

THE IMPACT OF FACTORS OF ACCOUNTING ELEMENTS RECOGNITION AND VALUATION ON THE CORPORATE PROFIT

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Abstract

The standardization of accounting and the international context of globalization are changing dramatically its content from both an economic and a legal point of view. The art of an accountant is manifested by his professional capability to anticipate the most effective factors affecting the current state of profitability and its growth and achieving high cost effectiveness of the enterprise.

The accounting system is based on the principles of recognition and valuation of accounting elements, including long-term and current assets, liabilities consisting of equity capital and debt, revenues, expenses, as well as costs resulting from the economic and financial activities of the enterprise. The condition and changes of these elements depend on the efficiency of selected methodological techniques and methods of their recognition and valuation, recommended by the regulatory and legislative acts on accounting.

This paper examines situations of both economic and legal nature, in which the quality of accounting objectivity and reliability should be observed in the process of fulfilling the requirements of the National Accounting Standards (NAS). In compliance with the NAS basic conditions, the model is represented by the annual accounting policies of the economic entities of the Republic of Moldova. The paper considers some problems of the accounting policies content regarding the influence of various factors related to recognition and valuation of the financial accounting elements on changes in the accounting profit.

The author considers issues of the content of financial policy from the point of view of the characteristics of accounting, tax and contractual policies and the impact on profit of a set of factors determined by the administration of the enterprise when recognizing and valuating the relevant accounting elements. In practice, accounting policies describe insufficiently the techniques and methods for the recognition and valuation of the above elements, without specific economic analysis of the causes and consequences of effectiveness of their impact on financial performance. This is demonstrated by the data on accounting policies of several companies, reported by our university students who did their internship in the period 2018-2019. These policies include, at best, only a list of general requirements of the relevant standards, without analytical justification of the effectiveness of the described techniques and methods for profitable activity of the enterprise.

Keywords: accounting policies, accounting elements, factors of recognition and valuation of accounting elements, profit and loss, profitability, revenues, expenses, costs

1. Introduction

Financial policy like any other policy is the art of the possible. For financial policy, this “possible” is the choice, by managing bodies, of appropriate methodological techniques that allow achieving sufficient financial position for the enterprise’s activity in the long term. The purpose of the financial policy is to ensure monitoring of the current state of the main

elements of accounting (assets, equity, liabilities, revenues, expenses, and economic events) and their positive changes.

Each accounting element consists of specific analytical components, which should receive their financial reflection in terms of the accounting recognition and monetary valuation provided for in the accounting standards. Speaking of financial policy as the art of the “possible” [3, p. 24] the enterprise should strive for rational choice of both buyers and suppliers in order to organize favorable settlement relations, timely get and reimburse credits and loans, and to reasonably influence financial indicators of corporate development.

Rationality of such choice is manifested through recognition and valuation of economic elements and events, for which, in our opinion, it is necessary to perform preliminary analysis of positive and negative situations that affect profit. This analysis will result in using the most effective methodological technique or method when reflecting economic events in accounting.

2. Degree of research of the problem, the purpose of study

In accordance with accounting regulation [1, item 8; 2 of the NAS “Accounting policies, changes in accounting estimates, errors and subsequent events”] enterprises should independently develop their accounting policies based on corporate structure, relevant industry and other peculiarities of corporate activity. However, practice demonstrate that, often, the top management of most companies does not clearly understand the significance and possibilities of accounting policies and develops them using standard formulations without leveraging the appropriate method or principle for the recognition of an accounting indicator specific for the company.

The essence of accounting policies is to choose the direction aimed at maximizing accounting profit, using methodological techniques, rules and principles provided by national standards and other normative and legislative acts on accounting. To determine profit, an economic entity always uses the income represented by the amount of recognized or received proceeds. Revenues are always obvious, while expenses are usually questionable, as the latter are determined by the accounting methodology and the specific ways of accounting implementation.

In addition, the revenues are always objective because they can be verified by documents. Expenses are mostly subjective, and therefore there are discrepancies between the determined profit in terms of financial and fiscal accounting. With the same revenues, profit may vary depending, for example, on the method used to recognize expenses from the accrual of depreciation of fixed assets, the variant of valuation, revaluation, impairment of commodity assets, the reserve formation procedures, and the methods of distribution of indirect production costs, etc.

The issues of the quality of developed accounting policies were repeatedly discussed in national periodicals and magazines, including “Contrabilitate și audit” and “Accounting and tax consultations”, taking into account the amendments to NAS. Opinions on this topic were expressed by scientists and practitioners from the Republic of Moldova and from abroad: V. Tsurkanu, V. Bukur, A. Nederitsa, E. Bazheryan (Republic of Moldova), M. Vakhrusina, N. Generalova (Russian Federation), I. Veriga (Ukraine), and others. However, in our opinion, in

the characteristics of the content of accounting policies they do not critically disclose the analytical rationale for the application of appropriate selected methodological accounting techniques and methods, depending on the financial performance of a particular enterprise.

At the same time, it should be taken into account that the ways, rules, methods and techniques for recognition and assessment of accounting elements can be different and, accordingly, they can either increase the profit or decrease it. The accountant should analyze and find the golden mean, taking into account the factors of time and space favorable for the interests of the enterprise.

The purpose of this work is to refocus research on the use of accounting policies in the system of internal accounting and reporting data in the interest of rational approach to the identification of the most effective factors for the recognition and valuation of accounting elements and their impact on the enterprise profit-making. The goal was achieved by studying both the accounting policies in the part of accounting elements recognition and valuation, and the content of tax and contractual policies that influence the financial performance of the enterprise.

3. Applied methods and materials

In this work methodological studies are based on fundamental and specific developments based on theoretical scientific recommendations and practical sources about the results of activities related to the problems of finding the most effective and high-quality content of accounting policies regarding the factors of recognition and valuation of accounting elements.

Research was conducted in the sequence of dialectical method of cognition and the choice of models that favor the influence on the enterprise profit. Some conceptual definitions of economic categories have been considered.

Another most significant stage in the studies is manifested through the critical study of the content of accounting policies of several entities, taking into account NAS amendments of 01.01.2020. The analysis of factual material made it possible to focus attention on the need to study it using scientific methods of analysis and synthesis, as well as monitoring, selection, comparison and grouping in the process of formulating proposals and scientific conclusions regarding the factors for the recognition and valuation of accounting elements and their impact on profit.

The results of the study are aimed at studying specific factors for the recognition and valuation of accounting elements: long-term (fixed) and short-term (current) assets, revenues, expenses, as well as factors of tax and contractual nature and specific recommendations regarding the content of company's accounting policies.

4. Research results and discussions

Tax policy based on financial accounting is also part of accounting policies and is guided by the relevant rules of methodological choice according to the requirements of the Tax Code. The Chief Accountant and the corporate management of the enterprise strive, as a rule, to

minimize taxable profit. Accounting techniques used to perform valuation of assets, recognition of sales proceeds, and costs write-off constantly come into contact with the issue of corporate taxation, as well as with the issue of financial position ensuring the interests of shareholders, potential investors, and creditors.

Varying a set of methodological techniques and rules, the accountant develops a policy of reducing tax payments on both corporate income tax and value-added tax, real estate tax and other budgetary deductions, while relying on his/her own professional judgment, given that some revenue being recognized for financial accounting purposes may not be recognized for tax purposes (tax accounting) and, on the contrary, it is not recognized in financial accounting purposes, but recognized in tax policy. A similar picture occurs with the recognition and non-recognition of expenses. Moreover, the diverse approach to recognition and non-recognition of expenses has received the most expressive character. These are associated with limited travel and hospitality expenses, regulatory limit amounts for loss of commodities and materials, impairment losses, different approaches to recognizing the depreciation costs of long-term tangible assets and their repairs, and other expenses incurred in the interest of corporate business activity of the company.

The contractual policy should also be considered as an integral part of accounting policy; it has a significant influence on the formation of financial position in terms of economic entity profitability.

In the contracts for the supply of valuables or provision of services or execution of works between suppliers and buyers (contractors and customers), the terms of evaluation are agreed, as well as the forms and procedures of settlements on terms (advance payment or post-payment after shipment or execution of works), on forms of payment (money or barter exchange of values), as well as on terms of the commission agreement or direct commercial relationship between the seller and the buyer [3, p. 328].

It is worth noting that a significant factor influencing the scope of contractual obligations and therefore determining the revenues and expenses of contractual parties is the variation of corresponding obligations due to discounts for early payment of goods sold or due to differentiation of the cost of obligations. In this case, the amount of profit will change or will be fixed if the buyer pays the monetary obligation to the seller ahead of schedule or within the specified period according to contractual terms. There may be different factors influencing obligations variation on the amounts of discounts for urgency of payment for mutual benefit of the buyer and the seller. The former reduces debt for acquired goods, and the latter faster replenishes the on-balance-sheet asset, which in turn generates additional returns.

At the same time, both parties incur losses due to these contractual terms. The buyer spends money for early payment sooner than it would be possible otherwise, thus reducing its working capital, which brings economic benefit, and the seller loses the earnings related to the amount of discount for buyer's early payment of goods. In connection with situations concerning changes of factors regarding recognition and valuation of commercial liabilities and accounts receivable and their impact on profit, it would be advisable to separate the terms of contractual policy into a separate item within the accounting policies of the enterprise.

Let's take a closer look at the requirements for recognition and valuation of individual accounting elements provided in the national standards.

According to NAS, “Long-term intangible and material assets” are recognized as such in accounting, if their relevant objects can be identified and controlled and if it is possible to obtain future economic benefit from their use, and the initial and balance-sheet value of each of them can be reliably estimated. In the process of acquisition, by means of purchase or production of long-term assets, both tangible and intangible, capitalization of expenses (costs) in these assets occurs, and when the latter are being used, expenses are recapitalized by calculating their depreciation amounts.

In a balance sheet, the value of long-term assets changes under the influence of accumulated depreciation, impairment amounts, and their revaluation. Hence the conclusions, that by varying the capitalization and recapitalization process, by using different methods for calculating depreciation, determining depreciation value and term of use of objects, by calculating losses from impairment losses and their reversal, as well as determining differences from revaluation of individual objects, the enterprise allows various factors to influence the accounting profit. In this case, accountant's professional performance is valued not so much in terms of bookkeeping accuracy, but rather in terms of confidence and reliability of forecasting the influence of this or that method or technique or methodological calculation as a factor increasing or decreasing the profit.

Thus, various methodological accounting techniques for the recognition and valuation of long-term intangible and tangible assets, respectively, affect profits differently; therefore there is a need to specifically describe in annual accounting policies the analysis of choices most effective for the corporate financial result.

Profit variation also depends on recognition and valuation processes of working assets, including the condition and use of reserves. In contrast with principles of recognition for working assets, including reserves, which are to some extent identical to those for long-term assets, the problems of valuation and their variability differ in many ways in terms of their specificity of turnover.

The system of pricing on the proceeds and sales of products and goods is often decisive and basic when determining the sources of financial results of the company's activity. Establishment of trade allowances for sale of goods considering the desired level of profitability given an assortment breakdown [5, p. 19], determination of the net cost for goods and products to be sold by means of FIFO and LIFO methods, weighted average calculation of prices for their disposal, become largely determinative for the formation of gross profit. It is impossible not to take into account the factor of setting the materiality (significance) threshold [6, p. 12], which the companies are guided by in capitalization of expenses for the delivery of specific stationery and household items, inventory, as well as in the accrual of depreciation of low-value and high consumable items. Accounting standards give the company the right to classify and determine the initial value of items as fixed assets or as low-value and high consumables items. This situation will affect the methods for calculating depreciation or amortization, which in turn will bring the influence of factors, recapitalization of expenses related to the profit-generating system.

At manufacturing plants, significant factors influencing profit change are the process of calculating the net cost of goods and the methods for distributing indirect production costs, including the part that is considered as permanent. The value of the production cost depends

on the following: a) method used to distribute indirect costs (variable and fixed) between finished goods and the work in progress; b) amounts of fixed indirect production costs related to the net cost of finished products and their part written off for current expenses of the enterprise when using partial equipment capacity; c) methods of distributing indirect production costs between products in net cost calculation.

Thus, techniques and methods used for calculating the true cost value of finished products are in turn significant factors influencing the profit and its change.

One more factor also influencing profit change concerning the estimation of corporate inventory in terms of net sale value on the reporting date in the situation where the actual net cost is higher than the net sale value, is worth to be mentioned. In this case, adjustments regarding inventory impairment [4, p. 83] are recorded as expenses and are reported separately in the nominal account. At trade enterprises, the essential factor influencing profit is the determination of the goods' cost of sales and calculation of the trade allowance on sold and unsold goods.

The above-mentioned inventory recognition and valuation factors, as well as other valuation changes associated with the inventory receipt, use and disposal should be clearly described in accounting policies in order to anticipate the predictive impact of most effective ways for improving profitability when making management decisions.

Corporate economic activity consists of operations with revenues and expenses, which are the basis for the determination of financial results. The results are characterized by profit or loss, which depends on the ratio between revenues and expenses as elements of accounting.

Corporate revenues are often recognized in the process of increasing economic benefits due to receipt of assets, increase in their value or decrease of liabilities for appropriate reasons. Revenues are estimated using the amount of net value of goods sold, services provided, received or expected to be received by an economic entity. In addition to the "Revenues" accounting standard, methods of recognition and valuation of various revenues from other activities are defined in the standards on construction contracts, leasing contracts, reserves, long-term assets and in other NSAs. In the accounting policies of the enterprise, the main focus is on the choice of those methods and techniques, i.e., factors of influence on profit that will most effectively affect the final operational financial result. Taking into account the factors that influence changes in profit in terms of revenues, again it is necessary to adhere to the principle of space and time, that is, to recognize the revenue as current or attribute it to future periods, and perhaps this deal reflects no revenue at all. Along with this, the magnitude of the impact on profit change is very clearly tracked by how accurately and timely the proportion of future long-term revenues will be related to current revenues. For example, if the amount of rent is received in advance for 3 years, then one thirty-six share of the earlier assigned amount to long-term revenues of future periods should be attributed to the current monthly revenues.

In addition to revenues from the sale of products and goods, and also revenues from various services rendered, the company can supplement its revenue portfolio with dividends for the use of its property by other entities, interest for the loans and credit lines granted, and by royalties for the use of intangible assets. Identification and recognition of the above-mentioned revenues in accounting, as well as recognized expenses, is carried out on the basis

of fundamental principles of accounting, which are the accrual method and the prudence method. The first of them requires the recognition of revenues and expenses as facts of economic content, but not at the moment of payment or receipt of cash. In this case, the accountant should keep track of the moments of accrual, and hence the recognition of revenues or expenses from the processes of their change. It is important not to allow recognition of revenues or expenses on a cash basis, but on an accrual basis. The prudence concept also has a significant impact on the corporate profit, on the basis of which a fair and fact-based reporting of financial results in financial statements is achieved. This method does not allow overestimation of assets and revenues and underestimation of expenses and liabilities. However, the amendments to accounting standards enacted as of 01.01.2020, recommend making corrections in revenue and expense accounts due to correspondence adjustments by reducing the amounts on accounts of grades 6 and 7. In this case, for the purpose of objectivity of analysis results and determination of real factors, it is necessary to take care not to underestimate the expenses and overestimate the revenues of the enterprise, which affect the actual change of the former and the latter.

Expenses recognized and accounted for in financial accounting are the most difficult and vulnerable factor in situations of profit-making and determination of taxable profit. In accounting policies, it is important to describe, as far as possible, the most detailed list of such expenses as sales expenses, administrative expenses, and other operating expenses. It is reasonable to separate certain items from the list of items recommended by NAS into groups of predicted (planned) and unproductive ones, that is, unforeseen with regard to financial results. Analytical accounting of expenses should be conducted in ledgers on a cumulative total from the beginning of the year according to the pre-established structure of items; the corresponding nomenclature list must be included in the accounting policies.

From our point of view, accounting of expenses on subaccounts of synthetic accounts 712, 713, 714, recommended by the General Plan of Accounts, does not allow to reveal the true content of expenses for their analysis, since the synthesizing of expenses into separate groups on subaccounts decreases the possibility of their analytical study in terms of recognition and valuation of the corporate expenses.

We believe that the problems of recognition and valuation of accounting elements and their reflection in accounting policies deserve more attention and require further research from the position of choosing effective factors of their influence on the financial results.

5. Conclusions

Based on results of studying the aspects of recognition and valuation of accounting elements and their influence on the corporate profit formation, the author made the following conclusions:

- 1) In order to reflect the transparent content of accounting policies and to consciously understand the recommended methodological accounting methods and techniques for recognition and valuation of accounting elements, we recommend carrying out a preliminary analysis of an effective impact of numerous options and methods of calculation provided for by legislative and regulatory acts on the financial result.

Thereby, accounting and other management bodies will be able to maximize the positive factors for increasing the accounting profits and minimize factors negatively affecting it.

- 2) Bearing in mind the importance of the contractual policy in considering the influence of various contractual factors in the acquisition (shipment) of goods and materials, provision of services and execution of works between the supplier and the buyer (the customer and the contractor) on changes of revenues and expenses of the parties of such contractual relations, we consider it reasonable to separate the content of the basic most effective conditions provided in the concluded contracts regarding the mentioned accounting events of a company in a special section in the accounting policies. This will predetermine the impact of relevant factors on the recognition of obligations, receivables, as well as on the revenues and expenses of those deals.
- 3) In order to combine clarity and transparency between the requirements of normative and legislative aspects of financial accounting, and the provisions contained in the Tax Code of the Republic of Moldova, when determining the accounting profit, we consider it necessary to separate the content of tax policy as an individual item (section) in the accounting policies, thus providing a practical opportunity to simplify and facilitate the calculation of the main taxable obligations.

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Rezumat

Standardizarea și condițiile internaționale ale globalizării contabilității brusc au schimbat conținutul acesteia din punct de vedere economic și juridic. Arta contabilului se pronunță nemijlocit prin posedarea profesională a previziunii celor mai eficienți factori de influență care afectează starea, creșterea profitabilității și obținerea unei rentabilități avansate a activității entității.

Sistemul organizării contabilității se bazează pe principiile recunoașterii și evaluării elementelor contabile, printre care se prezintă activele imobilizate și circulante, pasivele, reprezentate de capitalul propriu și datorii, precum și veniturile, cheltuielile, costurile determinate în rezultatul desfășurării activității economico-financiare a entității. Starea și modificarea elementelor enumerate depind de eficiența motivației condiționate de selectarea diverselor procedee și metode de recunoaștere și evaluare a acestora recomandate de actele legislative și normative contabile.

Prin prezența lucrare sunt cercetate situații de natură economică și juridică care cer respectarea calității obiectivității și autenticității contabilității în procesul executării cerințelor Standardelor Naționale de Contabilitate (SNC). Model de respectare ale condițiilor de bază ale SNC sunt politicile contabile elaborate

anual în fiecare entitate a Republicii Moldova. În lucrare se examinează unele probleme privind conținutul politicilor contabile din perspectiva influenței diferenților factori de recunoaștere și evaluare a elementelor contabilității financiare asupra modificărilor profitului contabil.

Problemele conținutului politicii financiare sunt studiate de autor din punctul de vedere al caracteristicilor politicilor contabile, fiscale și contractuale și al influenței asupra profitului a unui complex de factori determinați de administrarea entității prin prisma recunoașterii și evaluării elementelor contabile corespunzătoare. În practică, politicile contabile conțin dezvoltarea insuficientă a procedurilor și metodelor de recunoaștere și evaluare a elementelor indicate mai sus, fără o analiză economică a cauzei și efectului eficienței influenței acestora asupra rezultatului activității financiare. Acest lucru este demonstrat de datele politicilor contabile ale unui șir de entități, prezentate de studenții universității în perioada de practică din anii 2018-2019. În acestea se tratează, în cel mai bun caz, doar enumerarea cerințelor generale ale standardelor corespunzătoare fără o analiză întemeiată a eficienței unui procedeu, unei metode în interesul activității rentabile a entității.

Cuvinte-cheie: politici contabile, elemente contabile, factori de recunoaștere și evaluare a elementelor contabile, profit și pierdere, rentabilitate, venituri, cheltuieli, costuri

Аннотация

Стандартизация бухгалтерского учёта и международные условия глобализации резко меняют его содержание как с экономической, так и с юридической точек зрения. Искусство бухгалтера проявляется посредством его профессионального владения предвидением наиболее эффективных факторов, влияющие на состояние и рост прибыльности и достижения высокой рентабельности деятельности предприятия.

Система организации бухгалтерского учёта строится на принципах признания и оценки элементов бухгалтерского учёта, которыми являются активы долгосрочные и оборотные, пассивы, состоящие из собственного капитала и обязательств, доходы, расходы, а также затраты полученные в результате хозяйственно-финансовой деятельности предприятия. Состояние и изменения указанных элементов зависит от эффективности выбранных из разнообразных методологических приемов и методов их признания и оценки рекомендуемых нормативными и законодательными актами по бухгалтерскому учёту.

В настоящей работе исследуются ситуации как экономического, так и юридического характера, при которых должны соблюдаться качества объективности и достоверности учёта в процессе исполнения требований Национальных Стандартов Бухгалтерского Учёта (НСБУ). Моделью в соблюдении основных условий НСБУ являются ежегодно составляемые учётные политики хозяйствующими субъектами Республики Молдова. В работе рассмотрены некоторые проблемы содержания учётных политик с позиции влияния различных факторов, связанных с признанием и оценкой элементов финансового учёта на изменения бухгалтерской прибыли.

Вопросы содержания финансовой политики рассмотрены автором под углом зрения характеристик учётных, налоговой и договорной политик и влияния на прибыль комплекса факторов определяемого администрацией предприятия при признании и оценке соответствующих учётных элементов. На практике учётные политики содержат недостаточное раскрытие приёмов и методов признания и оценки указанных выше элементов, без конкретного экономического анализа причин и следствий эффективности их влияния на финансовые результаты деятельности. Об этом свидетельствуют данные учётных политик ряда предприятий представленных студентами-практикантами университета за 2018-2019 годы. В них трактуется, в лучшем случае, только перечень общих требований соответствующих стандартов без аналитического обоснования эффективности определяемых приёмов, методов в интересах рентабельной деятельности предприятия.

Ключевые слова: учётные политики, элементы бухгалтерского учёта, факторы признания и оценки элементов бухгалтерского учёта, прибыль и убытки, рентабельность, доходы, расходы, затраты

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