THE IMPACT OF DISCONNECTION OF ACCOUNTANCY FROM TAXATION ON THE SHARE RESULT

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The opinions regarding the optimum of accounting-taxation ratio are divided between the supporters of the disconnection between accountancy and taxation, on the one hand, and those of the connection between accountancy and taxation, on the other hand. A great number of scientists' points of view converge to the idea that the emergence of the accounting science was determined by fiscal reasons. During those days the single reason of accountancy was indeed that of determining the taxable base and starting from these premises the hypothesis that relates accountancy to taxation does not seem so old-fashioned. But along with the general development of economy we observe the coming forth of new and important participants to the economical activity, these being directly interested in the growth of the activity of the enterprise in question and providing them with information could no longer be overlooked.

Keywords: Disconection, Deferred taxation, Inflationary phenomenon, Accounting gross profit.

JEL Code: M - Business Administration and Business Economics; Marketing; Accounting; M41 - Accounting

1.Introduction - Briefing on the history of accountincy, taxation and the accounting-taxation ratio

In order to illustrate the present-day stage of evolution and social prestige of a science, one should start with its history. Starting from this point we consider that an incursion in the accountancy and taxation history helps us to better understand the present-day stage, both as a form of scientific knowledge and as a social practice. Accountancy as we can see it today is a science representing the result of a long historical process and not the result of an intended will of economical agents or the product of some scientists' thinking.

Historians have been argueing for a long time and they still are about the origins and the events related to arising of accountancy as double entry (some consider the concept evolving from the accountancy as single entry, as the economical activities began developing, others, on the contrary, consider accountancy as single entry to be a sinthetization of the double entry[580]). Regarding these opinions we consider that the double entry is the result of the accountants' work, of their consequent preoccupation to dispose of the single entry gaps and to improve it step by step. In this field literature the opinions concerning the relation between double entry accountancy – capitalism, are also different. The question is whether the double entry accountancy generated capitalism or if the latter could be conceived without the double entry accountancy.

The German economist Sombart determined in 1982 that capitalism cannot be imagined without the double entry accountancy. He mentions that "the possibility and the impulse for achieving the

[580] Ionaşcu I., Dinamica doctrinelor contabilităţii contemporane, Edition Economică, 2003, pg. 13.

request of plenary development of the ideas belonging to the capitalist system: the idea of profit and the idea of economical rationalism were created through the calculations of double entry accountancy."

This point of view has been severely criticised in time by historians, but especially by Fernand Braudel, who observes the fact that in some capitalist societies there are some important institutions that will resort relatively late to the double entry (insurance companies from London, The Dutch Company of Eastern Indies).

Anyway we have to admit that the double entry is an integrant element for capitalism. There is no doubt that all over the world the fiscal problem represents a preoccupation both for researchers and for the accountant practician. This thing is emphasised by the dynamic of the fiscal evolutions, the regulations stipulated by the fiscal texts being in a continuous change: "the fiscal text […] acts exactly like a living body: it is conceived, it is born, it lives, sometimes well put up with, some other time hardly accepted, it disappears and it can be reborn, fed by different stimuli […] Taxation is the result of the constant compromise between the care for justice and the necessity of obtaining an income"[581].

The results of the published researches lead us to the hypothesis according to which the study of the fiscal relations approach very rarely the period before the XVIth century, in a concret way.

The "barter" fiscal forms are gradually abandoned, just as capitalism begins to install, when the merchandise production becomes dominant, and the public actions start to vary and amplify. At this moment "the money" taxation begins. Thus until the second half of the XIX century, the capitalist system will put its mark on taxation. The real modernization of taxation begins after 1870, when a second phase of the industrial revolution takes place and the process of centralization of the micro economical structures begins. At least until the XIX century, the French treasure up in order to buy land, to pay taxes, to buy a public function. In XVII century one can find the same feudal rights all over Europe, but starting with the XVIII, in France the bondage is abolished, the peasants wanting to become landed owners and to break free from their landlords. During this time England remains governed and administrated by landlords, who are the land owners.

In this period the tax system proves to be quite unjust all over Europe, but it seems it manifested strongest in France. While here the royal power gives tax immunity to the king, as a consolation for effective ruling, in England the aristocracy is the one that endures the most severe public expenses, as an exchange for governing. Therefore the privilege of tax immunity is owned by the poor in England, the aristocracy enduring most of the taxes, while in France most of the taxes are endured by the poor. These will be the origins of the emergence of two situations and attitudes that are diametrically opposed towards taxation, between the two great European rivals, and they are emphasised also by the priorities of the business men in those two countries at that time: the French bourgeois using his savings to buy a public function, while his English homologous invests in trade. After the World War II the financial systems reflect and are conditioned by the political doctrine of each regime that comes to power. During this period the society, and at the same time the trade economy, began to evolve mostly towards a capitalist market economy (decentralised), on the one hand, and a planned collective economy (centralised) on the other. "The place and the form of taxation in these two types of economical systems will be very different, because the tax is basically related to the decentralised economy. It disappears in the pure centralised state economy"[582].

2.The importance of using the case study in order to emphasise the research results

The case studies presented during the research activity do not have to be chosen starting from the fact that they are representative from a certain point of view. That is because the research does

[581] Delesalle F. E., Delesalle E., Contabilitatea şi cele zece porunci, Edition Economică, Bucureşti, 2003, pg.35.

[582] Beltrame P., Les systémes fiscaux, Presse Universitaire de France, Paris, 1979, pg.10.

not have to lead to establishing some statistical generalizations. The priority should focus on the theoretical generalizations[583]. **Referring in particular to the case studies that we analyze for the theme of this paper work, we estimate that they have an illustrative - descriptive character** because on the one hand it is intended to be presented the classical accounting practice (emphasising the determination of the taxable profit in historical costs), and on the other hand it is tested the implementation and the consequences associated with the implementing of the innovative accounting practice (the possibilities of using the alternatives from the current cost perspective). **The exploring character of the case studies** (consisting in a preliminary investigation regarding the way in which the accounting practices are implemented) arises from the presentation of the way in which the accounting practices were implemented, which referred to the deferred taxation starting when the regulations harmonised with the international legislation in the accounting field were adopted.

The practical details are presented through the case studies of descriptive – illustrative – exploring nature, according to the case studies typology described above. Taking into account the utilization of the case studies we indicate the existence of some inductive influences in the content of this paper work.

The case studies show the practical reality at national level, with continuous references to the theoretical aspects.

The case studies focus on the activity of large enterprises and less on the activity of middle size and small enterprises, (in the large enterprises it can be taken into consideration the disconnection between accountancy and taxation, some scepticism related to the accounting creativity or the determination of the dimension of the artificial profit, that comes more from inflation and less from the growing of the activity efficiency) because they reprezent a greater interest for a great number of investors since they are quoted on the capital market.

As regarding the emphasinzing of the impact of the deferred taxation, some case studies were chosen to illustrate the situations generating the temporary differences (some applied in the Romanian accountancy, others being just proposals in the course of implementing, arguments being brought to support this purpose).

3. Results and discussions

3.1. Models to determin the contingent interest tax

In order to emphasize the effects of accountancy connection to taxation combined with the effects of the inflationary phenomenon, some models of dimensioning the economical entities' result in hystorical costs, current buying capacity, current costs and real terms were presented. In order to implement them the numbers of consumer prices were used, which were provided by the National Statistics Institute. The dimensions of the accounting result can vary significantly from one model to another.The main critique that was made regarding the accounting profit and also the fiscal one, determined by hystorical costs, is that it leads to subeveluation of expenses (related to stocks and assets' underevaluation). The consequence is an overevaluated profit. This is shortly the explanation for the actual profitableness of that enterprise and to a less extent the explanation of a inflationary phenomenon.

We can conclude that the proportion between the real profit and the one caused by inflation depends on:

-the activity area of the enterprise;

-the dimension of the inflationary system in each economy.

We estimated that the inflationary impact with consequences regarding the artificial amplification of net or fiscal profit, is as stronger as:

-the number of immobilizations and stocks within the assets is larger;

[583] Malcolm S., Research methods in accounting, SAGE Publications Ltd, London, 2005, pg.25.

-the number of expenses regarding the stocks is more significant as far as the total expenses are concerned during a financial exercise;
-the stock circulation flow is very low;
-the period for recovering the debts is longer than the period for paying the debts, strictly considering the number of days and not the activity field.

Therefore an enterprise that does not possess assets (they are lent) and that does not show significant stock consumes (a service provider enterprise) will not be much affected by the inflationary phenomenon even if the latter is intense enough. The outcome of such an enterprise, taking into consideration a medium level of inflation determined by historical costs, will not be too different from the outcome established by methods that rely on the impact of the inflationary phenomenon.

On the other hand, the more intense the activity production is, the greater the inflationary impact. Such an activity may require a larger production facility. Their amortization at the historical cost level, inflationary depreciated will only increase the artificial fiscal profit, since these expenses will not be levelled with the afterward registered incomes that were increased by inflation. This phenomenon has been partially reduced by the Romanian accounting system by the authorization of some revaluations, their surplus being deductible as a supplementary amortization. Following the decrement of the inflationary phenomenon, the deductibility of the amortization surplus has been abandoned, that is why few enterprises still resort to annual revaluations in order to correct the inflationary phenomenon. Even though its effect is not that strong however it could have a major impact on decapitalization. Intense activity production involves the existence of a large stock of raw materials. A later consume can lead to a subevaluation of the production cost and implicitly to the achievement of a artificial profit that would get to a real more diminished level by deflation or even to losses. We believe that this could be considerably amplified if the circulation flow of those stocks is very low:

-either because the material stock is oversized;
-or because the production system has a long cycle of production.

We can conclude that the enterprises in the production field are more exposed to the inflationary phenomenon than the enterprises acting in the field of service providing (where the number of stock consume involved in the production cost is less significant than the total amount of man-hour).

The stronger the inflation, the larger the artificial profit. Therefore there will be an inflationary tax that will trigger the decapitalization of the enterprise when it is paid out, because it has no real efficiency basis of the economical activity.

We believe that the implementation of the historical cost method in dimensioning the fiscal result is advisable, due to reasons deriving from uniformity necessities. On the other hand, it would be appropriate the implementation of one of the other three methods for internal informing necessities regarding the appraisal of the inflationary impact and its partial counter-balance.

We consider appropriate the implementation of the model of the result determination in the current buying capacity within those economies that confronted with ample inflationary phenomenon, because in this case, the prices level evolves uniformly for all elements, on a strong rising trend.

On the other hand, the result model in the current costs involves the up-dating according to some factors specific to each element that is about to be re-dealt with, therefore the difficulty level related to uniformly choosing these factors and to the implementation of this model is very high. Its advantages are that if there is an economy where the prices levels do not evolve uniformly for all elements that are re-dealt with, the inflationary impact can be more efficiently cleared out.

This is Romania's case, which over the last years has not been confronted with very ample inflationary phenomena at national level, but, on the other hand, the prices for certain categories of goods have significant rising evolutions much over the general level of prices. This thing can influence significantly the result determined by current costs, in an enterprise that owns productive assets.

3.2.Models to determin the deferred profit tax

The fixed report model or the deferred model involves the calculation of the deferred tax based on the legal tax basis in the exercise of setting the temporary difference. More than that, no adjustments are necessary in order to reflect the changes that appeared in the tax quota, the future quotas of profit tax being irrelevant. This model emphasizes the principle of connecting the income and the expenses in that year when the temporary differences appeared[584].

The arguments for the implementation of this model are the following:

-the profit and loss account is the most important financial statement, and the connection of expenses to income represents an essential feature of the accounting process. Therefore, it is less important whether the deferred taxes from the balance sheet are not assets or real debts, as a concept;

-deferred taxes are the result of past events and transactions that generated temporary differences. Since accountancy uses historical cost as an evaluation basis for most of the economic events, the deferred taxes should be evaluated similarly;

-the historical quotas of profit tax are verifiable. From this point on, the deferred taxes calculated based on the historical quotas increase the reliability of accounting information.

The variable report model or the debts model involves the calculation of the deferred tax based on the quotas estimated to be in force in the exercise of the temporary differences re-assimilation.

The arguments that sustain this model are:

-the accounting balance sheet is an important financial statement. The calculation of the deferred tax based on the quotas in force in the year when the temporary differences are reabsorbed increases the predictability of information regarding the future flows in treasury, the financial flexibility and liquidity of the enterprise;

-the calculation of the deferred taxes based on the future tax quotas, is more appropriate conceptually speaking, because their value represents future probable economic sacrifices (future tax payments) or future economic benefits (future tax decreases);

-the deferred taxes derive from past transactions, but they are taxes to be paid (or diminished) in the future, considering the quotas in force at that time;

-accountancy mostly relies on assessments. The calculation of the deferred taxes based on some future quotas creates information that is not less reliable than that regarding the assets depreciation during estimated utilization period.

The net of tax model considers the profit tax expense to be equal with the sum that is to be paid to the state in the name of the current exercise and considers the fiscal effect of the temporary differences as an adjustment of debts (assets) and expenses (income). However the implementation of this model is difficult, because some temporary differences cannot be associated with individual debts or assets. On the other hand, the information presented in the balance sheet is questionable when implementing this method. Such an example is the irrelevance of the value for an asset stated in the balance sheet, if its cost recover and the specific tax were taken from its entrance value.

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[584] Feleagă N., Malciu L., Fair accounting versus bad accounting, Edition Economică, Bucureşti, 2002, pg.69-72.

Taking into account the things mentioned above for the determination of the profit tax, we pronounce in favour of the implementation of the deferred tax method, and within this, of the variable report model.

Therefore, the Romanian accounting system maintains in this case the primordiality of the caution principle in accountancy, that is characteristic to the continental accounting systems. Taking into account this point of view, it is considered that the probability of accomplishing each of these alternatives is quite low and the option is the disclaimer of the debts regarding the deferred tax. This situation is in accordance with the IV Directive, because it does not mention the obligation of claims and debts regarding the deferred taxes to be reflected in the individuals accounts. Only the VII Directive mentions that deferred taxes in the consolidations situation can be registered.

4.Conclusions - The impact of disconnection between accountancy and taxation

The significant level where the disconnection between accountancy and taxation (by the reflection of the deferred tax book debts and debts) influences the share result, can be observed in the reporting for an period, and can be expressed as below (for an romanian case of study) :

-romanian currency lei-

		The connection between accountancy and taxation	*The disconnection between accountancy and taxation*	*The difference*	
				Absolute form	*Relative form*
1	*Net result*	*10.041.331*	*10.399.078*	*357.747*	*3,56%*
2	*Number of shares in circulation*	*207.981.560*	*207.981.560*	*-*	*-*
3	*Share result (rd.1/rd.2)*	*0,04828*	*0,05*	*0,002*	*4,14%*

In this situation we calculated an accounting result connected to taxation (without the reflection of the deferred taxes impact) an accounting result disconnected from taxation (taking into consideration the deferred taxation). The share result determined by starting from these two situations shows a 4,14% plus for the disconnection between accountancy and taxation. We believe that this difference is significant for an economy where the capital market is very developed, where a variation of 4,14% of the marketable share course is very high, the variation being only from reasons regarding the connection or the disconnection between the accounting result and taxation, in relation with the importance of this information for investors.

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