THE ISSUES OF MANAGEMENT ACCOUNTING AND TAXE RISKS IN THE MODERN REALITIES

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PROBLEMS OF MANAGEMENT ACCOUNTING IN MODERN REALITIES

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Abstract: Accounting cuts across all facets of the organization. The management accountant's duties are intertwined with executive planning, control, and decision making. The study of modern cost accounting yields insight into both the accountant's role and the manager's role in an organization. Historically, Russia's financial reporting framework has been determined and regulated by the state rather than by professional bodies. However, International Financial Reporting Standards (IFRS) are now becoming increasingly important, both in terms of influencing the development of Russian Accounting Standards (RAS) and forming the compulsory standards for certain categories of Russian entities. The treatment of tax risks in time and place. Specific tax provisions that apply in specific jurisdictions can be applied to calculate the tax flows to and from a firm in those jurisdictions. The treatment reserved for this article is illustrative of some of the effects of the U.S. Federal Tax Code. The provisions of that code are complex and are not considered in great detail. The purpose of this article is to present a framework for the management accountant to use in determining the tax flows to be fed into the financial reporting framework. The second reason is that tax provisions are altered is the calculation of cash flows to be fed into the financial reporting framework is still intact. The only thing that needs to be considered in great detail is the accounting treatment reserved for this article is illustrative of some of the effects of the U.S. Federal Tax Code. The provisions of that code are complex and are not considered in great detail.

Annotazione: Бухгалтерский учет связан со всеми видами деятельности организации. Обязанности бухгалтера сочетаются в себе планирование, контроль функционирования компании и принятие управленческих решений. В статье рассмотрены особенности современной системы управленческого учета, что позволило автору конкретизировать функции бухгалтера и менеджера в организации. Исторически сложилось так, что структура финансовой отчетности России определяется государством и регулируется им, а не профессиональными сообществами бухгалтеров и аудиторов (как это принято в большинстве стран). Однако в современных реалиях Международные стандарты финансовой отчетности (МСФО) предъявляют новые требования к адаптации российских стандартов бухгалтерского учета (РСБУ) к требованиям мировой финансовой системы, а также влияют на формирование обязательных положений для функционирования отдельных категорий российских экономических субъектов. В статье также прогнозируется вопрос налогового обложения и налоговых рисков, что обусловлено несколькими причинами. Впервые, цели общего проводимого исследования – представлять такую структуру системы управления, которая обеспечивает соответствие риск-менеджмента с принятым финансовым решением. Следует отметить, что налоговое обложение как фактор влияет на...
detail. Furthermore, we do not include treatment of state corporate income taxes, which vary among states.

dенежные потоки компании, однако менеджер не учитывает его при принятии управленческих решений. Во-вторых, система налогообложения постоянно претерпевает те или иные изменения, которые являются актуальными только в конкретный период времени и для определенных условий функционирования экономических субъектов. В статье приводятся примеры, подтверждающие влияние налоговых рисков (в том числе и изменения в Федеральном налоговом кодексе США) на функционирование американских компаний. Положения этого документа не рассматриваются в рамках данной статьи.

**Keywords**: Management accounting, risk management, treatment of taxation, modern realities

**Ключевые слова**: управленческий учет, управление рисками, налогообложение, современные условия функционирования организаций

**Introduction**

Most companies in Russia maintain their accounting records using IT systems tailored to the RAS chart of accounts and reporting formats. Russian subsidiaries or subdivisions of foreign companies may use a global ERP system as well as a local accounting database, interfaced into the global ERP system (if required). If the company decides to use a global ERP system, special emphasis should be placed on its localisation. Management reporting is also often RAS-based, with monthly, quarterly or annual transformation to IFRS. Only larger companies have the available resources to perform the transformation to IFRS, so other companies tend to outsource the process to consulting firms, or at least engage their assistance in doing so [1].

Modern cost accounting is often called management accounting. Why? Because cost accountants regard managers within their own organization as the primary users of their accounting information - that is, as their internal customers. Around the globe, managers are becoming increasingly aware of the importance of the quality and timeliness of products and services sold to their external customers. In turn, accountants are becoming increasingly sensitive to the quality and timeliness of accounting information required by managers. Throughout this article we organize our look at organizations by using the value chain of the business functions, which appears as Exhibit 1.

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Exhibit 1 – The Value Chain and Management Accounting

The value chain is the sequence of business functions in which utility (usefulness) is added to the products or services of an organization.

These functions are:
- research and development – the generation of, and experimentation with, ideas related to new products, services, or processes;
- design of products, service, or processes – the detailed planning and engineering of products, services,
or processes;

- production – the coordination and assembly of resources to produce a product or deliver a service;
- marketing – the process by which individuals or groups (a) learn about and value the attributes of products or services and (b) purchase those products or services;
- distribution – the mechanism by which products or services are delivered to the customer;
- customer service – the support activities provided to customers.

Exhibit 1 also shows a strategy and administration function, which spans across all the individual business functions. This category includes senior executives charged with the overall responsibility for the organization. General administrative tasks such as human resource management, legal matters, tax planning, and the like are often included in the strategy and administration function [2].

Results

Accounting is a major means of helping managers (a) to administer each of the business functions presented in Exhibit 1 and (b) to coordinate their activities within the framework of the organization as a whole. Accounting does in fact assist managers those tasks.

Do not interpret Exhibit 1 as implying that managers should proceed sequentially through the value chain. There are important gaps to organizations (in terms of, say, cost, quality, and the speed with which new products are developed) from having the various individual parts of the value chain work concurrently as a team.

How long managers enjoy success depends on their pleasing their external customers. Therefore, managers must know their customers' perceptions of company products or services [3]. Similarly, management accountants must understand how managers in their organization – their customers – use accounting information. The success of management accounting depends on whether managers' decisions are improved by the accounting information provided to them.

The accounting system is the principal, and the most credible, quantitative information system in almost every organization. This system should provide information for four broad purposes [4]:

- purpose 1: internal routine reporting to managers for (a) cost planning and cost control of operations and (b) performance evaluation of people and activities;
- purpose 2: internal routine reporting to managers on the profitability of products, brand categories, customers, distribution channels, and so on. This information is used in making decisions on resource allocation and in some cases decisions on pricing;
- purpose 3: internal nonroutine reporting to managers for strategic and tactical decisions on matters such as formulating overall policies and long-range plans, new product development, investing in equipment, and special orders or special situations;
- purpose 4: external reporting through financial statements to investors, government authorities, and other outside parties. To satisfy external purposes, businesses must report income and costs in accordance with the generally accepted accounting principles that guide financial accounting.

Each broad purpose of accounting may require a different way of aggregating or reporting the data. An ideal data base (sometimes called a «data warehouse») will consist of finely granulated bits of information. In turn, accountants combine or adjust («slice or dice») these data to answer the questions from particular internal or external users. Accountants cannot foresee each and every decision facing these users. Consequently, systems are often designed to fulfill the broadest set of uses that are anticipated among managers.

Management accounting, focusing on internal customers, measures and reports financial and other information that assists managers in fulfilling goals of the organization. It is concerned with the first three purposes of an accounting system listed above. «Different costs for different purposes» is a central idea in management accounting. Financial accounting focuses on external reporting. It is concerned with the fourth purpose of an accounting system listed above. Cost accounting is management accounting plus a part of financial accounting – to the extent that cost accounting provides information that helps the requirements of external reporting. The means by which cost accounting information is reported is called a cost accounting system or costing system [5]. This relationship can be presented as in the diagram below (pic 2).

Financial accounting, as mentioned, is constrained by generally accepted accounting principles. These principles restrict the set of revenue and cost measurement rules and the types of items that are classified as assets, liabilities, or owners' equity in balance sheets. In contrast, management accounting is not restricted to those accounting principles acceptable for financial reporting. For example, a consumer products company may present a particular estimated «value» of a brand name (such as the Coca-Cola brand name) in its internal financial reports for marketing, although doing so is not in accordance with generally accepted accounting principles.

Financial accounting takes a historical perspective. The reports it generates focus on what has happened in the past. In contrast, management accounting emphasizes the future, providing budgets and other future projections in addition to historical reports. What about tax authorities?
The tax authorities are steadily encouraging taxpayers to migrate to digital reporting. Currently, taxpayers with a headcount of 100 employees or more are obliged to file their tax returns electronically. Submitting a VAT return in paper form is now treated as a failure to submit, which may result in the tax authorities’ freezing the taxpayer’s bank accounts. For social security funds, the threshold for mandatory electronic reporting is 25 employees [1].

For example in the USA, corporate income is subject to federal tax at a progressive rate and, in addition, is subject to state tax at rates determined by the individual states. Federal marginal tax rates effective from 1979 increase quickly to 46%, as shown in the following schedule (table 1 – 2):

Table 1 – The interrelation between corporate income ($) and marginal tax rate

<table>
<thead>
<tr>
<th>Corporate income ($)</th>
<th>Marginal tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 25,000</td>
<td>17%</td>
</tr>
<tr>
<td>25,000 – 50,000</td>
<td>20%</td>
</tr>
<tr>
<td>50,000 – 75,000</td>
<td>30%</td>
</tr>
<tr>
<td>75,000 – 100,000</td>
<td>40%</td>
</tr>
<tr>
<td>100,000 and up</td>
<td>46%</td>
</tr>
</tbody>
</table>

Table 2 – Calculation of an average tax rate for the corporation

\[
\begin{align*}
\text{Tax} &= 25,000 \times 0.17 \\
&+ 25,000 \times 0.2 \\
&+ 25,000 \times 0.3 \\
&+ 25,000 \times 0.4 \\
&+ 9,900,000 \times 0.46 = 4,580,750
\end{align*}
\]

The quick progression up the marginal tax rates ensures that larger corporations face an average tax rate approaching, but slightly less than, 46%. For example, on an income of, say, $10 million, the total tax is which represents an average tax rate for the corporation of 45.8%. The following treatment of tax deals entirely with federal tax, and the reader should remember that state tax may also be levied.

Federal tax is imposed on corporate earnings, but a firm is permitted to deduct «ordinary and necessary» business expenses. The treatment of deductions has important implications for risk management purposes, since deductions do not carry neutral implications for the risk management choices facing a firm.

A useful broad distinction in examining tax deductions is between expenditures for the acquisition of capital assets having a useful life of multiple years and other expenditures. Expenditure on capital assets is not immediately deductible, but a firm may depreciate an asset over a number of years. Various depreciation schedules are permitted, i. e., straight line, units of production, sum-of-years digits, and declining balance. Some permit depreciation at a more rapid rate in early years; i. e. declining balance gives higher depreciation in early years than straight line. Given positive time preference, it is of advantage to write off assets as quickly as possible, since the bulk of tax benefit becomes available to the firm at an earlier date. Methods such as declining balance and sum-of-years digits are known as accelerated depreciation methods for this reason. On disposal of a capital asset, a firm may be subject to capital gains tax if the disposition yields a capital gain. This provision also has implications for disposition through casualty loss, as considered below [7].

The purchase of capital assets for investment also gives a firm an investment tax credit. Tax credits were
introduced in 1962 and have been suspended and reinstated on occasions before becoming a permanent feature of the tax code. The provisions for tax credits were changed in 1978 and later too. Clearly, this aspect of corporate taxation is volatile. The reason is that tax credits have been used as a major instrument of economic policy. Changes in the tax credit provisions have been used to stimulate new investment and, at times, to discourage investment.

The investment tax credit permits a firm undertaking new investment to count a stated portion of that investment expenditure as a credit toward its current tax liability. For example, consider a firm having a tax liability for the current year of $10 million. If the firm spends $20 million on new investment and the tax code provides a 10% tax credit, the firm can reduce its tax liability as follows (table 3):

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax due before consideration of tax credit</td>
<td>$10 million</td>
</tr>
<tr>
<td>Tax credit 10% of $20 million</td>
<td>$2.0 million</td>
</tr>
<tr>
<td>Tax due</td>
<td>$8.0 million</td>
</tr>
</tbody>
</table>

*The table was compiled by the author independently*

Certain types of loss-reduction expenditures may count as capital investments for tax purposes and may thereby qualify for tax credit.

Expenditures other than those on capital assets may be deducted as they are incurred. Included as such expenditures are insurance premiums to external insurers (there are one or two exceptions, including premiums to some captives and premiums on capital assets under construction). However, other methods of financing reinvestment also are affected by tax provisions, as considered below [8].

Finally, the federal tax code incorporates a «carry forward-carry back» provision. Firms can carry losses (negative earnings) to prior or future years to reduce tax liability for years in which positive taxable earnings are made. This provision is extremely important in ensuring proper tax credit for large uninsured casualty or liability losses.

Some risk management implications:

1. financing devices

   It is recognized that insurance premiums constitute an ordinary and necessary business expense and are deductible as they are incurred, subject to the exceptions. This provision reduces the net cost of purchasing insurance. However, other risk management financing devices also are affected by tax. Interest payments on debt are deductible. Thus if debt is used to finance investment, the net cost is the after-tax interest payment. In contrast, dividend payments are not deductible. At face value, this asymmetry creates a bias in favor of debt financing rather than equity financing. However, the issue is further complicated by personal taxation. Furthermore, as pointed out by Miller, the (after-tax) prices of debt and equity instruments in capital markets may well reflect their different tax treatment.

   Premiums paid to captive insurers may or may not be deductible. If the captive provides a significant «shifting and distribution» of risk, the premium would appear to be deductible. If a captive is wholly owned by a single parent and does not insure any external risk (i.e., risk for clients other than the parent), the premium is not deductible. What constitutes a significant «shifting and distribution» of risk is a matter for individual interpretation. Consistent with this distinction between captives that provide a meaningful risk-pooling function and those which do not is the treatment of retention funds not embodied in a captive. Contributions to a retention fund are not deductible [9].

2. losses

   The tax treatment of losses varies according to whether losses are insured and whether the loss represents a capital asset. In general, only uninsured losses are deductible. In the case of partial insurance, the deduction for loss is reduced by the insurance settlement. In other words, only the uninsured portion of the loss is deductible. For property-casualty losses, a firm may deduct the lower of the following:
   - the difference between the fair market value before and after the loss, or
   - the adjusted (book) value of the property.

   When total loss occurs, the deduction cannot exceed the book value of the property. In all cases, the amount of deduction is diminished by the insurance settlement. The insurance settlement can exceed the tax deduction, but this gives rise to the prospect of capital gains, and the treatment depends on whether the asset is classified as a capital asset and whether the insurance money is used for reinvestment or simply to increase the liquid resources of the firm. If reinvestment is not undertaken, tax may be levied at the capital gains rate or at the ordinary corporate rate for any gain resulting from an insurance settlement.

   Liability losses are deductible to the amount of the settlement (whether litigation is involved or not) plus legal expenses, such as court fees, lawyers fees, expert witnesses, cost of securing evidence, etc. The deduction is, of course, reduced by the value of any insurance settlement. An exception to the deduction of liability awards is the case of punitive damages. Indeed, any such tax deduction for punitive damage may be considered to undermine the very purpose of such awards, which is to deter and/or punish the form of behavior that resulted in the loss event [10].

3. loss reduction

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**Table 3** – Example, how the firm can reduce its tax liability

<table>
<thead>
<tr>
<th>Description</th>
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</tr>
</tbody>
</table>
The tax treatment of loss-reduction expenditures depends on whether they are treated as capital assets or not. Some expenditures may be deducted immediately, such as the cost of safety education, the operating cost of a fire brigade, and the ongoing costs of inspecting goods for the purpose of quality control. However, other costs may represent the acquisition of capital assets. For example, the installation of a sprinkler system will have to be depreciated over its useful (multiyear) life. One useful loss-reduction device was inventory, which may be used to reduce business interruption following a loss. Inventory is not construed to be a capital asset and is not taxed as such.

So taxation may have a significant effect on risk management decision. The purpose of this article has been to prevent very general details of the federal taxation system and to explore their potential implications for risk management.

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PROFITABILITY MANAGEMENT IN THE SYSTEM OF SUSTAINABLE DEVELOPMENT

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Abstract: The article deals with theoretical and practical aspects of stability analysis at different levels of management with the model of dependence of financial, economic, social and environmental components of socio-economic systems development

Keywords: sustainability, profitability, management, model, regression, efficiency

В настоящее время обеспечение устойчивого развития экономических систем выдвигается в ряд первоочередных вопросов во всем мире. Так, 25 сентября 2015 государства-члены ООН приняли Повестку