

The Entrepreneurial Mind

Lecture 6: Accounting and Legal Requirements

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Identify and differentiate the steps in bookkeeping
2. Determine the content of financial statements
3. Determine the importance of financial statements
4. Explain the accounting for different transactions
5. Identify the different tools for analyzing financial statements
6. Determine the importance of the tools in analyzing financial statements
7. Determine the importance of break-even sales analysis
8. Compute break even sales
9. Explain the fundamentals of taxation
10. Compare income tax on individuals and income tax on corporation
11. Determine Value-Added Tax (VAT) and its effect on invoicing to customers
12. Explain the importance of knowledge of business law and taxation
13. Explain the value of registering copyrights, patents and trademark

Bookkeeping

Bookkeeping and Record Keeping

Bookkeeping is record keeping. It is a task in the accounting process. **Accounting** is defined as an information system that measures, processes and communicates information primarily financial in nature, about an identifiable entity for the purpose of making economic decisions.

The Steps in the Accounting Process are:

1. analyzing
2. recording
3. classifying
4. summarizing
5. reporting
6. interpreting

1. **Analyzing** is looking over transactions entered into, economic events that have taken place, and determining their effects on the business
2. **Recording** involves the effects of transactions and events that have been analyzed.

3. **Classifying** is the sorting or grouping of like transactions and events into specific account titles.
4. **Summarizing** is the process that involves grouping together the various accounts referred to in the **classifying process**.
5. **Reporting** involves the preparation of financial summaries called **financial statements**
6. **Interpreting** involves the computation of and the study of relationship of figures from the financial reports.

There are three basic financial reports. They are the **balance sheet**, the **statement of income** and the **cash flow statement**.

1. the **balance sheet** shows the assets, liabilities and owners' equity or owners' share in the business as of a specific date.
2. The **income statement** shows the sales or service income, cost and expenses of the business for a period of time.
3. The **cash flow statement** shows where the cash "came from" and where the cash "went to" for a period of time.

Assets are resources owned by the business. They are cash on hand, cash in bank, accounts receivables, notes receivables, inventories, unused supplies, prepayments, land, building, and equipment. **Liabilities** are payable to third parties. They may be accounts payables, notes payables, expenses payables and mortgage payable. **Owners' equity** is the share of the owners. It consists of owners investments (plus profit or minus accumulated losses and withdrawals) retained in the business.

Sales and Service Income are the revenues or gross income from sales of company goods and services. Cost of Sales or Cost of Services are the direct costs of the products sold, or the services rendered.

Among the expenses are:

Salaries Expense - salaries for services rendered by employees

Utilities Expense - telephone, water, electricity used

Rent Expense - rental for the use of equipment, office, building and land spaces owned by others

Supplies Expense - office supplies, selling supplies, factory supplies used

Transportation Expense - fare for trips and travels, cost of gasoline and oil used for company vehicles

Representation Expense - amounts paid to restaurants, hotels and the like for eating out with customers and others

Depreciation Expense - that portion of the cost of building, vehicles and equipment that is allocated as expense for an accounting period

Interest Expense - interest on debts or money borrowed

Steps in the Accounting Cycle

The steps in the accounting cycle are the following:

1. **Journalizing** - journalize the economic transactions and events.
2. **Posting** - post to the general ledger, the journal entries in number 1.
3. **Trial Balance** - prepare the trial balance from the general ledger.
4. **Adjusting** - adjust the ledger balances.

5. **Financial statements** - make income statement and balance sheet from the adjusted trial balance.
6. **Closing** - close or transfer the income and expense accounts to "income and expense summary account" and the latter account to owners' equity
7. **Post Closing Trial Balance** - make a trial balance of all assets, liabilities and owners' equity accounts after having closed the income and expense accounts
8. **Reversing** - reverse some adjusting entries to prepare them for a new accounting period.

The steps in the accounting cycle are done within one accounting period. As **accounting period** is a period of time usually one year. Generally, this accounting period starts from January 1 and ends on December 31. This is referred to as an **accounting period** that is a calendar year.

Users and Uses of Financial Statements

The following are the users and the users of financial statements

- (a) **Investors** - To determine whether to buy, hold or sell these Investments in equity ownership in the business To assess the ability of the investee to pay dividends or to pay return to investors.
- (b) **Employees** - To determine stability and profitability employers. To determine the ability of the employer to pay salaries and fringe benefits.
- (c) **Lenders** - To determine the ability of the borrowers to pay on time, the loans granted to them by the creditor
- (d) **Suppliers** - To determine the ability of the customer to pay debts as they fall due. To determine the ability of the customer to remain as a continuing buyer
- (e) **Customers** - To determine the ability of the enterprise to be a continuing source of supply. To determine be ability of the company to exist over a long period of time
- (f) **Government Agencies** - To determine the capacity of the enterprise to pay taxes and its tax compliance, to provide the basis for monitoring and regulating the activities of enterprises and individuals.
- (g) **Public** - To determine the activities of the enterprise. To determine contribution to the economy in the form of (1) number of employees, (2) ownership of assets, (3) prizes of their products, (4) patronage of local suppliers, (5) patronage by customers
- (h) **Management** - To determine the activities of the enterprise for planning, organizing, trading, and controlling

Accounting for Cash

Cash consists of any medium of exchange that banks accept for deposit Acceptability by banks is a test for inclusion of an item as cash. **Cash items** include coins, paper money, checks, bank drafts, postal money orders. Checks may be personal, corporate, certified, cashier's or manager's checks. However, all these checks should be currently dated; not postdated nor stale. A check is **postdated** when its date is after the current date and stale when the date is very much earlier than the current date, usually six months or more. Cash can be in "Petty Cash "Cash on Hand," and "Cash in Bank" accounts. In place of the "Cash in Bank" account title, the name of the bank may be used, for example "Union Bank." The account may also be titled "Cash"

Following the rules of debits and credits, an increase in cash, resulting from a cash receipt is a debit to the "Cash" account while a decrease in cash, resulting from a cash payment is a credit to the "Cash" account.

Accounting for Petty Cash Fund

There are some payments that may not be conveniently made with checks, because (1) the payment has to be done immediately and (2) the amount involved is very small. For this type of payments, the accounting system requires the setting up of Petty Cash Fund. The **Petty Cash Fund** is an amount of money held by a company employee called petty cash custodian. A check is issued in favor of the petty cash custodian, which check is encashed with the bank and the proceeds of the encashment which is in the form of coins and peso bills is put in a petty cash box held by petty cash custodian. The petty cash custodian is the person in charge of the fund safekeeping and disbursements. The amount at which the fund is set up is based on the estimate of small and immediate payments usually needed within a one-week period.

As the need arises, the petty cash custodian disburses the fund, For every fund disbursement the custodian requires that a "petty cash voucher" be prepared by whoever is making a request for petty cash disbursement. Aside from the petty cash voucher, the custodian will also ask for supporting papers. As disbursements are made, the petty cash vouchers are kept in the petty cash box in exchange for coins and peso bills until it gets to a low balance at which time a petty cash replenishment is then needed. There are no journal entries made for the individual petty cash disbursements of payments. The petty cash disbursements get to be journalized when they are replenished. When the balance of the fund has gone low the petty cash custodian may request a replenishment. The petty cash custodian will get all the vouchers from the petty cash box and writes them in a summary which appears in a petty cash replenishment summary.

Accounting for Service Income, Sales and Collections

The supporting documents for "Service Income" are the "Cash Slips" and "Charge Slips," for "Sales, the "Sales Invoices" and for Cash Collections, the "Cash Slips" and "Official Receipts". In a service entity, as soon as the service has been rendered, the entity can already recognize the "Service Income." There arises an income (credit) in "Service Income" account and an increase (debit) in asset "Cash" when cash is received.

When sale or service is on credit, the asset account "Accounts Receivable" is debited for the increase in the asset and the account "Service Income" is credited for the increase in income. When the accounts receivable are collected, the asset account "Cash" is debited and the asset account "Accounts Receivable" is credited.

When the business is in merchandising or trading, the income account "Sales" is credited (increased) for deliveries (physical or constructive) made to customers. An increase in income is a credit to the "Sales" account.

Accounting for Sales Discounts, Returns and Allowances

Sales may be reduced by discounts, returns and allowances. There are two types of discounts, **the trade discounts** and **the cash discounts**. The **trade discounts** are the reductions from price lists. These are negotiated discounts which are deducted from listed price lists. The charge slips or sales invoices show the net amounts after deducting the trade discounts. These net amounts are the amounts recorded in the Sales Account or in the "Service Income" account. The **cash discounts** are the amounts deducted from accounts receivable and sales to encourage customers (debtors) to pay their suppliers (creditors) promptly or within the discount period.

Accounting for Payments of Expenses

Expenses are grouped into selling expenses and general and administrative expenses. These expenses are different from "cost of goods sold" for a trading or merchandising businesses and from the "cost of goods manufactured and sold for a manufacturing business.

Accounting for Payroll

One of the major and essential areas for accounting is the compensation of employees. The employer is required to keep complete and accurate records of employees' salaries and wages. The records are to be kept over a long period of time. Government units have direct link to the record keeping responsibilities of entities. These government units are the Bureau of Internal Revenue (BIR) Social Security System (SSS), PhilHealth, Home Development Mutual Fund ("Pagibig"). There are mandatory payroll deductions that are to be remitted to these government units. On a long term, employees will keep on coming back to the employer for certifications of employment and certifications of contributions to these government entities. When the employee files his income tax return, he needs to present the documents stating the income tax withheld from his salaries by his employer. When an employee gets loans from the SSS or from the "Pagibig," he needs to get certification of remittances from his employer. When an employee his dependents are hospitalized, he needs to get certification of remittances to PhilHealth from his employer.

Individual contractors include, among others, external auditors, retained lawyers, consultants and contractors for repairs. These groups are paid their fees, professional fees, or retainer fees. The accountant is careful not to label these as salaries and wages. They are not paid salaries. He makes sure that the records do not show any employer-employee relationship. The legal distinction between an employee and a contractor is very important.

Accounting for Purchases of Merchandise and Payments

The word **purchase** is a generic term to mean buy or acquire. We have previously used this in our illustrations of cash payments for the acquisition of office equipment, office supplies, gasoline, and newspaper. At this point the limited use of "Purchases" account is introduced. Purchases as an account title means goods bought for the purpose of resale without any change in the physical form. The businesses engaged in this activity are called merchandising companies or trading entities. The account Purchases is debited when goods are acquired on cash basis or on account. There may be discounts on buying just as there are discounts on selling.

Special Journals and Subsidiary Ledgers

The journals are:

- (a) sales journal for sales
- (b) purchases journals for purchases of merchandise
- (c) cash receipts journal for cash receipts
- (d) cash payments or disbursements journal for cash payments
- (e) general journal (2-column for entries that cannot be conveniently recorded in a, b, c nor d).

Subsidiary Ledgers

At this point, the concept of subsidiary ledgers is introduced. Subsidiary ledgers are accounts (like boxes) where increases and decreases in the individual accounts usually for

accounts receivable and accounts payable are posted. The subsidiary ledgers are assigned their account numbers and names. A debit entry in the general ledger "accounts receivable" calls for a debit posting or "increase" posting in the customer's subsidiary ledger account. Likewise, a credit posting in the general ledger calls for credit posting or "decrease" posting in the customer's account. A credit entry in the "Accounts payable" accounts calls for a credit posting or "increase" posting in the suppliers subsidiary ledger and a debit entry in the "accounts payable" calls for debit posting or "decrease" posting in the subsidiary ledger.

Ageing Schedules of Accounts Receivable

Periodically, usually at end of month, an ageing schedule of account receivable is prepared. This will enable the company to know the total amount of their accounts receivable, the customers from whom the amounts are due and the age of the accounts receivable whether current or overdue. The collection department uses the schedule in following up collections from customers.

Financial Statements Analysis

Comparative Statements: The Starting Point

The annual reports of corporations include comparative statements per requirements of the Securities and Exchange Commission and the Bureau of Internal Revenue. Comparative statements show figures for the current period and the preceding period or periods. These statements may be analyzed horizontally, vertically or by the use of other analytical tools.

Horizontal analysis involves sidewise comparison. It shows changes from year to year. When two years are being compared the earlier year is used as the base year. The increase or decrease from the base year to the succeeding years is computed for each item. The amount of change, in terms of increase or decrease, is divided by the amount of the base year.

Trend Percentages

When several years are involved in a horizontal analysis, the base year is the earliest year. The base year is 100%. The amount of the items for succeeding years are divided by the base year amount. The series of quotients show the trend in item.

To illustrate, consider the following trend in the net income of Sulit Company.

Year	Net Income	Computation	Trend Percentages
20x2	P2,100,000	$P2,100,000 / P2,100,000$	100%
20x3	P2,205,000	$P2,205,000 / P2,100,000$	105%
20x4	P2,310,000	$P2,310,000 / P2,100,000$	110%

In the above illustration the base year is 20X2, which is 100%, 20X3 net income P2,205,000 is divided by 20X2 or the base year's net income of 2,100,000 to Produce 105 20x4 net income of P2,310,000 is divided by 20X2 net income of 2,100,000 to arrive at 110%. The computations indicate upward trend in net income, An **upward trend** in net income may be an indication of a progressive business. A **downward trend** is an indication of an ailment which management should investigate as basis for corrective measures. Trend percentages may be computed for both income statement and balance sheet items.

Composition of Balance Sheets - Vertical Analysis

Working capital may appear to be adequate and the business sufficiently liquid, based on the preceding computations, but it may still lack the proper balance among components. One way of judging whether or not the combination is reasonable is to determine the percentage of each asset to total assets. This is known as **vertical analysis**, common size statement or statement of component percentages. This measure of asset composition is then compared with those of the same company at earlier dates and with those of similar companies at the same date.

A similar computation is done for liabilities and owner's equity. The base or the 100% is the total liabilities and owner's equity. Each of the components of the section liabilities and owner's equity in the balance sheet is divided by the total liabilities and owner's equity to arrive at the component percentages.

Composition of Income and Expenses - Vertical Analysis

Income is the result of two kinds of flows which have opposite effects: **revenue**, which tends to increase income, and **expenses**, which tend to decrease income. To enable management to pinpoint trouble spots or to determine the type of corrective action to be taken, it is important to determine which specific revenue or expense needs attention. This is done by dividing the income and expense items by the net sales. The base or the 100% is net sales. This is also known as vertical analysis, component percentages, or common size statement.

Break Even Point Sales

Breakeven is a term which means "no profit, no loss", where the selling price or sales is equal to cost and expenses. **Cost** refers to the buying price of the merchandise in a retail or trading business or the direct material, direct labor and factory overhead in a manufacturing business and the direct cost and overhead in a service business. **Expenses** refer to the other expenses in running the business other than those in preceding sentences. **Selling price or sales** refer to the amount that the customer pays for the product or service.

It is important to know the breakeven sale or breakeven point because whatever is above it is the profit and whatever is below it is the loss. To compute breakeven sale, it is important to group cost and expenses into fixed costs and variable costs. **Fixed cost and expenses** are those that are incurred regardless of the volume of production or volume of business. **Variable cost and expenses** are those that are incurred in direct proportion to volume of production or volume of business.

Importance of Knowing Breakeven

When the businessman knows the breakeven then he will strive to sell at more than the breakeven sales. For example, the breakeven sales for one trip of a bus from Manila to Baguio is 30 passengers, the businessman should promote or advertise in order to have more than 30 passengers per trip. Another example is when the breakeven sale of a restaurant is P300,000 per month or P10,000 per day, the restaurant operator should find ways of having sale of more than P10,000 per day. Some restaurants offer 20% discount from 2:00 to 5:00 in the afternoon and 50% discount on food takeouts at 8:00 in the evening.

Financial Management

The Entrepreneur Philippines, September 2001 issue poses a question "Counted Your Money Lately?" A good financial management system tells you how your business is doing and why.

As an entrepreneur there should be a balance of all the activities in the organization. Common problems of lack of balance are:

1. high concentration on sales but fail to collect sales on credit,
2. high concentration on sales but fail to produce products ordered by the market;
3. high concentration on sales without the support of the service crew;
4. lot of CASH is lying idle in checking bank account:
5. lot of CASH invested in fixed assets resulting in insufficient working capital
6. hiring employees more than the company requirements, leading to lot of idle time and high cost;
7. failure to remit to government entities leading to problems with BIR, SSS, Pag-Ibig, PhilHealth and others;
8. cash advances to employees and officers resulting in inadequate CASH for recurring and regular business requirements.

The list can go on and on.

Financial management and control is very important. The financial management system is the engine that will make the business achieve peak performance.

Financial management is the proper handling of money. It is like a reliable score board, analyzed by a "numbers person" and that "numbers person" and his staff taking steps in actualizing his evaluations and conclusions. The up-to-date financial statements and accounting records are the score boards. These reports should be current. They should not be "stale" or prepared "late" for timely decision making. The enterprise should use its computer in producing timely information. The business person of today has a lot of advantage over business persons of yesterday. Data generation now is fast, so the speed of analysis, decision making and operation should match. However, do not forget the "controls", Controls should be a standard part of financial management.

The article in the Entrepreneur Philippines enumerates the following benefits of a good financial management system

1. Manage proactively rather than reactively.
2. Borrow money more easily; not only can you plan ahead for financing needs, but sharing your budget with your banker will help in the loan approval process.
3. Provide financial planning information for investors
4. Make your operation more profitable and efficient
5. Access a great decision-making tool for key financial considerations

Financial planning and control help you become a better micro-manager by enabling you to;

1. Avoid investing too much money in fixed assets.
2. Maintain short-term working capital needs to support accounts receivable and inventory more efficiently.
3. Set sales goals; you need to be growth-oriented, not just an "order taker"

4. Improve gross profit margin by pricing your services more effectively or by reducing supplies, direct labor, etc., that affect cost of goods sold
5. Operate your business more efficiently by keeping selling and general and administrative expenses down more effectively.
6. Perform tax planning.
7. Plan ahead for staff benefits.
8. Perform sensitivity analysis with the different financial variables involved.

Taxation

Taxation is the inherent power of the state to demand contributions for public purpose or purposes. **Taxes** are the enforced proportional contributions from persons and property levied by the law-making body of the state by virtue of its sovereignty for the support of the government and all public needs.

It is important to pay the right taxes at the right amount and at the right time. The government needs taxes to finance its functions. For the entrepreneur paying the right tax at the right amount at the right time the following advantages are derived:

- (a) saves the taxpayer the burden of penalties
- (b) helps in sustaining the life of the business.

Tax consciousness should be a major concern of every business person. Even when accountants are available for consultation, it is important that a taxpayer knows for the minimum the basics of taxation.

Taxes are (a) national and (b) local. **National taxes** are imposed by the national government and are embodied in the National Internal Revenue Code (NIRC) and Tariff and Customs Code. **Local taxes** are imposed by the local governments like those embodied by the Local Government Code. Sometimes, the decision where to locate the business is influenced by the differences in the local taxes.

The **essential characteristics** of tax are:

1. it is an enforced contribution
2. it is generally payable in money
3. It is proportional in character
4. it is levied on persons or property
5. it is levied by the state which has jurisdiction over the person or property
6. it is levied by the law-making body of the state
7. it is levied for public purpose or purposes
8. it is commonly required to be paid at regular periods or intervals.

Taxes are different from license or permit fee. License fee or permit fee like the mayor's permit.

1. are legal compensation or reward of an officer for specific services
2. an imposed for regulation
3. involves police power
4. are limited to the necessary expenses of inspection and regulation
5. are imposed on the right to exercise a privilege

Kinds of National Internal Revenue Taxes

The following are national internal revenue taxes that businesses have to pay:

1. income tax
- 2 estate and donor's taxes
3. value added tax (VAT)
4. percentage taxes
5. excise taxes on certain goods
6. documentary stamp taxes
7. such other taxes that may be imposed by law and collected by the Bureau of Internal Revenue (BIR)

Periodic tax filing and/or payment requirements on businesses:

1. Quarterly income tax
- 2 Annual income tax
3. Monthly value added tax
4. Quarterly value added tax
5. Monthly withholding tax
6. Annual withholding tax
7. Information return for income payments not subjected to withholding tax
8. Community tax
9. Real estate (property) tax

TYPES OF BUSINESS TAXES

There are three (3) major business taxes in the Philippines, namely,

1. Value added tax (VAT)
2. Other percentage taxes (OPT)
3. Excise taxes

1. VALUE-ADDED TAX

VAT is a tax on the value added by every seller to the purchase price cost in the sale or lease of goods, property or services in the ordinary course of trade or business as well as on importation of goods into the Philippines, whether for personal or business use. It is a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines (cross border doctrine) and on importation of goods into the Philippines levied at each stage of production and distribution process (RR 4-2007). "**Cross border doctrine**" means that no VAT shall be imposed to form part of the cost of goods destined for consumption outside the territorial border of the Philippine taxing authority,

KINDS OF VAT

1. VAT on sale of goods or properties
2. Vat on importation of goods
3. Vat on sale of services and use or lease of properties

Income Tax

Income Taxes on Businesses are dependent on the organization whether sole proprietorship, partnership or corporation.

The NIRC as amended Under RA 10963 (TRAIN) provides:

SECTION 3. INDIVIDUAL CITIZEN AND INDIVIDUAL RESIDENT ALIEN OF THE PHILIPPINES.
- In general, the income tax on the individual's taxable income shall be computed based on the following schedules as provided under Sec. 24(A)(2)(a) of the Tax Code, as amended:

SECTION 9. INDIVIDUALS NOT REQUIRED TO FILE INCOME TAX RETURN-The following individuals are not required to file income tax return:

- A. An individual earning purely compensation income whose taxable income does not exceed Two Hundred Fifty Thousand pesos (P250,000.00);

The Certificate of Withholding filed by the respective employers, duly stamped "Received" by the Bureau, shall be tantamount to the substituted filing of income tax returns by said employees

- B. An individual whose income tax has been correctly withheld by his employer, provided that such individual has only one employer for the taxable year the Certificate of Withholding filed by the respective employers, duly stamped "Received" by the Bureau, shall be tantamount to the substituted filing of income tax returns by said employees;
- C. An individual whose sole income has been subjected to final withholding tax;
- D. A minimum wage earner as defined in these regulations - The Certificate of Withholding filed by the respective employers, duly stamped "Received" by the Bureau, shall be tantamount to the substituted filing of income tax returns by said employees.

In all cases, all individuals deriving compensation income, regardless of the amount, from two (2) or more concurrent or successive employers at any time during the taxable year, are not qualified the substituted filing. Thus, they are still Required to file a return

SECTION 10. TIME OF FILING OF INDIVIDUAL INCOME TAX RETURN-

Individuals engaged in business practice of profession, regardless of amount of sales/receipts, are required to file quarterly income tax return on or before May 15, August 15 and November 15 for the first, second and third quarters of the current year, respectively pursuant to Section 74(A) of the Tax Code, as amended: and to file an annual income tax return, not later than the fifteenth (15th) day of the fourth month following the close of the calendar year or April 15 as provided under Section 51(C)(1) of the Tax Code, as amended

Income Tax on Corporations

Corporations, for tax purposes, are classified as domestic (DC), resident foreign corporations (RFC) and nonresident foreign corporations (NRFC). Domestic Corporations are corporations created or organized in the Philippines or under its laws. A foreign corporation is a corporation which is not domestic and may be a resident (engaged in business in the Philippines) or nonresident corporation (not engaged in business in the Philippines).

The applicable income tax of a corporation depends on the type of the corporation and the income subject to tax. Regular or ordinary income are generally subject to Normal or Regular Corporate Income Tax (RCIT) of 30%.

Income Tax on General Partnership (Commercial Partnership)

Partnerships (other than general professional partnerships, whether registered or not) for income taxation purposes, are considered as corporations and are therefore taxed as such. Consequently, **partners are considered shareholders** and therefore, profits distributed to them are considered as dividends subject to final withholding tax. Being a final tax, the share of a partner in the net income of a partnership subject to tax is not returnable in the partner's personal income tax return. **Distributive Share** is equal to each partner's distributive share of the net income declared by the partnership for a taxable year net of tax.

General Professional Partnership (GPP)

A partnership formed by persons for the purpose of exercising their common profession, no part of income of which is derived from engaging in trade or business Under Section 26 of the Tax Code and permanent revenue regulations, GPP is not subject to income tax and consequently to creditable withholding tax. However, a GPP is required to file income tax return for the purpose of furnishing information as to the share of each partners in the net income of the partnership which each partner shall include in his individual income tax return, for this purpose, the net income of a CVP shall be computed in the same manner as a corporation.

Income Tax on Business

Taxes on business are dependent on the organization whether sole proprietorship, partnership or corporation

1. The sole proprietor is subject to the graduated tax on income for a calendar year which is from January 1 to December 31. The deadline for filing final income tax return for the calendar year is April 15 of the year that follows. If the taxpayer is filing and paying for the calendar year January 1 to December 31, 20X5, the deadline is April 15, 20X6 for filing the final income tax return and the payment of final income tax due. Emphasis is made on FINAL income tax return and final payment of income tax due. At the end of each of the calendar quarters the sole proprietor files quarterly income tax returns and the corresponding income tax due. The following illustration is a summary of the income tax for four calendar quarters.

2. The Corporations and the partnerships (other than professional partnership me taxed at 32% of taxable income. Assume that the taxpayer in number 1 is Fernando Santos Corporation. The corporate income tax is computed on the taxable income, which is 1500.000 not P400,000. The income tax due for the year is 32% of P500,000. The income tax due is 1160.000. The tax due from the corporation P160,000 while the tax due when the business is a sole proprietorship is only P113.000.

Value Added Tax

The income tax is a national tax. It is payable to the national government. Another national tax is the Value Added Tax (VAT), The VAT also called Expanded Value Added Tax (E-VAT) is another national tax. It is a tax which is a percentage of selling price. VAT is a tax on consumption levied on the sale, barter, exchange or lease of goods or properties and services in the Philippines and on importation of goods into the Philippines. The seller is the one statutorily liable for the payment of the tax, but the amount of the tax may be shifted or passed on to the buyer, transferee or lessee of the goods, properties or services. This rule shall likewise apply to existing contracts

of sale or lease of goods, properties or services at the time of the effectivity of RA No. 9337. However, in the case of importation, the importer is the one liable for the VAT

On the first implementation of VAT, it was computed at 10% of the selling price of the product. The VAT was subsequently increased to 12%. For example: a SONY TV set is sold by Anson's Emporium at P20,000, The customer pays P22,400. The store, Anson's Emporium, will report and remit cash of 12,400 to the BIR. This P2,400 is the output VAT. If Anson's has input VAT, the cash remittance may be lesser than P2,400. Reporting to and payment of VAT is made monthly. There are some small taxpayers and some products that are exempted from VAT. Among the VAT exempt commodities are:

- agricultural and marine products in their original state such as vegetables, meat, fish, fruits, eggs and rice
- lease of residential houses not exceeding 110,000 monthly
- educational service, rendered by both public and private educational institutions
- books, newspapers and magazines
- sales of persons and establishments earning not more than P1.5 million annually, which could include sari-sari stores, carinderias and street vendors.

Percentage Taxes

Percentage taxes are taxes measured in percentage of gross selling price or gross value in money of goods sold, bartered, exchanged, or imported, or gross receipts or earnings derived by any person engaged in the sale of services. Percentage Taxes are privilege taxes. Percentage taxes and value-added tax are imposed on the privilege to sell commodities or services.

Services subject to percentage tax are enumerated below:

- (1) Sale or lease of goods or properties or the performance of services of non-VAT-registered persons, other than the transactions mentioned in paragraphs (A) to (U) of Sec. 109(1) of the Tax Code, the gross annual sales and/or receipts of which does not exceed the amount of One Million Five Hundred Thousand Pesos (P1,500,000.00);
- (2) Services rendered by domestic common carriers by land, for the transport of passengers and keepers of garages;
- (3) Services rendered by international air/shipping carriers;
- (4) Services rendered by franchise grantees of radio and/or television broadcasting whose annual gross receipts of the preceding year do not exceed Ten Million Pesos (P10,000,000.00), and by franchise grantees of gas and water utilities
- (5) Services rendered for overseas dispatch, message or conversation originating from the Philippines;
- (6) Services rendered by any person, company or corporation (except purely cooperative companies of associations) doing life insurance business of any sort in the Philippines,
- (7) Services rendered by fire, marine or miscellaneous insurance agents of foreign insurance companies
- (8) Services of proprietors, lessees or operators of cockpits, cabarets, night or day clubs, boxing exhibitions, professional basketball games, Jai-alai and race tracks;
- (9) Receipts on sale, barter or exchange of shares of stock listed and traded through the local stock exchange or through initial public offering

Local governments like Makati City or the municipality of Baliuag, Bulacan may impose local business taxes. However, the local governments exempt small business to motivate more members of the community to become entrepreneurs.

Business Law

Law means any rule of action or any system of uniformly. **Law** may be promulgated and enforced by the state (legal sense) or law maybe in the non-legal sense as in

1. divine law
2. natural law
3. moral law
4. physical law

Legal law has the following characteristics:

1. it is a rule of conduct
2. it is obligatory
3. it is promulgated by legitimate authority
4. it is for common observance and authority

Our discussion in this lecture is about legal law. The sources of legal law are:

1. constitution
2. legislation
3. administrative of executive orders, regulations and rulings
4. judicial decisions
5. custom
6. principles of justice and equity
7. religion

Entrepreneurs should be knowledgeable of the basis of business law. This is true even when lawyers, accountants and consultants are readily available to service the business persons. Knowledge of business law is important in deciding:

1. on the form of business organization whether sole proprietorship, partnership or corporation
2. on the kind of products to deal in
3. on the location of the business
4. on whether to transact on cash basis or with disbursement checks or im account
5. on borrowings and mortgages
6. on character loans or loans with collaterals
- 7, on promissory notes, bank checks and other negotiable instruments
8. on partnering with local citizens or with foreigners.
9. on local or foreign transactions
10. on franchising or startup ventures
11. on dealing with debtors or creditors
12. on selling on consignments
- 13 on leasing or outright purchase

The business person will somehow deal, even in their simplest forms, with laws on:

1. partnership and corporation
2. obligations and contracts
3. negotiable instruments
4. sales, agency and credit transactions
5. taxation
6. labor

Knowledge of Law on Obligation and Contracts

Business persons will somehow be parties to contracts. They need to sign Contracts for services, contracts for rentals, contracts for buying or selling called Deed of Sale. Basic knowledge of English or the dialect with which the agreements the written is all that is needed to understand most contracts. If the proprietor needs clarification, he may seek the services of a lawyer. The business person may also refer to books for the provision of the Civil Code of the Philippines on obligations and contracts which are made simple by some authors and are primarily written for non-lawyers to understand.

The law on obligations and contracts is contained in Book IV of the Civil Code of the Philippines. The first three deal with Persons and Family Relation (Book 1); Property (Book 2); and Different Modes of Acquiring Property (B 31. Article 1156 says: An **obligation** is a juridical necessity to give, to do or not to do"; according to Article 1305, a **contract** is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service".

Labor

A person going into business should know the value of labor - labor being one of the essentials in the trading and manufacturing of tangible products and the rendering of services. The Department of Labor and Employment (DOLE) is responsible for the regulation of employment. Its authority concerns:

1. promotion of employment and apprenticeship
2. workers protection and welfare
3. promotion and maintenance of industrial peace based on social justice.

The Labor Code of the Philippines contains the labor policies relating to terms and conditions of employment. Included in the Labor Code are:

1. work week and working hours
2. vacations
3. special leave
4. holidays
5. employment of minors
6. hiring policies:
7. termination of employment
8. workplace safety
9. minimum wage
10. social security benefits
11. medical benefits
12. workers compensation benefits
13. bonus and additional benefits
14. workers' rights

Intellectual Property Rights

Early in the life of the business, the entrepreneur should be conscious of the need to protect his trade name, trademark, logos and product content and design. **Philippine laws** protect intellectual and industrial property rights. **Trade names** are registered with the Department of Trade and Industry, **copyright** with the National Library and **patents** with the patent Office also of the Department of Trade and Industry. Registration will give the owner an exclusive right to use

the names, trademarks, logos and the exclusive right to manufacture patented products. The definition of terms are:

1. **Copyright** is the body of law that grants authors, artists and other creators protection for their literary and artistic creations which covers literary works, musical works, works of art, maps and technical drawings, photographic works, motion pictures, computer programs and multimedia products. Protection is acquired at the moment of creation of the work and deposit of copies with the National Library and the Library of the Supreme Court is encouraged to obtain a certificate that can be used as prima facie evidence for prosecution of infringement.

2. **Patent** is a statutory grant by government which confers to an inventor or his legal successor in return for the disclosure of the invention to the public, the right for a limited period of time to exclude others from making. using the territory of the country that grants the patent.

3. **Trademark** is a distinguishing mark, name, or symbol used to identify a product.

Reference:

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