

Record keeping for individual entrepreneurs in the Czech Republic

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Abstract: *The role of individual entrepreneurs is irreplaceable in every market economy. This group of entrepreneur's acts as a competitor in relation to monopolistic market players, as they are usually quicker and more agile in response to changes in demand. The entrepreneurial activity of individuals can be recorded according to current Czech legislation on the basis of accrual accounting or tax accounting. Both systems serve to capture information about the business and subsequently become an important basis for decision-making. The article uses scientific methods mainly analysis, synthesis and comparison for recognition of these two systems. The questionnaire survey examines the administrative complexity of these systems and the factors that affect entrepreneurs in selecting a system of recording of economic transactions. In choosing a system the most important factors include tax optimization, legislative regulation and administration costs. Respondents are aware of the benefits of tax accounting and accrual accounting. Data do not provide a statistically significant difference in responses between respondents.*

Keywords: Tax Accounting, Accrual Accounting, Entrepreneur, Comparison.

JEL codes: M 41

1 Introduction

Before asking whether to keep accrual accounting or tax accounting, there are a number of start-ups as well as functioning business entities. Business activity is recorded in any case, but some subjects may voluntarily decide whether to keep tax accounting or accrual accounting based on certain criteria. On the other hand, certain entities are required by law to direct accrual accounting. Tax accounting differs from accrual accounting in many ways. Differences can be found mainly in the area of legislation, the form of recording of economic phenomena, in the temporal distinction between individual systems and differences in the determination of tax base and tax liability. The ability to choose of tax accounting as a factor in the decision on legal form is examined by the authors (Bergner and Heckemeyer 2017).

Tax accounting are similar to canceled single-entry accounting, but its content is relatively simplified. Legislative regulation of tax accounting passed from accounting regulations into the Income Tax Act, specifically into §7b. The aim of tax accounting is therefore to provide the necessary data to determine the income tax base and is intended for entities that are not entities.

According to (Cardová, 2010) the key feature of tax accounting is that it is based on a monetary basis. This means that it captures economic operations only at the time of cash flow movements. Pursuant to Section 7b of the Income Tax Act, the main task of tax accounting is to provide information on income and expenditure, that is, the actual inflow or outflow of funds in the cash register or on the current account of a business entity. (Pilátová, 2016) emphasizes that income and expenses of monetary and non-monetary nature, precisely defined by the Income Tax Act, are recorded in tax accounting.

If the tax accounting are kept on an ongoing basis, it has another meaning as it provides an overview of the state and movement of the entrepreneur's assets and liabilities. Tax accounting are suitable for economic decision-making and create an overview of the financial condition of the entrepreneur (Dušek and Sedláček, 2016). However, the specific form of tax accounting is not stipulated by any regulation or order, but in terms of defining the content of individual components of assets and liabilities in tax accounting, reference is made to accounting regulations. As a result, tax accounting represent lower administrative costs, lower knowledge requirements, and the possibility to optimize economic results. The importance of tax and accounting compliance costs is examined by authors (Keasey and Short, 1990), (Blaufus et al., 2014).

The authors (Bergner and Heckemeyer, 2017) state that, most European countries provide simplified, cash-based rules of tax accounting for small firms that considerably deviate from their general accrual accounting rules.

The basic and fundamental legal regulation for accrual accounting is Act No. 563/1991 Coll. on the Accounting. The law requires entities to keep accounting books in a complete, correct and conclusive manner so that they fairly and faithfully portray the facts that are the subject of the book. Furthermore, they are implementing decrees that extend certain provisions of the Act and Czech Accounting Standards, which elaborate in detail the provisions of the Decrees.

Accrual accounting as a whole, providing information on the status and movement of assets, sources of financing, costs and revenues related to the determination of economic results. An important advantage of accounting against tax records is the fact that it provides much more detailed information about business performance. The author (Waniak, 2017) investigate whether tax accounting is a barrier to access financing resources. The tax base is determined in the accounting as the difference between revenues and costs. Entities are required to record facts using accounting documents. These facts, which are the subject of accounting, are identified in accounting cases and recorded in the books, 1) general ledger - where accounting cases are recorded in kind, 2) diary - where accounting cases are arranged chronologically.

The aim of this paper is to identify factors influencing respondents in the selection of a suitable system for recording economic phenomena. The partial goal is to find out what the importance of respondents attach to the choice of system when starting a business and what benefits they see in keeping tax accounting and accrual accounting. Furthermore, it is examined whether the answers of the groups of respondents differ.

2 Methodology and Data

For the purposes of quantitative data acquisition, a questionnaire survey was conducted using mail correspondence. The questionnaire was intended for two groups of respondents from the Vysočina Region. The first group of respondents consisted of entrepreneurs; the second group consisted of accountants. In terms of the number of respondents addressed, the authors were led by an effort to ensure a sufficient sample representativeness. A total of 87 respondents answered the questionnaire, of which 38 were entrepreneurs and 49 were public accounting. The aim of the questionnaire survey is to determine the factors influencing respondents in choosing the appropriate system for recording economic phenomena. A total of eight factors were identified in the questionnaire survey. Respondents had the opportunity to add a factor not listed. This option, no respondent used. The individual factors were evaluated using the 0 - 3 point scale, when the respondent was asked to choose whether the importance level for the given factor was high (3) or none (0). To test the importance of individual factors, a t-test was used to test the bilateral hypothesis that the mean value of the factor was 1.5.

In addition, research questions were set: 1) the importance of respondents to choosing the system at start-up, 2) what main advantages they see in keeping tax accounting, and 3) what main advantages they see in accrual accounting.

At the same time, the following hypotheses were set in the evaluation of selected questions:

H1: The importance of selecting a registration system when starting a business is equally important for both groups of respondents.

H2: The perception of the advantages of tax accounting is comparable for both groups of respondents.

H3: The perception of the priority of accrual accounting is comparable for both groups of respondents.

To evaluate hypotheses was tested using a goodness of fit test using Pearson's chi-square a significance level of $\alpha = 0.05$.

3 Results and Discussion

Factors influencing the respondent in selecting the system for recording economic phenomena were based on theoretical basis. The following table 1 provides the order of the individual factors from the most significant to the least significant, including descriptive characteristics.

Table 1 The factors influencing respondent when making decisions about selecting the system

Factor	Level of importance (%)				Average	t-test	p-value
	None 0	Low 1	Medium 2	High 3			
Possibilities of tax optimization	8,1%	13.7%	20.7%	57.5%	2,28	7.4	0.00
Legislative regulation	8.0%	11.5%	27.6%	52.9%	2,25	7.4	0.00
Administration costs	6.9%	18.4%	19.5%	55.2%	2,23	6.9	0.00
Difficulty in determining the trading result	8.1%	12.6%	37.9%	41.4%	2,13	6.3	0.00
Administrative complexity in identifying trading operations	11.5%	21.9%	36.8%	29.9%	1,85	3.3	0.00
Providing detailed information about business performance	14.9%	19.5%	31.0%	34.5%	1,85	3.1	0.00
The relationship between trading result and performance	19.6%	22.9%	29.9%	27.6%	1,66	1.3	0.19
Existence of limitation of system use	18.5%	37.9%	22.9%	20.7%	1,46	0.4	0.71

Source: authors' calculation

The data in the table shows that respondents consider a wide range of factors when choosing a system and there is no factor that would not be relevant to the respondent. These factors can be divided into two groups, factors that directly impact costs and factors that affect administrative burdens. The most significant of the eight factors that have been

investigated, respondents have identified the following as the most significant factors: Possibility to optimize tax base, Legislative regulation, Administration cost and Difficulty in determining the trading result. Conversely, the least significant and statistically insignificant factors are: The relationship between trading result and performance and the existence of limitation of system use.

Table 2 provides the answers to the first research question: What importance do the respondents attach to the choice of system when starting a business. The answers to this question also served to evaluate the first hypothesis.

Table 2 The frequency of answers to the research question number 1 and testing hypothesis H1

Answer	A novice entrepreneur with no experience should contact the experts and their advice	A novice entrepreneur can do with tax accounting	Significant, inappropriate selection can cost considerable money in the future	I do not see a fundamental difference between systems	Total
Entrepreneur	27	3	7	5	42
Accountant	29	5	11	0	45
Total	56	8	18	5	87

Source: authors' calculation

The frequency of responses suggests that a start-up entrepreneur should take into account the system to record economic phenomena. The most unambiguous response was the answer: A novice entrepreneur with no experience should contact the experts and their advice on 64.4% of the answers. The second most common answer with 20.7% was the possibility that: Significant, inappropriate choices can cost considerable funds in the future.

At the same time, the answers were used to evaluate Hypothesis 1. To compare the significance level with the ch-square ($\chi^2_3 = 6.36$, $p=0.09$) test value, the null hypothesis was not rejected

Table 3 provides the answers to the second research question: What are the main advantages of tax records.

Table 3 The frequency of answers to the research question number 2 and testing hypothesis H2

Answer	Less time for processing	less demanding on knowledge and management	I do not see significant advantages of tax accounting over accrual accounting	I can not judge	Total
Entrepreneur	18	13	6	9	46
Accountant	20	16	4	1	41
Total	38	29	10	10	87

Source: authors' calculation

Most responses received the answer: Less time for processing time of 43.7% and lower demands on knowledge and management with 33.34% answers. 22.9% of respondents fail to assess or see any advantages over accounting.

At the same time, the answers were used to evaluate Hypothesis 2. To compare the significance level with the ch-square ($\chi^2_3 = 6.95$, $p=0.07$) test value, the null hypothesis was not rejected.

Table 4 provides the frequency of answers to the third research question: What are the main advantages of accounting against tax records.

Table 4 The frequency of answers to the research question number 3 and testing hypothesis H3

Answer	accounting enables reliable comparison with other companies	provides reliable information to manage your business	I can not judge	I do not see significant advantages of accrual accounting over tax accounting	Total
Entrepreneur	9	24	2	3	38
Accountant	14	30	1	4	49
Total	23	54	3	7	87

Source: authors' calculation

The most frequent answers were: provides reliable information to manage your business (62.1% answers) and accounting enables reliable comparison with other companies with a lower level of knowledge and administration with 26.4% answers.

At the same time, the answers were used to evaluate Hypothesis 3. To compare the significance level with the ch-square ($\chi^2_3 = 0.85$, $p=0.83$) test value, the null hypothesis was not rejected.

4 Conclusions

Entrepreneurs are aware of the importance of deciding what method of recording economic phenomena, when starting a business activity to choose.

The factors influencing the choice of the system are predominantly financial factors, where respondents prefer the possibility of optimizing the tax base and administration costs. In keeping tax records, the scope for tax optimization is primarily in the form of deferral of tax liability greater than bookkeeping. This applies mainly to the areas of frontloading, acquisition of intangible assets and payments of advances received. When maintaining tax records, payment of these items becomes tax expense at the moment of payment, regardless of the moment of actual consumption. The costs are also related to the administrative costs associated with the chosen form of registration. It is clear that the accounting in terms of the extent of knowledge and the extent of recording economic phenomena will be more costly from the tax records.

Respondents are aware of the main advantage of tax accounting, which consists primarily in time savings in processing and lower demands on knowledge and management of administration. In the case of accrual accounting, respondents consider the main advantage to be reliable information needed to manage the company and the possibility of reliable comparison with other companies. Data did not provides a statistically significant difference in responses between the two groups.

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