THE FINANCIAL PERFORMANCE' POSITIVE ELEMENT IN LEGISLATION OF SPAIN

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ABSTRACT

This paper aims to understand how Spain's business law approaches the companies financial performance's positive element. For this purpose, the study analyses the most pertinent business legislation, to identify legal dispositions, national, and international ones, that deals with the income concept. Internationally, it examines the International Accounting Standards (IAS) and the Conceptual Framework of the International Accounting Standard Board (IASB). In national domains, it analyses the Commerce Code (CC), the national accounting rules, and the corporate income tax law (CIT). The results show that, in order to European accounting harmonization, Spain adopts international accounting rules. In the internal domains, the business legislator was extensive because it expressly established the concept of income, not only in accounting law but also in commerce law. In the tax dimensions, the lawmaker assumes the concept implicitly when accepts the accounting profit as the bases for legal person's income tax determination. This research highpoint the Spanish practice in the process of economic concepts' business national laws incorporation. States can see Spain's knowledge. It keeps them resources and time. Although the relevance of the search, it treats only the Spanish experience.

Keywords: Spain, Accounting, Financial Performance, Income.

INTRODUCTION

The business finances' accompaniment is essential for the company's success. Proper management helps to ensure resources' availability to meet commitments and to make investments. Director's economic decisions must take into consideration financial data. The IASB Conceptual framework states that, frequently, companies' performance measure is the profit. It adds that elements directly related to profit's measurement are the expenses and incomes (Melville, 2015). However, the profit determined under accounting rules is relevant, not only to the economy and financial dimensions but also taxation's ones. In the last decades, the CIT law of several tax jurisdictions assumed the accounting profit as the starting point for the taxable base of companies' income tax (Berliri, 1964). Thus, scholars are continuing to be interested in studying the concept, especially regarding its application in European Union member states' national laws. Because of it, there are several recent research papers, analysing the company's performance (Halina et al., 2018; Lin et al., 2019; Saliba de Oliveira et al., 2018; Ye et al., 2019). Therefore, although the multiples papers about companies' financial performance, the issue still is underexplored, and to the best of our information, there are no studies about the Spanish case. In particular, there is a need to understand better how Spanish law approaches income as the positive element of entities' financial performance. This research attends this gap by studying the legal rules that approach the issue of income in Spain. The research question attempted by the research paper is: How the business law of Spain approaches the financial performance's positive element? For this purpose, it examines the most pertinent Spanish law norms. Four sections compose this document. In the first, the introduction, second, it presents a

Citation Information: Aldeia, S.C.R. (2019). The Financial Performance' Positive Element in Legislation of Spain. *Journal of Entrepreneurship Education, 22*(6).

literature' review. Then, it treats the income as a financial performance element in Spanish legislation. Finally, in the fourth section, the conclusions.

REVIEW LITERATURE

The study of the accounting profits' determination implies a critical study of each element. For this, it is necessary to understand, in particular, the accounting's incomes and expenses concept and their division by classes. This insight allows for understanding better tax correction in the CIT in order to fix the corporations' taxable income (González et al., 2000). It cannot confuse revenue with input. A receipt constitutes an input but may not be an income. The same for spending, it cannot confuse output with the expense, because payment is an outflow but may not be an expense. Both elements make up the legal entities' wealth flow, increasing or decreasing their economic dimension (Machado, 2006). These two components change the heritage's composition and value; those are the equity's modifying facts (Borges et al., 2010). The financial position's statement reflects the equity's variation at the end of each year in the equity's heading. This result derives from the difference between income and expenses, the income implies a positive alteration, and the expense infers a negative modification. The positive change in equity, following an increase in net income for the year, the company had an income. The negative change in equity, following a decrease in the year's income, the company had an expense (Monteiro, 2013). According to Pascual & Zamora (1998), the income or expense's recognition implies some requirements' fulfilment. It means a) the accounting conditions; b) the imputation criteria to results or temporal imputation; c) the recordation amount that is the valuation; d) the classification. All these conditions, the companies result's determination. Accounting recognition is the process of the annual accounts' elements incorporation in the balance sheet and other financial statements (García Fernández, 2000). The conceptual framework's accounting recognition criteria allows answering the questions of when and how the company's financial statements incorporate the assets, liabilities, or variations (Deegan, 2016).

In this conceptual framework, this research aims to address one question: How the business law of Spain integrates the financial performance's positive element? In order to answer this question, the research analyses legal dispositions European Community's country, which means from the country of the Iberian Peninsula. It includes some data sources of Spain: The Commerce Code, the Accounting Law, and Corporate Income Tax Law.

THE POSITIVE ELEMENT: THE INCOME

Gomes (1961), in the economic and financial dictionary, clarifies the concept of income[1]; in its words, it is the value of the business done in cash or the importance received. Although, several situations contradict this definition, namely, an amount received as a liability or a loan and the amounts received for third parties. However, a value may be an income without actually being received. Machado (2006) reinforces the same idea, adding that an amount may constitute income without actually being received. In short, only income contributes positively to equity formation (Walther, 2017). Accounting literature presents several definitions of the same concept, which are not always mutually exclusive. Pascual & Zamora (1998) defend some definitions that emphasize the income's content, the valuation criteria, the moment of its recognition, and others. The Commerce Code-Código de Comercio (CC) clarifies the income

[1]In the Spanish language–*"ingresso."*

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concept. According to article 36.2.b) of CC, incomes are the increases in net equity of the company during the exercise, it can be in the form of inflows or increases in the value of assets, the decreasing of liabilities, always that they do not have their origins in contributions, monetary or not, of shareholders or owners.

In the same way, the Spanish Accounting Law-Plan General de Contabilidad (PGC), presents a similar income concept in paragraph four of PGC's Conceptual Framework. This definition assumes the IASB income definition, and it includes both income classes, the ordinary income, and the gains (Melville, 2015). The ordinary income arises in the development of an entity's ordinary activities; they include sales, fees, interest, dividends, rents, and others. The gains are other revenues that fulfil the definition of income, may or may not arise from the ordinary activities carried out by the company. They presuppose increases in economic benefits, they are similar, in nature, from ordinary incomes (Berman et al., 2013), it is the case of incomes by selling non-current assets. The income's definition also includes unrealized gains, for example, those arising from the securities' revaluation or the increase of assets' value. Accounting recognition of income is provided for the International Accounting Standards (IAS) 18, because, according to it, the main concern in accounting for income is to determine when it should be recognized. Ordinary income is recognized when it is probable that future economic benefits will flow to the entity, and these benefits can be reliably valued. This standard identifies the circumstances under which these requirements are met for ordinary income to be recognized. They also provide practical guidelines for applying these criteria. The national accounting standard[2] establishes that the Accounting criteria or accounting recognition, foresees: the recognition of an income takes place as a result of an increase in the company's resources, and provided that its amount can be determined reliably (Amat et al., 2018). The same standard clarifies; additionally, the period's annuals accounts reflect incomes and expenses recorded under the accrual basis. There must be a correlation between the two elements where relevant (Constans, 2012). In this disposition, legislator makes an explicit reference to the accruals basis (Gadea, 2008; Julve et al., 1989). This concept shows essential at tax domains, also. The Spanish CIT law in article 10.3 assumes the net profit obtained under the accounting standards as a basis for corporate income tax's determination. With this legal disposition, tax legislator abdicated of establishing, expressly, the concept of the income, recognizing the accounting one as valid, although it imposes specific fiscal corrections predicted in the law. This option has to underlie the direct estimation regime, and it uses the accounting result as the magnitude to determine corporate taxable income (Figure 1).

[2] Conceptual Framework of PGC, section 5,

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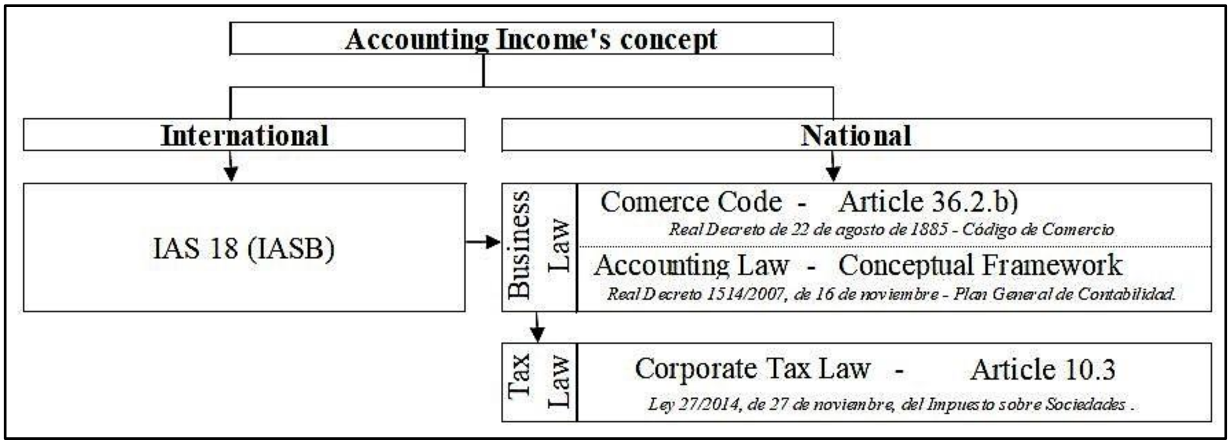

Source: Author

FIGURE 1
INCOME CONCEPT'S INTEGRATION IN SPANISH BUSINESS LEGISLATION

CONCLUSION

The paper's objective is the study of Spain's law and how it incorporates the financial performance's positive element. Results show that three dimensions constitute the company's flow: financial, economic, and cash. Talking about income represents to talk about the economic dimensions of corporate's flows. The business legislator was thorough with regards to the income concept because he expressly determines the concept of the income, not only in the accounting law but also in the Commerce Code. This concept has to underlie the definition predicted in the IASB conceptual framework because Spain assumed the international organization's standards, under the prediction of the European Accounting Harmonization. Thus, the positive element's process established in business legal dispositions is similar to the International Standards. Furthermore, in the tax sphere, the legislator of Spain assumes the accounting profit, and its elements (expenses and incomes), as lawful to represent the ability to pay income tax by companies.

This paper helps to understand better how internal law assumes international standards dispositions as national guidelines, analysing a relevant European economy as Spain. However, this document does the research only to one country, which constitutes a limitation. So, as future work could be interest in to examines other Europeans countries and understand the legislator's behaviour is the same.

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Citation Information: Aldeia, S.C.R. (2019). The Financial Performance' Positive Element in Legislation of Spain. *Journal of Entrepreneurship Education, 22*(6).