The Book of Revenue and Costs – Evolution of the Simplified Form of Record

JEL Classification: M4

Keywords: record, costs, revenue, book, accounting

Abstract. Objective: The aim of the study is to present a modified form of business activity record in the small and medium size enterprise. The tax book does not provide useful information about the revenue and costs and the result of business operations. It is focused on the fiscal aspect. Therefore, the evolution of this simplified form of record is required.

Research methodology: The paper uses the method of logical and comparative analysis of legal acts and literature in the field of tax and financial accounting.

Result: Analysis of the issue allowed for the criticism of the current form of record and the presentation of a modified book of revenues and costs.

Introduction

Running a business is related to the need to keep an accountancy, i.e. an information and control system that reflects the organization’s operation and its result (result / income). In general, we talk about accounting when we have a document and an amount (monetary measure). Legal persons and some natural persons conduct the so-called integrated accounting, while others – simplified accounting, called tax accounting.
The main stage of financial data processing in the accounting information process involves the record of economic operations. Various forms of register are recognized. Various tools, such as an account or a book are used.

Economic activity causes costs which allows to achieve revenues (incomes) allowing the continuation of the production cycle and making a profit, which is the source of development. Information about costs is very important in business management (Sadowska, 2015).

The purpose of the article is to present a modified simplified form of a revenue and cost records. This is the implication of the criticism made of the current record form – the tax book of revenues and outgoings. The main objective of keeping records of revenues and costs should be the information and control aspect. On the other hand, the fiscal aspect is a derivative of the main goal.

The study uses the “accounting” approach to record systems in a small enterprise. The applied methodology is based on a logical and comparative analysis of legal acts and literature from the tax and financial accounting areas.

The first part of this work characterizes the forms and principles of records kept for business activity. In the second part the author focuses on the critical analysis of the tax book in the light of the regulation on keeping the tax revenue and outgoings book. The third part presents a modified form of records – the book of revenues and costs. The structure of the book is discussed. The summary of this study encapsulates the conclusions from the considerations.

1. Forms and rules of the record

Record (accounting, recognizing, saving in the book) is an activity consisting in the transformation of source data from accounting documents into economic information, including financial information about costs and revenues as well as result / income. The form of the record depends on the method of taxation and the amount of revenue generated. Legal persons and natural persons undertaking business activity (service, production, commercial) have the obligation to keep records provided for by economic law. The basic forms of records provided for by law are illustrated in table 1.

The principle of a single entry consists in saving business transactions, using the device – a book in the tabular form, individually, without correspondent devices. However, the double entry rule uses accounting devices – accounts.

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1 The subject of costs and revenues is dealt with among other authors by: Nowak, Niepłowicz (2012), Szczypa (2014), Lulek (2011), Sadowska (2015).
Table 1. Forms of business activity records

<table>
<thead>
<tr>
<th>No</th>
<th>Comparison criterion</th>
<th>General rules</th>
<th>Flat forms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Tax book of revenues and outgoings</td>
<td>Account books</td>
</tr>
<tr>
<td>1.</td>
<td>The objective of running the records</td>
<td>Fiscal objective (mostly for tax settlements)</td>
<td>Satisfying the information needs of external and internal recipients</td>
</tr>
<tr>
<td>2.</td>
<td>Who is running it?</td>
<td>Natural persons and their companies</td>
<td>Legal persons and some natural persons</td>
</tr>
<tr>
<td>3.</td>
<td>Basic scope of record</td>
<td>Revenues and costs</td>
<td>Assets and liabilities. Revenues and costs. Result.</td>
</tr>
<tr>
<td>4.</td>
<td>Revenue limits</td>
<td>PLN equivalent of at least € 2,000,000</td>
<td>None</td>
</tr>
<tr>
<td>6.</td>
<td>The principle of entry of economic operation</td>
<td>Single entry principle</td>
<td>Double entry principle</td>
</tr>
<tr>
<td>7.</td>
<td>Tax rate</td>
<td>18%, 32%, 19% linear tax</td>
<td>18%, 32%, 19% linear tax</td>
</tr>
</tbody>
</table>


2. Records in the light of the regulation on keeping a tax book

The so-called tax book of revenues and outgoings is one of the forms of simplified records (Regulation, 2003). The semantic antinomy of the name of this book should draw our attention. Namely, the proper name is the “book of revenues and costs” or “book of income and outcome”, not the “tax book of revenues and outgoings”. Revenues are set against costs. In contrast, “outgoing” has a different semantic scope than “cost” or “expense” – the outgoing of cash from the cash register and bank account.

The purpose of keeping a tax book of revenues and outgoings is for the fiscal reasons. The book acts as a proof to determine tax liabilities of individuals and their companies. This device records the result information: sales revenue and revenue from other sources as well as costs broken down into the purchase costs of goods and materials, remuneration and others. Not all costs can be included in the tax book, but only those that meet...
the definition (Act on tax, 1991, Article 22, paragraph 1) of tax deductible costs. These costs are the costs incurred in order to achieve revenue or to maintain or secure a source of revenue, with the exception of the costs listed in art. 23.

Costs can be recorded using the accrual method or on the so-called cash basis. The accrual method consists in recognizing in the book of the entity all revenues earned and attributable to it, and costs related to these revenues for a given financial year, regardless of the date of their payment (Accounting Act, 1994, Article 6, paragraph 1). However, the essence of the cash accounting method is the consideration of business operations through the prism of cash flow. In Polish tax law (Act on tax, 1991), with the cash method, the cost is booked in the book on the day of invoice or actual payment. According to the author, this understanding of the cash accounting method is incorrect. The cash method applies to cash inflows and outflows. Documents confirming the inflow are recorded (e.g. bank statement, cash register “cash receipt”) and expenditure (e.g. bank statement, cash register “cash withdrawal”).

Considering the above, column 13 of the “Other expenditure” of the book is controversial, as it is intended for (Regulation, 2003, Annex 1): entering other costs (except for those listed in columns 10–12), except for costs which, according to art. 23 of the Income Tax Act are not recognized as tax deductible costs. This column includes, in particular, expenses such as: rent for premises, electricity, gas, water, c.h., telephone fee, fuel purchase, expenses related to repairs, depreciation of fixed assets, pension contributions for employees, in part financed by the employer, employee accident insurance contributions, value of purchased equipment. Expenses related to the use of non-recorded fixed assets and intangible assets of a passenger car, also owned by a person running a business, for business purposes, should be entered in this column after the end of the month based on a monthly statement of expenses.

First of all, the expense is not the cost. The cost is the consumption of assets, and the expense is the outgoing of cash. In addition, blocked costs and entry of depreciation costs together with the costs of insurance contribution in one item is incorrect in the opinion of the author. Depreciation, also one-off, is always a cost. Expenses related to the acquisition of a fixed asset with one-off depreciation due to low value inform about the material orientation of assets and the cost of a particular reporting period.

The “other expenses” item, according to the author, should refer to costs that occur sporadically or are relatively low in a given month. Perhaps, a situation that the “others” will exceed the costs of the main operating activity is likely to occur.

Does an obligatory record of income and costs in the form of a book provide useful information about costs, especially for management in an unstable economic environment? The answer is negative. However, an evolution of this form may be a possible solution to this issue.
3. The structure of the book of revenue and costs

The evolution of the simplified form of entries to the book of revenue and costs is based on the following assumptions:

– the purpose of the book of revenue and costs is to obtain more useful information on the revenue and structure of costs of business operations,
– the advantage of the information and control purpose over the tax (fiscal) goal,
– records of business operations are carried out on an accrual basis,
– booking according to the single entry principle,
– the book was expanded from seventeen to twenty-three columns,
– unquestionable catalog of revenue and costs of obtaining revenue is provided, there is no room for interpretation,
– costs of basic operating activities are recognized by type,
– the enterprise operates in a friendly legal environment.

The structure of the book of revenue and costs is presented in table 2.

Table 2. The book of revenue and costs

<table>
<thead>
<tr>
<th>No.</th>
<th>Date of business operation</th>
<th>Accounting evidence</th>
<th>Settlements</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Name of the contractor</td>
<td>Company data</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PLN gr.</td>
<td>PLN gr.</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>PLN gr.</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total basic costs</td>
</tr>
<tr>
<td>PLN gr.</td>
</tr>
<tr>
<td>18</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The book of revenue and costs consists of twenty-three columns. The structure of the book with columns and the principles of accounting of revenue and costs are discussed below.

The next record number in the book should be entered in Column 1. For control purposes, the same order number in the accounting document should be entered.

The date of the business operation, i.e. the date of the event subject to the record should be entered in Column 2. Every economic operation is an event, but not every event is an operation (Jaklik, Micherda, 1994, p. 52). The resulting economic operations, i.e. those forming revenue and costs, are recorded. The date of the economic operation determines the period of allocation of a given revenue or cost in the book, because the accounting entry (Accounting Act, 1994, Article 23.2) may concern three dates: the date of the business operation, the date of accounting (if different from the date of the event) and the date of recording in the book. Accounting creates an image of the business. It describes the past, so the dates should be unified: issuing proof of account in accordance with the accrual principle.

Column 3 should specify the name and number of the accounting document, i.e. the document constituting the basis for data processing – accounting. VAT invoices for sales and purchase are the basic accounting proof documenting revenue and costs.

Columns 4 and 5 are meant for settlements, i.e. receivables and liabilities. The abbreviated name and the basic data identifying the contractor are entered here. These columns are not filled in the case of sales revenue records based on daily sales statements and internal evidence.

Column 6 is used to record revenue from the core business for which the entity was established, e.g. provision of services, trade, production. The records concern net sales. Companies that run bureaux de change enter the monthly amount of revenue (sales of foreign exchange values) resulting from the records of purchase and sale of foreign exchange values in this column.

Column 7 should include other operating revenues, i.e. revenue related to the main operating activities indirectly (Act, 1994, Article 3, paragraph 1, point 32):

a) social activities;

b) the disposal of fixed assets, fixed assets under construction and intangible and legal assets;

c) maintaining real estate and intangible assets included in the investment, including the updating of the value of these investments, as well as their reclassification to fixed assets and intangible assets, if the market value or otherwise determined fair value was used to value the investment;

d) writing-off of receivables redeemed, overdue debts or non-collectible debts with the exception of non-payable public liabilities;

e) damages and penalties;

f) receiving, free of charge, including donation of assets, including cash for other purposes than subsidies for selling prices, acquisition or production of fixed as-
sets, fixed assets under construction or intangible and legal assets;
g) random events.

Column 8 relates to revenue from financial operations, mainly due to received interest and positive exchange differences.

The total amount of revenue recorded in columns 6, 7 and 8 should be entered in Column 9.

Columns 10 to 17 are intended for prime costs (Szczyapa, 2014, pp. 170–173).

Column 10 is used to post depreciation write-offs for fixed assets and intangible assets calculated according to each method, including one-off depreciation. This column should be linked to additional records of fixed assets and intangible and legal assets.

Column 11 is used to record consumption, of e.g. basic materials, auxiliary materials, semi-finished products, non-returnable packaging; energy, gas, water, purchase of professional magazines.

Column 12 is used for services provided by other entities, including transport, renovation and equipment services; letting and leasing, telecommunications, postal services, property supervision, accountancy, banking and consultancy.

Column 13 includes mainly: real estate tax, VAT not deductible, excise tax, tax on transport means, waste storage fee, product charge, municipal fees, stamp duty fees, court fees and notarial fees.

Remuneration is the basic cost for the employer. Therefore, column 14 is meant for gross remuneration paid to employees (in cash and in kind) based on a contract of employment or a civil law contract. The entry is made on the basis of a payroll or other document of the labor cost. This column should be correlated with additional records of employees’ revenues.

Column 15 is used to register mainly social insurance contributions financed by the employer and other employee benefits constituting non-wage labor costs, such as: medical examination costs, employee training costs, protective clothing and work clothes costs.

Column 16 should include costs related to the value of goods and materials sold at the acquisition price or purchase price. These are costs commensurate with basic revenues (column 6), if the main activity is, for example, trade.

Column 17 is meant for accounting other types of costs, such as travel expenses, representation and advertising or property insurance costs.

Column 18 is the total amount of costs shown in columns from 10 to 17.

Column 19 relates to other operating expenses. Similarly to column 7, the following are eligible, e.g. costs of disposal of fixed assets, costs of expired receivables, costs of random events.

In column 20 the costs of financial operations, e.g. the costs of interest on a loan taken out for running a business, costs of negative exchange differences are recorded.

Column 21 is the amount of all costs, the sum of the columns 18, 19 and 20.

Column 22 is blank. In this column it is possible to determine which costs constitute the costs of manufacturing a work product, e.g. MC – given cost is an element
of the manufacturing cost or AC – an activated cost. The costs of research and development activities are also recorded here. In this column you can enter other business events, except those mentioned earlier.

Column 23 is intended for comments on the content of entries in columns 1–22, e.g. anomalies regarding the date of the business operation and the ordinal number. This column can also be used, e.g. to enter advances made for personal income tax.

After the end of the accounting period (month), entries made in that month should be highlighted, and the data from the columns should be added up. The difference in value between column 9 “Total revenue” and column 21 “Total costs” is the financial result and/or taxable income.

Conclusions

The above considerations lead to the following conclusions:

1. There is no simplified mandatory form of records that would meet all the information needs of external recipients, including fiscal authorities and internal recipients, e.g. the owner of the enterprise.
2. The currently applicable simplified record formula contains semantic errors.
3. Blocked costs in column 13 “Other costs” distort a true and clear picture of the business costs.
4. Records should provide information on the economic content generated by using accounting devices, including books.
5. Records of prime costs according to the classic costs by type system enables comparability of information on costs in cross-section of various industries or reporting periods. The costs by type system makes it possible to answer the question – what was the cost in the company?
6. The book of revenue and costs is not a perfect device.
7. From the point of view of a small entrepreneur, relevant information is the information on income and outcome and the balance on a bank account. Should the evolution go in the direction of the cash accounting method and records of business transactions only at cash register and in bank accounts?

According to Jaworski (2012, p. 205), two opinion trends currently exist as to the modification of the form of tax records:

a) the use of extensive recording systems in the small enterprise sector is unnecessary; small companies should concentrate on the technical side of their business by controlling the smallest amount of financial parameters;
b) the financial management plays a key role in the functioning of small enterprises, and they should apply recording systems covered by developed standards ensuring information security of making key economic decisions.
It is certain that without proper records of revenue and costs, it is difficult to obtain reliable information, not only in order to make decisions, but also to pay public and legal obligations.

According to Gierusz (2005, p. 232), the information created by accounting should be characterized by utility, and that means: intelligibility, relevance, reliability, as well as comparability.

References


KSIĘGA PRZYCHODÓW I KOSZTÓW – EWOLUCJA UPROSZCZONEJ FORMY EWIDENCYJNEJ

Słowa kluczowe: ewidencja, koszty, przychody, księga, rachunkowość

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Rezultat: Analiza zagadnienia pozwoliła na krytykę dotychczasowej formy ewidencyjnej oraz prezentację zmodyfikowanej księgi przychodów i kosztów.

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