

PROBLEMS OF REFORMING RUSSIAN ACCOUNTING

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The official beginning of the process of accounting reformation in Russia is considered to be the approval of the government program of the Russian Federation transition to the accounting and statistics system, accepted in international practice in accordance with the requirements of market economy development. The program was approved by the decision of the RF Supreme Soviet of 23.10.92 № 3708-1. The goal of accounting reformation was defined in this document as bringing national accounting system in conformity with market economy requirements and international standards of financial accountability. This document also formulates tasks set for the achievement of this goal.

The concept of accounting in Russian market economy approved by the Methodological accounting council under the Ministry of Finance of the RF and by the Institute of professional accountants in Russia was developed in the course of implementing measures of the Reformation Program in December 1997. Approaches to the design of the Russian accounting system for the next 10-15 years were formulated in this concept on the basis of the conducted detailed analysis of the Russian and international practice and accounting development tendencies.

The significance of the Concept should not be underestimated. This statutory act hasn't lost its importance even for the present time. It can be explained by the fact that it was the first document developed in Russia that defined methodological basis of the accounting system created in our country. In spite of the significant work of the Ministry of Finance, the process of reformation was very slow. There were a lot of objective reasons to explain delays in the reformation such as: inflation, crisis of nonpayment, delays in development of the legislative framework, presence of evident contradictions in forming tax and account legislation.

Instability of tax legislation turned out to be a major hindrance to accounting reformation. Laws, instructions and constantly appearing amendments to them made the accountants trace every letter or instruction of the State Tax Inspection in order to find out their effects on taxes. Due to this fact optimization of taxation became the main aim of accounting, while the economic sense of business transactions was often ignored.

It became clear at beginning of 1998 that the Program of accounting reformation of 1994 requires changes and improvement. Therefore the Program of accounting reformation was accepted in accordance with international financial reporting standards. The purpose of this Program was bringing Russian accounting system into line with requirements of market economy and international financial reporting standards (IFRS).

The main task was creation of normal conditions of consistent, useful, rational and successful functioning of the accounting system in the concrete economic environment.

Main goals and tasks of the reform at this stage were:

- formation of the system of accounting and reporting standards, that is designed to provide users, mainly investors, with useful information;
- connection of the Russian accounting reform with main tendencies of harmonization of standards on the international level;
- rendering methodological assistance to different organizations in understanding and implementing the modified accounting model.

It was planned to carry out the reform in the following main directions:

- improvement of the normative legal regulation;
- formation of the regulatory system (standards);

- methodological support (instructions, methodological regulations, comments);
- staff assistance (formation of the accountant's profession, training and professional development of accounting specialists);
- international collaboration (membership and active work in international organizations);
- collaboration with national organizations responsible for development of accounting standards and regulation of this activity.

In order to fulfill these tasks the government was supposed to:

- make all the necessary changes and amendments to the Federal Law "On accounting" and compose other regulatory acts;
- in course of two years develop and approve propositions (standards) on accounting including the scope of requirements of international standards;
- revise the plan of bookkeeping accounts and instructions on its application;
- introduce the simplified accounting system for small business entities.

In accordance with the Program of accounting reformation 1998 main directions of accounting system development were elaborated up to the year 2010 by the Ministry of Finance of the Russian Federation. This document defined main directions and strategic tasks of development of the Russian accounting system:

- creation of the accounting system compatible with IFRS that would take into consideration needs of different enterprises depending on the form of ownership and amount of their work on the capital market;
- providing the opportunity to implement IFRS as the only permissible accounting format for issuers and other enterprises concerned;
- introduction of the accountant's profession as the active member of the process of regulating Russian accounting system.

This document also defines the stages of accounting development in our country: stage 1 – 2001–2003; stage 2 – 2004–2005; stage 3 – 2006–2010.

The peculiarity of this document is that it sets tasks for further accounting reformation with consideration of specific character of activity of different types of enterprises. All the enterprises in Russia are subdivided into 4 categories:

I. public (open joint-stock) companies and other enterprises having a high rating on the international capital markets and/or in Russian trade systems;

II. public (open joint-stock) companies having bad rating on the markets;

III. private companies and limited liability companies with the exception of small enterprises; this category should also include unitary (wholly state-owned) enterprises;

IV. small enterprises.

Some of the companies having a high rating on the markets and included into *the first category* already use IFRS (or GAAP USA) during the preparation of financial reports but still continue to follow national standards for Russian reporting. Other enterprises preparing financial reports use neither IFRS nor GAAP USA. Nevertheless, taking into account the necessity of Russian capital market development and its integration with international markets such enterprises should also start using IFRS in full. Consequently, taking into account the first category the main aim of the accounting reform was creation of the practical base for accounting and preparation of financial reports exclusively on the basis of IFRS without the use of Russian accounting standards (without presentation of reports composed according to the Russian norms).

Creation of the foundations for introduction and use of IFRS as the only format for accounting and financial reporting requires the following measures:

- developing and approving recommendations on introduction of IFRS as the single official regulatory act included into the Russian legislative system;
- developing and approving the regulatory act defining the way of transforming data of accounting and financial reporting in

compliance with IFRS for the purpose of tax accounting.

Preparing financial reports enterprises of *the second category* use Russian accounting standards. But these enterprises are also interested in creation of Russian accounting norms that would be compatible with IFRS. This fact is chiefly determined by the specific character of their owners (stockholders that need compatible financial information about issuers) and the opportunity of these enterprises getting to the capital market.

Consequently, taking into account the enterprises included into the second category *the main aim of the accounting reform* is development of the complex of Russian accounting norms compatible with IFRS, that requires the following measures:

- developing and approving new Russian accounting standards compatible with IFRS. These new standards should be in line with the main principles of IFRS in information disclosure and presentation, assessment and reflection in accounting facts of economical activity;
- revising the existing Russian accounting standards in order to ensure their compatibility with corresponding equivalents in the system of IFRS;
- developing and approving the regulatory act defining the way of transforming data of accounting and financial reporting for the purpose of tax accounting.

In this case Russia can use EU experience in bringing EU accounting directives into line with IFRS, planned within the framework of Financial reporting strategy developed by the European Commission. Besides, international experts, experts from the International centre of accounting reformation (ICAR) and other organizations are supposed to take an active part in this work.

Preparing financial reports enterprises of *the third category* also use Russian accounting standards. But considering the absence of the users interested in their financial reporting and limitations for some data disclosure their reporting can be regulated by less strict requirements to the presentation of

the detailed financial information. Consequently, if we take the enterprises included into the third category the *following problems* should be solved:

- assessment of the volume of information subjected to disclosure in financial reports;
- taking into account the results of this assessment while developing and revising Russian accounting standards.

Enterprises included into the fourth category are a special group of companies that should have the right to keep simplified accounting records and do the simplified reporting. The simplified accounting and reporting system should be organized in such a way that all the expenses connected with the transformation of financial accounting data in this format for the purpose of tax accounting should be minimized. Besides, this simplified system should guarantee full satisfaction of the needs of management in the sphere of accounting.

Consequently, *main aims of the accounting reform* for small enterprises are:

- creation of accounting and reporting system for small enterprises that would meet the demands of tax legislation in the sphere of tax base calculation and filing of tax returns;
- consideration of the requirements of small enterprises management in managerial accounting and in company reporting (cost control, etc.) while developing the simplified accounting and reporting system.

Russian accounting reform is a complicated and long process. It is impossible to define the date of the end of this reform, because the process of improving accounting system can not be "finished". By the year 2010 a whole range of new problems that require urgent action is sure to appear. But nevertheless, we come to the conclusion that the largest part of this work has already been done. IFRSs have already entered into the accounting practice and professional accountants have got accustomed to them. It means that we can talk not only about the reform but also about development and improvement of the accounting system in Russia.