

## ACCOUNTING PROBLEMS IN RUSSIA

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Russian accountancy was modernized some years ago and at first look seems to be very close to international standards like IFRS. In practice, however, things are very different. This comes from a conception that is different on a basic level and also from the very strong influence from the tax authorities. Basically it should be noticed that in Russia the principle “Form over substance” is applicable. This means, that operations are not registered when they occur, but when the required document is signed. It is easy to imagine that between the moment, when something has been realized, and the moment when the document is signed, there can be a very big and important time gap. This time gap is even more important, considering that in Russia the results must be calculated every quarter and a tax declaration with results must be filed at the end of every quarter. This means that the company has to constantly be up to date with all documentation such as invoices, acts or contracts.

One of the first surprises for foreigners, especially for accountants or financial managers, is that invoices are not accounted in Russia. They don't have more legal importance than other documents, such as acts of acceptance or waybills and delivery notes. Documentation is very important in Russia and all these documents must not only be established, but also duly signed and stamped. Accountants in Russia spend a lot of time phoning each other to acquire signatures, documents or stamps. As mentioned before, this is very important and must be done timely, as next the tax declaration is never far away. But documentation is also foreseen by legislation and for example for a business trip, the company does not need just the expense report, as in Western countries, but three other documents, all signed and stamped.

As the accounting system is very tax driven and as under Russian tax legislation there are very few accruals deductible, generally in Russian accounting you will not find any at all. This is also true for depreciations, for example, of accounts receivables, even if it is possible to deduct them from tax point of view, however, the depreciation of inventories, generally are not deductible.

One other important point, which is not very convenient for foreign companies and financial management, is due to the fact that the Russian Profit and Loss Accounts details are not foreseen. This is because of the Russian method of accountancy, in which all expenses during the month are booked on the balance sheet and at the end of the month, globally and without details, are sent to the Profit and Loss account. In basic Russian accounting software all details are deleted and cannot be used for analyses or even comprehension of the financial results of the company. This needs specific adaptations and developments of software, but also special training of Russian accountants.

The consequence of this is that generally Russian accountancy is not adapted for management reports. And it is not enough to explain to Russian accountants how they should do it for international purpose once, as the basic conception between Russian standards and International standards is quite different.

Of other regulations that often lead to complications, everything related with cash expenses should be noted as quite difficult and very often seems to be non deductible.

Tax authorities look closely at companies that regularly report losses or that want to reimburse VAT. This is on one hand due to the fact that in the past there were many abuses, as many companies were created with the single purpose of avoiding tax payments. On the other hand, tax authorities consider that it is not normal that a company does not pay taxes and as they are to collect taxes, they put pressure on companies to make a profit. This might be astonishing for foreigners who consider that the task of the tax authorities is just to apply tax code, but again in Russia tax authorities consider that their task is to collect taxes. Companies with regular losses are invited to the so called "Loss commission", where a pressure is put on them to realize profits, whatever the means are, and these means are necessarily not related to Russian tax law. This is not just a polite demand from the tax authorities, but companies are put under pressure by being told that there will be tax audit or even that tax authorities could liquidate the company, which is indeed one of the means they could use.

Russian tax authorities pay a lot of attention to the fact if expenses are economically justified and very often have their own opinions about this. For example they might consider that in Moscow a taxi expense is not justified because the person could have taken the metro. They also use formalistic arguments to refuse deduction of expenses. For example, if a bonus is paid to an employee and it is not written in the working contract that the company should pay the bonus, the deductibility of this amount can be refused. In the accountancy, non-deductible expenses are booked separately in different accounts.

As already mentioned, VAT credit is always a problem and tax inspectors have strict instructions to control the situation in order to avoid abuse. It is generally impossible to refund a tax credit and it is necessary to go to the court to get this money back. However, all these accounting rules and tax rules have their own logic and it is possible to understand them. It is very important to know which aspects could be improved and how to use the system. One of the most important points is certainly to find a way to go from Russian Accounting Standards to International Standards and to create a management information system, as the management cannot manage the company in a right way if the accountancy and the information system does not show the economic situation correctly.

As a result, Russian accounting standards have become the usual basis of financial analysis, but these standards have considerable shortcomings and lag behind market needs. Profits as determined according to Russian accounting standards tend to deviate substantially from profits calculated according to IAS. Such statements are not useful for purposes of international comparisons or effective decisionmaking and can easily be misinterpreted.

For many years, Russian accountants' primary responsibility was to generate financial information for control purposes, but not for making decisions. As a result, accountants' prestige was extremely low. Accounting training in the former Soviet Union consisted of an odd mixture of different disciplines (accounting, economics, finance, and so on) and training in technical accounting procedures and accounting principles for different types of economic activity. With the expansion of the accountant's role, accounting education had to go beyond the traditional undergraduate curriculum to include expanded bodies of knowledge in a variety of related fields. Various educational institutions are now providing training in modern international financial management methodologies, and Russian universities have started to include IAS in their curriculum.

It is gratifying to see the radical changes and improvements that have occurred in Russian accounting and auditing methodology in recent years, along with the extensive ongoing work to bring Russian accounting and auditing in line with international norms and practices. By 2012 the similarities in theory, practice, and education will likely be even more pronounced. Nevertheless, based on Russia's particular socioeconomic circumstances, divergences in accounting practices will remain.