

PERFORMANCE OF THE ECONOMIC ENTITY RELATED TO THE ACCOUNTING - FISCALITY RELATIONSHIP

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ABSTRACT

Because accounting addresses to users and it requires to be impartial on the one hand, and on the other hand, it favors the fiscal interest, and also for the fact that the principles of taxation preserve the calculation of the taxable amount, and that of the accounting require a fair image of the position and financial performance, it is necessary to achieve the conciliation of accounting with taxation.

The financial decision must be based on an interdisciplinary accounting, financial and taxation study taking into account the need to link accounting to taxation. From this study it follows that for the performance of the entity and its targeting to profit, it means avoiding purchases from non-VAT suppliers. Moreover, the tax decision must be included in the financial decision.

KEYWORDS: *performance, economic entity, accounting-tax relationship, financial decision, fiscal decision, fiscal vector.*

JEL CODE: M41

1. INTRODUCTION

The state of health of the economic entity is the top priority of its management as economic changes force entities to cope with all the challenges using their own instruments, through which they must maintain themselves in a dynamic and diverse competitive market, challenges whose managerial response is necessary to concretize in a valuable value-making decision for that entity.

In accordance with the researched theme, we have identified in literature the approach of performance by *G. Missoum*² in terms of four fundamental concepts, namely, potential, process, result and context, thus explained :

- *the potential* focuses on the ability of the economic entity to self-indulge and to benefit from managerial decisions that permanently optimize its performance;
- *the process* designed in such a way that it is oriented towards a goal and leads to a finality dependent on the time and space variables. The fulfillment of the goal

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² Jianu, I., " Evaluation, Presentation and Performance Analysis of the Enterprise - An Approach through International Accounting Standards', **CECCAR Publishing House, Bucharest**, 2007, pg. 24;

- implies the definition of short-, medium- and long-term structured objectives, and their fulfillment can be achieved by the use of specific means;
- *the result* is constantly felt as it reflects the performance of the economic entity, both in the attention of managers and investors equally;
 - *context* refers to the circumstances in which the economic entity manifests itself, complemented by the systematically pursued concept of success.

The modern economic entity is performing well if it "creates value for shareholders, satisfies customers, which takes into account the employees' opinion and respects the natural environment."¹

The development of the economic entity together with the maintenance and the increase of the performance are its goals, and the positioning of the performance in the economic reality is presented according to the representation below.

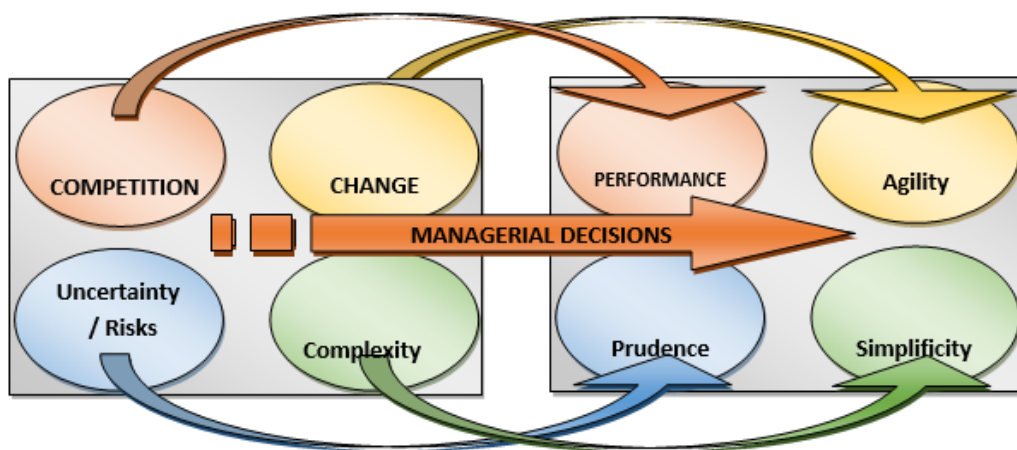


Figure 1. Representating the position of performance in the current global economic

The main elements of the economic reality in which the economic entities manifest themselves in the free market are: global competition, accelerated change, uncertainties, risks and, last but not least, complexity. In this context, the management of the economic entity has the task of capitalizing on these characteristics in such a way that by its actions, global competition is conducive to achieving performance by simultaneous action on accelerated change whose response is characterized by agility, to uncertainty / risk the management responds with caution, and on complexity it acts with simplicity.

In order to achieve all these actions, the management must consider an efficient management of the economic processes carried out within the economic entity whose performance is obtained by shaping the respective processes by successively passing the steps presented in the figure below.

¹ Jianu, I., " Evaluation, Presentation and Performance Analysis of the Enterprise - An Approach Through International Accounting Standards', CECCAR Publishing House, Bucharest, 2007, pg. 24;

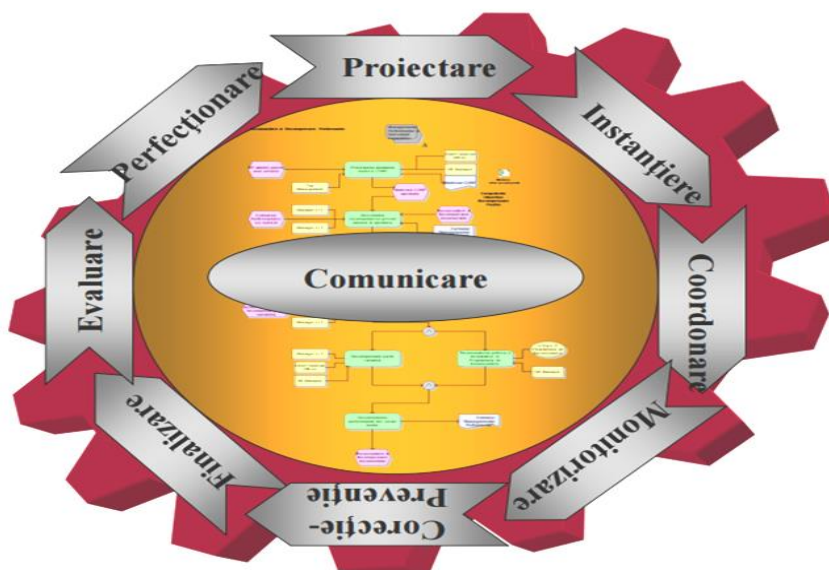


Figure 2. Steps of modeling economic processes within the economic entity

Source: "Organization modeling with Business Process Modeling applications to implement OSGG 400/2015 requirements and ISO9000 and ISO14000 requirements"¹

From the above representation we can see that the central pillar of the modeling of the processes of the economic entity is the communication, which has an impact on all stages: instantiation, coordination, monitoring, correction, prevention, finalization, improvement, evaluation, design. Thus, communication must ensure "the transmission of mutual understanding through the use of symbols."²

The modeling of economic processes must be carried out in such a way that the economic entity is oriented towards performance or profit, and is also realized through a scientific management, which in Frederick W. Taylor's vision "must mean for the managers and employees that adopt it, eliminating almost all the causes of disputes and disagreements."³

1. ADDRESSING THE PERFORMANCE OF THE REPORTING ENTITY IN THE TECHNICAL DIMENSION

In order to create a more realistic analysis, we consider important to address the performance of the reporting entity as a whole, thus highlighting the influence of accounting and taxation in the entity's life.

¹ Mihai Pascadi, "Modeling organizations with Business Process Modeling applications to implement OSGG 400/2015 requirements and ISO9000 and ISO14000 requirements", AVANTERA, Bucharest, February 2017;

² Niculesco, O., "Managerial Information System of the Organization", Economic Publishing House, Bucharest, 2001, pg. 46;

³ Pugh, D.S. & Hickson, D.J., "Organization Management - Synthesis of the Most Important Works in the Field", CODECS, Bucharest, 1989, pg. 85;

A high-performant economic entity needs to define a coherent, ambitious strategy that is implemented through a series of efficient and effective designed processes in which it contributes to achieving the (measurable) objectives and indicators included in the strategy. All this is only achievable if the economic entity has a talented and motivated human resource, but the economic entity's pillar is the infrastructure and resources it has, a direct and major contribution to the implementation of the processes.

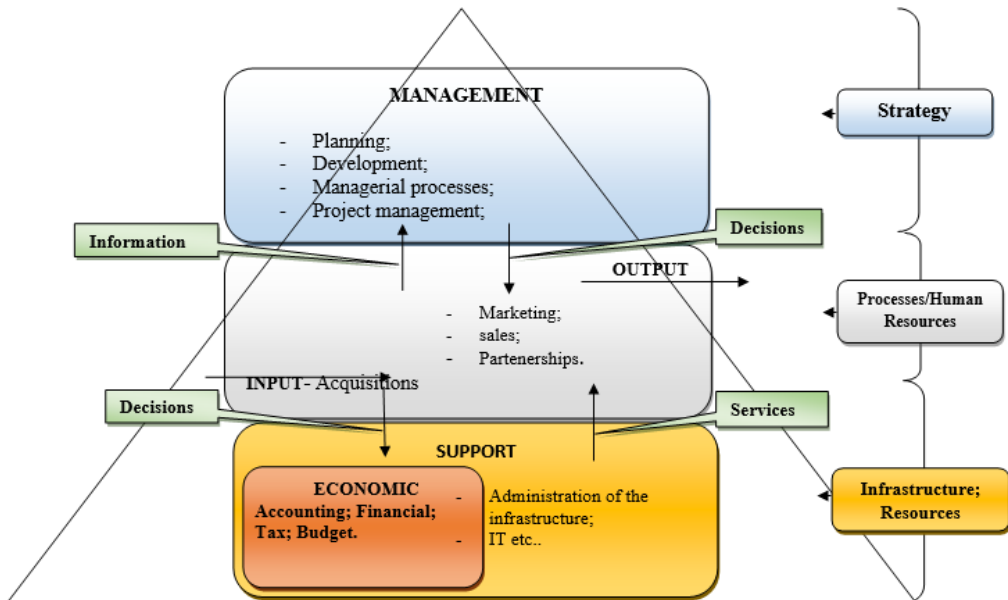


Figure 3. Representing the position of the economic sector of a performant economic entity

From the above representation, it is easy to see that the economic department (accounting, financial, taxation, budget) has a well-defined and positioned role, fundamental to the functioning and performance of an economic entity, ensuring the functioning and existence of that entity.

The architecture of the modern economic entity is projected on three levels, and accounting, taxation, finance, budgets are concentrated in the economic department, as areas of interest for the present study, are positioned on the infrastructure and resources support layer with a well-defined role and at the same time fundamental to the functioning of the economic entity.

On the second level are the processes carried out within the economic entity together with the human capital, one of the main resources of the existence of the economic entity.

The management area includes planning, development, management on major sectors, processes, projects, etc., area designed to meet the entity's strategy.

It is important to emphasize that regardless of the area of interest, strategy, human resource processes, infrastructure / economic resources, the decision-making process is manifested, which is why we emphasize that Michael Hannan and John Freeman in the

"*Management of Organizations*" state that the economic entity's orientation towards performance requires the decision-making process to have the following characteristics:

- " *Quasi-conflict resolution*
- *Avoiding uncertainty*
- *Circumstances research*
- *Organizational learning.*"¹

The quasi-resolution of conflicts seeks to identify the tools by which conflicts inherently become bearable, discussing conflicts of a professional nature or generated by the activity, exemplifying in this respect budgetary constraints that sometimes hinder the development of activities that are apparently not a priority, but nevertheless have a significant impact on the economic cycle and implicitly on the results of the economic entity. Thus, the ways of solving conflicts are: local domestic rationality; *acquiring "acceptable decision level"*; sequential pursuit of goals.

Avoidance of uncertainty is a feature of the decision-making process and often raises dilemmas as the prioritization of the settlement of uncertainties is made from the point of view of the occurrence of events of the nature exemplified below: new tax duties, customer orders, exchange rate fluctuations etc. An attitude common to management teams is that they oppose the identification of new knowledge-based solutions to resolve uncertainties, generally opting for past experience. Long-term research is also unacceptable, often adopting conjectural research that has limited benefits, just out of the deadlock and without giving new prospects to the economic entity.

The most effective and timely solutions for uncertainties are offered through in-depth research, and the decision is the result of the interaction of several elements - factors, problems, solutions, participants, and last but not least, all of them generating organizational learning.

The performance of the economic entity involves building and implementing viable strategies with concrete and realistic objectives that are associated with key performance indicators defined as: specific, measurable, accessible, realistic and specific to a time frame. In order to achieve such a strategy, management should have a solid informational base capable of providing useful data and information to identify all variables (reasonable profits, exchange rates, positions, etc.) whose effects have to be evaluated in relation to the interdependence with the rest of the variables. Along with obtaining concrete information, the alternative solutions for the variables studied are identified, thus "*reconsidering the theoretical bases, from total centralized planning to the completely free market*"² aiming at the rational deductive ideal.

¹ Pugh, D.S. & Hickson, D.J., " *Organization Management - Synthesis of the most important works in the field*" (Michael Hannan și John Freeman), CODECS, Bucharest, 1989, pg. 121;

² Pugh, D.S. & Hickson, D.J., " *Organization Management - Synthesis of the most important works in the field*" (Charles E. Lindblom), CODECS, Bucharest, 1989, pg. 125;

2. THE PERFORMANCE OF THE ECONOMIC ENTITY IN RELATION TO THE ACCOUNTING AND TAX DIMENSION

The impact of the accounting - taxation report on the performance of the economic entity is achieved through the fiscal management whose main component is accounting "*as an information system necessary for tax searching and functioning*", whose orientation is "*to honor the fiscal interest*"¹.

We appreciate that the disconnection of taxation from accounting can not fully occur, motivated by the following aspects:

- the financial result is the starting point in the calculation of the tax base;
- the regulations are permissive regarding the possibilities of adjusting the financial result in both positive and negative terms;
- the existence of a set of regulations on adjustments;
- the exposure of the financial statements to the "*tax pollution risk*" materialized within the entities studied through the practical applications exposed during the research.

Of course, the connection of accounting to taxation creates drawbacks from the perspective of the impossibility of reconciling the accounting principles with those of taxation, argued by the fact that taxation preserves the taxable basis, while the accounting has into attention the rendering of the true image of the financial position and financial performance of the economic entity. The individualization of the two areas, accounting and taxation is presented as follows:

- the individualization of accounting according to the objective of representing the true image:
 - ✓ linking earnings with spending when you hire them;
 - ✓ valuation of assets at the time of entry, acquisition cost, production cost or utility value, as the case may be;
 - ✓ accounting for losses resulting from depreciation, degradation, non-collection of customers, bad customers etc.;
- evaluation and economic calculation are not always followed.

Personal opinion

Because accounting is addressed to users and it requires to be impartial on the one hand, and on the other hand, it favors the fiscal interest, and also for the fact that the principles of taxation preserve the calculation of the taxable amount, and that of the accounting require a true image of the position and financial performance, it is necessary to achieve the conciliation of accounting with taxation.

¹ ” Practical Guide to the Application of Accounting Regulations on Annual Financial Statements and Consolidated Annual Financial Statements Approved by OMFP no. 1.802 / 2014 ”, CECCAR Publishing House, Bucharest, 2015, pg. 1115;

In order to be able to assess whether an economic entity is performing, it must be measurable by representative indicators that reflect its results by reporting the results obtained with the resources employed, or the results obtained with the expected results.

In the context of this study, the performance of the economic entity is measured by means of the accounting result oriented to the results obtained in the interval of an economic cycle. Thus, the performance of the economic entity is measured using the indicators derived from the *Profit and Loss Account*.

Determining the economic and financial performance of an economic entity is achieved successfully through analysis and financial - accounting diagnosis, which takes into account the economic phenomena and the transactions carried out within an economic cycle, which emphasize the presence and the influence of the fiscal component.

Performance is particularly complex and targets in addition to the net result or operating result, also the benefits and losses incurred on equity. However, performance is not only a financial exercise or an economic cycle but is more comprehensive and refers to the evolution of the economic entity over time and periods over which forecasts with predetermined results are developed.

Profitability is one of the approaches relevant to performance evaluation (from the point of view of economic profitability and performance), as it highlights the possibilities of maximizing the result of the exercise, increasing return on invested capital and minimizing committed equity capital against a set volume of invested capital.

Profitability is a component of efficiency; the latter being linked to increased resource use.

Specialized literature is dominated by the vision of Professor M. Ristea's performance through the equation of the three E:



Efficiency = maximizing results for a given volume, or minimizing the volume to achieve a preset result.

Economy = obtaining the resources used in the economic cycle at minimum costs.

Effectiveness = the achieved results reach the projected limit within the set deadline.

I. Jianu, Lecturer at the Accounting, Audit and Control Department, ASE Bucharest, develops the equation presented above and asserts that performance is real only if the three elements, namely efficiency, economy, effectiveness, act together and maintain the long-term economic entity at an economically and financially high level. The combination of the three elements is shown schematically as follows:

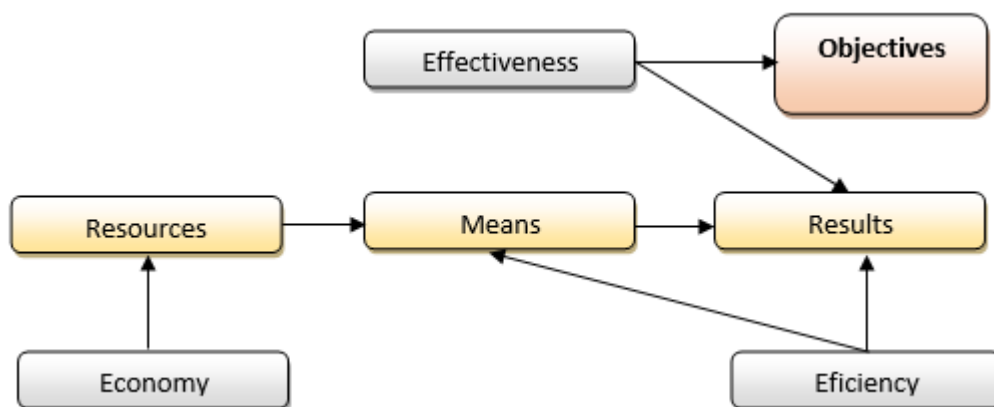


Diagram 1.
Source: (I. Jianu, 2007) ¹

From the above representation we can see that effectiveness is linked to the strategic objectives of the economic entity, which leads to the idea that maintaining performance can be achieved for a longer period, namely at least for the period for which the objectives in question were defined.

3. HUMAN CAPITAL - THE MAIN VECTOR THAT ENSURES THE QUALITATIVE AND SUSTAINABLE PERFORMANCE OF AN ECONOMIC ENTITY

In addition to addressing economic performance just from the economic and financial direction by analyzing indicators, rates or margins, or in addition to addressing performance from a technical perspective, it is particularly important to approach the performance of the economic entity in qualitative and sustainable conditions through the human capital vector. One of the main vectors of the modern economic entity is human capital. Structuring the resources of a modern economic entity is shown in the figure below.

¹ Jianu, I., " Evaluation, Presentation and Performance Analysis of the Enterprise - An Approach Through International Accounting Standards', CECCAR Publishing House, Bucharest, 2007, pg. 42;

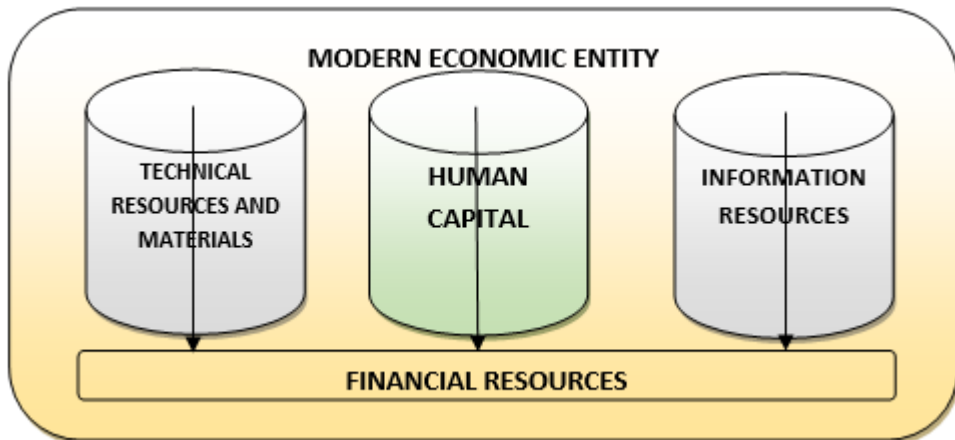


Figure 4. The main resources of the modern economic entity

From the above representation we can see that both the technical - material resources as well as the informational resources, together with the vector resource called human capital, are strengthened by the impact of financial resources on the economic entity. We can also observe from both the above representation and the approaches from the scientific research that the resources of the economic entity are complementary.

Regarding the performance of the economic entity, human capital is the main vector for the development, consolidation and subsequent financial performance of the entity. This axiomatic approach highlights the metamorphosis of the economic entity from "*development* → *consolidation* → *performance*" as a result of the changes promoted by the employees of the economic entity. The circumstances of change are the result of having motivated, talented, professionally trained employees, and last but not least efficient management of human capital, a feature of line management and top management that increases the competitiveness of the economic entity.

The ascendancy and polyvalence of human capital is emphasized by its connection to a competitive market through a management that must have the following attributes:

- enhancement of the theoretical - applicative elements;
- enhancement of innovative features;
- enhanced flexibility;
- increasing and enhancing motivational methods;
- Upgrading to higher standards of management through report generating software and Dashboards useful in improving decisions;
- promoting participatory management;
- new dimensions characterized by complexity at international level;
- continuous improvement at a professional level of management;
- addressing a knowledge-based scientific management.

A limited segment of human capital is represented by top and line managers with a major role both in defining the objectives of the economic entity and in setting up and conducting competing activities to achieve the objectives set. Furthermore, managers

have a role in coordinating activities, but also in controlling the use of the resources that the entity has in order to orient it towards superior performance and profit. Thus, the literature *identifies four large sets of competencies*¹ that managers have to hold in order to have the ability to perform as an economic entity:

- cognitive skills, through which they have the ability to quickly collect the information on which they base their decisions, but can also anticipate future situations. Moreover, by possessing these skills, managers can synthesize information, but can also model architectures and charts of functional structures;
- interpersonal skills through which managers are aware that the achievements are linked to the quality of the subordinate teams, which is why the managers show a great interest in team building, task assignment, motivation, involvement, recognition of results, professional development in the team, and solving potential conflicts;
- communication skills useful in managing current problems by consuming at least 60% of working time;
- motivational skills, that lie in the ability of managers to set realistic and concrete objectives, and at the same time the ability to direct the collaborators' efforts towards achieving those objectives.

4. THE IMPACT OF THE TAX DECISION INCORPORATED IN THE FINANCIAL DECISION ON THE PERFORMANCE OF THE ECONOMIC ENTITY VERSUS THE TAX VECTOR.

To emphasize the importance of the managerial decision of economic nature and the financial decision on the performance of the economic entity from the perspective of the profit obtained through empirical research, we have opted to perform simulations of the VAT influence on the result of the economic entity whose turnover is greater than 2.250.000 lei in commercial relations with entities whose tax vector is different.

Thus, the simulation involves the purchase of products or services by the entity subject to study from: a non-paying VAT entity whose turnover is less than 220,000 lei, an entity whose turnover is less than 2.250.000 lei (the situation where suppliers are unpaid and the situation where suppliers are partially paid) and an entity whose turnover is higher than 2.250.000 lei. The schematic representation of the possible options studied is presented in the figure below:

¹ Nicolescu, O., (coordonator), " *Managers and Management of Human Resources* ", Economic Publishing House, Bucharest, 2004, pg. 240;

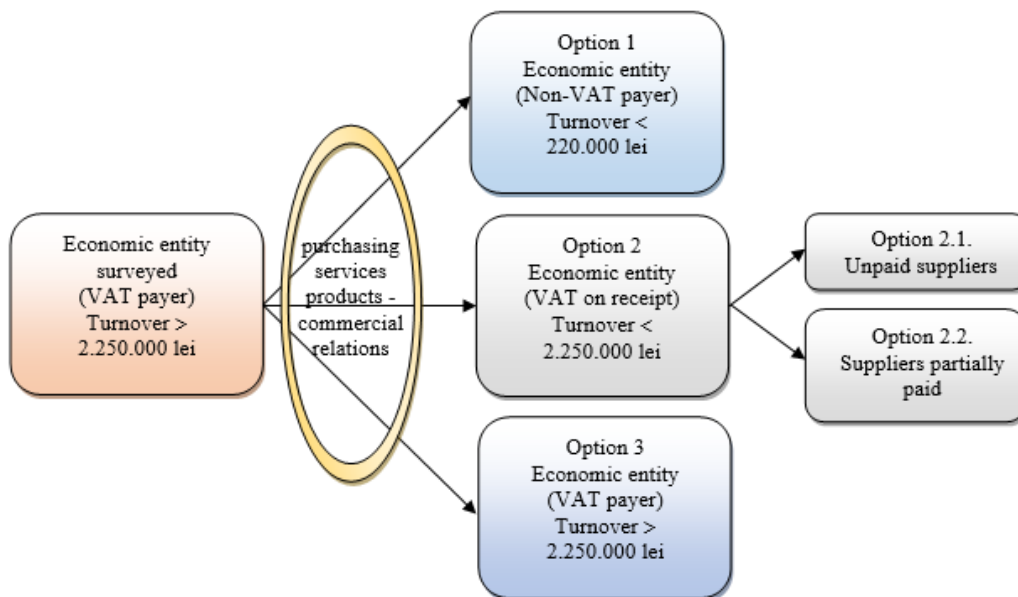


Figure 5. Representing the Impact of the Tax Decision Incorporated in the Financial Decision on the Performance of the Entity Against the Tax Vector of a Supplying Entity

Option 1.: Economic entity (non-VAT payer), turnover < 220,000 lei; purchase - non-VAT supplier (simulation: purchase log, sales log, closing accounting note 121 "Profit and loss account")

Fiscal impact:

- a) from VAT point of view

The VAT collected according to the issued invoices represents the VAT to be paid to the state budget, the economic entity subject to study does not have the legal possibility to deduct VAT from the supplier invoices, VAT collected = VAT to be paid = 95.000 lei.

- b) in terms of income tax

As the expense is higher, a lower corporate tax is paid to the state budget. In the *Profit and Loss Account*, because we did not deduct VAT, the expense was full, the revenue being in the amount of 500,000 lei, and the expenses are in the amount of 158.947 lei. Thus,

Gross profit = 341.053 lei
 Income tax (16%) = 54.568 lei
 Net income = 286.485 lei.

Option 2.1.: Economic entity (VAT receipt) Turnover < 2,250,000 lei (simulation: log purchases, sales journal, note book closing account 121 "profit and loss") - unpaid suppliers.

Fiscal impact:

a) in terms of VAT

Acquisition is made from suppliers who apply the VAT system at collection, and in this situation we consider that suppliers remain unpaid, which is why the studied economic entity has no right to deduct and the VAT collected is VAT to be paid in the amount of 95.000 lei.

b) In terms of income tax

Since the purchases are made from VAT payers, the expenses are in the amount of 134.199 lei, the revenues amounting to 500.000 lei, so that,

Gross profit = 365.801 lei
Income tax (16%) = 58.528 lei
Net income = 307.273 lei.

Option 2.2.: Economic entity (VAT receipt) Turnover < 2,250,000 lei (simulation: purchasing log, sales journal, note book closing account 121 "*profit and loss*") - part suppliers collected.

Fiscal impact:

a) in terms of VAT

Suppliers apply the VAT system to collection, the payment being partially made, the economic entity being studied enjoys deductibility of the invoices paid and the exigibility for the unpaid invoices occurs only when they are paid. In this context, VAT collected will be deducted from deductible VAT on invoices paid and VAT to be paid is the difference between VAT collected and VAT deductible in the amount of 71.050 lei. (95.000 lei – 23.950 lei = 71.050 lei)

b) In terms of income tax - Idem pct. b) option 2.1.

gross profit = 365.801 lei
income tax (16%) = 58.528 lei
net profit = 307.273 lei.

Option 3.: Economic entity VAT payer, Turnover > 2.250.000 lei (simulation: purchasing log, sales log, note book closing 121 "*Profit and Loss account*").

Fiscal impact:

a) in terms of VAT

The studied economic entity acquires from suppliers who apply the normal VAT system for which VAT on purchases is fully deductible, in this context, deductible VAT = 32.731 lei, VAT collected = 95.000 lei, and VAT to be paid = 62.269 lei.

b) In terms of income tax - Idem pct. b) option 2.1.

Gross profit = 365.801 lei
Income tax (16%) = 58.528 lei
Net profit = 307.273 lei.

Conclusion:

The financial decision must be based on an interdisciplinary accounting, financial and taxation study, taking into account the need to link accounting to taxation. This study shows that for an entity to be performant and to be profit oriented it must avoid purchases from non-VAT suppliers. Furthermore, the tax decision must be included in the financial decision.

5. CONCLUSIONS

- Accounting is the most useful and flexible managerial tool in improving economic decisions and not only, by allowing the entity to dynamically adapt to the requirements of financial, accounting and fiscal information users, adapting to the structure of the evolution of the economic and social environment in which the entity manifests itself in the face of the circumstances created by the globalization of economies and, last but not least, the globalization of financial markets.
- There is a complementary relationship between the accounting policies and the fiscal policy of a reporting economic entity, but also a mutual causal link. These phenomena are still visible from the stage of recording the economic entity's accounting for any economic event or transaction. Moreover, the provisions of IFRS require the management of economic entities to take account of the preparation of accounting policies and the associated tax aspect of each event or transaction.
- An efficient management of the economic entity's resources requires increased attention both on the economic and financial operations carried out in order to obtain profit, and on the fiscal dimension of the economic activity, by orienting the study of accounting to a multivalent managerial information system, support in the management of the economic entity through managerial decisions of a sound economic and financial nature.
- In the conduct of the decision-making process, it is absolutely necessary to consider all economic aspects, including fiscal, since between accounting and taxation there is a relevant divergence, with an impact on managerial decisions for the simple reason that the accounting principles in terms of evaluation and representation are not in convergence with fiscal principles. The presented divergence arises from the fact that the accounting principles imply the presentation of a true and fair view of all the phenomena and operations carried out during a financial or fiscal year, which are in fact overlapping during a calendar year, while the fiscal principles aim at stimulating or inhibiting some activities in line with the state's governance policy.
- Accounting is easy to present a true image according to the economic reality of the entity on the performances of the economic entity through a set of annual financial statements, but also represents the financial information base used to perform the diagnostic analysis used in the management activity.

- Accounting is located in a professional operational area that depicts a series of approaches to it as art, science, technology, communication interface of the institutional economic status, but the most accentuated is the utilitarian and multidisciplinary science that allows multiple approaches epistemologically valued in such a way that the applied accounting practices can predict the behavior of the economic entity.
- Accounting is the area of convergence of the activities of creating, collecting, storing, processing and providing information of an economic nature, more specifically to financial and fiscal information.
- Practice shows that often the decision of an economic nature adopted at the level of the economic entity is not based on prior documentation in such a way that taxation is used to satisfy the interest of the entity without prejudice to the relevant legislative regulations in force. Furthermore, at the level of the economic entities it is identified that the accounting and fiscal policies are characterized by ambiguity, noting that the state control bodies have judged the case in the context created by the uncertainty of the internal regulatory framework, thus giving them the opportunity to interpret them either in favor of the State and to the detriment of the entity, resulting in divergences between accounting and taxation in the sense that taxation arises in the State and that the accounting protects the economic entity.

In this case, there is a need for the connection of accounting, civil and fiscal law to create a coherent and unequivocal internal regulatory framework in such a way that it is in favor of the entity.

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