emphasis added)" (AICPA, 1953, Chapter 3A, para. 7). The ASC states "current liabilities is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities (FASB, (n. d.), ASC, Master Glossary). In the Securities and Exchange guidance of the ASC, under the heading of "other current liabilities" it notes, "State separately, in the balance sheet or in a note thereto, any item in excess of 5 percent of total current liabilities. Such items may include, but are not limited to, accrued payrolls, accrued interest, taxes, *indicating the current portion of deferred income taxes* (emphasis added), and the current portion of long-term debt. Remaining items may be shown in one amount" (FASB, n.d., ASC para. 210-10-S99-1). Note how this guidance weights reporting the current portion of deferred income taxes equally to reporting the current portion of long-term debt—a long-standing principle in financial reporting.

Analysis

A major premise of the asset/liability method for deferred taxes is that deferred items represent actual receivables (or future tax savings) and payables to a tax jurisdiction at a future date. Classification of these receivables and payables into current and noncurrent categories is consistent with the theory of the

asset/liability method since these are real assets and liabilities meeting the definitions of such in the FASB Conceptual Framework and the ASC. The FASB relied heavily on the Conceptual Framework in formulating the asset/liability method, placing more emphasis on the balance sheet. Since deferred tax assets and liabilities are generally measured by multiplying the reversals of the differences by the enacted tax rates in effect in those reversal years, it is logical to classify the deferred tax items into current and noncurrent categories using the timing of the reversals. The reversals generally have to be scheduled anyway to compute the deferred tax assets and liabilities. Even if classification of deferred tax accounts was always based on the related asset or liability, scheduling would still be necessary in most cases (Stepp and Petzing, 1991).

Critics of the current/noncurrent model have focused on whether cash flows will occur during the next 12 months, but other current items classified as current do not always create a cash flow or cash savings. Let us consider some other parallel examples of the current classification: (1) Current portion of long-term debt unless paid out of a sinking fund, (2) current portion of a warranty liability, and (3) current portion of a lease liability. These generally accepted applications of the current classification model are directly comparable to the deferred tax classification issue. The FASB presently has a proposed ASU outstanding titled "Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)" (FASB, 2017). The proposal would require debt arrangements to be classified as noncurrent if either of the following criteria is met as of the balance sheet date: "(a) the liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date or (b) the entity has a contractual right to defer settlement of the liability for at least one year (or operating cycle, if longer) after the balance sheet date" (FASB, 2017, pp. 14-15). This exposure draft proposes an overarching rule that does not appear to change any of the examples above as long as the debt arrangement requires a cash payment within the next 12 months.

On a different note, a skeptic could ask whether accounting standards simplification is merely "convergence" in disguise. In some respects, the FASB's GAAP simplification looks somewhat like the beleaguered FASB/IASB convergence project. When the FASB eliminated the reporting of extraordinary items (FASB, 2015, ASU 2015-1), which coincidently, is consistent with IFRS, was it done in the name of simplification? The gain or loss still has to be measured. How much additional cost does it take to present the item in a separate category on the income statement, indicating to users that the gain/loss is unlikely to occur every year? Is this not useful information? Coincidentally, the reporting of one net deferred tax asset/liability as *noncurrent* is also consistent with IFRS reporting.

CONCLUSIONS AND IMPLICATIONS

With the issuance of ASU No. 2015-17, the FASB (2015c) by its own admission abandoned the definition of current and noncurrent assets and liabilities in the authoritative accounting literature and changed the proper presentation of those deferred tax items on a classified balance sheet. It is widely acknowledged that there was a theoretical problem with the deferred tax classification rule in FAS 109 (Byington, 1992). Requiring the deferred tax item to take on the same classification of its parent asset or liability was a practical expedient to making such a determination through scheduling. It would seem that now with the blanket noncurrent classification of all deferred accounts the FASB has exchanged one practical expedient for another, making the information reported less practical and less useful for users to make investing and lending decisions.

In this author's opinion, the classification of deferred taxes should receive the same treatment as other similar assets and liabilities. While simplicity is a worthy goal, many of the tenets of accounting are not simple by their very nature. The complexity of the differences between GAAP and the Internal Revenue Code restricts the extent to which an accounting standard can be simplified (Martin, 2001). Simplification of financial statements while sacrificing usefulness of information they contain is not an excuse for the lack of education and training of accountants and users. Complexity is a relative term based on the education level of the preparer/user. As long as income taxes are deemed legitimate expenses to be measured under the rules of GAAP, there will continue to be temporary differences (some short-term and

some long-term) that must be reconciled on the balance sheet. The asset/liability method should conform to the definitions of current assets and current liabilities in the authoritative literature.

In addition, it is not altogether clear for whom the simplification of deferred taxes is meant. Accountants will still need to analyze the reversals of temporary differences in many cases. While the FASB allows the use of an estimated average graduated tax rate based on estimated average annual taxable income in future years in simple situations, determining if DTAs will be realized in the future, however, requires the scheduling of future taxable amounts. Moreover, Congress can pass legislation changing future tax rates, which would require scheduling to determine the adjusted amounts of DTAs and DTLs. Observing the reversals of temporary differences within the next year should be a simple extension of a process already occurring for most firms. This author favors the scheduling of individual temporary differences to determine the current and noncurrent components of DTAs and DTLs. This approach is more representationally faithful than other options.

The FASB believes, without ambiguity, the cost of continuing the current/noncurrent categories of deferred taxes outweighs the value of the information to the user. Conversely, the author believes the facts and the theory do not support this premise. Under the new deferred tax classification rules, the author suggests current ratios and acid-test ratios will be misstated. The noncurrent liability category will be overstated and possibly affect companies' ability to obtain financing and pay off debt under restrictive covenants. Jordan (2016) attempted to prove there would be no significant difference between the median current ratio "as reported" vs. "pro forma" applying the *ASU 2015-17* rule for a sample of companies. The results showed decreases in current assets and current liabilities, as expected, with a corresponding decrease in the median current ratio. Statistically, the decrease to the numerator and denominator in the ratio was described as "slight" by the researcher. The study had its limitations, however, using a sample of companies for one year only (2013), and the researcher acknowledged that the results are summary data and individual companies' current ratios could be affected materially by the change in the new standard. This is an intriguing research approach, however, and future comprehensive research into the impact of *ASC 2015-17* would be useful for all stakeholders. At the very least, in this author's judgment, the noncurrent classification rule will deprive many companies of working capital and misstate the economic consequences of their activities on the balance sheet. The current category provides important financial information in decision making for investors, lenders, and financial analysts.

While the author recognizes that eliminating the requirement to allocate the valuation allowance on a pro-rata basis would reduce some time and cost, this requirement only affects the asset side of the balance sheet. Furthermore, pro-ration is only one additional step in the process. The determination of the valuation allowance tends to follow each deferred tax asset in the first place.

Given the new simplified rule for deferred taxes will be effective for all companies at the end of 2017, the author believes the change should at least be applied retrospectively to prior years presented in the financial statements. Without retrospective treatment, comparability to the balance sheets of prior years will suffer. The importance of comparability extends to financial ratios using the current and noncurrent asset/liability categories in their measurement.

Future disclosure requirements could help mitigate less information about current portion of deferred taxes, but there is no need to unnecessarily increase the burden of obtaining financial information by financial analysts and other users. In the past, the FASB's mantra has been that disclosure is not a substitute for recognition in financial statements.[3] Furthermore, the new ASU may have broader implications than only to deferred taxes. Is this change a precursor to the current category becoming an endangered species? The FASB may have to revisit the deferred tax classification issue as similar questions surface for other assets and liabilities.

ENDNOTES

1. *IAS 1* was later adopted by the International Accounting Standards Board in *International Accounting & Reporting Standard 1* (2003).
2. Note the term "timing differences" in previous FASB pronouncements is now called "temporary differences" in *FAS 96* and later FASB pronouncements. The FASB now views timing differences as consisting of two components: (1) permanent differences (tax differences not reversing in future years) and (2) temporary differences (tax differences reversing in future years).
3. For example, see the FASB's *Statement of Financial Accounting Concepts No. 5: Recognition and Measurement in Financial Statements of Business Enterprises* (1984).

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