# THE EFFECTS OF TRANSACTIONS BETWEEN RELATED PARTIES ON THE FINANCIAL STATEMENTS OF MULTINATIONAL CORPORATIONS, FROM AN ACCOUNTING AND TAX POINT OF VIEW

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## Abstract

Despite the increasing challenge posed by transfer pricing and tax avoidance among multinational corporations and their related parties, the regulatory framework governing these issues at both national and international levels has been slow to adapt to the new standards and the rapid changes in business practices. The particularly challenging task of reconciling tax laws with the contemporary ethical standards of transfer pricing is closely tied to the intrinsic characteristics of business entities. Over the last decades, there have been many conflicting opinions worldwide regarding the taxation of transfer pricing and tax avoidance, as documented in international literature. However, as of now, the implementation of tax laws related to transfer pricing for multinational companies continues to face numerous difficulties.

Transactions between related parties can decisively affect the financial result, as well as the financial position of the trading-related parties. In addition, related parties are likely to engage in transactions with each other that unrelated parties would not. Therefore, the recording of transactions between related parties, the outstanding balances, as well as the commitments and relationships between them is likely to lead to the influence of the evaluations of the activities of the financial entities by the users of the financial statements (Klassen et al., 1993), as well as their estimates of the opportunities and risks faced by the financial entities involved. Furthermore, given that the matter in question also presents a tax dimension, when the commercial or financial relations between related companies are governed by terms different from those agreed between independent companies, any profit difference arising in this way is subject to taxation (Liu et al., 2020), in accordance with the guidelines of the equidistance principle established by the Organization for Economic Co-operation and Development (OECD).

In the context of the above findings, the purpose of this research is based on the investigation of the impact of transactions between related parties on their financial statements, as it arises based on the analysis and evaluation of the individual financial indicators of liquidity, efficiency, activity, capital structure and sustainability, investments, etc. Also, the main purpose of the research proposal is to establish the impact of the transactions in question on the taxable financial results of the related parties. The individual objectives of the research are focused on trying to capture the financial position and the more general financial position of the affiliated companies, according to their published balance sheets, as well as the analysis of their financial results based on their income statements, the evaluation of cash flow statements and their statements of changes in net worth. Through the above analysis, it is sought to identify related companies that carry out transactions with other related parties, with the ultimate aim of manipulating the financial statements (Jian & Wong, 2010).

The research revealed that transactions between related parties can be used to manipulate their financial results and their financial position, for purposes other than taxation, but it can also be related to the pursuit of these companies to pay less tax in tax administration by shifting taxable profits to jurisdictions with low tax rates.

This study offers multiple contributions to the understanding of transfer pricing and tax avoidance in multinational companies and their affiliates, delivering valuable insights from a theoretical standpoint. The existing literature concerning transfer pricing and tax avoidance is selectively reviewed, and significant contemporary issues within the relevant literature are explored. Last, future research could investigate the dynamics of transfer pricing and tax avoidance through various theories on available data across different nations or examine changes over distinct time frames.

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