

The Analysis of the Accounting and Fiscal Policies Impact on the Performance of a Private Medical Center

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ABSTRACT

Since the early 2000s private healthcare services market in Romania experienced a significant increase from year to year new entities emerging on the market and now the medical services market in Romania is a booming sector, amid the illness of population at younger ages. During this conjuncture one must consider the impact of risk factors from the external environment of these economic entities, including of watery legislation, which creates the possibility of removing many companies from the medical market without taking into account that behind them there are people, families and destinies.

For the management of medical companies there are three types of activities on accounting and taxation that must be carried and which involve liability under the law, namely: (i) ensuring the organization and management of accounting so that it fully respects the legal provisions regarding the recording, analysis and data processing and the provision of information necessary for the company management; (ii) analyzing the data and information provided by financial accounting, taking decisions required, the pursuit thereof and making the necessary corrections in time (iii) planning and carrying out a detailed analysis of the effects arising from differences between accounting and tax rules and, on this basis, designing and implementing the most appropriate accounting and fiscal policies while ensuring full compliance with the law.

1. Presentation of Sanatatea Medical Centre

S.C. Centrul Medical Sănătatea S.R.L. was established in 2002 and is placed under the laws in the SME category. It performs its activity strictly in healthcare services field across Bucharest. Ownership is private, the capital is entirely Romanian with three associates one being the majority. The legal form is "limited liability company" currently having 30 employees, of which about 85% are directly involved in the medical process.

The company has been recently re-accredited during 2015 by RENAR to pay the equivalent of medical tests for persons insured by the Health Insurance House of Bucharest on the basis of the standard contract existing between the 2 parties. In addition the company settles to the Health Insurance House of Bucharest the consultations of the insured persons for the following specialties: pediatrics, ENT, endocrinology, surgery and dermatology.

These settlements are based on another standard contract between the two parties. In addition the company also realizes income with payment from both individuals for the tests with payment which is not settled by the Health Insurance House of Bucharest and from businesses for occupational health services for their employees in accordance with the relevant legal regulations.

According to the fiscal status, the company calculates and pays income tax to the state budget. It is determined and declared cumulatively quarterly at the beginning of each financial year separately and its final annual value is declared by March 25 of the following year by statement 101 - "Statement on income tax"

The turnover of the company is focused on two components. The largest share of the annual turnover is given by the proceeds from the settlement of medical services by the Health Insurance House of Bucharest for instance for the financial year of 2014 is of 87.03%.

The Company prepared for 2014 abbreviated financial statements with 3 components (*balance sheet, profit and loss account, explanatory notes to the annual financial statements*) according to the table below:

Table 1: Determining the type of financial statements

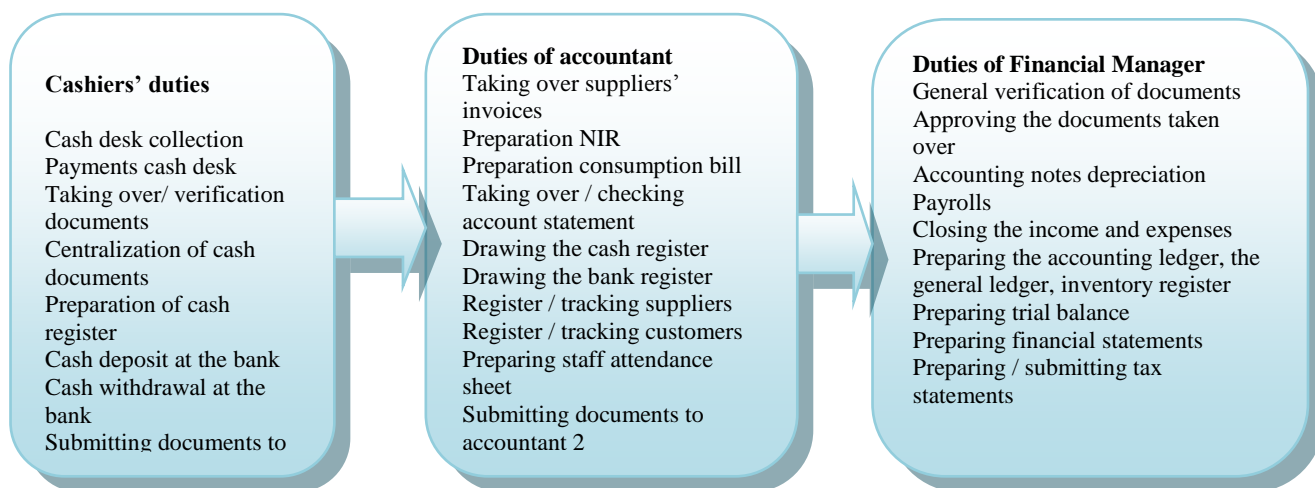
Indicators Order 3055/2009	Size criteria	Entity indicators 2013	Entity indicators 2014
0	1	2	3
Total assets	3,650,000 Euro	657,704 Lei	878,716 Lei
Turnover	7,300,000 Euro	1,578,798 Lei	1,888,953 Lei
Number of employees	49	36	38

All the company's income is exempt from VAT without deductibility right, according to Article 141 paragraph (1) letter a) of the Tax Code "*hospitalization, medical care and operations closely linked to them carried out by units authorized for such activities, irrespective of the organization, form such as: hospitals, nursing homes, rural or urban health centres, clinics, surgeries and medical laboratories, medical care and diagnostic centres, treatment and recovery facilities, rescue stations and other units authorized to carry out such activities.*"

2. Circulation of accounting documents within the company

Although there are working procedures regarding the circulation of accounting documents within the company, from the moment of taking over primary documents by the cashier until they are handed over to accountant, however there are situations in which these procedures are not respected in practice. More specifically, the cashier assumes liabilities which exceed the duties included in the job description, such as retrieving invoices from suppliers and subsequent settlement through bank account, preparing invoices for services provided to customers etc. This situation can be interpreted as an anomaly at the entity level, a possible cause being the deficient delegation of powers or the general management involvement in resolving differences of opinion in its favour.

Simplified the workflow within the company from input until their verification by the head of the economic department can be represented as follows:



Graphic 1: The route of supporting documents

3. Accounting and fiscal producers within Sanatatea Medical Centre

3.1. Accounting and fiscal policies regarding on long-term loans

The accounting treatment applied to long-term loans is erroneous because the account used for highlighting them in the accounts is 167 and not 1621 as stated in the chart of accounts. The interest recorded in the payment schedule is registered in error on account 167 and not 1682 as stated in the chart of accounts.

The expenses with interest are recorded correctly in the accounts in account 666 and are recognized according to the payment schedule upon the payment of each instalment.

The expenses with interest are fully deductible from a tax perspective because the loan is contracted from a banking unit accredited by NBR.

3.2. Fiscal and accounting policies relating to fixed assets

Fixed assets are acquired to generate income in order to meet the purpose of the company.

The main accounting policies have in mind that: (i) the initial assessment of assets is carried at the purchase cost which includes VAT as the company performs activities exempt from the payment of tax under Article 141 of the Tax Code; (ii) the depreciable amount is given by the purchase cost; (iii) the amortization method is the linear one both from a fiscal and from an accounting perspective, as there are differences between the monthly amount of accounting and the amount of fiscal amortization.

The expenses subsequent to initial recognition are accounted for based on the expenses of the period in which the costs were incurred as they represent current repairs and not repairs leading to an increase in the economic and technical parameters.

In the balance sheet of the company the accumulated amortization cumulated since the commissioning of each tangible asset is marked with (-). Depreciation expense is recognized in the CPP in adjustments and is tax deductible under Article 21, paragraph (2) in conjunction with Article 24 paragraph (15) of the Tax Code, as tax depreciation is the one deducted in calculating the taxable income.

3.3. Accounting and fiscal policies on stocks

The evaluation at the input of the *stocks of reagents and medical equipment* is made at the acquisition cost which includes VAT. The evaluation at the output of stocks of reagents and

medical supplies is done at acquisition cost by FIFO method. For stocks of reagents (raw materials necessary to perform tests) and other medical supplies (supplies such as stocks necessary to achieve collection, treatment, consultation) the Company uses an erroneous accounting treatment as they are used the day they enter in fact and are recognized on the basis of expenses in account 604 on un-stocked supplies.

A correct accounting treatment applied to the stocks of reagents and medical supplies would be their registration in the stock accounts 301 and 3028 upon entry into the company and their recognition based on the expenses in accounts 601 and 6028 accounts gradually at the time of actual consumption.

Accounting for stocks of reagents is done by using perpetual inventory.

From a fiscal perspective the immediate recognition of stocks of reagents and medical supplies on the basis of expenses distorts the amount of the profit taxable and hence of the calculated income tax downside, because when determination is made the expenses of the period are recognized in a wrong way at a greater value.

With respect to inventory objects, because the company is VAT exempted, the cost of inventories objects stocks includes VAT from the invoices received from suppliers.

Inventory items stocks are given for use at the entry into the company and the evaluation at output is made based on the purchase cost.

Accounting for inventory stocks is conducted using the perpetual inventory, the identifying method being the specific one.

The balance sheet assessment is made on the basis of the purchase cost, without having to require the use of the net realizable value.

Expenses on materials such as inventory objects are fully deductible under Article 21 paragraph (1) of the Tax Code as they are purchased in order to achieve revenue according to the object of the company.

3.4. Fiscal and accounting policies relating to claims

Claims are shown in the accounts in analytical accounts for each client.

Evaluation at the input of claims is made at the price shown on the invoice. Claims are settled by their receipt from the customer via bank account or through settlement through cashier's office and are evaluated at the output at the value recorded in the statement or in the receipt / tax receipts received from the customer.

During the inventory the payment balance of each customer is verified by written statement stamped and signed.

During the qualitative and quantitative inventory of claims the risk of not collecting receivables for uncertain customers not recorded. This is made on the basis of an adjustment for the depreciation of the trade claim. The correct accounting treatment would be at the moment of inventory for the trade claims of customers who have problems in their payment to be accounted in the account 4118 "Doubtful or disputed customers" and for the value of receivables to be collected from them to record their depreciation with the respective value by the recognition of an operating expense regarding the adjustments for the depreciation of current assets.

Form a fiscal perspective the expense with depreciation is deductible in a limited manner in the amount of 30% of the size of the claim, according to Article 22, paragraph (1) letter c) of the Fiscal Code. Basically in calculating the taxable income the company could by means of a correct accounting treatment to dispose of a decrease and implicitly pay a lower income tax by recognizing the expenses deductible with depreciation for 30% of the amount of claims. In the balance sheet claims are recognized at the values recorded in the invoice. The net realizable value is not used.

3.5. Fiscal and accounting policies relating to debts

Debts to suppliers are recorded in accounting in analytical accounts for each one. The evaluation at the input of debts is made at the price shown on the invoice which contains VAT.

The debts are settled if they are paid to the supplier by means of a bank account or by settling by cashier's office and are evaluated at the output based on the value recorded in the statement or on the tax receipt received from the supplier.

At the time of the inventory the debts of the providers are evaluated based on the value registered in the invoices and unpaid. Unpaid balances for each provider is checked including by written confirmation, signed and stamped received from them.

Debts to state budget on taxes, and fees are assessed at their constitution on the basis of the Fiscal Code provisions for each.

Debt settlement takes place at the effective time of payment by money order or settlement at the cashier's office of the company in some cases.

For the payment of debts to the state budget exceeding the period covered by the law penalties and interest payments are charged. They are recognized on the basis of accounting expenses upon receipt of the tax decision and are non-deductible expenses according to Article 21, paragraph (4) letter b) of the Tax Code.

3.6. Accounting policies and related to treasury

The evaluation of available cash in bank accounts and in the company's cashier's office is made based on existing balances in the statements and in the cash register. At the time of the inventory the correctness on existing balances is pursued. Thus, the value of the balances recorded in the financial statements must comply with the one existing in account statements and cash register.

3.7. Fiscal and accounting policies related to expenses

Company's expenses are made in over 80% of staff salaries and related taxes calculated upon it, the materials and reagents necessary to accomplish the purpose of medical activity and health services.

In accounting expenses are recognized most often in the period in which they are performed and are connected to related revenues.

In case of the expenses with reagents and medical supplies they are not recognize to the extent of consumption of such stocks but when entering the unit, this fact distorting the determined value of tax income by reducing it.

For expenditure relating to the medical services provided work reports are not always attached to invoices. According to the Methodological Norms of the Fiscal Code for Article 21 paragraph (4) letter m) in case of a control of the treasury they can be considered at least non-deductible.

When calculating the income tax the non-deductible expenses are taken into account or with reduced deductibility provided for in the Tax Code.

The calculation of income tax is not highlighted in the register of tax under the Rules of Fiscal Code applied to Article 19, paragraph 15.

Sometimes certain expenditure with reduced deductibility are considered totally non-deductible without having to take account of the provisions of the Tax Code on them, this fact

leading to an erroneous determination of the taxable income in the sense of overvaluation and therefore to the payment of a higher income tax.

For expenditure on fuel, car repairs and other expenses related to the car company, the company should consider deductible 50% of their amount and the remaining 50% should be considered advantages of salary nature for which contributions and tax should be calculated under Tax Code, Article 55, and paragraph (3).

3.8. Accounting and fiscal policies related to income

Turnover is made up of 100% of income from medical services. Revenues are recognized in accounting at the time of their realization on the basis of medical services provided

The amount of revenue settled by C.A.S.M.B. is determined based on the basis of the prices existing in the contract between the 2 parties, while the amount of revenue for occupational health services is determined based on the charges stipulated in the contract and the value of revenue from paid services is determined on the basis of rates value from the price lists.

Revenue from medical services provision is taxable under the Fiscal Code, Title II. In summary, accounting policies and treatments related to the expenditure and revenue target:

a) **Documentation:** represents all documentation relating to the accounting record. Example: contracts, invoices, work report, accompanying notice, N.R.C.D., entry into service voucher, etc.

b) **Evaluation:** documents based on which they income or expenditure were determined. They must match the writings in contracts, bills, work reports, time sheets and payroll, bank statements, settlement bills etc.

c) **Recognition in the financial statements:** True and accurate recognition in the financial statements in accordance with accounting principles which should be the existing letter of the law within each entity.

Notes - relevant details pertaining to the appearance of each activity and which in future should provide a basis for those who take over the accounting activity or for those which can check it.

Policies and fiscal treatments:

a) Accounts analysis: Accurate analysis of each account, income or expenses for each type of activity partly based on existing tax legislation in Romania, in this case on the Fiscal Code governed by Law 571/2003.

b) Declarative obligations /taking over fiscal statements: Declarative obligations provided by the Fiscal Code which may be the same in certain circumstances but may be different depending on the field of activity.

4. Instead of conclusions

To know the situation from an operative perspective and ensure the possibility of an appropriate intervention to harmonize the functioning of the entity analyzed, we believe that a key factor in maintaining the company on the medical services market is the responsibility of management for the creation and updating of all the changes occurred in the accounting and fiscal in the field. However, a prerequisite is the existence of organizational support of the exploitation of sources of information, and as shown in Figure 1:

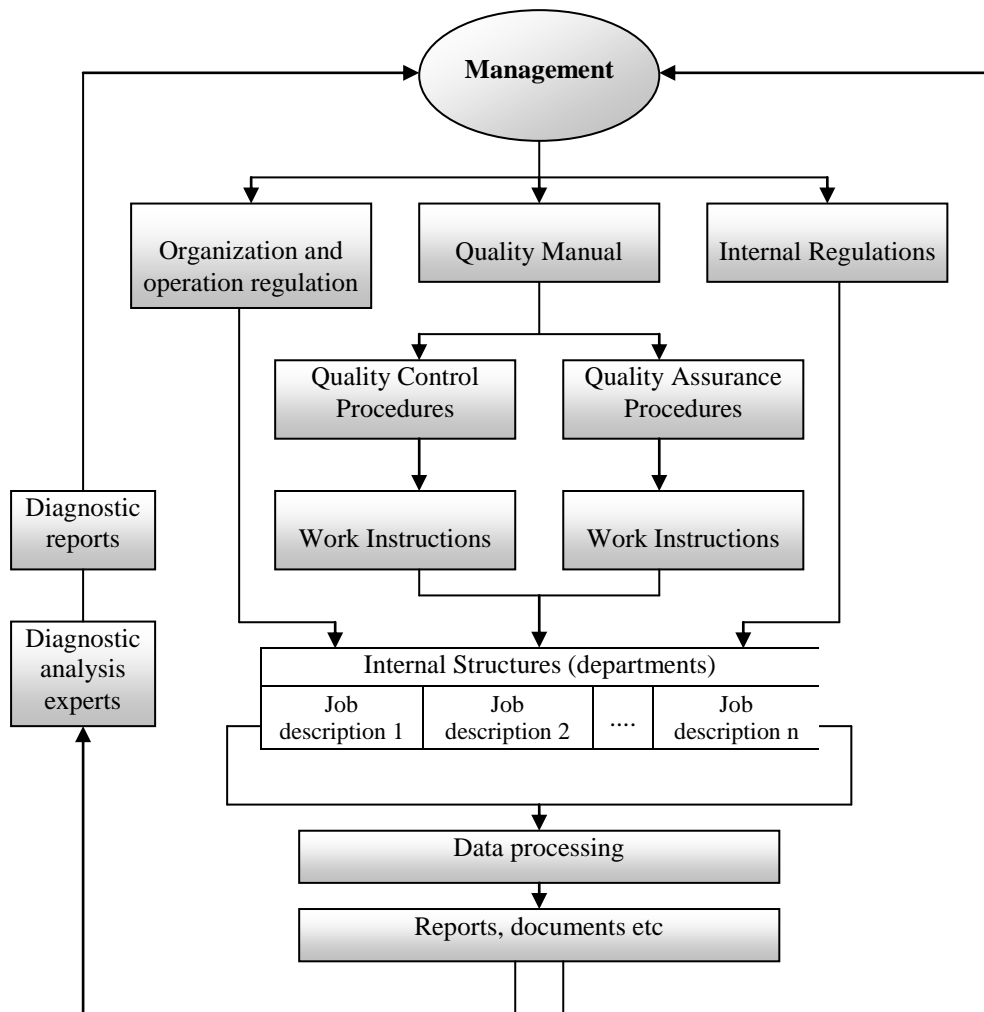


Figure 1: Organizational support of the exploitation of sources of information

One can see the relationship between the sources of information, management and experts engaged in diagnostic analyses. This implies the existence of a well-organized system, each activity being based on procedures and work instructions that are found (in the parts concerning them) in the job description of every employee. In this way, the sources of information can ensure the proper quality, quantity of information and the set deadline.

The issues related to accounting-tax-management relationship in a medical entity should be reflected in each element of the structure shown in Fig.1, starting from three basic rules, in procedures and work instructions and even in the Job description of every employee. Only through such a mechanism, the management can ensure all the conditions of the rhythmic, timely and quality development of all activities, including in accounting.

In our opinion, the quality of the management act is closely related to that of man-manager, a leader in the true sense, imposing him/herself through decision in accordance with the law, by attitude and especially by what he/she teaches others, whose future may depend on his/her decisions.

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