The effect of tax reporting in financial reporting

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Abstract

This paper analyzes the importance of building financial statements and their compliance with the activities by running an entity, primarily for micro units. Main objective of this paper is to present the necessity of the implementation of legal frameworks in the field of accounting and the application of accounting standards for financial reporting. National Accounting Standards are significant factors to increase the quality of financial information, bringing new technologies, increased competition and culture of service etc. National Accounting Standards help in the sustainable economic development of the country and integration into the EU. This paper analyzes a series of articles in the field of research in the field of accounting. This paper presents the theoretical and practical aspects of a company's long-term assets, treating the amortization calculated according to accounting standards. An important point is the appearance of these items in the balance sheet. According to the empirical viewpoint, various studies give different results. Also, the entities as a primary source of economic development are part of this paper. The application of accounting standards began in Albania on 1 January 2009.
From these date all the units are obliged to draw up financial statements according to national and international standards of accounting. Actually nowadays (starting from the fiscal year 2014) the submission of balance sheet is made electronically.

Keywords: *Financial statements, balance sheet, Profit tax, financial report, national accounting standards.*

Introduction

One of the main users of financial statements is information of tax authorities. The necessity to use the financial statements of entities derived mainly from the necessity of calculating the share of income tax to be paid to state bodies. Albania implements "code law", where accounting standards and financial reporting for taxation purposes are regulated by law. The amortization that is calculated beyond the allowed limits by tax constitutes a non deductible element expenditure. In order to analyze and certify the tax reporting material that effects the financial reporting we have to consider the calculation of amortization and fiscal accounting and analyze the difference between them and its effect on net income through testing the following hypotheses:

- Fiscal Amortization = Accounting Amortization
- Fiscal Amortization ≠ Accounting Amortization

Two empirical cases have been taken into consideration in order to test these hypotheses: Durres Port Authority (DPA) and Multivac Albania Sh.pk.

Table: Fiscal and accounting amortization of property and equipments 2008 in DPA (Durres, 2009)

	Durres Port Authority	Accounting Amortization	Fiscal Amortization	Differences +
1	Amortization according FA	401,462,284	338,596,504	62,865,781
2	Amortization of squares	220,239,461	141,130,331	79,109,131
	TOTAL	**621,701,746**	**479,726,834**	**141,974,911**

The accounting depreciation, is reflected in the balance sheet for the amount of 621.701.746 ALL. Fiscal Amortization is calculated for each element property by multiplying the value of remaining tax depreciation rates. From the above table we see that accounting depreciation is different from the fiscal amortization. The difference between two amortizations in the value of 141,974,911 ALL is known as non deductible expense for fiscal effects. For this reason, this difference has given tangible effects on income tax and company profits.

Profit tax

A company tax on ordinary activities is the total amount of current tax and deferred tax. Deferred tax is accounted for using the balance sheet liability method of accounting and is calculated as the expected tax payable or receivable from temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the value used for tax purposes. The amount of deferred tax allowed is based on the manner of prescribed, of realization or payment of amounts retained assets and liabilities, using tax rates adopted or to be adopted in the balance sheet date. Income tax is recognized in the statement of income and expenditure and represents the amount of taxes payable and deferred. Current tax is the expected tax payable on the taxable income of the year, which is calculated using tax rates in the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is the tax rate that is anticipated to be implemented in the period when the liability is paid or the asset is realized and is charged to the statement of income and expenditure, except if related to items charged directly to equity. In such cases, the deferred tax is also part of the capital. Tax profit differs from net profit as reported in the statement of income and expenditure because it excludes items of income and expense that are taxable or deductible in other years and also excludes items of income and expense that are never taxable or deductible. The expense for Income tax is composed as follows:

	Fiscal Year 31 dec.2008
Actual Profit Tax	46,334,229
Deferred income tax (activ) during the fiscal year	(14,677,522)
Income Tax expense	**31,656,707**

	Fiscal year 31 dec. 2008
Profit tax according SNRF	(457,439,503)
Non deductible expenses for tax purposes	
Amortization beyond fiscal tax rates	141,974,911
AQT discarded	382,108,355
Provision for judicial conflict	224,616,901
Provision for customers	88,382,384
Provision for discarded AQT not executed	47,322,314
Fines and penalties	11,786,040
Provision for inventories disposed of unexecuted	880,570
Taxable profit	**439,631,972**
Income tax according to the standard rate of 10%	**43,963,197**

The deferred tax is the result of the following temporary differences:

	31 dhjetor 2008
Temporary differences	
Amortization of tangible assets sustainable calculated on fiscal rates	146,775,220
Total	**146,775,220**
Tax rate:	10%
Deferred tax asset	**14,677,522**

	Multivac sh.p.k	Local Amortization	Amortization SWIS GAAP	Difference +
1	Amortization 2008	55,627.63	65,989.57	10,361.93
2	Amortization 2009	98,055.39	140,906.41	42,851.03
	TOTAL	**153683.02**	**206895.98**	**53212.96**

Temporary differences	
Amortization of tangible assets sustainable calculated on fiscal rates	53212.96

Total	**53212.96**
Tax rate:	10%
Deferred tax asset	**5321.296**

From the amortization statements we conclude that the accounting amortization is different by the fiscal amortization. This means that depreciation rates are calculated according to financial reporting fiscal impacts, mainly to corporate income tax.

The effect of the calculating method of amortization in net result of the unit

To test the hypothesis regarding the effect that the method of calculating the amortization has on the outcome of the company we have taken as empirical case "The general Directorate of Albanian Railway" sh.a Durres. The transportation tools of the joint stock company "General Directorate of Albanian Railway" in Durres, consisting of locomotives and wagons are vehicles in the inventory of this company that were put in use, according to the technical condition that they had when arrived in the Republic of Albania. Some of them remain blocked for defects or lack of spare parts and technical shortcomings, lack of basic repairs and damages. This company owns a total of 52 locomotives, from which, 19 pieces are in use and 33 in conservation. The passenger cars consisted of 44 parts, from which 30 are in full use, 14 in limited usage. The test in these assets was conducted by using methods of calculating amortization as this element occupies a considerable share in the costs of the company and it affects its profits or losses.
Regarding the methods used for calculating the depreciation there is a comparison between straight-line and production method to calculate the amortization. In this sense the physical and moral assumptions to be tested are:

- H0: Amortization calculated according to the method of production that has less impact on the financial result of amortization calculated on a straight line basis;

- HA: Amortization calculated according to the method of production that has more impact on the financial result of amortization calculated on a straight line basis.

To test both hypotheses, we should check the straight-line method of amortization in the joint stock company of "General Directorate of Albanian Railway" for 2013:

TYPE OF VEHICLE	HISTORICAL COST	AMORTI-ZATION	AMORTI-ZATION	DIFERENCE	RESIDUAL VALUE
LOCO-MOTIVE	553,233,073	310,226,877	202261536	107965341	243,006,196
WAGONS	1,152,354,921	733,283,988	246466176	86817812	419,070,933

TOTAL	**1,705,587,994**	**1043510865**	**448727712**	**594783153**	**662,077,129**

The calculation of amortization according to the production method

Based on the fact that this company possesses a specific type of amortization for the implied business, it would be more efficient to calculate according to the method of production. The reason is that the amortization would have less effect on the entity's net result, because these assets have a very low coefficient of use.
Concretely:

52 locomotives x 15984 km/locomotive = 831.184 km
19 " 15984 " = 303.696 "

Amortization = 553.233.073/831.184 = 666 lekë/km x 303.696 = 202.261.536 lekë

388 wagons x 1184 km/ wagons = 459.528 km
83 " x 1184 " = 98.272 "

Amortization = 1152354921/459528 =2508 x 98272 = 246466176 ALL

Total amortization according to the method of production:
202.261.536 + 246.466.176 = 448.727.712 ALL

Effect between the two methods of amortization: 1043510865 – 448727712= 594783153 ALL

Conclusion

From the results it appears that the depreciation method of production has less effect on the outcome of the joint stock company because of the full capacity of decommissioning of assets (Transport vehicles). This proves that the first hypothesis is null. Fundamental for the implementation of the Albanian National Standards of Accountability is a clear understanding of what these standards are, what they try and more over their impact on the process of reporting to businessmen and investors. Despite the difficulties encountered in the implementation of the National Standards of Accountability there is a relation to the valuation of assets at historical cost and the residual value at the time of entry and reflection on the balance sheet, knowing the process of revaluation of assets in the financial statements. The correct application of accounting standards means treating the whole situation and not a few of them. National Accounting Standards are significant factors to increase the quality of financial information, bringing new technologies, increased competition, culture of service and a sustainable economic development towards EU integration.

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