Qualitative characteristics and principles of financial reports in the context of disclosure of information about the enterprise as a subject of tax relations

Annotation
In the article ways of information visibility provision concerning tax relations of the enterprise in the system of accounting and financial report are investigated. It is substantiated that necessity of information disclosure about tax relations of the enterprise is a result of such qualitative characteristic of financial reports as relevance and two principles of its preparation: principle of full presentation and principle of going concern. Contents of separate paragraph in the notes to Annual Financial Reports dedicated to information disclosure about the enterprise as a subject of tax relations is proposed.

Keywords
financial reports, qualitative characteristics of financial reports, principles of financial reports, tax relations

1 Statement of the problem
Financial reports should satisfy interests of its users to the fullest extent. According to Law of Ukraine “On Accounting and Financial Reporting in Ukraine” (1999) [1] the main objective of statutory regulation of accounting and financial reports is formation the uniform rules of accounting and reporting as a means of guarantee and protection of user’s interests. In the National Statement (Standard) of Accounting 1 “General Requirements to Financial Reports” (2013) [2] the following definition for users of accounting is specified: it is physical and legal parties which need information about activity of the enterprise for decisions making. Information needs of users are various and comprises interests in the sphere of appropriation, sale and holding of securities, participating in the capital of enterprise, estimation of quality of management, ability of enterprise to execute the obligations, to material well-being of obligations of enterprise, determination of sum of dividends, that is subject distribution, adjusting of activity of enterprise and others like that. In accordance with these informative needs, it is necessary to determine informative possibilities of the financial reporting, that is possibility to satisfy them and volume of their accomplishment. Among these needs certain references to the informative requirements in the sphere of tax relations are absent, although implicit is circumstance that the important aspect of estimation of the financial state of enterprise must be an estimation of its tax potential and state of calculations with a budget.

2 Analysis of recent researches and publications
Problems of forming of the financial reporting and methodological approach to its formation are in the spotlight of scientists of Ukraine. Among the last researches, it is important to note the monograph of S. Holov “Accounting in Ukraine: Analysis of the State and Perspectives of Development” (2007) [3]. The detailed analysis of qualitative characteristics and principles of preparation of the financial reporting is presented in book “Financial Reports of Enterprises” of H. Davydov & N. Shalimova (2010) [4]. Research of problems of influence of tax relations on organization of accounting and auditing is presented in dissertation researches of such scientists of Ukraine, as O. Malyshkin (“Accounting and Auditing Tax: Theory, Methodology, development”, 2014 [5]) and E. Heyer (“Methodology and Organization of Interconnection between Enterprise Income...
Accounting and Taxing", 2015 [6]). But in our view, maintenance of the financial reporting in relation to disclosure of information about the place of enterprise in the difficult system of tax relations corresponds to quality descriptions and principles of preparation not in a complete measure and, unfortunately, this question remains out of eyeshot scientists and practical workers.

3 Statements of the objective

The aim of this research is a definition of ways of providing the informative transparency in relation to the tax relations of enterprise in the system of accounting and financial reporting taking into account the necessity of observance of quality descriptions of the financial reporting and principles of its preparation.

4 The main material

Qualitative characteristics of financial reporting are specified in detail in the following international standards: Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board (2010) [7], Statement of Financial Accounting Concepts No. 8 "Conceptual Framework for Financial Reporting", issued by Financial Accounting Standards Board of Financial Accounting Foundation (2010) [8], The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, issued by the International Public Sector Accounting Standards Board (2013) [9]. Such qualitative characteristics as relevance, faithful representation, comparability, verifiability, timeliness, understandability are considered. Materiality is distinguished as the characteristic that provides relevance; the characteristics that provide faithful representation includes completeness, neutrality and absence of errors. Similar characteristics such as clarity, relevance, reliability and comparability are contained in the national documents of Ukraine, namely the Law of Ukraine "On Accounting and Financial Reporting in Ukraine” (1999) [1] and National regulations (the standard) of accounting 1 “General Requirements for Financial Statements” (2013) [2].

The complexity and multiplicity of the qualitative characteristics of financial statements are widely discussed in the scientific literature (Shahwan 2008 [10]; van Beest et al. 2009 [11]; Nobes & Stadler 2014 [12]) and, in our opinion, efficiently emphasized in the Statement of Financial Accounting Concepts No. 8 "Conceptual Framework for Financial Reporting” (2010) [8] which contains the section "Qualitative Characteristics Not Included". These qualitative characteristics are treated as "desirable" but as different words to describe the information and they are the following: transparency, high quality, internal consistency, true and fair view or fair presentation.

Information that is given to the financial statements should correspond to such qualitative characteristics: understandability, relevance, reliability and comparability. The requirement of appropriateness foresees that the financial reporting must contain appropriate information that influences on making decision users only, gives an opportunity in to estimate past, present and future events in time, confirm and correct their estimations done in the past. It is difficult to deny, that exactly the right and duties of enterprises as taxpayers have substantial influence on the decision making of users in the financial reporting.

In addition, a necessity of information disclosure about the tax relations of enterprise is the consequence of two principles of preparation of the financial reporting: to principle of complete presentation and principle of continuous activity. According to principle of complete presentation, the financial reporting must contain all information about the actual and potential consequences of operations and events, which can influence the decisions made on its basis. In native practice, the fullness is provided by the requirement of continuous registration of facts of financially economic activity. Also in accordance with this principle, the financial reporting is not limited to balance only, report on financial results, report on a property asset and report of cash flow, but also contains notes that give additional information.

Enterprise balance and other forms of the financial reporting, in our view, do not give complete information about the tax mutual relations of enterprise. Therefore, there is a necessity of reflection the additional information in the notes. In accordance with Law of Ukraine “On Accounting and Financial Reporting in Ukraine” (1999) [1] note is an integral part of the financial reporting.

In accordance with National Statement (Standard) of Accounting 1 “General requirements to the financial reporting” (2013) [2] the note to the financial statements is formation of indexes and explanations that provide detalization and relevancy of the articles of financial statements, and also other information disclosure of which is envisaged by corresponding statements (standards). In notes to the financial statements, it is necessary to expose registration politics of enterprise, information that is not specified directly in the financial statements, but is obligatory according to corresponding statements (standards), information, that contains the additional analysis of the accounting articles, necessary for provision of its clearness and appropriateness.
In Ukraine standard form #5 “Notes to the Annual Financial Reporting” (2000) [13] is determined, but separate paragraph dedicated to additional information disclosure about the relations of enterprise concerning implementation of its duties as a taxpayer is absent. Statements (standards) of accounting 10 “Receivables” (1999) [14] and 11 “Obligation” (1999) [15] also do not contain additional requirements in relation to such information disclosure that certainly limits informing and complete presentation of the financial reporting.

Application of principle of complete presentation requires also special attitude toward the events after the date of the balance. In practice after accounting writing sometimes there are circumstances that can substantially influence the financial state of enterprise. For example, in January an enterprise received tax report-decision based on the results of in-office audit conducted in December. It is necessary to report to the user of the financial reporting, as far as it is important for understanding and estimation of business prospects and without similar explanations, the user of the financial reporting could be misguided. Therefore, circumstances or events that took place after the reporting date should be represented in the financial reporting.

We can distinguish such groups of events, which take place after the dates of the balance, those, which confirm circumstances that existed before the date of the balance; those, which specify the circumstances which took place after the reporting date; and those which specify that the financial reporting cannot be formed according to the principle to continuousness. Such grouping is fundamentally important, as foresees different actions of accountant in each situation during the formation of the financial reporting.

In an appendix to the Statement (Standard) of Accounting 6 “Correction of Errors and Changes in Financial Reports” (1999) [16] are specified the examples of events, which denote the circumstances that took place after the dates of the balance. Unfortunately, there are almost absent circumstances, which relate to the tax mutual relations of enterprises. There, in our view, could be included:

- Receiving of decisions from supervisory authorities about an inspection in the future;
- Issue of legislative acts on tax questions, that influence activity of enterprise;
- Procedures of administrative appeal and trials on tax questions concerning circumstances that raised exceptionally after the date of the balance;
- Changes in taxation, for example, change of rates of the taxes or tax law, accepted or declared after the date of the balance, that influence current and postponed tax assets and obligations;
- Received conclusions from supervisory authorities concerning the return of corresponding amounts from a corresponding budget;
- Receipt of tax requirements;
- Assumption of tax debt, in relation to which the term of limitation of actions has passed after the date of the balance as hopeless.

Such events do not need adjustment of information on financial reporting. They are specified in notes; in order, the financial reporting did not mislead the user. Let’s specify that the disclosure in notes is obligatory not for all events, but only for those, information about which will influence ability of users make corresponding estimations and decisions (item 17 of the Statement (Standard) of Accounting 6 “Correction of Errors and Changes in Financial Reports” (1999) [16]), that is only for those events consequences of which are substantial. Disclosure foresees not only information provision, but also estimation of information disclosure that certainly limits informing and complete presentation of the financial reporting.

Table 1: Interrelation of information about an enterprise as a subject of tax relations and requirements of qualitative characteristics and principles of preparation of the financial reports

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<th>Contents of information which should be represented in annual financial reporting</th>
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<td>Necessity of taking into account the principle of full representation.</td>
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<td>2. Kinds and characteristics of tax privileges, which are used by an enterprise.</td>
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<td>7. Classification of the fine and penalties according to the terms of payment.</td>
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Source: calculated using data (Forbes, 2016)
influence of the event on a result or ground of impossibility to make such estimation (item 23 of the Statement (Standard) of Accounting 6 "Correction of Errors and Changes in Financial Reports" (1999) [16]). Therefore, in notes to the financial reporting it is necessary to expose character of event, estimation of financial result or statement, that it is impossible to make such estimation.

Events, that provide additional proofs of terms and circumstances that existed upon the date of balance, influence the estimations used during the formation of reports. Ignoring of such circumstances does not provide reliability of the reports. Such events, as a rule, contain information that would be represented in the accounting, if it were noted before the reporting date. They are called corrected, as far as specified events require adjustment of the financial reporting (item 16 of the Statement (Standard) of Accounting 6 "Correction of Errors and Changes in Financial Reports" (1999) [16]). It is necessary to specify again, that the Statement (Standard) of Accounting 6 "Correction of Errors and Changes in Financial Reports" (1999) [16] does not contain circumstances that are related to the tax mutual relations of enterprises. To that list of, in our view, could be included:

• Receipt from the supervisory authorities the notices-decisions according to the results of the inspections conducted in the previous year;
• Exposure of errors or violations of tax law, that resulted in mixture of data of the financial reporting;
• Received tax consultation which influence definition of tax obligations in the last year;
• Cancellation or recall of decisions of supervisory authorities for previous years;
• Confession of tax debt as bad that aroused in the result of circumstances beyond reasonable control.

Filled data to financial reporting after the date of balance change can influence all these elements. The common rule of reflection of changes testifies that correcting of assets and obligations is necessary by means of revising of entry or making of additional records in accounting. Balance of undistributed profit is not used in the reflection of adjustments.

Principle of activity continuousness foresees the estimation of assets and obligations of enterprise, coming from supposition that its activity will last further.

In Conceptual Framework for Financial Reporting (2010) [7], and in International Standards on Auditing 570 «Going Concern» (2014) [17] two circumstances are specified upon receipt of which one can make the decision without detailed analysis concerning appropriateness of the principle of going concern, and management personnel can give such estimation. To such circumstances could be related availability of profitable operations in the past and opened access to financial resources. In other cases, management personnel before making sure of appropriateness of application of supposition of continuity, should consider some factors, which surround current and expected profitability, scheme of debt repayment and potential sources of the recovery of financing and others like that.

Evidences that enterprise cannot correspond to the principle of continuousness that is not continuously valid are represented in the International Standards on Auditing 570 «Going Concern». They include financial, operational and other evidences. In our opinion exactly this state of fulfilment of obligations by the enterprise as taxpayer is important factor that influence the following by the enterprise the principle of continuous activity. Such factors can be related to financial evidences, for example, availability of tax debt the terms of which discharge is coming upon absence of real perspective of debt discharge, and to other evidences, for example, which can be reviewed in court or at the authority of adjusting of lawsuits or tax questions (if such lawsuits are satisfied) concerning economic entity which as a result can have the requirements, probably, that won’t be satisfied, changes in tax legislation or policy of the government which can negatively influence economic entity.

Let’s give consideration on the definition of characteristics of that information which should be disclosed after arising of the events after the date of the balance. In our opinion, in this case there should be used requirements of the materiality of information. As far as international standards of financial reporting don’t strictly determined formats of financial reports, the only one criteria concerning provision of the sum separately or together with other sums is materiality.

Summarizing the above mentioned, it is possible to imagine the examples of intercommunication of information about enterprise as a subject of tax relations and requirements of qualitative characteristics and principles of financial reporting preparation (table 1).

It is rational to include into the list of notes of the annual financial reporting a separate paragraph "Description of implementation of the duties by the enterprise as a taxpayer and observance of its rights", where should be specified three tables:

Table 1 “Qualitative characteristic of the state of tax assessment at the enterprise”.

Table 2 “Characteristic of the calculated and paid taxes (dues and obligatory payment), financial penalties in the reporting year”.

Table 3 “Results of accounts reconciliation with the budget with the authority of state tax service”.

Approximate list of the generalized groups of indexes, which should be included into the first table, it should be formed taking into account the requirements of the Tax Code of Ukraine [18]. Accordingly, they should provide such information:
5 Conclusions and prospects for further researches

Content of financial reporting concerning information disclosure about the place of enterprise in a difficult situation of tax relations does not correspond to the needs of users in full, its qualitative characteristics and principles of preparation. We think that necessity of information disclosure about tax relations of the enterprise is the result of such qualitative characteristic of financial reporting as appropriateness and two principles of its preparation: principle of full presentation and principle of going concern. It should be taken into account that a considerable part of events that has place in economic activity of enterprise and connected with fulfilment of taxpayer’s obligations, is nominal or can be classified as events after the date of the balance that requires comity of manner to it according to the determined order of its reflection in accounting and reporting.

The model of statutory regulation of accounting which is used in Ukraine strictly defines the formats of all the components of financial reporting and the list of the Articles, therefore, the main information about qualitative characteristics of tax relations of enterprise should be reflected in the notes to financial reporting as additional taking into account the requirements of materiality. The above-mentioned proposals allow level increasing of information intensity of financial reporting and will help the users in making reasonable estimation of the financial state and tax capability of definite enterprise.

References


