

Impact of New Income Guidelines on Enterprises

Yizhao Hong^{a,*}, Maiwen Hu^b

Nanjing University of Science and Technology, Nanjing 210000, China

^a562546551@qq.com, ^b840390323@qq.com

*Corresponding author

Keywords: New Revenue Criteria; Enterprise Impact; Five-step Income Recognition Model; Specific Measures

Abstract: With the acceleration of the process of global economic integration, it is objectively required that the accounting standards of various countries show the trend of internationalization convergence. In July 2017, the Ministry of Finance of China promulgated the revised Accounting Standards for Enterprises No. 14 - Income (hereinafter referred to as "New Income Standards"). The new revenue standards mainly adopt the strategy of step-by-step implementation: for enterprises listed both at home and abroad and those listed abroad and adopting IFRS or Enterprise Accounting Standards, the new revenue standards will be implemented from January 1, 2018; for other enterprises, the new revenue standards will be implemented gradually. Based on the elaboration of the transformation of the new revenue criteria in 2017, this paper puts forward the impact of the new revenue criteria in 2017 on enterprises from information systems, financial indicators and taxation to respond to the implementation of the new revenue criteria.

1. Introduction

As we all know, income is an important indicator to measure the scale of enterprise operation. It is the main reference factor for enterprise management to make internal decisions. It is also a big basis for many enterprises to measure their operating results and evaluate their performance. Therefore, the change of income criteria will have a profound and extensive impact on enterprises. This impact will not only be reflected in financial data, but also in all aspects of business management and decision-making, such as sales contract terms, salary and welfare plans, investment and financing arrangements, tax planning, information systems, etc.

On 28 May, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board of the United States jointly issued International Financial Reporting Standards No. 15, Income from Contracts with Clients. The new standards will be applied simultaneously with IFRS and GAAP. The convergence of these two accounting standards can improve the quality of information disclosure of financial statements and improve the data comparability between enterprises applying different standards. To maintain the new standards issued by IASB continuous convergence and in order to better solve the specific problems existing in the implementation of the current accounting standards for enterprises, the Ministry of Finance issued a letter on Soliciting Opinions on <Accounting Standards for Enterprises No. 14-Income (Revision) (Draft for Opinions)> (hereinafter referred to as "New Income Standards") on December 7, 2015. Although the new revenue standard is only a draft for comment at present, it reflects almost all the principles and requirements of IFRS No. 15 issued by the IFRS Board. Therefore, it is generally accepted that the basic principles of the new revenue standard published in the draft will not be significantly revised under the trend of convergence. [1]

At present, the accounting standards related to revenue recognition in China are Accounting Standards for Enterprises No. 14 - Income and Accounting Standards for Enterprises No. 15 - Construction Contract. These two standards were issued in 2006, which were consistent with the international accounting standards at that time, and the principle of revenue recognition in the

international accounting standards at that time was established in the 1980s. With the rapid development of China's economy, the emerging new industries and business models pose great challenges to the current revenue-related criteria. How to rationally and normatively identify revenue has become a major problem for many enterprises in emerging industries. Due to the absence of current accounting standards and application interpretations for many specific business accounting standards, many enterprises in practice have too high flexibility in revenue recognition methods. Similar transactions adopt different income recognition methods among different enterprises, which reduces the comparability of financial information and directly affects the interpretation of financial information by users of financial statements and the decisions made accordingly. The accuracy of the strategy. Therefore, in this context, the introduction of new income criteria is quite timely and meaningful.

2. Major Changes in the New Income Criteria

2.1 Revenue Recognition Procedures

Compared with the old criterion, the new criterion simplifies the process of income recognition, reduces many aspects of professional judgment, and provides specific guidelines for many income items. The new criteria put forward a unified income recognition model, namely the five-step method, as shown in Table. 1.

Table. 1 Five-step Income Recognition Model

1. Identify contracts between companies and customers
2. Identifying contract performance obligations
3. Determine the transaction price
4. Distribution of transaction prices to separate performance obligations
5. Determining the Time or Period of Revenue Recognition Based on the Transfer of Control Rights

The thought of income recognition embodied in the above five steps is similar to the analysis and consideration of income recognition in current practice, but under each step, the new revenue criterion clearly regulates some specific practical problems and puts forward more new requirements involving judgment and estimation.

2.2 Income Recognition Principle

The original revenue criterion stipulates that "an enterprise shall transfer the main risks and rewards in the ownership of commodities to the purchaser to confirm its income." Article 4 of the new revenue criteria stipulates that "an enterprise shall fulfill its performance obligations in the contract, that is, to determine revenue when the customer acquires control over the relevant commodities." Based on this core principle, the new criterion sets up a unified five-step income recognition measurement model. Compared with the old criteria, the new criteria emphasize the combination of business models to confirm revenue. Many contracts with financing nature cannot be recognized as revenue, and different profit models have different ways and time points of revenue recognition.[2] For example, a company contracted a construction project in May 2017 for a total price of 5 million yuan according to the contract, but if the cost exceeds 5 million yuan, Party A will only pay the cost price. Cost of 4 million yuan has been generated on September 30, but due to weather reasons, the expected cost cannot be reasonably estimated. It can be seen from the above that although it is impossible to determine the progress of performance, the cost of the above-mentioned occurrence can be compensated by 4 million yuan, so the company should confirm its income according to the cost already incurred by 4 million yuan.

For example, in the software service industry, if a software development company has software development, software maintenance and technical support, and software update business for its customers, and if it has signed the same contract, according to the new standards, the software company should divide these three obligations into three parts. Identify revenue categories, and

identify revenue according to different recognition criteria, such as software development, licensing and installation services. Revenue can be recognized when customers can use the software according to the transfer of control rights. Software update services can also be implemented in accordance with this principle. Software technology services can be recognized in segments according to the percentage of completion method. In the entertainment media industry, for example, online video broadcasting websites provide only access to movies. According to the new criteria, revenue should be recognized within a period of time, but if the right to use is sold, it can be confirmed at a certain point in time, which needs to be analyzed in combination with professional judgment and business model.

3. The Impact of New Income Criteria on Enterprises

3.1 The Impact of New Income Criteria on Information Systems

At present, in most enterprise accounting information systems, income data comes from billing system, that is, original documents such as sales invoices and receipts. The new revenue criterion identifies the time and amount of revenue on the basis of contracts, which necessitates the incorporation of contracts into the accounting information system.^[4] In order to connect contract data with financial information system, enterprise information system needs further upgrading and transformation. The upgrading and transformation of information system cannot be completed overnight. It requires the cooperation of financial departments and business departments as well as technical support from technical companies. The upgrading and transformation of information system will also bring certain cost expenditure to enterprises.

3.2 The Impact of New Income Standards on Financial Indicators

After the implementation of the new revenue standards, it can be foreseen that the recognition and measurement of enterprise's income will inevitably change compared with the traditional standards. For example, software maintenance income may be changed from one-time recognition to sectional recognition, the corresponding costs will be sectional recognition, and the depreciation of certain assets will be re-sectioned. This will have an impact on some financial indicators related to these financial projects, as well as on software. For business maintenance, this will reduce profit margin indicators over a period of time, especially profitability indicators and operating capacity indicators, which will be affected by the new revenue standards. [4]

3.3 The Impact of New Income Criteria on Taxation

The new revenue criterion system introduces and defines the concept of contract cost in the current construction contract criterion, and clarifies the principles of capitalization or expenditure, amortization, impairment and return of contract cost.[4] The new revenue criteria allow eligible capitalization of "incremental costs incurred to obtain contracts". According to the current criteria, the cost and expense of profit and loss categories such as sales expenses should be entered, which will affect the current profits. Under the new criteria, the expenses that meet the prescribed conditions will be capitalized as an asset, increasing the net profits of the enterprise in the current period. On the basis of this, the amount of payable income tax calculated increases, and the current tax burden of the enterprise is aggravated. In the later period, the contract cost of capitalization can be amortized according to the revenue recognition model, thus reducing the profits of the later periods accordingly, and reducing the future tax burden of enterprises.

4. The Countermeasures of enterprises under the new situation

4.1 Correct Use of Enterprise Management System

When choosing a management system, enterprises should first have a comprehensive and thorough understanding of their own situation. Make a detailed investigation of the operation of

various departments within the enterprise, and make clear the advantages and disadvantages of each department, where the deficiencies are, and how to make up for them. Secondly, collect the opinions of the heads of departments, understand the development mode of employees from the perspective of employees. The use of the system is to bring people better help and provide more convenience, so it is very important to meet the needs of staff. Thirdly, carry out a planned market survey to find out in detail what types of systems are launched in this industry and what advantages and disadvantages each has. Then consult and consult relevant professionals for various suggestions. Finally, the comprehensive information obtained from the survey is summarized and matched with the situation of the enterprise itself, and then a comprehensive measurement is made to choose which one is more beneficial to the enterprise.

4.2 Updating Enterprise Information Technology

In the development of modernization, the information automation degree of large enterprises is getting higher and higher, and the information system is becoming more and more dependent. In the new revenue criterion, the enterprise information system is required to update and improve timely according to the time and amount of recognition of enterprise income, the form of bills and the disclosure of financial statements information. Upgrading and reforming the system needs a long process, at the same time, it will pay a certain amount of cost support. At the same time, it also needs to train the follow-up employees and debug the transition period. Therefore, enterprises need to make planning arrangements as soon as possible based on their own situation. For example, the application of ERP system is the best choice for enterprises. At present, some enterprises have not introduced this technology, financial management is still based on manual operation, capital management is backward, unable to generate timely data and information, accuracy is not guaranteed. In this regard, enterprises should increase the amount of capital investment, introduce the latest ERP technology, update computer and network equipment, actively publicize the advantages of ERP system, and lay a foundation for its scientific application and financial management.

4.3 Focus on the Implementation of Basic Accounting Work

We should strictly implement the basic accounting work and emphasize the perfection and clarity of the basic work. In dealing with accounting information, we should ensure the clarity and clarity of information, avoid false and untrue information, and strictly investigate problems if they arise, so as to enhance the caution and professionalism of relevant staff. We should coordinate various interests, prevent and control risks as well as possible, so that accounting information can better reflect the actual operation. In carrying out enterprise accounting, it is necessary to strictly manage and supervise the standard of conduct, so that practitioners have a clear sense of responsibility, understand the relevant provisions of the state, and realize the impact of irregular operation on the future of individuals, so as to avoid irregular operation of accountants. Avoid touching the relevant regulations of the state in accounting work and ensure the final level of accounting. To form an atmosphere within the enterprise, so that employees can achieve the effect of mutual supervision.

4.4 Perfecting the Construction of Enterprise Supervisory Mechanism

We should improve the internal control and management of enterprises and establish and improve the supervision mechanism. It should conform to the relevant laws and regulations of the state and refer to the actual situation of the enterprise. We should strengthen the intensity of control over financial information and related business activities, clarify accountants' post responsibilities, and ensure that the responsibilities are implemented to people. In the implementation of responsibilities, at the same time, let staff have more sense of access, give certain incentives. Specific incentives are based on the actual needs of employees. It can be salary and benefits, paid holidays, travel and other incentives. Through the incentive system to mobilize the enthusiasm of staff professional work, avoid only responsibility and no incentive practices, easy to lead to staff negative emotions and work slack. In terms of supervision mechanism, in addition to internal supervision, external supervision is also needed to support the work. Through external professional supervision to

ensure the professional standards of accounting work, thereby ensuring the final quality of accounting work.

5. Conclusion

In response to the requirements of the development of the times, some changes have been made in the recognition steps, recognition principles and information disclosure. Based on the above analysis, the new revenue standards have a significant impact on enterprises, such as enterprise contracts, information systems, financial indicators and so on. In addition, the adjustment of relevant standards also brings certain opportunities and challenges for enterprises. Therefore, enterprises should take early measures to deal with the new revenue standards, effectively and timely provide accurate information for investors or stakeholders, prevent the possible negative impact of the new revenue standards on enterprises, ensure the stability of enterprises and promote the sustainable development of our economy.

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