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ACCOUNTING TREATMENT OF FINANCIAL DEBTS

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Abstract

In a market economy companies require major resources to ensure the continuity of their economic activity, along with funding the development projects, investments etc. The periodical deficiency of their own financial resources involves to the companies a high demand on borrowed funds. Thus, accounting for the financial debts presents an important accounting sector with a controversial evolutionary methodology, which is based on the exact regulation of the processing procedure and delivery of the resulting information to various users, at the same time correlated to the trends of global processes and events.

The article examines the evolution of the financial debts recording in the accounting, according to both the international and the local legal norms in Republic of Moldova through comparative analyses; highlighting the changes in the logic of accounting and identifying the advantages and disadvantages of certain accounting procedures. The subjects of the study are the concepts, the financial debt structure, the borrowing costs, and the accounts for the synthetic records of financial liabilities of the accounting cycle.

***Keywords**: accounting, financial debts, normative acts, accountants.*

1. Introduction

Accounting is a part of the special economic sciences and activities. It is characterised by a strict regulation of the processing procedure and the presentation of accounting information to local and external users with direct and indirect financial interest.

Standardization of accounting activity is prescribed by specific legal requirements based on: Law on accounting [5], National Accounting Standards (NAS) [10] or Financial Reporting Standards (IFRS) [4] and Chart (Plan) of accounts [9].

According to the „Law on accounting”, no. 113-XVI of April 27, 2007, regulation of accounting in Moldova includes:

a) providing normative and unique application requirements for accounting and financial reporting entities, regardless of the type of economic activity;

b) compliance of the requirements of NAS, NASPS or methodological norms approved by the Ministry of Finance for the economic development sector of the country and the requirements of users of financial statements;
c) enabling the unique application of accounting standards including IFRS, or the methodological norms approved by the Ministry of Finance for the public sector;
d) establishment of the accounting standards and the financial reporting for small business entities;
e) establishment of the requirements for the compliance with accounting rules and financial reporting.

Moreover, accounting, as economical science, records the evolutionary changes of its own methodology, matched to the trends of global processes and events. These methodological changes must record the favourable effects of each accounting element of the accounting cycle.

Currently the borrowed capital represents a significant additional source for performing the common activity of any economic agent, for the development, and for the business expansion. The important accounting elements such as financial debts and the expenses/costs go through a significant accounting cycle, the detailed analysis of which is presented in the following. In addition we studied the problems, both the advantages and the disadvantages recorded for the general and conceptual procedures, along with the normative regulation and the accounting cycle of the financial debts, in both the evolutionary relations and the effect of the recent implementation of new accounting laws.

2. Current level of understanding the problem, the purpose of research

Accounting for financial debts is an important accounting sector with controversial methodologies. Actuality of the studied problem emphasised with the transition to the market economy, for the reason that the efficient development of such an economy cannot be achieved without attraction of external funding.

In accordance with the „Concept of Accounting Reform", approved by Government Decision no. 1187 of December 24, 1997, since January 1, 1998, the „Conceptual basics of preparing and submitting financial reports" [2], NAS [6], the „Comments on the applicability of NAS (CNAS)" and the „Chart of accounts" [11] took effect. All these mainly correspond to the EU Directives, IFRS, as well as to the economic development level of the local entities. The analysed accounting sector was regulated by the NAS 23 requirements: „Loan expenses", CNAS 23 „Loan expenses" and NAS 17 „Rent accounting".

Since 2000 the accounting reforms did not practically continue caused by the lack of funding. However, during that period, various national and international changes have occurred, which have evolved towards new requirements on both the accounting methodology and financial reporting. Therefore, the originally implemented NAS and other regulations lost their relevance and the compliance to EU Directives and IFRS.

An unified set of NAS was optionally introduced as from January 1, 2014 and mandatory from January 1, 2015 in order to ensure a relevant degree of veracity of the financial reports (statements) along with the abolition of the one existing before. Simultaneously, the Chart of accounts was modified.

During the process of transition to and the application of the new NAS it is important to take into account the following issues:

1) comments and examples of the new NAS and other accounting regulations have no exhaustive character, but only explain some typical situations on the recognition, measurement and accounting of accounting elements;
2) the terminology used in the new accounting regulations and NAS is taken from the EU directives and IFRS.

The above-mentioned issues are the subject of our research, which is the analysis and the improvement of the accounting methodology of and financial debts, straightforwardly derived from the evolutionary changes of the legislation and accounting judgement.

3. Materials and methods

Accounting for financial debts was addressed through the comparative analysis of accounting regulations. The research includes studying the evolution of accounting methodology of financial debts in terms of accounting reform, integration into and the gradual alignment to international standards in this area. The goal was achieved by the usage of the basic investigative tools such as: analysis, synthesis, comparison, observation, accounting, etc. In addition, critically were analysed the regulations of national and international accounting standards. In the Republic of Moldova, various scientists studied the general features of the accounting for financial debts. Thus, essential contributions in the evolution of accounting thinking of the analysed sector were performed and published by the following authors: Bucur V., Nederiță A., Tostogan P., Graur A. [1, 3, 8].

4. Results and discussions

In a market economy, accounting judiciously and strictly provides the objective, honest and ordered information through financial statements to all user groups such as: suppliers, employees, owners, company's investors, creditors, shareholders, stock values, tax service and other state organizations.

The purpose of accounting science is the continuous modification of the information processing methodology for each affiliated element in order to adjust the effective managerial and other decisions, as well as the effective management of the available resources. In the following we analyse some problematic issues related to the financial liabilities.

4.1. Modification of legislative framework

Table 1: Normative regulation of accounting for financial debts

Basic elements	**NAS (01.01.1998-01.01.2015) [6, 7]**		**NAS (optional from 01.01.2014, compulsory from 01.01.2015) [10]**	
	basic	**additional**	**basic**	**additional**
Normative regulations	NAS 23 „Loan expenses", CNAS 23 „Loan expenses", NAS 17 „Rent accounting".	NAS 1 „Accounting Policy", NAS 3 „Composition of enterprise costs and expenditures",	NAS „Equity and debts", NAS „Borrowing costs", NAS „Lease".	NAS „Accounting policies, changes in accounting estimates and errors, subsequent events", NAS

		NAS 13 „Accounting for non-material assets”, NAS 16 „Accounting for long term material assets”, NAS 21 „The effects of the exchange rates variations”, NAS 5 „Presentation of financial reports” etc.		„Expenses”, NAS „Intangible and tangible assets”, NAS „Exchange rate and sum differences”, NAS „Presentation of financial statements” etc.

Source: proposed by authors based on normative acts

We certify that there have been favorable changes in the regulatory basis of recording the financial debts. Currently the financial debts accounting, in Moldova, is regulated by the „Equity and debts” of NAS provisions. This basic standard is developed under EU Directives, Conceptual Framework for Financial Reporting, IAS 19 „Employee benefits”, IAS 20 „Accounting for government grants and disclosure of government assistance” and IAS 37 „Provisions, contingent liabilities and contingent assets”.

However, by analyzing other basic laws, one may reveal that the definitions have changed, the economy language NAS 23 „Loan expenses”, NAS 17 „Rent accounting”. As regulating drawbacks, for accountants, might consist of exclusion of the numbering standards and, above all, the removal of the subordinate system of normalization – the removal of the comments from NAS. This does not contribute to the completeness of accounting legal system.

Some accounting specialists can question the modifications' equity in definitions of the new National Accounting Standards. What is in essence the leasing, the lease, the rent? What is the cost and the expense? An accountant takes all these aspects in a logical, conceptul, methodical way.

4.2. Modifications in the general conceptual handling of financial liabilities

Each affiliated element is involved in the accounting cycle [5] comprising:

a) primary documents' recording and their compilation;
b) recognition and assessment of accounting elements;
c) accounting information inclusion in the accounts;
d) preparation of the accounting records;
e) the accounting inventory;
f) preparation of the trial balance, of the ledger (Big Book), and the financial statements.

One of the main step in the accounting cycle is the assets recognition, which is impossible without the awareness of the form and content of each accounting element.

Traditionally, debts were accountedly designated as foreign sources of financing the enterprise's assets and as payment commitments of the enterprise to suppliers, for goods purchased and services rendered, as well as commitments to staff on payment, to the state on taxation, to other corporate and individual subjects [3, p. 361]. Liabilities are recorded from previous transactions or events that result from contracts or legislation requirements (examples: the purchase of goods and services with subsequent clearing, the bank loans acquisition, the tax calculation, etc.) [2].

Previously the debt concept was covered superficially and was only a backup in the accounting regulatory basis. One considers that:

- the main feature of a debt is that the enterprise is obliged to act as mutually agreed,
- the liabilities are the result of previous transactions or events.

Today, with introduction of the new NAS and their compulsory usage from January 1, 2015, the conceptual handling of the problem was solved. Simultaneously this accounting element was legally defined as current obligations of the entity, which arise from previous economical doings and whose settlement is expected to result in a resource diminishing that includes economical benefits [10]. Moreover, one should note that the conceptual definition of the debt types, including the financial ones, is missing and presents a crucial omission for specialists.

Financial liabilities include the liabilities associated with the usage of the borrowed capital. Previously as borrowed capital were seen the bank loans as well as the loans in local and foreign currency received by the company from other individuals or legal entities, on a fixed term and for a certain interest [6; 7; 3, p. 363]. Nowadays the financial liabilities [10] include the liabilities related to:

1) credits and loans received for a specified period and for a certain interest or for free;
2) assets received in financial leasing etc.

This change highlights the normative superiority of the logical thinking and the evolution of financial liabilities and accounting methodology, thus, allowing us to define the financial liabilities:

Financial liabilities are the obligations of the entity arising from the economical doings prior to loans, as well as the loans received to assure the enterprise's activity and the assets received in financial leasing.

Financial debt accounting methodology has been also improved in the recognition of accounting elements area. In The Conceptual bases of preparation and delivery of financial statements [2] the recognition of property items was generally addressed for all items that matched the item definition in the financial report to be active or passive. Accounting element had to be documented when:

a) any possible economic advantage for the post might be obtained at the enterprise or might leave it;

b) the post has a value that can be mesured with high accuracy.

The local researchers [3, p. 362] indicated that the debts can be established and can be included in the balance sheet in cases when the following conditions are met:

a) the probability exists that the assets will diminish, cash and other own assets which bear economic benefits,

b) the amount of debts can be accurately assessed.

The NAS's „Equity and debts" specifies that the debts are recognized in accrual basis when:

1) it is certain that the debts settlement will result in an outflow of resources leading to economic benefits;

2) the amount of debt can be measured reliably.

We consider that the last regulation should be extended with the basic criterion to identify the sheet element namely - the legal basis for recognizing the current obligations of the entity which arise from the previous economic activity.

An essential part of financial debts is the liability connected to the temporary usage of foreign sources. The Borrowing Costs, previously named as loan expenses, identify the opposite element of double-entry accounting of debts, aroused as a result of using the borrowed sources (Figure 1).

NAS 23 „Loan expenses”	NAS „Borrowing costs”	IAS 23 „Borrowing costs”
Loan expenses - expenses for interest payment and / or other expenses incurred by the company in connection to the receipt of borrowed loans.	Borrowing costs - interest and other costs related to the received loans and financial lease.	Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

Figure 1: Conceptual definition of the payment due to managing foreign sources
Source: proposed by the authors based on normative acts

One should note that in NAS, compulsory as from January 1, 2015, modifications have occurred to adjust to the international regulations. NAS's „Borrowing costs” has been developed based on NAS 23 „Loan expenses” adjustment information in accordance with EU Directives and IAS 23 „Borrowing costs”. Basically the definition of payments born to attract foreign financial sources has not been changed. Moreover, we want to stress on the more precise formulation of NAS's borrowing costs: „Borrowing costs” *vs* IAS 23 „Borrowing costs”, which expresses the deep understanding of the composition and nature of these expenditures by local experts.

Borrowing costs include various elements. Table 2 comprises the evolution of this accounting element.

By analyzing temporal changes in the composition of expenditure / costs for borrowed capital in local and international normative acts, we have found the following:

- NAS 23 „Loan expenses” and IAS 23 „Borrowing costs” contained the same elements on a specific date, but with economic terms differently defined;
- at its implementation at January 1, 2015, the NAS's „Borrowing costs” and NAS's „Expenses”, the international normative act has undergone conceptual changes: the following items were excluded: (b) amortization of discount or of the premiums on loans and (c) amortization of ancillary costs made to obtain loans, which shows the presence of a regulatory disagreement;
- NAS's „Borrowing costs” and the Annex 4 to the NAS's „Expenses” contain specific accounting approaches that are not included in IAS 23 „Borrowing costs”, referring to the differences on borrowings amount to the extent that they are regarded as an adjustment to the interest costs, confirming the continuous improvement of accounting methodology;
- bank overdraft was excluded from regulations.

Table 2: Composition of expenses/costs associated with the borrowed capital

Normative act	NAS 23 „Loan expenses”	NAS „Borrowing costs”	NAS „Expenses” (Annex 4)	IAS 23 „Borrowing costs”
Basic elements	a) interest rates on short- and long-term loans, including bank overdraft; b) amortization of discount or of the premiums on loans; c) amortization of other expenses related to receiving loans; d) financial payments related to finance leases in accordance with NAS 17 „Rent accounting”; e) exchange rate differences occurred in the loans in foreign currency, which are considered as corrections to the expenses due to interest payments.	1) the interest on loans; 2) the additional loan costs (consulting services, banking commission, etc.); 3) financial lease interests recognized in accordance with NAS's „Contracts of leasing (Leases)”; 4) exchange rate and amount differences related to loans as long as they are considered an adjustment to the expenses by the interest; 5) amortization amounts of the premiums for the bonds issued, etc.	1) the interest expenses on bank loans (including bonds and promissory notes issued) and financial lease contracts which are not capitalized in accordance with the NAS's „Borrowing costs”, as well as bank loans and compromised (expired) loans and the paid loans of subsidiaries, associated entities and daughters; 2) charges related to contraction of bank credits and loans; 3) expenses of amortization of premiums for bonds issued; 4) other expenses related to activities of attraction of borrowed sources.	a) interest expense calculated using the effective interest method as described in IAS 39 Financial Instruments: Recognition and Measurement; b) [deleted]; c) [deleted]; d) finance charges in respect of finance leases recognized in accordance with IAS 17 Leases; and e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Source: proposed by the authors based on normative acts

4.3. The modification to the chart of accounts in respect to the synthetic evidence of the financial debts

Changes in accounting regulations have prompted the need to review the chart of accounts. Figure 2 summarizes the changes in the accounts linked to the recording of the financial debts.
For information provision to the financial debt accounting cycle four categories of accounts for synthetic record are provided:

1) long-term financial debts;
2) short-term financial debt / current;
3) expenses / costs for borrowed capital;
4) income from borrowed capital.

In the general chart of accounts, optionally applied in Republic of Moldova as from January 1, 2014 and compulsory as from January 1, 2015 to the chart of accounts of financial-economic activity of an enterprise, there have been a number of changes to the content, ordering, and designation.
From the chart of accounts used during 01.01.1998 - 01.01.2015 there were excluded the accounts designed for generalization of information on bank loans for long-term employees 412 „Long term bank loans for employees” and 512 „Short-term bank loans for employees”. Account 421 „Short – term lease debt”, previously located in computed debt group, was reasonably moved to the group of financial liabilities, being renamed and objectively recoded as required by the new regulations 413 „Long-term Finance lease debts”. To the group of analyzed debts new debt accounts were

added: 414 „Long term debts on saving deposits by members of saving and loan associations”**,** 513 „Short term debts on saving deposits by members of saving and loan associations”.

Chart of Accounts 01.01.1998-01.01.2015	**Chart of Accounts optional from 01.01.2014 compulsory from 01.01.2015**
Long-term financial debts	
411 „Long term bank loans”	411 „Long term bank loans”
412 „Long term bank loans for employees”	*Excluded*
413 „Long term loans”	412 „Long term loans”
There is analog in group of accrued debts 421 „Long term debt leasing”	413 „ Long term debts related to the financial lease”
414 „Other long term financial debts”	*No analog*
No analog	**414 „Long term debts on saving deposits by members of saving and loan associations”**
Short term (current) financial debts	
Short term financial debts	**Current financial debts**
511 „Short term bank loans”	511 „Short term bank loans”
512 „Short term bank loans for employees”	*Excluded*
513 „Short term loans”	512 „Short term loans”
No analog	**513 „Short term debts on saving deposits by members of saving and loan associations”**
514 „Current share (quota) of the long term debts”	*No analog*
516 „Other short term financial debts”	*No analog*
515 „Anticipated current earnings”	*Transferred to the group of accrued debts* 535 „Anticipated current earnings”
No analog	5413 „Preliminary financial lease debts”
Expenses / costs of borrowed capital	
Loan expenses-the recommended approach by NAS 23 „Loan expenses”	*Borrowed costs settled to current expenditure*
7145 „Interest charges for loans and borrowings”	7143 „Interest charges”
Loan expenses - accepted alternative approach	*Capitalized borrowed costs*
112 „Non-material assets in progress”	111 „Intangible assets in progress”
121 „Material assets in progress”	**121 „Tangible assets in progress”**
No analog	**151 „Investment property”**
7223 „Expenditure on exchange rate differences”	7221 „Expenses from foreign exchange rate differences”
No analog	**7222** „Expenses on sum differences”
7222 „Expenditure on financed rent of long-term tangible assets”	7143 „Expenditure on interests”
Income borrowed capital	
6223 „Income from foreign exchange rate differences”	**6221** „Income from foreign exchange rate differences”
No analog	**6222 „Income from sum differences**”

Figure 2: Accounts for synthetic evidence of accounting cycle of financial debts

Source: proposed by the authors based on normative acts

Under the new regulations, the financial leasing interest, which was correctly accounted on account 7222 „Expenditure on the financed rent of long-term tangible assets" is now included in 7143 „Expenditure on interests". Under this account there are accounted all interests including the ones for credits and loans, whose synthetic records were previously kept in a separate account of the second order 7145 „Expenditure on interest rates for credits and loans". In our view the interest rates, as financial element, has rationally to be accounted at the financial expenses account.

The emergence of the new second order accounts 7222 „Expenditure on sum differences" and 6222 „Income from sum differences" emphasizes the role of foreign funds in the national economy, at the same time loading the accounting work by additional operations and increases the processing time of the economic operations. Only the time and their effect on the financial situation of a company will answer the question how justified was their usage.

5 . Conclusions

Accounting as a science and practical activity is dependent on the quality of legal norms in the field. The regulation affects accounting accurate reflection of economic events within an economic entity and the effect of the data provided by accounting on the managerial decisions. Everything is in constant motion and transformation, which is also true for the accounting methodology. It is considered that the new laws are superior to the previous ones, but there are many questions marks on the new terminology, on the logic of economical phenomena interpretation, as well as on the quality of accounting treatments and on the methodological normative acts.

Accounting reforms continue, along with which continue the theory to differentiate from the practice. Improving of the accounting methodology is possible only through communication, dialogue with professionals who expect clarity, simplicity, logic in the information processing. Also accounting normative acts must be more explicit, indicating the goal of the methodical process and the expected effect of its usage. These judgments also refer to the international legal acts.

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Rezumat

În condiţiile economiei de piaţă întreprinderile au nevoie de resurse majore pentru asigurarea continuităţii activităţii economice, finanţarea unor proiecte de dezvoltare, investiţii etc. Insuficienţa periodică a surselor proprii de finanţare impune o cerere mare a întreprinderii privind resursele împrumutate. Contabilitatea datoriilor financiare prezintă un sector contabil important cu o metodologie evolutivă controversată, bazată pe o reglementare strictă a procedurii de prelucrare și prezentare a informației contabile utilizatorilor, coordonată totodată cu tendințele globalizării proceselor și fenomenelor.

În articol se analizează evoluția înregistrării datoriilor financiare în contabilitate conform normelor legale pe teritoriul Republicii Moldova și normelor internaționale prin analize comparative cu evidențierea modificării logicii contabile, identificarea avantajelor și dezavantajelor tratamentelor contabile corespunzătoare. Cercetării sunt supuse conceptele, structura datoriilor financiare, costurilor îndatorării, conturile destinate evidenţei sintetice a ciclului contabil al datoriilor financiare.

Cuvinte-cheie*: contabilitate, datorii financiare, acte normative, cont contabil.*

Аннотация

В условиях рыночной экономики предприятия нуждаются в более значительных ресурсах для обеспечения непрерывности хозяйственной деятельности, финансирования некоторых проектов развития, инвестиций и т. д. Периодическая недостаточность собственных источников финансирования предприятия предопределяет более высокий спрос на заемные ресурсы. Учет финансовых обязательств представляет важный сектор учета с оспоримой эволюционной методологией, основанной на строгом регулировании порядка обработки и представления бухгалтерской информации пользователям, согласованной также с тенденциями глобализации процессов и явлений.

В статье рассматривается развитие учета финансовых обязательств в соответствии с законодательством Республики Молдова и международными нормами, путем сравнительного анализа и освещения изменений в учетной логике, определения преимуществ и недостатков соответствующих учетных процедур. Исследованию подлежали теоретические концепции, структура финансовой задолженности, затрат по займам, счета синтетического учета учетного цикла финансовых обязательств.

Ключевые слова: *бухгалтерский учет, финансовые обязательства, законодательные акты, бухгалтерский счёт.*

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