

## SESSION I: FINANCIAL REPORTING AND TRANSPERANCY

### *ACCOUNTING REFORM ISSUES IN RUSSIA*

Presentation on by

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<sup>1</sup>Russia's transition from the planned model of economic regulation to a market economy has called for a need to introduce the corresponding amendments to the system of management, with accounting being its inalienable component.

Practically from the beginning of 1990's, the Finance Ministry of the USSR, and later the Russian Federation, has undertaken extensive measures in this direction. Specifically, the most important categories of a market economy, including such as capital, financial investment, nonmaterial assets, securities, and many others, have appeared in the economic vocabulary.

Starting from 1995, the Russian enterprises and organizations have transferred to the accrual method of entry of revenues (temporal determination of economic activity). Almost at the same time, reports on the movement of capital and monetary resources were introduced into accounts, while legal persons (except small business entities) were obliged to develop an annual accounting policy of their organizations.

In order to impart a complex nature and expedite the work of the Russian Finance Ministry in the sphere of reforming business accounting, the RF Government has approved in 1998 the Programme of Accounting Reform, based on international financial accounting standards (Resolution of the Russian Federation Government of March 6, 1998, #283).

The Programme of Accounting Reform has mapped out three principal spheres subject to change:

- the methodology of accounting;
- the system of regulation of accounting;
- training and retraining of personnel.

So, what are the results of two and a half years of work? A new edition of the Federal Law "On Accounting" has been prepared. The Draft Law is supposed to legislatively fix a number of essential categories of accounting, including such as "assets," "obligations," "summary reports," and some others. Organizations' rights in establishing the rules of property valuation shall be extended. A considerable novelty is the institution of standard rules of accounting during the reorganization or liquidation of legal persons.

For example, during the liquidation of a legal person, it is necessary to draw up a final, interim and liquidation report. The interim report envisages a preliminary revaluation of property and the organization's liabilities before the market cost.

A no less significant problem is connected with determining the nature of relationship between business and tax accounting. It is necessary to note in this connection that tax accounting does not directly employ the system of entries and does not dispose of its own set of basic accounting documents. In this connection, the Draft Law stipulates that "information obtained while keeping records and

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<sup>1</sup> The views expressed in this paper are those of the author and do not necessarily represent the opinions of the OECD or its member countries. This paper is subject to further revision.

preparing accounts may be used as basic data for tax calculation.” At the same time, “legislative and other normative acts regulating the order of taxation cannot contain provisions regulating the order of accounting.”

The Draft Law allocates much attention to determining the nature of correlation between the obligatory employment of accounting norms and decisions adopted by experts within the frames of their professional judgment. This objective shall be achieved by the system of normative regulation of accounting, established by the Law, which consist of four levels. The first and second levels (laws, decrees of the Russian President, resolutions of the RF Government and provisions on accounting) shall be obligatory by nature.

The third and fourth levels (methodological directives, instructions, recommendations, organizations’ working documents) carry a nature of recommendation or are valid within the frames of a concrete organization. The documents of the third and fourth levels shall be elaborated, as a rule, directly by specialists or with their participation within the frameworks of professional organizations of experts in accounting. The documents of levels three and four shall not contradict the normative acts of higher levels.

In order to ensure economic safety of organizations and observance of state interests, it is planned to introduce a certification procedure of chief accountants and other experts rendering accounting services within the frames specialized organizations or individually. It is noteworthy that at present such work is carried out as a matter of initiative. On October 1, 2000, over 50,000 specialists have been certified.

Fourteen provisions on accounting (PBU) have been elaborated and specified, including:

- “Organization’s Accounting Policy” PBU 1/98 (order of the Russian Finance Ministry of 09.12.98, #60n);
- “Account of Agreements (Contracts) on Capital Construction” PBU 2/94 (order of the Russian Finance Ministry of 20.12.94, #167);
- “Assets and Liabilities with Foreign Currency Representation of the Cost” PBU 3/2000 (order of the Russian Finance Ministry of 10.01.2000, #2n);
- “Organization’s Accounting” PBU 4/99 (order of the Russian Finance Ministry of 06.07.99, #34n);
- “Material and Production Stocks Accounting” PBU 5/98 (order of the Russian Finance Ministry of 15.06.98, #25n);
- “Fixed Assets Accounting” PBU 6/97 (order of the Russian Finance Ministry of 25.11.98, #57n);
- “Organization’s Incomes” PBU 9/99 (order of the Russian Finance Ministry of 06.05.99, #33n);
- “Information on Affiliated Persons” PBU 11/2000 (order of the Russian Finance Ministry of 13.01.2000, #5n);
- “Information on Segments” PBU 12/2000 (order of the Russian Finance Ministry of 27.01.2000, #11n);
- “State Support Accounting” PBU 13/2000 (order of the Russian Finance Ministry of 16.10.2000, #92n);
- “Nonmaterial Assets Accounting” PBU 14/2000 (order of the Russian Finance Ministry of 16.10.2000, #91n).
- Besides provisions on accounting, methodological directives, equalized to accounting provisions (standards), have been approved, in particular:
- “Directives on Registering Transactions Connected with Fulfillment of Agreement of Property Management on Proxy” (order of the Russian Finance Ministry of 24.12.98, #68n);

- “Methodological Recommendations on Drawing Up and Submitting Summary Reports” (order of the Russian Finance Ministry of 30.12.96, #112);
- “Methodological Recommendations on Disclosing Information on Profit per One Share” (order of the Russian Finance Ministry of 21.03.2000, #29n).

The aforementioned Provisions and Methodological Recommendations introduce important accounting rules, based on international standards of financial accounting, into the domestic practice.

For instance, the methodology of accounting non-circulation assets (fixed assets, nonmaterial assets, etc.) offers the organizations an opportunity to independently select their depreciation policy and reevaluate fixed assets. As for the circulation assets, organizations shall receive a right to employ several methods of calculating the actual cost of material and production stocks during their release in production.

A strict order shall be established for classifying all circulation and non-circulation assets as the former or latter property forms. In order to guarantee reliable business and financial accounting, organizations are obliged to take into account significant facts of economic activity occurring from the date of drawing up of the record to the moment of its submitting, as well as attributed facts of economic activity.

Extensive work has been conducted in the sphere of revision of the forms of basic accounting documentation. The Russian Goskomstat, upon approval of the Russian Finance Ministry and the Ministry of the Economy, has adopted unified forms of basic accounting documents for: accounting of agricultural produce and raw materials; labor and compensation; fixed and nonmaterial assets; materials; articles of small value and perishable goods; capital construction jobs; work of construction machines and mechanisms; work of automobile transport; accounts of trade transactions (general); accounts of credit sale transactions; accounts of commission trade transactions; accounts of monetary settlements with the population with the use of cash registers; accounts of public catering transactions; accounts of results of inventory; accounts of cash transactions; accounts of produce, goods and material assets at the storage points.

The transition to international standards of financial accounting demanded the introduction of substantial changes in the contents of business and financial accounting and the order of its submitting. With this end in view, the Russian Finance Ministry has adopted a set of documents, including:

- the Order of the Russian Finance Ministry of 13.01.2000, #4n “On Forms of Organizations’ Accounting”;
- the Order of the Russian Finance Ministry of 28.06.2000, #60n “On Methodological Recommendations on the Order of Formation of Accounting Indices of Organizations”;
- the Order of the Russian Finance Ministry of 06.07.1999, #43n “On Approval of the Provision on Accounting “Organization’s Accounting.”

The above documents envisage a multi-optional approach to accounting, depending on the size and structure of economic entities. The form of accounting shall now carry the nature of recommendation.

In order to sum up the changes introduced by the normative acts, adopted in the process of accounting reform in Russia, the Russian Finance Ministry has developed a draft new Accounting Records Plan of commercial organizations. At present, the Plan is undergoing legal expertise and is expected to be introduced on January 1, 2001. A distinguishing feature of this document is its greater conformity with requirements of a market economy.

In particular, it is planned to make a more definitive distinction between circulation and non-circulation assets. For this purpose, it is necessary to divide the category of articles of small value between material and production stocks and fixes assets, proceeding from the principle of their turnover in the production and marketing process. It is also planned to give up non-market mechanisms of distribution of incomes, for the purpose of which the practice of administrative formation of accumulation and consumption funds shall be abolished. The procedure of net profit utilization and calculation of tax payments is specified. Some other important novelties shall also be introduced.

The Russian Government Programme of Action in the sphere of social policy and economic modernization for 2000-2001 allocates a place of prominence to matters of improvement of the system of national economic management. Measures envisaged by the Draft Resolution of the RF Government "On Further Measures for Implementation of the Programme of Accounting Reform in Accordance with International Standards of Financial Accounting" are targeted at the solution of this task.

This draft contains norms, enabling the Russian Federation to achieve headway towards a transparent accounting information, openness and usefulness of accounting data for interested users, including foreign investors. It is expected to reach this goal by means of introduction of a comprehensive set of measures, the most important of which will be the establishment of quotation procedures for accounting data in connection with inflation, introduction of auditing procedures for summary reports, and their compiling with inclusion in quotation lists at foreign stock markets on the basis of international standards of financial accounting.