

Peculiarities of the Application of Income Tax Standards by the Subsidiary Company in the Russian Accounting Practice

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ABSTRACT

The aim of this work is to analyze the application practice of accounting regulation provision of subsidiary company "Accounting of settlements on income tax" (AR 18/02) and correlation of methodology of formed indicators with standards of International Accounting Standards (IAS) 12 "Income taxes" at formation of the consolidated statements. The study based upon the methods of logical-semantic analysis and synthesis, the estimation of application practice of AR 18/02 in the subsidiary company. Moreover, the comparison of methods, provided by the Russian standard with the rules of international standard, was conducted. The estimation of corporate methods of AR 18/02 application was given, and the basic meaningful and organizational problems of parallel application of Russian and international accounting standards were detected at formation of the financial accounting of an economic entity. The application of IAS 12 at formation of the corporate accounting for the aims of subsequent transformation in the international format requires the considerable volume of parallel accounting work from them. Provision of consolidated financial statements conformity to the AR requirements supposes reformation of internal accounting system and creation of the new logistics of information flows.

KEYWORDS

Financial accounting standards, income tax, subsidiary company, financial accounting transformation, Russian economy

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Introduction

Enlargement and integration of business in modern Russia activate the usage of international standards at formation of consolidated financial statements (Dolgopyatova et al., 2016; Preobragenskaya & McGee, 2003; Druzhilovskaya & Korshunova, 2012).

For such companies, expect for consolidation of accounting, there exist the other problem of parallel application of two formats of standards – Russian and International accounting standards (2000), which have distinguishing features, in particular, on income tax accounting (De Simone, 2016; Hung & Subramanyam, 2007; McGee & Preobragenskaya, 2006).

This aspect is complicated in the holding structures, which have large subsidiary companies, at the absence of intercompany standards regulating the process of financial accounting transformation meaningfully and

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organizationally into the international format (Babaev & Petrov, 2012; Dobie, 2016; Jermakowicz, 2004; Choi & Mueller, 1992).

The choice of subsidiary company as an object of study is conditioned by the purpose to evaluate practice of application of AR 18/02 by an organization, and also conduct the analysis of the tasks solved by the company in a situation of necessity to provide information taking into account the IAS standards 12 by the parent company for the purposes of consolidated accounting group formation (Brovkina, 2012).

Literature review

The accounting practice shows that each integration structure has its experience of this process organization that requires study, recognition and development of optimal rationalization (Panteleev, 2010; Perry & Nöelke, 2005; Rozhelyuk, 2013).

Scholars observe that presentation of information about income tax settlements in the financial accounting is aimed at disclosing the interrelation of indicators of book-keeping and taxable earnings (loss) (Graham, Raedy & Shackelford, 2012) and differences between data of company activity indicators (Calabro, Lonetti & Marchetti, 2015).

We can note that in the Russian book-keeping (financial) accounting such information is represented in accordance with Accounting regulation provision "Settlement of income tax accounts" (AR 18/02) that set the rules of formation in accounting and procedure of information disclosure about accounts on income tax in the accounting (Anon., 2000, 2003, 2011; Sukharev, 2014). In the international practice, the settlement of income tax accounts is regulated by IAS 12 "Income tax" (Brovkina, 2012).

W. Judge, S. Li & R. Pinsker (2010) have pointed out that on the assumption of the basis of AR 18/02, the international standard of financial accounting IAS 12 was taken, which basic principle is reflection of the tax consequences in the financial accounting with the aim of obtainment of more transparent, complete and reliable information about economic state of the entity.

The sphere of IAS application is wider than AR 18/02. In the area of IAS application the other taxes are also got into and the basis for which settlement is the organization profit (Genser, 2015). In this regard, E. Chytis (2015) argues the principal difference between AR 18/02 and IAS 12 lies in the method of settlement of deferred tax assets and liabilities.

During long time already AR 18/02 in Russia led to formation of distinct methods of its application (Anon., 2011). However, for companies, which also provide accounting in IAS format, due to the specified principal differences in the norms of standards there exists the problem of transformation of the existing articles of Russian accounting into the accounting on IAS (Dolgopyatova et al., 2016).

We think that it is necessary to provide estimation for the established corporate practice of reflection of income tax settlements in the financial

statements in conformity with AR 18/02 and problems, connected with the process of transformation of this accounting provision in IAS format.

Aim of the study

The purpose of the study is to examine the application practice of accounting regulation provision of subsidiary company "Accounting of settlements on income tax" and correlation of methodology of formed indicators with standards of International Accounting Standards "Income taxes" in forming of the consolidated statements.

Research questions

The research questions were as follows:

What are the features of corporate methods of AR 18/02 application? What are the main organizational problems of parallel application of Russian and international accounting standards?

Method

In the IAS 12 basis the calculation method of tax assets and liabilities on balance lies. The deferred tax assets and liabilities are calculated on the assumption of differences between balance cost of asset or liability and its tax basis (balance method). AR 18/02 uses the calculation method, applied in the previous version of IAS 12. This calculation method based on the indicators of the Profit and loss statement (delay method). The specified differences in the determination of differences fundamentally distinguish the application practice for provision of information about income tax.

The practice of income tax settlements in the large subsidiary automobile holding that has the status of open joint-stock company and executes its basic activity in the area of provision of lorry cars into leasing, is laid in the basis of analysis (Druzhilovskaya, 2013). The company applies AR 18/02 since the date of establishment in 2005. By virtue of the fact that company enters into holding, it also is obliged to provide its individual statements in the IAS format to the parent company for drawing of the consolidated accounting of the group as a result. As there are not internal standards on arrangement of this transformation, there is a lot of the backup information on the assumption of the requirements of parent company that essentially complicate this process.

In pursuance of the accounting policy of the company (parent and subsidiary) the value of current income tax is determined according to the value of contingent expense (contingent profit) on the income tax, corrected on the amount of permanent tax liability (asset), increase or reduction of the deferred tax asset and deferred asset liability of the accounting period. In order to form data about permanent and temporary differences the comparison of income and expense in book-keeping and tax accounting is executed. For this purpose the differences are reflected by the corresponding guides at calculation of the income tax by the types of permanent tax assets and liabilities. In the accounting deferred tax assets and liabilities balances are reflected consistently. (Karagod, 2012).

To accumulate information about settlements with budgets on income tax the corresponding subaccount to the account 68 "Settlements on taxes and receipts" is used.

In accounting of the subsidiary company the following records for income tax assessment are used:

- Accounting record of taxable temporary differences;
- Accounting record of deductible temporary difference;
- Difference settlement record in accounting and tax statements at accrual of depreciation;
- Difference settlement record in accrual of depreciation that appears at full cost redemption of property plant and equipment in the taxation accounting;
- Difference settlement record in accrual of depreciation that appears at full cost redemption of property plant and equipment in book-keeping.

From the content of applied accounting records it follows that the considerable amount of appearing differences results from the different rules of depreciation recognition, and this requires isolation of information in separate records (Kosko & Wilkins, 2010).

In accordance with AR 18/02 on the basis of accounting data about financial result of the period taking into account the tax rate, the amount of contingent expense (income) on income tax is determined. Hereinafter on the basis of constant and temporary differences, the correction of the contingent expense (income) on the amount of constant tax assets, constant tax liabilities, deferred tax assets, deferred tax liabilities of the period is conducted. By means of correction of the contingent expense (income) amount on income tax is conducted to the amount of current income tax, equal to the income tax amount according to the tax declaration.

Permanent differences of the accounting period are reflected in the bookkeeping of subsidiary company in a detached manner (in the analytical records of the corresponding account of recording the assets and liabilities, in which estimation the permanent difference appeared). The list of permanent differences, which have place in the accounting of assets and expenditures of the company, includes nearly thirty positions (Krylov, 2010). Such substantial permanent differences both the amount of incomes from the other organizations and incomes of previous years lead to recognition of the permanent tax assets in the company. Such substantial permanent tax obligation in the company as the amount of reserve under devaluation of the financial investments, the difference in the amount of reserve on doubtful debts for the purposes of bookkeeping and tax accounting, withdrawal of fixed assets, representational expense over the norm, and expenses, connected with the joint activity and others lead to recognitions of the permanent tax liabilities in the company. In IAS 12 the notion "permanent difference" is not used, but essentially in the standard-used notion, this is the difference between accounting profit, multiplied on the applied tax rate and on the income tax expense.

The specified difference, qualified as permanent one in accordance with AR 18/02 can affect or doesn't effect on the balance cost of assets or liabilities, connected with it that is used for determination of the differences in conformity with IAS 12. If the difference between balance and tax cost of asset or liability does not influence the profit of the following periods (according AR 18/02 is permanent), then its tax base in accordance with IAS is accepted as equal to book-keeping. At application of the balance method the difference is not formed in this case, and this means that deferred taxes do not appear. Thus, the corrections on the part of reflecting the effect of permanent differences in the accounting require detection of such differences on the basis of balance method and exclusion of their effect on the deferred taxes (Malyshko, 2013).

In the practice of individual accounting transformation of the subsidiary company in IAS format the tax balance is not made. In order to detect differences, the balance cost of asset or liability is used, that was determined in accordance with RAS, that is corrected up to the tax base on the amounts of differences, which appear as a result of different rules of recognition of incomes and losses on RAS and Tax Code of RF. It is hardly that such approach can be considered as completely corresponding to IAS, nevertheless, the procedures of transformation are not regulated and developed by the companies independently.

The list of incomes and losses of the company, according to which the temporary boundaries are formed, is less developed. It contains fifteen positions, including four positions, which concern the differences as a result of different amounts of depreciation on the basic funds: transferred into leasing, leased, withdrawn from leasing and own property plant and equipment. The other temporary differences appeared in the expenses on the labour payment for social insurance and provision (first of all, expenses on the vacation payments, which fall at two accounting periods on the income tax), exchange rate differences in the conditional units, insurance expenses and others (Rozhelyuk, 2013).

The deducted temporary difference appeared upon the following reasons:

- depreciation of the basis funds, which were leased. The difference appeared on the reasons of establishing the useful life term of property plant and equipment in the tax accounting more continuously, than in book-keeping. Therefore, at application of the linear method both in tax accounting and book-keeping, but at different terms of useful life, the amount of depreciation of the property, plant, and equipment will be different in book-keeping and tax accounting;

- depreciation of the property plant and equipment, which were withdrawn from leasing. The reason of difference between tax accounting and bookkeeping was also application of different terms of useful life. In the tax accounting the term of useful life of the property plant and equipment is more, than in the book-keeping;

- expenses on creation of unused vacation accrual in book-keeping. In accordance with accounting policy for the purposes of taxation the unused vacation accrual is not formed;

– exchange rate differences. In book-keeping and tax accounting they are different as result of different periods of their recognition.

The detection of temporary differences and recognition of associated deferred taxed supposes control of appearance, **accounting** and writing-off of the deferred tax assets and deferred tax liabilities.

Data, Analysis, and Results

In corresponding AR 18/02 the algorithm of current tax calculation on the data of book-keeping records is reflected on Figure 1.

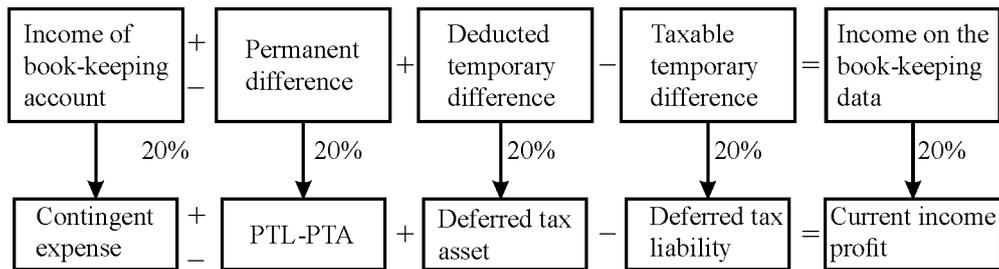


Figure 1. The procedure of the current income tax calculation of the subsidiary company on the book-keeping data

The absolute values of indicators (in ths. RUB) for current income tax calculation of the subsidiary company are reflected on Figure 2.

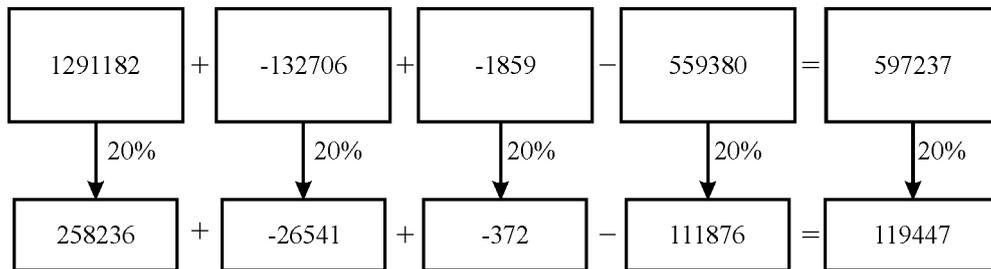


Figure 2. The current income tax calculation on the book-keeping data of the subsidiary company

It should be marked that balanced indicators of the temporary difference and amounts of deferred tax including appeared, repaid and withdrawn in the accounting period were included in accounting. In particular, the negative values of the deducted temporary difference in the deferred tax asset, stated in accounting reflect the situation of increasing the amount of redeemed differences in the accounting period over the amount of appeared, i.e. the situation, when the deducted differences are actually deducted, thus realizing the economic profits of deferred tax assets. The formed negative values of permanent difference as opposed to the traditional views about correlation of book-keeping and tax incomes and expenses reflect the exceeding in the considered period of permanent tax assets over permanent tax liabilities. This means that tax incomes, which lead to the permanent differences, turned out to be less than book-keeping ones, and tax expenses – bigger. The indicators represented in accountings found reflection in the corresponding items of the book-keeping

(financial) accounting forms of the subsidiary company – in book-keeping statement of financial position and profit and loss statement.

In the Russian and international standards the temporary difference determinations are distinguished. Missing the analysis of all peculiarities of this category in two accounting standards, let's pay attention to the presence of differences in a manner of detection of the temporary differences and recognition of the deferred taxes in a manner of their accrediting on the asset, liability or capital in a manner of tax rate accounting and etc.

This leads to that transformation of accounting items, connected with the calculation on the income profit, by the way of corrections requires the selection of special information on the objects, with which the appearance of differences is connected (Panteleev, 2010). As it was specified above, transformation of the individual accounting of subsidiary company in statements in accordance with IAS is conducted exclusively in the purposes of making consolidated group statements.

The reporting company, in our case the main company of automobile holding, that makes consolidated group accounting, establishes regulations of the procedures of accounting item transformation on RAS into the accounting on IAS. The correction tables for data selection on the accounting sections, determined by the main companies, are sent to the subsidiary companies. The specialists of subsidiary companies form and provide information in the correction tables in the main company, and thus, correspondingly participation of the subsidiary company in making consolidated accounting on IAS and limitedly. Thus, the subsidiary company from the process of accounting transformation for the purposes of consolidation is almost brought out.

However, the content of information provided for the purposes of transformation allows tracing those differences, which are executed in the standards of Russian and international standards. For example, in relation to the property plant and equipment with different methods of depreciation accrual in book-keeping and tax accounting. The application of linear method in book-keeping and non-linear in tax accounting leads to appearance of temporary differences. For execution of AR 18/02 requirements the company takes into account the expense amounting on depreciation in the profile of indicators:

- the primary cost of the object is 2000 ths. RUB (book-keeping record of the account 01 "Basic funds");
- depreciation on the date of December 31 in book-keeping is 500 ths. RUB (book-keeping record of the account 02 "Depreciation of the basic funds");
- depreciation on the date of December 31 in book-keeping is 750 ths. RUB (tax accounting record of depreciation of the basic funds);
- taxable temporary difference is 250 ths. RUB (calculation record of the differences in book-keeping and tax accounting at depreciation accrual);
- deferred tax liability is $250 \times 20\% = 50$ ths. RUB (record of the account 77 "Deferred tax liability").

For the purposes of IAS application 12 for consolidated statements the following data are reflected in the correction table:

- balance asset cost is 1500 ths. RUB;
- asset tax base is 1250 ths. RUB;
- temporary difference is 250 ths. RUB;
- expense (income) on the deferred taxes is 50 ths. RUB.

The correction table includes certain consecution of items, which correspond to the list of correction constructions for the items of consolidated record about financial position and report about incomes and losses and other total income.

Some provisions of the IAS 12 standards are difficultly implemented in the practice of Russian accounting. The volume of information, necessary for transformation, is substantial that conditioned the necessity of separating the separate function on formation of the information for transformation in the subsidiary company.

Discussion and Conclusion

We can note the obtained results correlate with the submissions of H. Ashbaugh & M. Pincus (2001). Moreover, these scholars also emphasize that differences in accounting standards relative to IAS are significantly associated with the absolute value of analyst earnings forecast errors.

Study of international experience confirms that the problem of international accounting standards implementation is common not only for transition economies, but also for highly developed countries (Hung & Subramanyam, 2007). Thus, A. Ampofo & R. Sellani (2005) show that the political and financial market pressure adversely affects the establishing Global Generally Accepted Accounting Principles in the United States.

V. Khosla (2015) also examines the problems in the convergence of international accounting standards by the example of India. The researcher provides a cost/benefit analysis of what the consolidation of two formats of standards would bring to the Indian economy.

To sum up, according to the Organization accounting policy (2013), the subsidiary company, on the assumption of specificity of its activity has established methods of detection, classification of big quantity of appearing temporary and permanent differences, accounting of redeem and withdrawal of the deferred taxes, calculation of the current income tax on these book-keeping records, reflection of the indicators on income tax accounting in book-keeping (financial accounting) in accordance with the Russian book-keeping legislation.

Application of IAS 12 for making corporate accounting and its representation in the international format requires the considerable volume of works, in many respects duplicated, from the subsidiary company that is conditioned by the parallel process of data collection for formation of consolidated financial accounting of the parent company taking into account IAS requirements.

The absence of internal standards, which organizationally provide the transformation of individual financial accounting in accordance with IAS, considerably complicates the transformation and rationalization of this process, in our opinion, must promote internal standards, which development is indispensable element of the corporate accounting organization.

Implications and Recommendations

The provision of the corporate accounting conformity to the IAS format involves creation of the new logistics of information flows, provision of high level of accounting process automation, purposeful increase of the responsible staff qualification and reforming of the internal system of book-keeping and accounting on the whole.

Disclosure statement

No potential conflict of interest was reported by the authors.

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