

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

As a developing country, Indonesia still needs the large funds to implement the development to fulfill people's need in economic, health and education. One of financing sources to implement the development is from tax. For government, tax is an important source of fund that must be collected from citizen. One of the tax revenues is from Income Tax. Income tax is a tax that is imposed on the income tax object. Income tax will always be imposed on any individual or business entity that earns income in Indonesia.

The financial statements are prepared by the company. It should normally be adjusted to the fiscal financial statements as a basis for the Annual Income Tax Return filed to the tax office. Commercial financial statement is prepared based on Financial Accounting Standards, meanwhile for fiscal financial statement is prepared based on Income Tax Provisions. This is due to the company's financial statements are usually prepared in accordance to commercial accounting standards. Fiscal correction should be made to meet the entity tax reporting requirements.

The company's commercial financial statements should be adjusted to fiscal financial statements. The difference between Financial Accounting Standards and Income Tax Provisions can be divided as permanent difference and temporary difference. At the end of each year, the company conducts fiscal reconciliation of net income before tax to calculate the amount of taxable income

The measurement and recognition in Income Tax Provisions can be different with Financial Accounting Standards. Based on Income Tax Provisions, some of the revenues and expenses that

recorded in the commercial financial statement can not be recognized in the fiscal financial statement. The difference should be treated appropriately in order for the company to pay income tax in accordance with Income Tax Provisions. Therefore, the company should prepare the fiscal reconciliation to adjust the differences between commercial financial statement and fiscal financial statement. After conducting fiscal reconciliation, the company can determine the amount of tax payable in accordance with Income Tax Provisions. The fiscal loss statement can be used to determine the taxable income and income tax payable in certain taxable year.

PT Indrasari Kencana Medan is the company that specialized in production of PVC pipe. The company prepares the commercial financial statement each year that can be used for evaluating the company's financial performance. The commercial financial statement is prepared by the company based on Financial Accounting Standards. Besides that, the commercial financial statement is also used as a basis to determining taxable income. In determining the taxable income, the company's employee have the possibility of making the error fiscal reconciliation due to lack of knowledge and experience in taxation. Without a proper fiscal reconciliation based on Income Tax Provisions, the company will determine the improper taxable income. The improper taxable income has impact to improper income tax payment.

Based on this background of the study, then the writer is interested to conduct the research with title as follows : **“The Analysis of Permanent and Temporary Differences in Financial Statements Based on Financial Accounting Standards and Income Tax Provisions at PT Indrasari Kencana Medan”**

1.2 PROBLEM FORMULATION

The problem formulation in this research is as follows: “What is the difference of permanent and temporary differences in financial statements based on Financial Accounting Standards and Income Tax Provisions to entity’s income tax at PT Indrasari Kencana Medan?”

1.3 RESEARCH FOCUS

There are some limitations on doing the research, such as time and abilities. Therefore, the writer will focus on permanent and temporary differences in financial statements based on Financial Accounting Standards and Income Tax Provisions at PT Indrasari Kencana Medan in 2017.

1.4 RESEARCH OBJECTIVE

The objective of the study is to find out the differences between permanent and temporary differences in financial statements based on Financial Accounting Standards and Income Tax Provisions at PT Indrasari Kencana Medan in 2017.

1.5 BENEFIT OF THE RESEARCH

The benefits of this research can be seen as follows:

1.5.1 THEORETICAL BENEFIT

This research can give the benefit in contribution to tax theory especially in entity income tax.

1.5.2 PRACTICAL BENEFIT

Practical benefits of this research are as follows:

1. This research can give benefit for writer in adding the knowledge about tax especially entity income tax.

2. This research can give benefit for company by giving recommendation in improving entity income tax calculation.
3. This research can give benefit for other researcher as reference with other research result.

1.6 SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows :

Chapter I : Introduction

Chapter I presents description of background of the study, problem formulation, research focus, research objective, benefit of the research and systems of writing.

Chapter II : Literature Review

Chapter II presents the theory that is used in this research, previous research and framework of thinking.

Chapter III : Research Methodology

Chapter III describes research design, research object, data collection method and data analysis method.

Chapter IV : Data Analysis and Discussion

Chapter IV describes general view of company data analysis and discussion.

Chapter V : Conclusion

Chapter V describes the conclusion of this research, implication from this research result and the recommendation for the company.