Accountancy and Reporting of Profit Tax Related Operations

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Abstract: The revenues and expenditures recognition as posts in the result account is entered in accounting information qualitative demands presented in financial situations. We find these demands in the background for the elaboration and presentation of financial situations elaborated by IASC, the accounting information must answer to the performance of intelligibility, being understood through this the property of being easily assimilated and understood by users, tax in decision making process contributing through the confirmation value or predictive value at the economic decision consolidation, the credibility through information construction in order to eliminate errors, distortions, order, giving priority to the form, to the neutrality, prudence and integrity and, the comparability in order to make different analyses at micro and macroeconomic level, inside the branch and outside it.

Keyword: profit tax, accountancy, operations

The financial outcome of an enterprise is most often defined as the spread between total revenues of the enterprise and total costs related to the performance of these revenues.

There is no activity that seeks profit without consuming certain types of resources and producing goods or services.

From the accounting point of view, resources consumption is defined at the level of value through the structure of expenditures, depending on the way in which results are divided through the structure of revenues.

The real source of total revenues is the production activity, production and sell of goods within the exploitation cycle, financing and placing operations of the enterprise, as well as exceptional ones, directly connected to the current activities of the enterprise, like fixed assets sales.

Total costs are all the expenditures proper to patrimonial operations for achieving the object of activity, this is why total costs are defined through association and in accordance with the income structure in an accounting period hence revenues cause a growth of the actual status of the enterprise while expenses cause a decrease of this status.

REVENUES	**EXPENDITURES**
1. Operating income	1. Operating expenses
2. Financial income	2. Financial expenses
3. Exceptional income	3. Exceptional expenses

From what we described above, it is understood that outcome is defined by subtracting provided services and performed works, including revenues from any source, expenses for these operations from the revenues achieved by sale movable and immovable goods in an accounting period.

The framework for drawing-up and submitting financial statements drawn-up by International Accountancy Standard Committee (IASC) defines the two categories as follows:

- Revenues are growths of economic benefits during the accounting period under the form of inflows or growths of assets or decreases of liabilities resulting in growths of equity capital, other than the ones related to participants' contributions to equity capital;
- Expenditures are decreases of the number of economic benefits during the accounting period under the form of outflows or decreases of assets or growths of liabilities resulting in decreases of equity capital other than the ones related to amounts distributed to participants at the equity capital.

The detailed analysis necessary for the profitable management of the enterprise requires revealing revenues and expenditures parts through products and services, resource consuming places of activity and processes associating costs and their generalization through accounting techniques and tools in balance posts and outcomes account.

Recognizing revenues and expenditures as posts in the outcome account is included in the qualitative requirements of accounting information described in financial statements. We find these requirements in the framework for drawing-up and presenting financial statements made by IASC, accounting information has to comply with the intelligibility performance, by this meaning the property of being easily acquired and understood by users, royalty, in the decision making process having a contribution through its confirming or predictive value for the consolidation of economic decision, credibility by constructing information, in order to eliminate errors, distortions, ordinance, granting priority to the form, neutrality, prudency and integrity and comparability in order to perform various analyses at micro and macroeconomic level, both inside the branch and outside it. We think that these characteristics should find their place in the accounting regulations from Romania together with the accurate image of accounting information, that would consolidate truthfulness and regularity of information.

In the accountancy of expenditures and revenues the main condition is that of complying with their nature in order for the financial outcome achieved to quantify better the efforts of the enterprise made during the management period.

Because the financial accountancy is connected to fiscality, it is necessary to distinctly calculate and mirror the accounting outcome and fiscal outcome, the accounting outcome being calculated before and after taxation.

In accountancy, profit or loss are monthly established and revealed, reason why, every month, expenditures and revenues accounts are closed. Monthly calculation of the accounting outcome, as well as the quantification of the profit tax brings the problem of registration principles validity and identical evaluation with the ones applied in the case of annual accounting outcome establishment. This situation reveals certain accounting and fiscal difficulties that have to be conciliated especially for seasonal or irregular revenues and expenditures.

This category includes seasonal, cyclic or occasional revenues in a given management period, when registrations have to occur immediately. They cannot be anticipated or determined at a given date. This category includes due dividends and interests, seasonal revenues, budget subventions and other revenues.

Special attention has to be paid to disproportioned costs during the accounting period because they can be anticipated or divided for the intermediary period only if it is similarly proceeded to the conclusion of the accounting period. We consider advance expenditures for unpredicted repairs of fixed assets, predictable advertising expenses in the last part of the accounting period, predictable expenditures during the entire year but disproportionally paid – as in the case of leave remunerations, paid interests for contracted credits, quarterly taxes – as in the case of profit tax, etc.

Answering to these requirements and complying with the validity of the annual outcome registration and quantification principles and during the period, that is monthly, for correctly establishing intermediary profit tax, **the following accounting works have to be performed**:

a. Expenditures and revenues booking during the month through treasury operations.

- Collecting expenditures

6xx	=	3xx
"In kind expenditures accounts"		"Stock accounts", or as the case may be
		4xx
		"Debts accounts", or as the case may be
		5xx
		"Treasury accounts"

- Establishing achieved revenues, at production cost

3xx	=	7xx
"Stock accounts regarding manufactured production"		"Revenues accounts regarding stored production or fixed assets production"

- Establishing achieved revenues, at selling price or invoicing tariff

4xx = 7xx
"Liabilities accounts", "Sales related revenues accounts
or as the case may be
5xx
"Treasury accounts"
and concomitantly

7xx = 3xx
"Stored production related revenues accounts "Stored production related stock account"

In case of fixed assets sales, related records are:

- For the selling price:

4xx = 7 xx
"Debts accounts" "Revenues accounts"

- For input accounting value

6xx = 2xx
"Expenditures accounts on remaining accounting value" "Fixed assets accounts"
2xx
"Fixed assets accounts"

b. Calculation and monthly booking of tangible and intangible fixed assets depreciation:

6xx 2xx
"Depreciations related expenditures accounts" "Depreciations accounts"

c. Calculation and booking of deductible provisions at taxation like the ones regarding good execution guarantees. As provided by fiscal regulations, provisions are established monthly only for delivered goods, executed works and executed services during that period, with a guarantee for future periods:

6xx = 15x; 29x; 39x; 49x; 59x
"Provisions related expenditures accounts" "Provisions accounts"

d. Payment expenditures booking, more specifically those expenditures for which payments documents have been drawn-up:

- Expenditures recording at the end of every month

6xx 4xx
"In kind expenditures accounts" "Debts accounts without documents"

- Recording expenditures become exactable based on employment documents:

"Debts accounts without drawn-up documents — "Debts accounts with drawn-up documents"

e. Booking revenues to achieve

- Recording revenues to achieve at the end of the month

4xx	=	7xx
"Liabilities accounts without drawn-up documents		"Revenues accounts from sales"

- Recording revenues become exactable based on employment documents

4xx	=	4xx
"Liabilities accounts with documents"		"Debts accounts without documents"

f. Monthly distribution of expenditures and revenues recorded in advance.

The enterprise often has to perform and record certain advance expenses related, to the current accounting period, or on that and the following one. The problem is the exact determination of monthly expenses that shall be recorded and in which accounting period. Two methods can be used for this, that of establishing the expenses for the accounting period and that of establishing expenses in advance and between the months of the accounting period.

The following recordings are made for the first method:

- For paying the expenses in the month they were made in the accounting period "n":

612	512
"Expenses for royalties, management and rents locations"	"Current bank accounts"

- Sum of accounting period "n+1" related expenses, performed in accounting period "n"

471	612
"Expenses recorded in advance"	"Expenses for royalties, management locations and rents"

- Recording of these expenses in the accounting period "n+1"

612	471
"Expenses for royalties, management locations and rents"	"Expenses in advance"

If we use the second method, the recordings are preserved with the mention that every month, in the accounting period "n", the recording of the quotations for every month in the accounting period shall be performed, as follows:

471	612

“Expenses recorded in advance” “Expenses for royalties, management locations and rents”

Monthly recording of anticipated expenses is included in the requirements of the accurate image of accounting information. Similarly, it is treated the problem of revenues recorded in advance.

Repairs expenses made for its own suppose a special treatment, booking recordings are:

471 758

“Expenses recorded in advance” “Other operation incomes”

In the main accounting period, for unpredicted repairs, when they were performed.

658 471

“Other operation expenses” “Expenses recorded in advance”

In practice, according to “Methodological Regulations” for enforcing Law no. 15/1994 regarding the amortization of capital in tangible and intangible assets, as further amended, account 658 “Other operation expenses” is not used, calling account 611 “Maintenance and Repair Expenses” improperly, meant for recording maintenance and repairs expenses made by third parties.

When repair works have been performed by third parties and they are gradually included in the operation expenses, we have the following recordings:

- The invoice for the repair performed by third parties is recorded

471 401

“Expenses made in advance” “Suppliers”

4426

“Deductible VAT”

- According to the expenses distribution chart made in advance, expenses become current are recorded

611 471

“Maintenance and repairs expenses” “Expenses recorded in advance”

g. After all the closing matters for the months have been solved, expenses and incomes accounts shall be monthly leveled, with the following recordings:

- Reimbursement or distribution of expenses within the accounting period

121 = 6xx

“Profit and loss” “Expenses accounts in kind”

- Including revenues in the outcome of the month or the accounting period, as the case may be:

7xx = 121

“Revenues accounts” “Profit and loss”

According to the aforementioned operations, debtor or creditor balance of account 121 “Profit and loss” is the outcome before taxation, decreased by profit tax”.

For outcome taxation it is necessary to consider the fact that in every case, accounting principles subordinated to the accurate image are entirely complying with the principles of taxation.

Taxable profit is established as: the spread between revenues from delivering movable and immovable goods, for which ownership right has been transferred, provided services and executed works, including revenues from any source and expenses made for them, during a fiscal year, plus non-deductible expenses.

Debts and claims booking for profit tax is organized with the help of account 441 “Tax profit”, which is bi-functional. The credit reflects tax due by patrimonial unit, through the debt of account “Profit tax related expenses”. Debt includes amounts reimbursed to the state budget in the account of this liability, according to the credit of the account 5121 “Bank accounts in lei”. Balance can be creditor if the patrimonial unit owes profit tax or debtor when extra payments have been made.

Accounting recordings are the following:

- Based on the accountant note, profit tax liability is recorded monthly:

691	=	441
“Profit tax related expenses”		“Profit tax”

- Profit tax paid to the state budget is recorded until the 25th of the following month, the last months in the quarter and registered in the settlement of accounts:

441	=	5121
“Profit tax”		“Bank accounts in lei”

- If patrimonial unit records loss during one month and profit tax cumulated at the beginning of the year is smaller than the one booked in previous periods, the following shall be recorded in red:

691	=	441
“Profit tax expenses”		“Profit tax”

If account 441 “Profit tax” has a debtor balance, which is a claim to the state budget, it is compensated in the following period by debts for profit tax that have to be paid.

When there are big and long-term claims, the sums shall be refunded to the state budget, debiting account 5121 “Bank accounts in lei” through the credit of account 441 “Profit tax”.

If the unit has a non-reimbursed liability (creditor balance in the account 441 “Profit tax”) bigger than the sum to be cancelled, due to the loss recorded in the period of reference, this liability shall be directly decreased, without other operation.

Within the broad process of tax reform in Romania, profit tax has a special place due both to its contribution in establishing public budget revenues, and due to its influence on profit generating economic and social activity and upon the whole structure of national economy.

This is why, the application of this tax in practice was made in the beginning of the transition period. Hence, a new special law was issued for regulating in detail profit tax, excluding previous ways of benefits differentiated taxation.

According to the provisions of the relevant legislation, every taxpayer has to calculate its profit tax, draw-up taxes and fees statement and submit it to the territorial tax authority where it is headquartered or resides.

Profit tax payment does not cancel the payer's liability to submit taxes and fees statement. The taxpayer is also obliged to submit the statement, even if it is exempted from the payment of such a profit tax.

Profit tax statement is submitted by the taxpayer by 25th of the following month to the expiry of the quarter. Statement submission date is considered its reception or registration date at the relevant tax authority. If the last day of submission is not a business day, the taxation statement shall be considered in term if submitted in the immediate following business day to the term of submission.

The payer may submit the taxation statement directly to the tax authority, at its registration office or at the relevant post office, through registered letter.

We mention that, at present, quarterly profit tax liability is reported through "State budget liabilities statement" form, for which it is necessary to record the sum owed and not to detail the calculation method. This makes it difficult for control bodies when performing the check of profit tax due in quarters I, II and III because the economic agent cannot submit a statement resulting the elements it considered in calculating profit tax. This is why, in practice, complaints appear for additional profit tax during a tax year. If economic agents record fiscal loss they do not report it in the aforementioned statement.

Although profit tax payment is made quarterly, economic agents have to annually draw-up and submit "Profit tax statement".

The statement shall be filled-in only after completing profit tax based on the data in the balance, until the 15th of April in the current year for the previous year.

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