

# Practical Experience in Forming Accounting Policies in Accordance with IPSAS by the Russian Universities

Guzel Gabelhakovna Derzayeva\* and Ilnar Ilfarovich Yakhin

Kazan Federal University, Russia

**Abstract:** This article studies a relatively recent phenomenon for Russian budget accounting - the formation of accounting policies by the Russian educational institutions in accordance with the International Public Sector Accounting Standards. The purpose of the research is to identify the problematic issues that arise during the formation of accounting policies by the Russian universities and to find ways to solve them. Using such methods as analysis and synthesis, comparison, logical and systemic approaches, the author has identified the main problems that arise in the Russian universities when preparing the accounting policies in accordance with International Public Sector Accounting Standards, and suggested ways to solve them. As a result of the research, the article compares the practice of preparing the accounting policies of four Russian universities in order to present the financial statements in accordance with the International Public Sector Accounting Standards, identifies the common problematic issues and suggests ways to solve them. The article draws a conclusion about the similarity of approaches to the formation of accounting policies according to International Public Sector Accounting Standards practice in the Russian universities. The article substantiates the analogy of many problematic issues that arise in this formation, and the identity of ways to solve them.

**Keywords:** Accounting policies, financial reporting, reporting standard.

## INTRODUCTION

The issues of preparation and presentation of financial statements of budgetary entities at the global level are disclosed in the International Public Sector Accounting Standards (IPSAS), developed by the International Public Sector Accounting Standards Board, operating within the International Federation of Accountants (IFAC). (International Public Sector Accounting Standards. The official translation into Russian). The Ministry of Finance of the Russian Federation, with the participation of KPMG CJSC and Institute of financial and economic monitoring LLC, as part of a joint project of the Russian Federation and the International Bank for Reconstruction and Development (IBRD) *Modernization of the Treasury System of the Russian Federation* (subproject *Development of Regulatory Acts in the Field of Budget Accounting and Reporting*) are engaged in the development of the federal accounting and reporting standards in the general government sector based on the IPSAS. As of this date, the process of standardization of accounting (financial) statements of the general government sector in the Russian Federation is to implement the following practical steps:

- the Russian Ministry of Finance has published a translation of the document "Conceptual framework for the presentation of financial statements", which means its implementation in Russia;

- the Ministry of Finance of the Russian Federation has adopted regulations that introduce IFRS and IAS in Russia;
- the Ministry of Finance of the Russian Federation has adopted regulations that give effect to IFRS clarifications in Russia - IFRIC Clarifications and SIC Clarifications;
- Official Letters of the Ministry of Finance of the Russian Federation have been published that answer practical questions that arise when organizations prepare and submit IFRS reports;
- Federal Accounting Standards have been adopted;
- a number of draft Federal Accounting Standards are under public discussion;
- studies have already been conducted on the theoretical aspects of the formation of financial statements in accordance with IFRS of the public sector and the results of these studies have been published by such authors as E. Druzhilovskaya, (Druzhilovskaya 2016) and others;
- theoretical aspects of disclosing accounting policies in financial statements prepared in accordance with IFRS of the public sector have been studied and the results of these studies have been published by authors such as L.I. Kulikova, F.N. Akhmedzyanova, A.V. Ivanovskaya, (Kulikova, Akhmedzyanova, Ivanovskaya 2016) and others;

\*Address correspondence to this author at the Kazan Federal University, Russia; Tel: +7 (843) 233-71-09; Fax: +7 (843) 292-44-48; E-mail: guzelchan@mail.ru

- interesting is the study of the influence of the tax factor on the formation of financial statements in accordance with IFRS of the public sector, which has been studied and published by such authors as O.V. Dedova, (Dedova 2019) and others;
- also, the specific features of disclosing accounting policies in financial statements compiled in accordance with IFRS by individual commercial organizations have already been studied and the results of these studies have been published by such authors as T.N. Shilova, T.V. Ostapchuk (Shilova, Ostapchuk 2019) and others;
- the influence of the price factor on the formation of financial statements in accordance with IFRS of the public sector was also studied and published by such authors as M.R. Safullin, G.G. Derzayeva, L.A. Elshin (Safullin M R, Derzayeva G G, Elshin L A 2013) and others;
- also carried out some research and practical experience in the formation of financial statements in accordance with IFRS of the public sector at different levels of the budgetary system of the Russian Federation. For example, such authors as Derzayeva, G.G. Akhmadieva, (Derzayeva, Akhmadieva 2014) and others reviewed the formation of financial statements in accordance with IFRS of the public sector at the local level.

Thus, the study of the theoretical aspects of the formation of accounting policies in accordance with IFRS in the public sector has been carried out in sufficient detail. However, practical experience is very often beyond research. Therefore, we consider it necessary to fill this gap using the example of Russian universities.

According to the IFRS, the public sector entities are the national and regional governments, local governments, and their units. However, according to the Russian standards, the so-called "public sector" is the state (municipal) institutions, state academies of sciences, state bodies, local governments, governing bodies of the state extra-budgetary funds, governing bodies of territorial state extra-budgetary funds, with the exception of government-owned commercial entities. (The Conceptual Framework for General Purpose Financial Reporting for Public Sector Entities, developed and approved by the International Public Sector Accounting Standards Board).

## SUBJECT OF RESEARCH

The subject area of our research is the educational entities of higher education. Let us consider the financial statements prepared in accordance with the International Accounting Standards for the public sector as of December 31, 2018 of four leading Russian educational institutions:

- Higher School of Economics National Research University Federal State Autonomous Educational Institution of Higher Education - hereinafter referred to as the HSE .( Financial statements prepared in accordance with the International Public Sector Accounting Standards of the Higher School of Economics National Research University Federal State Autonomous Educational Institution of Higher. 2018).
- Korolev Samara National Research University Federal State Autonomous Educational Institution of Higher Education (Samara University) - hereinafter referred to as Samara University (SU) .( Financial statements prepared in accordance with International Public Sector Accounting Standards of the Korolev Camapa. 2018).
- Peoples' Friendship University of Russia Federal State Autonomous Educational Institution of Higher Education - hereinafter referred to as RUDN University. (Financial statements prepared in accordance with the International Public Sector Accounting Standards of the Peoples' Friendship University of Russia Federal State Autonomous Educational Institution of Higher 2018).
- Moscow Institute of Steel and Alloys National Research Technological University Federal State Autonomous Educational Institution of Higher Education - hereinafter referred to as the Moscow Institute of Steel and Alloys. (Financial statements prepared in accordance with International Public Sector Accounting Standards of the Moscow Institute of Steel and Alloys National Research Technological University Federal State Autonomous Educational Institution of Higher 2018).

When reporting in accordance with IPSAS, the significant attention is paid to the disclosure in the notes to the statements. The disclosed information should include: the operating conditions of the

educational entity, the significant provisions of the accounting policies and financial risks that may affect the entity. The most significant information disclosed in the notes to the financial statements is the essential provisions of the accounting policies, since it is necessary for users to understand the main indicators of the statements, as well as to evaluate the entity's activities.

## RESEARCH METHODOLOGY

When creating the accounting policies, the universities use the International Public Sector Accounting Standards 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, which is based on the International Accounting Standard (IAS) 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (International Public Sector Accounting Standards 3 *Accounting Policies, Changes in Accounting Estimates and Errors*). According to the IPSAS 3, the accounting policies are specific methods, foundations, assumptions, rules and methods used by the entity for the preparation and presentation of financial statements. It acquires the status of an internal regulatory document that facilitates the practical implementation of the IPSAS. Based on the analysis of the financial statements of the above universities, several main sections can be distinguished, the information on which is reflected in the notes to the financial statements prepared in accordance with IPSAS regarding disclosure of information on the accounting policies:

1. Basics of the preparation of consolidated financial statements.
2. Consolidated financial statements.
3. Cash and cash equivalents.
4. Accounts receivable and prepayments.
5. Inventories.
6. Costs of research.
7. Financial investments.
8. Fixed assets.
9. Intangible assets.
10. Accounts payable.
11. Settlements with founder.
12. Revenue from exchange and non-exchange transactions.
13. Segment reporting.

## ANALYSIS

Let us consider in Table 1 what are the content of sections of the accounting policies concerned with the listed items is, and how each of the universities under consideration reflects information on these items in the notes to the statements prepared in accordance with IPSAS regarding disclosure of information on accounting policies.

The study of disclosure of information in the notes to the financial statements on the essential elements of accounting policies brings us to the conclusion about the facilities that are included by the Russian universities in the accounting policies formed in accordance with the International Public Sector Accounting Standards, as well as the substantial similarity of many approaches to the formation of accounting policies in accordance with the International Public Sector Accounting Standards. The study shows that above universities do not require to apply new accounting standards approved by the Board in accordance with IPSAS, because it's is not required yet.

Table 2 shows us in more detail what accounting policies are selected by the above Russian universities when preparing the statements in accordance with IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" in terms of disclosure of information on the basis of reporting, on cash and cash equivalents, on receivables and prepayments, on inventories, on costs of research, and on intangible assets and fixed assets.

According to Table 2, the study of information disclosure in the notes to the financial statements on the essential elements of the accounting policies allows us to conclude that not all information should be disclosed in the accounting policies. Most of the data listed are redundant. For example, the inclusion of most of the inventory valuation rules in the accounting policies is not mandatory, since these rules are not accounting options selected or developed by the entity itself, but the regulation of the relevant International Public Sector Accounting Standards (in this case, IPSAS 12). For the same reason, we consider it unnecessary to disclose the following information in the



**Table 2: Information on the Main Provisions of the Accounting Policies in the Notes to the Statements Prepared in Accordance with IPSAS by the Russian Educational Institutions**

	Higher School of Economics National Research University	Samara University	RUDN University	Moscow Institute of Steel and Alloys
Reporting basics	These consolidated financial statements for the year ended on December 31, 2018 have been prepared in accordance with IPSAS. In the absence of specific IPSAS requirements applicable to the transaction, other event or condition, the requirements of IFRS were applied.			
Cash and cash equivalents	Cash and cash equivalents include cash on hand, funds in a personal account with the Federal Treasury of the Russian Federation, funds in bank demand accounts and other short-term highly liquid investments with original maturity not greater than three months under the contract. Temporary disposal funds (with restricted use) are included in other assets.			
Accounts receivable and prepayments	Accounts receivable are accounted for on the accrual basis and carried at depreciable cost. Prepayments are carried at the payment date and are recognized as post-service expenses in the consolidated statement of financial performance.	The accounts receivable and bank deposits are initially accounted for at fair value plus transaction costs, and then at depreciable cost using the effective interest method, less provision for impairment. Impairment losses on accounts receivable and bank deposits are accounted for as surplus or deficit.		Accounts receivable are carried at depreciable cost using the effective interest method, less any impairment losses. The impairment losses are accounted for as income or expense.
Inventories	The inventories are carried at the lower of net cost or net selling price. The net cost of inventories is determined from actual cost. It includes the costs of acquiring inventories, the costs of production or processing, and other costs of delivering inventories to their present position and bringing them into appropriate condition. The net selling price is the estimated selling price in the ordinary course of business, less the estimated costs of completing inventory production and selling it.		The inventories are accounted for at actual cost, which does not exceed the current value of reimbursement. The current cost of reimbursement is the cost that the University would have to incur at the reporting date to acquire the asset. When releasing inventories for use, the cost of inventories is recognized as the current period expenses. Subsequently, the inventories are measured at the lower of two values: acquisition cost or net selling value.	
Costs of research	The intangible assets resulting from research are not subject to recognition. The expenses incurred during research shall be accounted for as expenses at the time of occurrence.			
Intangible assets	An intangible asset is accounted for only if: (a) it is probable that the entity will receive the expected future economic benefits or the beneficial uses inherent in the asset; and (b) the net cost or fair value of the item can be measured reliably. The intangible assets are depreciable on a straight-line basis over their useful lives. Following initial recognition, the intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment losses.	The development activities include the application of the research results or other knowledge in the planning and design of prototypes and models of new or significantly improved materials, devices, products, processes, systems or services prior to their production for commercial purposes or beneficial use. The development costs are capitalized only if they can be reliably estimated, the production or process is technically and commercially feasible, it is likely to receive future economic benefits or beneficial use, the University intends to complete the development process and use or sell the asset and has sufficient resources to do so.		An intangible asset is accounted for only if: (a) it is probable that the entity will receive the expected future economic benefits or the beneficial uses inherent in the asset; and (b) the net cost or fair value of the item can be measured reliably. The intangible assets are depreciable on a straight-line basis over their useful lives. Following initial recognition, the intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment losses.
Fixed assets	The item of fixed assets is accounted for only if: (a) it is probable that the entity will receive the future economic benefits or the beneficial uses inherent in the item; and (b) the net cost or fair value of the item can be measured reliably. Initial recognition. The fixed assets resulting from exchange transactions are initially measured at cost of acquisition. The depreciation is calculated on a straight-line basis by writing off the historical cost of the assets to their residual value on a straight-line basis over their useful lives. The land is not depreciated. The residual value of an asset is the estimated amount that the University would currently receive from the asset disposal after deducting the estimated costs of disposal if the asset had already reached the end of its useful life and the condition typical for the end of its useful life. The liquidation value of assets and their useful lives are reviewed and, if necessary, adjusted at the end of each reporting period. Follow-up evaluation. The fixed assets are carried at historical cost less accumulated depreciation and any impairment losses. The costs of minor repairs and maintenance are recognized as current period expenses. The costs of the fixed assets modernization are capitalized.			

accounting policies generated in accordance with IPSAS:

- identification of associates and characterization of the equity method, according to which investments in these associates are taken into account (duplicating the IPSAS 7);
- identification of related parties (which is a copy of the IPSAS 20);
- description of the rules for determining the historical cost of fixed assets and intangible assets (duplicating the IPSAS 17 and 31);
- description of the rules of accounting for impairment and the derecognition of fixed assets and intangible assets (duplicating the IPSAS 17 and 31, as well as IPSAS 21 and 26);
- general rules for accounting for revenue from exchange and non-exchange transactions (duplicating the IPSAS 9 and 23);
- composition and general rules for evaluating and offsetting of financial instruments (duplicating the IPSAS 28-30).

We believe that including information in the accounting policies that duplicates the regulation of IPSASs (in this case is not information on the accounting options selected by the entity from the accounting options permitted by these standards or the accounting methods developed independently by the entity (if they are not in these standards)) leads to "awkwardness" of the accounting policies, that is, it is overloaded, redundant and inconvenient for users to use. Such awkwardness makes it much more difficult to find really necessary information on accounting methods selected and developed by the entity in the specified policies.

Thus, it is necessary to avoid disclosure of excessive information in the accounting policies that duplicates the accounting standards.

Let us move to the accounting options selected or developed independently by the Russian entities in the accounting policies formed in accordance with IPSAS. They are presented in Table 2. According to this Table, when preparing the accounting policies in accordance with IPSAS, the Russian universities prefer to use the weighted average cost method as an estimate of depleted inventories. However, in some cases, other

estimation methods may be required to provide more reliable accounting and reporting information (method of estimating the value of each unit of inventory and the FIFO method).

According to Table 2, when preparing the accounting policies in accordance with IPSAS, the Russian universities prefer to choose the straight-line method of depreciation of fixed assets and intangible assets, however IPSAS 17 and IPSAS 31 provide other methods. The straight-line method does not always most accurately reflect the pattern of future economic benefits. For assets, the return on which gradually decreases over time, it is advisable to use the declining balance method. And for items whose depreciable value decreases in proportion to the gross volume of production or work performed; it is more appropriate to use the depreciation method in proportion to the volume of production (work).

According to Table 2, when preparing the accounting policies in accordance with IPSAS, the Russian universities prefer to choose the valuation method based on historical cost less accumulated depreciation and impairment losses as a model for the subsequent measurement of fixed assets and intangible assets. Such choice is justified for valuing the intangible assets, since they are more often unique and, therefore, it is impossible to determine their fair value for the model for subsequent accounting for intangible assets at revalued amounts.

However, for intangible assets by which their fair value can be determined, in some cases the revaluation is necessary in order to provide the realistic information on their value. Thus, we consider it appropriate to use a subsequent valuation model at revalued cost less accumulated depreciation and impairment losses. The fixed assets, in contrast to these assets, are much less likely to represent unique items by which it is impossible to calculate their fair value. As a result, in order to reflect the information on the realistic value of fixed assets, a model for their subsequent measurement at revalued cost less accumulated depreciation and impairment losses is often used.

## **CONCLUSION**

Summing up, we note that, the study made it possible to identify unnecessary information that Russian universities include in their reporting prepared in accordance with IFRS for the public sector. This

information duplicates the text of public sector IFRS and complicates the reading of the statements. Therefore, it must be excluded from reporting. In addition, the study revealed deviations in the formation of accounting policies by Russian universities in terms of the choice of methods of depreciation of fixed assets and intangible assets, as well as the assessment of reserves. For assets, the return on which gradually decreases over time, it is advisable to use the diminishing balance method. And for objects, the amortized cost of which decreases in proportion to the volume of products produced or work performed, it is more appropriate to use the cost write-off method in proportion to the volume of products (works). And to present more reliable accounting and reporting information on the valuation of reserves, it is often required to use the valuation method at the cost of each unit of reserves and the FIFO method.

Thus, the conducted research revealed the similarity of many approaches to the formation of accounting policies in accordance with IPSAS by the Russian universities, and many of the problems of preparing the specified accounting policies and ways to solve them are similar.

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