

## Financial Impact Accounting in Determining the Fiscal Result

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### Abstract

*In the present empirical study, we aimed to analyze the suggestive accounting information as relevant to the deductible expenses in the calculation of the taxable profit and the profit tax and their incidence to the deductibility of the Value Added Tax. Following the empirical study we concluded that the equipment purchased by the company, in our opinion, does not meet the conditions for classification of individual protective equipment defined by regulations, we believe that the expenses incurred by the company with their acquisition are non-deductible expense in calculating taxable profit and of the profit tax, respectively, do not meet the legal conditions and the right to deduct the value added tax was not granted during the analyzed period.*

**Key words:** *accounting information, accounting policies, taxable base, profit tax, value added tax*

**J.E.L. classification:** M21, M41, E62, E63

### 1. Introduction

Both from the evaluations of national and international bodies, and from the available public sources, it results that fraud and tax evasion has increased in Romania, especially in recent years. European accounting harmonization has had to deal with international accounting harmonization, due to the expansion of large European companies to the world's major international markets, which has made it unnecessary to develop an accounting standardization body at regional level, making it more useful to adjust European directives, according to the provisions of the IASB rules than to resort to the revision of the European Directives.

Many authors believe that the development of the European Accounting Directives has certainly been a political process.

An analysis of the accounting framework of the European Union may reveal that it indicates the structures that can be interpreted as a kind of conceptual framework, but other authors argue that the European accounting directives do not constitute a conceptual framework, not finding a coherent system and there is no consensus among Member States on giving the same magnitude to the importance of accounting development, and for selfish reasons, he considers that the harmonization of accounting has been carried out by directives.

A closer look at the development of European accounting directives seems to confirm the statements of the above authors, as harmonization has failed to eliminate the differences between Member States' accounting regulations and national approaches. In a globalized economy, without borders for business, the process of reorganization of Romanian accounting has experienced an accelerated pace, determined by the need for information and communication in a common accounting language, to ensure comparability, credibility and relevance of information provided by situations financial services for all categories of users.

In this context, accounting as a business science must become a solid indisputable economic and legal basis that, based on the relevance, credibility and comparability of the information produced, is able to ensure compliance with the requirements of a reference accounting system for financial statements that allow communication between all categories of users.

The practical application of these accounting principles must be carried out both in the production phase of the financial information and in the supply phase, finalized with the elaboration, audit and presentation of the financial statements. In this way, the accounting principles will cover the complete set of financial statements, and not just one component of them.

The notion of true and fair view has appeared since 1947 in an English text of company law: - each balance sheet of a company must give a true picture of the company's business situation, at the end of the year, and each profit and loss account of a company, must give a true picture of the company's result for the financial year- (Feleagă, Ionașcu, 1998).

## **2. Literature review**

Aghion (2004) uses a Schumpeterian model of growth, in which firms gradually innovate, and competition increases the profits of those who innovate, while reducing the innovation incentives of those lagging behind technologically. The deduced relationship is a U-shaped one, the Schumpeter effect being dominant for high levels of competition;

Meltiz (2003), in a model with imperfect competition and heterogeneous firms, argues that the elimination of trade barriers generates the tendency to reallocate to the most productive firms in an industry. Companies with low efficiency will leave the market, and the most competitive will expand to foreign markets;

Ristea, (2000) states, a study by the Federation of European Experts on the comparison between European Union directives and IAS recognizes the contradictions between Anglo-Saxon culture and European culture, stating: Companies and their accountants must apply IAS in the national context or be represented by the national law or by the understanding of the European directives with the respective country (Ristea, 2000).

Scarpeta (2002) showed, based on an endogenous growth model, that there is a positive relationship between market penetration and PTF change, especially in services, these gains being higher for economies near the technological frontier.

Vickers (1995) contradicts the theoretical approach to the consequences of intensified competition - market power can be reduced, which causes firms to sell at a price close to the marginal cost level. The result is rather a growing industrial concentration, companies registering higher profit margins, given the existence of non-tariff barriers to the entry of new competitors.

Willenbockel (1994) shows that a major integration program, such as the Single Market or the Economic and Monetary Union, can lead to boosting investment and increasing production as a result of intertemporal optimizations of economic agents.

## **3. Research methodology**

In order to identify the phenomena of fraud or tax evasion based on the risk analysis, it was decided to use the documentary analysis.

For the realization of the present study, the suggestive accounting information was selected as being relevant to the deductible expenses for the calculation of the taxable profit and of the profit tax and their incidence to the deductibility of the Value Added Tax.

## **4. Findings**

The organization and management of financial accounting within the enterprise aims to accurately reflect the financial position, performance and changes in financial position, based on principles and rules regarding consistency, recognition, evaluation, prudence, comparability in time and space of the components of financial statements, which cannot be changed on a current basis.

Instead, taxation corresponds to a different logic, it is more dynamic and has its principles and rules that respond to interests that vary over time, often in the short term, depending on fiscal policy and do not always correspond to accounting, thus excluding a strict concordance between accounting and taxation.

Hence the difficulties of reconciling the relationship between the two areas, determined by the existence of accounting principles and tax rules, which determine the increasing use among accounting practitioners of professional judgment, this approach being amplified by the fact that most of tax contributions is based on accounting information, which makes the economic space in which accounting principles meet with tax regulations to be ubiquitous.

With the emergence of new types of commercial and financial operations, the absence of precise rules on their treatment may lead to differences in the interpretation and application of generally accepted principles.

## **5. Case Study**

The company QR SRL made various purchases of goods (textiles), registered in the expense account 60283000.

In the present study, we aimed to analyze the suggestive accounting information as being relevant to the deductible expenses when calculating the taxable profit and the profit tax and their incidence at the deductibility of the Value Added Tax.

### **■ Income tax**

During the analyzed period, respectively, 01.01.2017 - 31.12.2020, the company QR SRL made various purchases of goods (textiles), in a total value of 355,775 lei, registered in the expense account 60283000.

The expenses with the acquisitions made were considered by the company as deductible expenses for the calculation of the taxable profit and of the profit tax.

Regarding the purchases made, we make the following clarifications:

From the fiscal point of view, for the determination of the taxable profit, only the expenses incurred for the purpose of achieving taxable income are considered deductible expenses.

According to art. 25 para. (1) of the Fiscal Code, - For the determination of the fiscal result are deductible expenses the expenses incurred for the purpose of carrying out the economic activity, including those regulated by normative acts in force, as well as registration fees, fees and contributions due to chambers of commerce and industry, employers' organizations and trade unions.

The methodological norms at point 13 par. (2) provide: -In application of the provisions of art. 25 para. (1) of the Fiscal Code, are deductible expenses for the calculation of the fiscal result and the expenses regulated by normative acts in force. For example: a) expenses incurred for safety and health at work, according to the law-.

Law no. 319/2006 on safety and health at work defines: - personal protective equipment as any equipment intended to be worn or handled by a worker to protect him against one or more risks that could endanger his safety and health at work. workplace, and any supplement or accessory designed to meet this purpose.

The equipment purchased by QR SRL, in our opinion, does not meet the conditions for individual protection equipment defined by the aforementioned regulations, we believe that the expenses incurred by the company with their acquisition, are non-deductible expense in calculating taxable profit in the analyzed period.

In conclusion, the expenses in the total amount of 355,775 lei, representing the expenses registered in account 60283000, represent non-deductible expenses when calculating the taxable profit and the profit tax for the analyzed period, respectively, 01.01.2016 - 31.12.2020, reuniting the related taxable base each fiscal period.

### **■ Value added tax (VAT)**

In the analyzed period, respectively, 01.01.2017 - 31.12.2020, the company QR SRL made various purchases of goods (textiles), in a total value of 355,775 lei, with related VAT in the amount of 67,597 lei, representing according to the documents on the invoices (textiles), for which the

company exercised its right of deduction, respectively, the acquisition invoices are not related to income, and their acquisition is not for the purpose of economic activities carried out by the company QR SRL did not prove, with documents, that these services were provided for the benefit of its taxable operations, the invoices not being supported by appropriate documentation attesting to its necessity and usefulness and how they led to the performance of taxable operations specific to the activity society.

Thus, it is noted that the existence of a contract concluded between partners, as well as the possession of an invoice, are not sufficient to benefit from the right of deduction related to the received invoice, the company having the obligation to justify with specific documents the actual provision of services.

Intended for use for the purposes of its taxable transactions, or the company has not demonstrated by appropriate evidence that the goods/services covered by the contract have not objectively proved that the essential purpose of the transactions get a tax advantage.

At the same time, the provisions of the Civil Code under which the contract is considered the law of the parties are not relevant, since, in setting taxes, tax authorities are not bound by the content or legal form of transactions, but by their economic content, by virtue of the principle of economic prevalence. on the legal provided by art. 11 para. (1) of the Fiscal Code.

Thus, it is noted that art. 11 para. (1) of the Fiscal Code enshrines, at the level of law, the principle of economic prevalence over legal, economic reality, based on which the tax authorities have the right to analyze any operation (transaction) not only from a legal point of view, but also from a view of the economic purpose pursued by the taxpayer. In this spirit, a normal transaction from a legal point of view may not be taken into account or be reclassified from an economic point of view, for the purpose of applying the tax law.

By deducting the previously mentioned VAT, the company QR SRL, in our opinion, did not comply with the provisions, art. 297, para. (2), lit. a) of Law no. 227/2015 on the Fiscal Code with amendments and completions, fact for which the right to deduct the value added tax in the value of 67,597 lei was not granted.

## **6. Conclusions**

In the context of the expansion of multinational companies, the users of financial information are interested in the performance of the enterprise, determined not on the basis of the accounting result but of the global result.

The idea that the result presented in the traditional profit and loss account no longer characterizes the present image of an enterprise is increasingly supported.

Following the empirical study we concluded that the equipment purchased by the company, in our opinion, does not meet the conditions for classification of individual protective equipment defined by regulations, we believe that the expenses incurred by the company with their purchase, are non-deductible expense to calculate profit taxable and profit tax, respectively, do not meet the legal conditions and the right to deduct value added tax was not granted during the analyzed period.

Furthermore, the financial statements must include presentations of all the effects of transactions or events that characterize the activity of an enterprise, including those that generate changes in equity.

In comparison with the financial statements, the purpose and objectives of tax reporting are to assess the basis of calculation.

As there is a tendency among users to give more importance -to the profit and loss account- and not -to the situation of changes in equity- when analyzing the situation of an enterprise, it is necessary to would require the preparation of a statement reflecting financial performance.

Once an accounting treatment is chosen and considered appropriate, it should not be applied only if it leads to the most prudent results.

If we consider the multitude of accounting policies and options offered by International Standards, we see how the management of fiscal structures can be influenced by their choice in different situations, depending on the optimistic or pessimistic attitude of management to maximize or minimize the result or evaluate the risk of the activity through the prism of the different events occurred in the life of the enterprise.

It is also necessary to achieve a coherent fiscal strategy, with actions on time horizons, aiming at the main purpose of the tax system, the collection of tax revenues, using as few resources as possible, imposing significantly lower administrative costs and providing conditions for development of fair tax competition.

## 7. References

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