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Difference analysis of the accounting for accounting income and taxable income

Abstract: One of the important foundations of concepts that income is most critical accounting and tax. Clear income concept played a very important role not only the theory of accounting and tax but also guides the work of accounting and tax. They are two different concepts about accounting income and taxable income. Accounting income and taxable income are different degrees of difference that they followed the principle of different systems, belonged to different areas, serviced in different objects, and based on different purposes are due to the revenue recognition time and amount of difference. It is important practical significance that correctly defining and handling accounting income and taxable income for the right organizational accounting and pay taxes according to law. In order to the right organizational financial accounting and pay taxes according to law that we should have defined and handled correctly accounting income and taxable income. In 2006 years, According to our country promulgated the new ASBE (Accounting Standards for Business Enterprises) and Tax law, this article from the accounting income and taxable income recognition and measurement, this paper analyzes the differences and put forward some concrete measures.

Keywords: accounting income taxable income difference and coordination

Introduction

On February 15, 2006, the ministry of finance promulgated the accounting standards for enterprises no. 14 - revenues, on January 1, 2007 implementation, encouraging other firms. Then the ministry of finance successively promulgated the implementation of the law of the People's Republic of China on enterprise income tax law, the law of the People's Republic of China on enterprise income tax law implementation regulations, the law of the People's Republic of China provisional regulations on VAT, the VAT provisional regulations of the People's Republic of China, detailed rules for the implementation ", making the difference between accounting income and taxable income in the new situation and new content. Enterprise must understand these differences that they will accurately grasp the differences between accounting income and taxable income. The article talked about between accounting income and taxable income differences.

1. Summary of income disparity

1.1 The definition about accounting overview

"Accounting standards for enterprises no. 14 - revenue" (Hereinafter referred to as the

"income guidelines"), "income" is defined as the enterprise formed in daily activities, which it will lead to increase in owners' equity and nothing to do with the owner invested capital of the gross inflow of economic benefits. It is design income guideline to law method of defining. From the point of view of accounting, accounting income can be divided five categories into basic business income, other business income, investment income, non-operating income and income of subsidies and so on. Obviously, these earnings whose are characterized by the increase in assets or decrease liabilities is tangible income. Starting from the essence of economic business, accounting income can be divided into 13 class ,such as, selling goods, providing labor services, assign to use assets, construction contracts, non-monetary transactions, leasing, insurance companies, insurance, futures contract, investment, debt restructuring, asset inventory profit and asset disposal subsidies income. According to the above statement, the accounting income involves only the scope of the economic interests of the enterprise daily activities in the form of inflows, which it will lead to the owner's equity increase in the daily activities, having nothing to do with the owner invested capital inflows of economic benefits as the gains to confirm.

1.2 Overview of accounting on the definition

Taxable income is the inflows which increase the enterprise's economic profit. In brief, if an inflow can add to the enterprise's economic profit, it is taxable income. It includes visible revenues like operating revenue and non-operating revenue, as well as invisible revenues such as kinds of sales income and other economic profits.

The classification of taxable income in tax law is focused on tax attributes and treatment of different income, which confirms the tax base correctly. Generally, taxable income is firstly divided into commodity turnover taxable income and revenue taxable income. Then, the turnover taxable income is composed of sales taxable income and value-added taxable income. Third, the mentioned income is also classified into taxable income, non-taxable income and tax-exempt income.

1.3 Analysis of difference

1.3.1 Revenue recognition principle

For financial accounting the main goal is reflected enterprise's financial position, operating results and financial position changes with an accurately, comprehensive and actual way to the managers, investors, creditors and potential investors

The purpose of Tax law is measured the income of tax payer in a certain period, specifically as follows:

- 1) Accrual accounting is the time-basis of accounting confirmation.
- 2) Cautious Principle is a modifying convention in accounting, apply to revenue recognition under an uncertainty environment.
- 3) Tax law focus on the legal requirements that can complete the transaction, as long as the taxable behavior occurs, regardless of whether companies do sales processing, all should be pay tax, so tax law didn't recognized the principle of substance over form.

4) Tax law will not admit the principle that “Importance of the revenue” which be stressed in Accounting.

1.3.2 The scope of revenue recognition is different

About the income range, Tax affirms greater income scope than Accounting. Tax Law’s taxable income not only include Accounting income, also include the additional fee that Accounting not mentioned, so leading to the difference between Tax system and Accounting in permanent. Regulations of Tax law are mainly based on the fair taxation and the needs by administrate, such as for the balance of outsourcing and homemade goods VAT tax, VAT provision: the taxpayer will sell the goods used engineering, employee benefits. It should be regarded as sales VAT.

1.3.3 Revenue recognition conditions are different

For enterprise accounting system, the basic conditions for revenue recognition including economic interests into the possibility and reliability of income measurement. While their taxable income tax law determine the basic conditions according to the deal if a legal requirement and the exchange value, emphasized the merchandise shipped, serviced provided, proofed of money collected or asked for payment at the same time.

1.3.4 Revenue recognition time is different

Accounting standards based on the accrual basis to determine the income of enter an item in an account of time. And the enterprise income tax law implementation regulations "article 9, to calculate the taxable income, based on principles of accrual basis, but with this act except as otherwise provided by the competent financial and tax departments under the state council., It is the date of receipt of sales or for sales documents where selling goods or taxable services tax obligation of time. The relevant tax law should be recognised as income when related tax revenue recognition, so long as the benefit into the enterprise or the interests of the enterprise can control the flow, The resulting, Accounting standards and income tax law should follow the basic consistent on the revenue recognition time. That is all right, most cases both for revenue recognition rules the same time. There are some especial that the differences displays mainly in the dividends, bonuses and other equity investment gains confirmation on time

2 Commodity sales income difference

2.1 The commodity sales confirmation

2.11 Enterprise accounting system of income confirmation

The enterprise sales can be recognized as revenue when it satisfied the following five requirements simultaneously which regulated in the new “enterprise accounting system”:

- (1) The main risk and reward of goods proprietary rights were transfer to purchaser;
- (2) The enterprise neither keeping the management that related with the ownership, nor has implement control on the sold goods;
- (3) The economic benefit of trades could be flowed to enterprises;
- (4) The related revenue could be measured accurately;
- (5) The related cost that happened or will be happened could be measured accurately

2.2 About income tax law of the confirmation

2.2.1 The confirmation of the VAT taxable income

According to VAT Provisional Regulations of the People's Republic of China, the taxpayer selling goods or taxable services tax liability occurred time, in accordance with the different way of sales settlement, and specifically divided into:

- 1) Taken directly receiving sales of goods, regardless of whether the goods are issued to receive sales or to obtain credentials obtained from sales, and the bill of lading to the buyer the same day;
- 2) Adopt collection commitments and the commissioned bank receivables sale of goods, goods issued for collection the same day;
- 3) Taken sell on credit and installment sale of goods, for the contract, the date of collection as agreed in the contract as sales.
- 4) Sale of goods, payment received in advance the day of shipment
- 5) Commissioning the other taxpayers sale goods by proxy, the consignment list to receive the consignment unit regard as sales day.
- 6) Sales of taxable services, the provision of labor at the same time received sales or made requests for credentials sales;
- 7) Sales of goods are deemed as the goods transferred the same day.

2.2.2 Consumption tax taxable income confirmation

According to the regulation of the provisional regulations on consumption tax, tax obligations occur time in selling goods or taxable services, according to the sales settlement way of different, specific for:

- A. Taxpayers used credit and installment payment settlement ways that it's obligations to pay taxes in time when payment date on the day of the sales contract agreement.
- B. Taxpayer advance payment ways that it's obligations to pay taxes in time when the goods of taxable consumer goods.
- C. Taxpayers take collection that honour and entrust a bank payment methods sales of taxable consumer goods. Its obligations to pay taxes in time when the taxable consumer goods and collection procedures.
- D. Taxpayer took other settlement way that its obligations to pay taxes in time when receipted of sales or obtained documented evidence.
- E. It is the date of transfer that taxpayers produce their own taxable consumer goods,
- F. The taxpayer of taxable consumer goods commissioned processing so that picking up the goods on the day of the taxpayers.
- G. Taxpayers of imported taxable consumer goods for the date of inlet declaration.

2.2.3 Enterprise income tax shall be levied on the taxable income of confirmation

By the "enterprise income tax provisional regulations implementing rules", the calculate of the taxpayers' taxable income is based on accrual system. The time of tax liability of enterprise income tax is the balance sheet date. The following operating revenue of taxpayers' can be determinate in installments, and calculate the taxable income based on it.

- A. For the installment goods, the realization of sales revenue could be relied on the payment date of purchaser according to the contract.
- B. The realization of income could be based on the job schedule or finished workload when the duration time of processing, repairing and replacement activities is more than a year.
- C. The realization of income could be based on the job schedule or finished workload if

they processing and manufacturing large mechanical equipment or shipbuilding for other enterprises processing.

D. For the saved raw material of external processing, the realization of sales revenue is relying on the finished date according to the contract.

2.3 Variance analysis

2.3.1 The revenue recognition principle

According to the above provisions, accounting systems of enterprises starts from substance over form principle and the principle of caution, focus on the real implementation of the income. And tax law start from the perspective of organization's financial revenue, focus on the realization of the social value income, for an enterprise, an income is not yet realized, but from the perspective of whole society, its value has been achieved. Tax law usually identified the tax revenue as "paid" or "be regarded as paid". The tax law take no account of the risk problem of the income, because of the country does not enjoy enterprise's all the profits, so it also should not bear the corresponding business risks accordingly; as well , tax law usually does not consider continue to management problems, this is also belong to the enterprise internal management problems.

2.3.2 Revenue recognition time difference

Accounting rules as long as five conditions conforming to the provisions of affirming income at the same time when the current will affirm income; Otherwise, the current will not be able to confirm the income. For example, sales income is confirmed only when the buyer financial difficulties disappear in the collection that honour and entrust a bank payment mode, the acquirer in financial difficulties, accounting can't be affirmed income of the current period.

2.3.3 Revenue recognition conditions difference

The difference between from accounting income and tax revenue recognition criteria to see mainly in the tax law of the tax revenue recognition criteria, emphasizing the ownership transfer or physical transfer and no provisions must meet the conditions. And the voucher of ownership transfer is the invoices already drawn up or the other unambiguous evidence which can represent evidence of transfer of ownership, and on accounting are likely to consider the implementation of income ,don't affirm income.

2.4 The measurement of commodity sales

1. The implementation of enterprise's sales revenue, in accounting mainly through main business income and other business income subject accounting.

2. The new accounting standards introduced fair value as a standard of measuring revenues and especially, delay the payment methods shall be in accordance with the contract or the present value of the price of agreement to confirm its fair value, as the revenue incurred by selling goods.

3. Accounting for trade discount (called a discount sales in tax law) according to the value of the actual charge to confirm sales revenue, and tax law definitely stipulates that if the sales and the deduction on the same invoice be noted separately, according to the balance after discount as the tax basis; If the deductible amount in the other invoice, regardless of how to deal with financially shall not deduct deduction from sales. For a cash discount (referred to as the sales discount in the tax law), if the net price method is

adopted on the accounting, the revenue can be confirmed according to net income deducted discount. The Tax Law stipulates that total sales revenue is the tax basis for sales.

4. The equivalent sale was another important reason of cause of giving rise to differences between accounting income and taxable income, The equivalent sale shall not be regarded as sales of business accounting and don't confirm accounting income, and on tax law regard as transfer behavior of taxable income to calculate pay taxes as taxable income of goods or labor services.

3 Services income difference

The relevant provisions of the accounting systems of enterprises. Provided the division of labor standard has many kinds of easily accounting, it is provided labor services the maximal as a general classification standard, divided into the maximal service (also known as long-term service contract) and over most of year service. Therefore, provided labor services to confirm whether it is the maximal.

3.1 Split year services

"Enterprise accounting system" regulation, It is not the maximal service confirmation of the amount for the total amount of the contract or agreement. Providing labor income according to the completed contract confirmation, namely in labor affirm income when completed.

3.2 Long-term service contracts

New accounting standards for the maximal service revenue confirmation according to the result of in accordance with the labor service reliable estimate difference processing in two different conditions. Then it can reliably estimate the outcome of labor service standards with satisfy the four conditions at the same time: (1) The amount of revenue can be measured reliably; (2) The relevant economic benefits are likely to flow into the enterprise; (3) Reliably determine the schedule of completion of transaction; (4) Trading has happened and would happen cost to be measured reliably.

3.3 Tax law

Confirmation of labor income tax law, there are no reasons of discretion without so much as long as the enterprises engaged in the services for affirming income. The content is labor of duty in addition to the processing, repairing and replacement services with planed imposed value added tax, other all labor levy business tax.

3.4 Variance analysis

From the above comparison, that the system of enterprise accounting and the taxation law are consistent on the confirmation of the non-split year service revenue. However, on the split year service revenue, the long-term service contracts were not allowed to use completed contract method in the taxation law.

The regulations were added in new rules, when the contract or agreement signed between different establishments that contain marketing commodity and rendering of service, that would be dealt with as render service if the part of marketing commodity and rendering of service can be measured individually; on the contrary, that would be dealt with as marketing commodity if they can not be distinguished, or even if they could be distinguished but can not be measured individually. This is agreement with the tax provisions

of mixed sale in the taxation law, and the gross wages would be expropriated value-added tax.

4 Assignment of the right to use assets

4.1 Assign cash access charge interest income differences

4.1.1 Accounting system provision

The new accounting principles provide that recognition principle of interest income satisfy the two conditions at the same time:

- (1) The economic interests related to trading can flow into the enterprise;
- (2) The amount of revenue can be measured reliably.

4.1.2 Tax law

The tax law divided interest income into enterprise deposit interest, enterprise loan interest and national debt interest. For the first two all serve as the tax revenue, but the national debt interest income shall be exempted from enterprise income tax.

4.2 Formed by the transfer of intangible asset use rights fee income

4.2.1 Accounting rules

Enterprise accounting system of royalty revenue shall be in accordance with relevant provisions of the contract time and method validation, different royalty revenue has method and time of the charge different prices.

- (1) If the contract fees paid and need not to provide after-sales service, it should be regarded as the asset sales affirming income at a time;
- (2) If provided after-sales service, it shall be done in the period of validity of contract in installment affirm income;
- (3) If used installment payment under the contract, it shall be stipulated in the contract of payment or installment payment methods calculating amount stipulated in the contract time confirming the income.

4.2.2 Tax law

Tax law assign the right to use assets with no clear rules but make a provision for rental income: The lessor should be according to the agreed lease term stage income calculation and the lessee should be amortized over the periods corresponding fees that taxpayers more than a year lease term and a charge the lease.

5 Other special income difference

5.1 Non-monetary transaction income difference

“The accounting standards for enterprises no. 7 - exchange of non-monetary assets “(Hereinafter referred to as the "exchange of non-monetary assets standards") regulation. Generally, the exchange of non-monetary assets do not involve monetary assets or involve only a few of monetary assets that premium used to be less than 25% of exchange value of the reference rate in the boot of the total assets ratio. Exchanged of non-monetary assets standards stipulated in the cost of the assets of the two kinds of fair value and book value measurement basis, profits and losses of the confirmation and clearing house.

5.2 The fair value measurement

Exchange of non-monetary assets standards regulations, non-monetary assets transaction at the same time satisfy two conditions of the following: we shall be based on fair value and relevant payable taxes as the cost of the assets, which the difference between the

fair value and book value of the assets surrendered is recorded into the profits and losses. (1) The exchange of a commercial nature; (2) The assets of the fair value of the assets received or surrendered can be reliably measured.

Exchange of non-monetary assets standards: There are not a commercial nature or the fair value of the asset, which it cannot be reliable the non-monetary assets exchange, shall, with the book value of the assets surrendered and relevant payable taxes as the cost of the assets in accordance, whether or not they don't confirm pay the premium income. Because tax law requires to produce temporary difference such assets exchange that it should be confirmed the taxable income at the market price.

5.2.2 Post-sale repurchase business income disparity

1) The relevant provisions of the accounting systems of enterprises

Post-sale repurchase refers to selling goods at the same time; seller agrees to buy back the sales of commodity in the future. "Enterprise accounting system" provides that in the business of post-sale repurchase, under normal circumstances, the main risk and rewards of the ownership of the goods been sold is not transferred from the seller to the buyer, so can't confirm the related the income by selling goods. Accountant according to the requirements of the "substance over form", regarding as financing to accounting treatment, not affirm income.

2) Tax law

On tax law does not recognize this kind of financing but as a sales and purchase two economic business. Therefore, enterprising should also be in accordance with the invoice when it comes to sales as form the basis of taxable income for the price.

5.3 Regarded as sales income disparity

5.3.1 Accounting rules

According to the relevant provisions, when the companies make use of their own products in construction engineering, management departments, non-productive institutions, raising funds, donations and sponsorship, advertising, samples, or employee benefits in the reward, it is a kind of internal relations carry forward, in which there is no sales activity, and it does not conform to the established sales condition, as a result, the enterprise will not increase cash flow due to the production of products used in construction engineering, so as to the enterprise's operating profit. Therefore, it will transfer according to the cost, rather than make sales on accounting treatment.

5.3.2 Tax law

Regarded as sales as to accounting while it will be seen as sales in tax law, goods that confirm the revenue tax payments and the transfer behavior of labor will not be treated as accounting sales. If companies use self-produced products for the enterprise projects itself, it will not be recognized as revenue of selling goods according to the provisions of the corporate accounting system: However, it is provided in the interim regulations on value-added tax that enterprise will account "The goods sell, entrust processing is used to non taxable items", "shall be deemed as sales of goods" in VAT. It is clear that there is a big difference between tax law and the accounting systems of enterprises.

5.4 Consignment business income disparity

5.4.1 Accounting rules

There are two cases about the business income of sale by proxy in accounting systems of enterprises,

(1) In the case of sale by proxy as buyout, when the goods are sent out, the clients don't know the sale income, the trustees nor process it as goods purchased, the only thing they do is to record amounts, specifications, etc of the goods in the account for future reference.

(2) In the case of handling charge in sale by proxy, the clients confirm their income according to the detailed list provided by the trustees when they have salt the goods; the trustees confirm their income according to the handling charge.

5.4.2 Tax law

Taxation law has strict rules on this sales way, "Provisional Regulations on Value Added Tax" provides that "Deliver the goods to others on a commission basis and sell goods on a commission basis are considered to be sales". At the same time it provisions "Goods on a commission basis, entrust other taxpayers received a commission affirm income unit on the day of the sale on a commission list". That is to say, Taxation law is regarded as sales to buy goods on a commission basis, charging fees on a commission basis, tax law is not admitted, still levy taxes according to the sales of goods.

6. Income disparity of coordination

6.1 The necessity of coordination

Reconciled differences can be significant benefits, to a certain extent, promote the perfection of market economy system in our country. In four aspects: In the first, it is to reduce the friction caused by the tax collection efficiency attenuation; second, it is to prevent tax laws and regulations in the tax law and accounting system coordination content lack of resulting in the loss of tax revenue; In the third, it is lowering the cost of taxpayers to pay taxes and tax related risks; Last but not lest, it is improve that the ability of the sustainable development of the operator.

6.2 Coordinate principles

Due to the accounting system and tax system is different to be difference things, enterprises must adhere to two principles in the actual processing:

6.2.1 In business accounting, all enterprises should strictly follow the requirements of the relevant accounting standards and accounting norms, accounting elements of recognition, measure and record, and shall not violate the accounting system.

6.2.2 To complete your tax liability must be conducted in accordance with the requirements of the tax law, if accounting treatment and tax law isn't accord, it should be followed the provisions of the tax law, taking corresponding adjustment method and completing tax obligations.

6.2.3 The coordination of specific measures

1) The definition of the taxable income.

2) Understand the difference investment income to confirm.

3) Distinguish the business property, correct and complete to reflect the current taxable income.