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International Practice of Generation of the National Budget Income on the Basis of the Generally Accepted Financial Reporting Standards (IFRS)

Mikhail Nikolaevich Dudin[1], Mikhail Nikolaevich Prokofiev[2], Irina Yuryevna Fedorova[2], Aleksandr Vladimirovich Frygin[2] & Georgiy Nikolaevich Kutsuri[2]

[1] Russian Academy of Entrepreneurship, Russian Federation

[2] Financial University under the Government of the Russian Federation, Moscow, Russian Federation

Correspondence: Mikhail Nikolaevich Dudin, Radio str. 14, Moscow, 105005, Russian Federation.

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Abstract

The aim of the article is to investigate the relations between financial accounting carried out by business entities and the process of pumping up the income items of the national budgets. Financial accounting is the basis for calculating the tax base and income tax, which in many countries is one of the main items of the budget income. The correctness of accruals and payment of taxes is not just pumping up the income side of the national budget, but also timely execution of budgetary obligations, i.e. timely financial support of the expenditure side of the national budget. During the presentation of the present article the following conclusions have been drawn:

Financial accounting is an ordered system of collection and compilation of information on the specifics of the business management of the company, on the use and allocation of the owners' capital;

Financial reporting of the company is formed on the basis of the financial accounting, the financial reporting data describe the company's financial state, investment prospects, solvency, credit worthiness;

Current country and regional financial accounting models cannot be considered as reference ones as they admit the possibility of the management of the accounting data, both in the interests of the business entity and in the interests of the owners;

At the international level it is necessary to continue improving the principles, standards and accounting models by convergence of the financial and tax accounting for the purpose of the unified tax charges, the formation of the tax base and ensuring correct and timely payment of taxes to national budgets.

Keywords: national budget, financial accounting, financial reporting

1. Introduction

The necessity of using accounting in order to reflect economic and other actions has been realized by the mankind in ancient times (Nazarov & Medvedev, 2006). For a long period of time the accounting system, as well as the financial accounting system, developed on the principles of unigraphism. Business activities were subjected to accounting in those units in which they occurred (Lupikova, 2009). Due to the evolution of business activities, the transition of the industry to the industrial production, the deployment of the globalized integration processes it became necessary to use standardized accounting tools (Basics of Accounting & Finance, 2006). Currently existing financial accounting systems have already obtained general unification foundations for their application. In particular, financial accounting is maintained in value terms, where the understanding of income, expenses and profits is already characterized by the theoretical and methodological uniformity (Parker, 1992).

However, there is a number of specific issues (Sapozhnikova, 2008), among which, in our opinion, the availability of the regional differences in the financial accounting systems is of key importance. In addition, the availability of the differences in the calculation of accounting and taxable income or profits of companies is also an essential issue, that has a negative effect on the collection of the national budget income, the execution of budgetary commitments (Dudin et al., 2013 & 2014). Therefore it is necessary not only to reduce differences between the regional financial accounting models and systems, but also to stimulate the convergence of principles of financial and tax accounting. The latter is quite a challenging task provided that financial and tax accounting carried out by enterprises have different targets.

2. Methods

In terms of methodology this article is a content analysis of the basic research on the subject of the present study aimed at identifying the country and regional similarities and differences of the applied financial accounting models and systems in the world. The main methodological challenge was to study the main features of the formation of the tax base of business entities in different countries.

This has made it possible to establish that the currently existing financial accounting systems and models allow to manage the accounting indicators, as well as in order to reduce the tax burden of the companies. This requires further development of international approaches to the management of financial accounting and the preparation of financial reporting based on the convergence of the actual financial and tax accounting.

3. Results

For the proper functioning and development of national economies it is important that the financial side of the activities of the business entities should be based on the optimally integrated system of accounting of business internal and external operations. And it is quite natural, since financial accounting (its validity and relevance) at the microeconomic level is directly linked to the formation of budget expenditures and the possibility of adequate funding of the budget commitments. This thesis follows from the fact that the specific features of the construction by the business entity of the financial accounting system allow to minimize the tax burden, as well as to reduce the level of other obligatory payments to the budget and extra-budgetary funds.

In particular, the share of tax revenues of the federal budget in the form of corporate taxes (taxes on the profit of organizations) amounts to about 12% in the Russian Federation, no more than 9% in the USA, while in China it is more than 18% (see Figure 1).

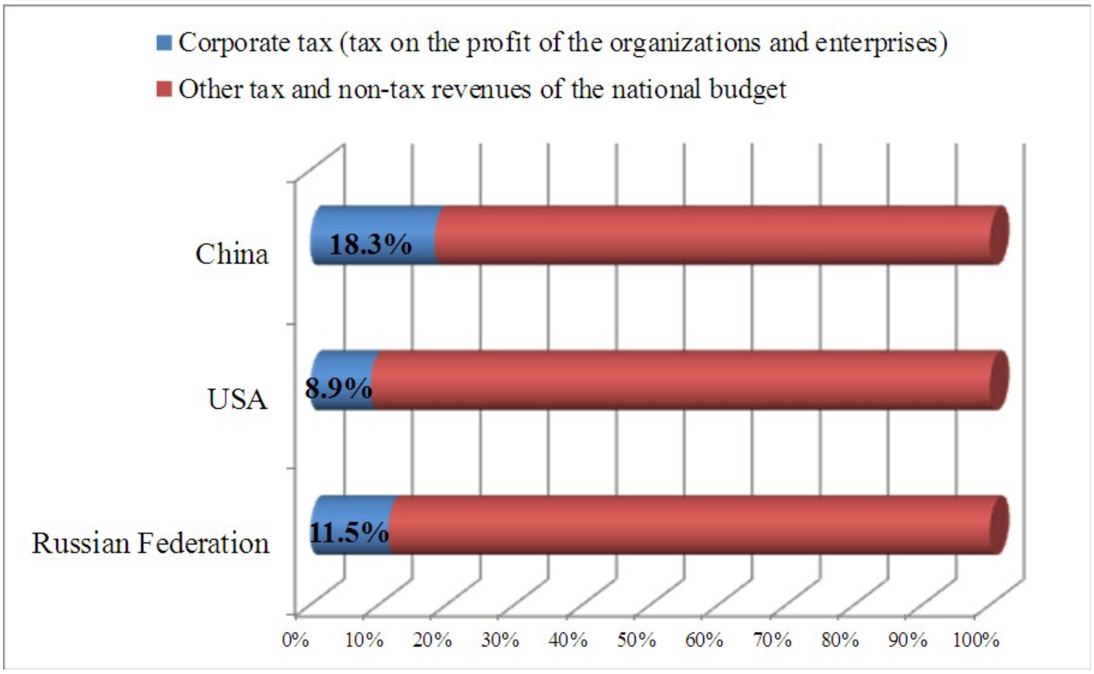

Figure 1. The share of corporate taxes (taxes on the profit) to the national budgets of the USA, the Russian Federation, China (Edmonds, 2013)

The ongoing global changes undoubtedly have a negative impact on the performance of the real sector of the national economies, that in turn reduces the amount of income tax payments to the budget. Many states and countries are faced with the fact that the mechanisms for the collection of tax payments that had been previously well-functioning have become ineffective. That is exactly why the increased attention is currently paid to the theory, methodology and practice of financial accounting, the formation of financial reporting in the organizations, as the specifics of the organization and maintenance of financial accounting, as well as the preparation of financial reporting shall allow the organizations to independently vary the tax base.

In addition, it must be clearly understood that financial accounting at the microeconomic level is also an information basis for the generalization of the data on the economic status of the business entities of the real sectors of economy, the formation of the national economic and financial statistics. Correct, reliable and objective statistical accounting is important to make strategic and operational decisions at the state level. The data of the state statistical accounting present the information basis for the formation of the various ratings of the countries. Besides, the financial accounting data aggregated in the form of the periodic reporting, are the basis for decision-making in the management of the business entity, on the basis of financial reporting, the investment attractiveness of the business entity is also assessed. It is important to bear in mind that a lot will depend on the nature of the assessment of the financial and economic status of the organization, based on a set of the accounting data. Thus, in the practice of the organization and maintenance of financial accounting three main types of accounting are usually marked: financial, management and tax accounting (Walther & Skousen, 2010).

In general, each type of accounting should be considered as a systematic and orderly sequence of actions and procedures aimed at collecting and compiling the information on the status of the capital and property of the business entity, as well as on the movement of separate asset and liability items (Strokov, 2014). Respectively, in order to prepare reports, including financial ones, it is necessary to regularly register all business transactions, it allows to obtain accurate and relevant information on the activity of the business entity. The maintenance of financial reporting should make some profits to the company, this means that the costs on the organization of financial accounting that the company can bear shall totally be not less than the economic benefits. It should be understood that it is quite difficult to calculate the direct economic benefits from financial accounting in practice.

Therefore, in this case it is optimally to apply the indirect methods. In particular, it is indisputable that the maintenance of financial accounting and the formation of financial reporting are carried out in the interests of a certain range of users (internal and external ones). For external users the transparency, accuracy and objectivity of reporting formed on the basis of financial accounting are important. For example, the tax authorities consider the objectivity and accuracy of financial reporting as important aspects, while for investors and creditors the transparency is important, all the qualitative characteristics of financial reporting are important for internal users (managers) (Kutsuri, 2008).

Accordingly, the quality of financial reporting affects taking the management and other decisions, including administrative ones. In that case, if the decisions taken on the basis of accounting and financial reporting in progress are in favor of the company or the enterprise, and at the same time the business entity gains additional income or preferences, then one may talk that the maintenance of financial accounting is economically feasible. Otherwise, when decisions taken in respect of the enterprise or the company are not in favor of the latter, respectively, one may talk that the maintenance of financial accounting is not beneficial or economically feasible (Brigham & Gapenski, 1991).

But considering that the business entity is obliged to carry out financial accounting of their business transactions, then in the latter case the business entity has to improve or reform its system of accounting and financial reporting. It is also important to understand that, depending on the applicable type of accounting policies and the construction of the accounting system it becomes possible to manipulate the value indicators reflected in financial reporting. In particular, for example, in reporting provided to the tax authorities the organization can lawfully understate the amount of the taxable profit, the value of assets, the amount of capital employed, etc.

At the same time, as a rule, only public companies and organizations have the obligations to publish a unified financial reporting, for non-public organizations such obligations are not provided in the national tax legislations. Therefore, in the management practice such cases take place when the organization provides one category of external users (for example, tax authorities) with reporting with minimal or absent indicators of profitability and economic viability. The other categories of users (for example, creditors and investors) are provided with financial reporting which characterizes the activity of the business entity as profitable and economically viable, while the financial condition of the company is considered stable and financially reliable.

In addition, the evaluation of the company's financial and economic condition, carried out on the basis of financial accounting and published reports, can vary depending on the adopted national standards and approaches to the construction of the accounting system in the organizations of the real sector of economy (Daniels, 1980). But the globalization of the business environment, as well as the integration of commercial and business interests of companies force to unify the national standards and approaches to the maintenance of financial accounting. Thus, in recent years the study of the various national financial and accounting systems and their use in practice of the business management has become a topical subject.

4. Discussion

The last decade can be considered as a unique period in the development of the global economic space. Over the past few years not only business and public relations between the countries, continents and separate regions of the world have been established, some steps at the international level aimed at the universalization of the principles and approaches to the regulation of the activity of the business entities all over the global economic space have also been taken.

The activation of business contacts in the framework of the international business integration objectively indicates the necessity of the formation of the unified requirements for the registration, management of financial accounting and preparation of financial reporting. For developing countries and countries with the transitive economy the task of optimizing the existing legal and regulatory principles of the organization and maintenance of financial accounting in accordance with the generally accepted international practice is becoming more urgent. There are two objective reasons:

Firstly, the processes of the global business integration lead to the fact that more and more national companies open their representative offices and branches abroad, respectively, these business entities, in order to comply with the financial and tax legislation of the operating country, shall properly organize their internal accounting of business transactions and prepare the required financial reporting. If foreign companies comply with the financial and tax legislation of the operating country, this means they promote the proper formation of budget revenues, and this is an important fact. In addition, they have a need to form such a financial accounting system, which may differ significantly from the previously adopted national accounting system, that increases costs and creates additional financial risks. Including the risks of the formation and provision of the unreliable financial reporting;

Secondly, business entities that operate abroad (in other countries and states) may also need to attract investment resources from the residents of the operating country. Consequently, reliable, objective and transparent financial reporting prepared in accordance with the requirements of the national legislation, will play a significant role in the formation of the investment attractiveness of the business entities.

The use of generally accepted international standards and approaches in the financial accounting practice is a fundamental term for sustainable financial condition of the business entities (Crinblatt & Titman, 2002). In our opinion, the financial condition of these business entities shall be considered as a complex phenomenon, which is characterized and evaluated by a special system of indicators, which analytically reflects the availability, placement and use of the capital in the assets of the business entity, as well as shows the level of asset liquidity and solvency of the business entity. Actually the financial condition reflects the ability of the organization to fulfill its obligations under the current capital structure and the availability of assets necessary for the implementation of the business activity.

Nowadays there are three financial accounting models in the theory of the organization and maintenance of the financial accounting: the Anglo-Saxon, European and Latin models. This classification of the financial accounting models was proposed by Polish scientists (Bogachenko & Kirillova, 2009). Key features of each model are as follows:

The Anglo-Saxon financial accounting model is aimed primarily at meeting the requirements of the owners (shareholders), as well as top management, respectively, the organization of financial accounting and the preparation of reporting are implemented in such a way that the recipients of financial reporting can make the most correct management decisions on the basis of reliable and relevant information base. The principle of reliability in this financial accounting model is the most valuable;

The European (German) financial accounting model is focused primarily on the external users, among whom the creditors, investors and supervisory (tax) authorities play the leading role. Here the main principle is the principle of careful evaluation, upon that the model allows to generate the hidden (unpublished) reserves, the factors that help legally minimize or completely reduce taxable profits take place;

The Latin financial accounting model is based on the primacy of legal and regulatory standards and requirements, whereas the use of national systems for the organization and maintenance of accounting plays the main role in the preparation of reporting.

This is not a complete list of the financial accounting models used in the world, since the specificity of the maintenance of accounting and preparation of reporting is constantly changing, so the accounting systems cannot be considered as stable and isolated. Therefore, financial accounting systems and models can also be classified according to the spheres of influence and the country of the original location of the accounting system. The following accounting models are usually distinguished:

the British accounting model, which was originally adopted in the British Isles and later had a significant impact on the development of the accounting system in Australia and India;

the American accounting model, which had been developed firstly in the countries of North America and subsequently had a significant impact on the development of the accounting system in Mexico and several Latin American countries;

The French accounting model, which has its roots in the history of the reign of Napoleon, and that affects the formation and maintenance of financial accounting in a number of countries of modern South Europe and the Mediterranean.

Despite the fact that in the theory and history of financial accounting there is a sufficient number of classifications of accounting systems and models, in practice the Anglo-American model, the Franco-German model and the Asian model of the organization of accounting and preparation of reporting on its basis are considered generally accepted (Morris, 2001).

It seems necessary to consider the above mentioned models in more detail. The Franco-German financial accounting model is widely used in Western Europe, and it is currently based on the International Financial Reporting Standards (IFRS - International Financial Reporting Standards). In some European countries, this model is supplemented by national standards and regulatory and legal requirements (Pacter, 2002; King, 1992). In particular, in France the maintenance of financial accounting is regulated by the commercial tax and trade legislation. "General Accounts Plan" developed and used in the basis of financial accounting incorporates a set of mandatory accounting registers. Depending on the economic turnover and the range of the company's activity the total number of the registers maintained in the organization can be reduced. Therefore, financial accounting in France has several types of versions:

A shortened version, designed for the maintenance of financial accounting by small business organizations;

A standard version, designed for the maintenance of financial accounting by medium-sized and large business organizations;

An expanded version which has more analytic purpose.

The formation of the financial result by French business entities also has its own characteristics:

• Firstly, the income is calculated on the basis of the production value principle, the basis for calculating is the value of gross output. At the same time the sold products are considered in sell prices, while the stored and immobilized products are considered at cost of production;

• Secondly, the costs are summed over the elements that allows to calculate a different balanced result (for example, there is such an indicator of profitability as the gross value added - it is the gross output exclusive of the costs for raw materials, supplies, services).

It is obvious that the current approach to the organization of financial accounting and the preparation of reporting in France complicates the calculations, therefore, it can have a negative impact on profitability and commercial viability. In its turn it can have a negative impact on tax collection and pumping up the national budget with revenues.

In Germany, as in France, the requirements for the organization and maintenance of financial accounting are strictly formalized. The normative regulation is based on the provisions of the Commercial Code. It is worth noting that the financial accounting system in Germany is represented by two types of accounts: commercial and tax accounts. Commercial accounts reflect the specifics of economic management, tax bills are designed for the formation of the tax base for the tax assessment. The formation of the financial result is based, as a rule, on the cost approach (here the production principle is used). The income of German business entities is the volume of sales of goods, work and services adjusted for net changes in the value of work in progress, and includes the capitalization of work for own needs.

These transactions form the gross income, which is further adjusted for the other costs and benefits of business activities, the costs of production and other operating costs. These transactions are, in turn, form the profit or loss from business activities. Then the summation of profit from financial activities, the profit from common and extraordinary transactions at a profit or a loss from operations takes place. A set of recent transactions generates the profit of the business entity, which has been obtained in the current period. It is obvious that the current approach to the organization of financial accounting and preparation of financial reporting of the companies in Germany can also be characterized by the presence of intentional and/or unintentional misstatements.

In America, in contrast to Europe, the financial accounting system has its own regulatory standards (US GAAP - United States Generally Accepted Accounting Principles). In 2008 in the USA they attempted to move from national accounting standards (US GAAP) to international standards (IFRS). This transition has not taken place, so now all American business entities must publish their financial reporting in accordance with national standards. In American practice of financial accounting these standards are called "gold" ones. The main difference between financial accounting, established on IFRS standards, as well as on US GAAP standards, is that in the latter case the separate business transactions are adjusted and worked out in detail in order to facilitate the accounting practice. The complete transition of the American financial accounting system to the international standards is delayed until 2015-2016. Some researchers are skeptical about the probability of the complete transition of US organizations to previously mentioned International Financial Reporting Standards (B. Elliott & J. Elliott, 2011).

In general, the maintenance of financial accounting in the United States is based on the national plan or a system of accounts which are the basis for the preparation of financial reporting. However, in the USA there is such a practice of formation of the financial results that is different from other countries. The financial result of the US business entities presents a change in the net balance of assets (the owner's capital), which was formed as a result of commercial transactions of the business entity for a certain period.

It is obvious that the practice of using the US accounting standards for the construction and preparation of financial reporting is not always clear to the European business community that does not allow to take the financial accounting system, based on US GAAP standards as a reference system.

The Asian financial accounting models are also based, on the one hand, on the national legislative regulation, and, on the other hand, focused on the compliance with international norms and standards of financial accounting. Thus, for example in China, the management of the companies is responsible for correctness, objectivity and reliability of the indicated accounting and reporting data. In case of violation of the national provisions or the detection of misstatements in financial reporting not only administrative, but also criminal penalties are provided. In general, the organization of financial accounting in China presents an adaptive version of the basic provisions and principles of international financial reporting standards (IFRS).

It is important to note that China is one of the few countries with the transitive economy that is fully focused on the maintenance of financial accounting according to the international standards (Parfenova et al., 2014). This is due to the implementation of the "public investment" policy at the state level. It has already been shown above that financial accounting (its quality and the quality of financial reporting) also presents the information basis for evaluating the investment attractiveness of the business entities. Particular attention should be paid to the taxation system of the commercial activity in China:

Firstly, there is a two-level taxation system, including the central taxes, joint taxes, local taxes and at the same time the tax on profits applies to local taxes;

Secondly, there is a duplication of taxation. For example, the VAT (value added tax) is levied on all economic agents and the business tax is levied on certain types of economic activities (for example, these are transport, cultural, recreational services, etc.)

Both the administrative and criminal liability are established by the Chinese legislation for violation of tax legislation and making misstatements in amounts of the calculated taxes in order to understate them.

In turn, Japan is focused on the use of the continental financial accounting system (Franco-German system). Taxation plays a key role in the financial accounting system of Japan: the country has about 50 different kinds of taxes (Eccles et al., 2002). The following types of taxes can be indicated: central and local, direct and indirect, target, regular, normal taxes. Japan's budget is formed by more than 60-70% at the expense of the tax revenue levied on the income or profits of businesses and individuals, so the priority is increasingly given to tax accounting, the results of which do not always coincide with the results of financial accounting.

5. Conclusion

Thus we have examined above the basic models of financial accounting. The obtained data suggest that virtually none of the considered country or regional financial accounting models and systems can be considered as reference ones. In each of the models one can meet the prerequisites for the intentional or unintentional violation of both accounting and tax legislation. Considering the fact that in this respect almost in all models the financial and tax types of accounting are either divided or regulated by different legal rules of the national legislation, the conditions for under- or misstatement of the tax base by business entities are provided.

In our opinion, further improvement of accounting should be aimed at the convergence of its financial and tax component. The convergence of financial and tax accounting provides the necessary positive effect at the macro- and microeconomic level. At the microeconomic level the convergence of financial and tax accounting in a practical sense can be based on the following basic theses:

• On common rules for calculating the depreciation of fixed assets and intangible assets that are subject to depreciation accounting;

• On common approaches to the evaluation of the costs of raw materials, other materials and goods used for domestic consumption and resale;

• On the general principle of recognition of the income from operating activities of the business entity.

For business entities of the real sector of economy the convergence of financial and tax accounting means not only reducing the number of accounting operations, but also reducing the number of possible errors arising from differences in financial and tax accounting and due to the influence of the human factor. Consequently, the formed financial reporting becomes more reliable, objective and transparent. This in turn means the accuracy of the calculation of the tax base and the amount of tax payments to the national budget. Accordingly, the convergence of financial and tax accounting at the microeconomic level contributes to the optimization and sufficient fill rate of the revenue items of the national budgets, as well as timely and full implementation of the budget commitments.

We would like to draw your attention to the fact that the present article does not sufficiently disclose the methodological approaches to the formation of financial results in different accounting systems and models, as well as not fully reflects the differences between the international approaches to the organization and maintenance of tax accounting. It is important to further examine and analyze the specifics of tax accounting and features of taxation in different countries and financial accounting systems. The authors of the present article plan to continue working on the thematic direction of the study in order to form the necessary theoretical and methodological basis for the development of common approaches and requirements for the maintenance of financial accounting and the preparation of financial reporting in order to achieve the most important goal: to ensure an optimal fill rate of the national budget income.

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