

**TIES 2020****International conference «Trends and innovations in economic studies»****ASSESSMENT TOOLS FOR ACCOUNTING POLICY**

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***Abstract***

The article proposes tools to assess the quality of the accounting policy of business entities based on an integrated system that includes both the qualitative criteria and the quantitative indicators. We propose the assessment of the quality of the accounting policy to be carried out at four stages: the assessment of the "general" criteria, the assessment of the "special" criteria, the assessment of the "meeting the requirements of the legislation related to the formation of accounting policy" criterion, a comprehensive assessment of the quality of the accounting policy. Together with the proposed stages of the audit, the indicators for the assessment of the quality of the accounting policy were developed. They include coefficient for the general qualitative criteria to evaluate the accounting policy, a coefficient for the special qualitative criteria to evaluate the accounting policy, a coefficient for the qualitative criteria to evaluate the accounting policy such as the «compliance with legal requirements related to the formation of accounting policies» and the comprehensive indicator of the qualitative assessment of the accounting policy. The assessment of the quality of the accounting policy of a particular enterprise was performed. Along with the calculation of the coefficients, the mechanism to evaluate such a particular criterion as the assumption of business continuity is considered. Special attention is paid to the practical aspects of the tools proposed by the authors.

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## **1. Introduction**

With the transition to the market relations, the approaches to accounting in organizations have changed. We have moved to a reasonable combination of the state regulation and the independence of the organization in accounting from the strict regulation of the accounting process by the state. The essence of this approach is that, on the basis of the general accounting rules established by the state, the organizations develop an accounting policy to solve the tasks set for the accounting independently. The fact of the existence of an accounting policy implies a choice, the certain freedom, given to an economic entity when forming an information model of its organization. Since there is a choice, the different outcome is possible, the different presentation of the same fact of the economic activity in the accounting system (Tarasova & Nikonova, 2015).

In addition, the relevance of this issue is also due to the fact that under the conditions of crisis in the country and the tightening of tax administration methods each company tries to stabilize its financial situation. Enterprises are trying to reduce the risks of tax control and create an effective anti-crisis accounting policy, including tax developed by the enterprise.

The effectiveness of the accounting policy of the organization can be assessed both based on the quantitative and qualitative criteria. The authors (Tsyrukunova, Migunova, & Eelginf, 2019) considered the quantitative assessment of the effectiveness of the accounting policy and the issues of testing and some certain elements of the accounting policy earlier; therefore, we will consider the tooling for the qualitative assessment of the accounting policy in this article.

## **2. Problem Statement**

Despite the research conducted to evaluate the effectiveness of the accounting policy (A.V. Petuch, I.N. Kalinina, E.O. Gramova, L.N. Tarasova and I.Yu. Nikonov, N.D. Zaripova, I.A. Lisovskaya, N.N. Makarova, M.V. Romanovsky and E.S. Vylkova, E.A. Elgina), an algorithm and tooling for assessing the quality of the organization accounting policy have not been formed yet.

## **3. Research Questions**

The subject of this article is the tooling for evaluating the quality of the accounting policy.

## **4. Purpose of the Study**

The purpose of the article is to develop the tooling for assessing the quality of the accounting policy and its testing on the example of the enterprises in the city of Krasnoyarsk.

## **5. Research Methods**

Despite the widespread use of the concept of “quality criteria” for evaluating information, in modern research one can find a certain inconsistency in the approaches of scientists to the definition of the characteristics, there are no distinct approaches to determine the criteria. However, each commercial

organization should develop its own individual set of characteristics that characterize the quality of the accounting and analytical system.

The concept of quality should be applied to various objects. In this study, the quality accounting object is the accounting policy of a commercial organization, which includes a set of methods to organize and maintain accounting that regulates the accounting processes, on the basis of which accounting and analytical information are formed as the main information product in the information accounting system. In a general sense, quality is a philosophical category that reflects the essential certainty of things and phenomena in the real world.

The qualitative criteria for the effectiveness of the accounting policy should include those that are set out in the national and international standards governing the preparation of the accounting policy for a commercial organization. These documents contain different qualitative criteria for evaluating the accounting policy, with the exception of completeness, conservatism, and priority of content over form, which are present in both accounting standards. These criteria complement each other. The more the accounting policy meets the quality criteria, the more transparent the accounting (financial) statements of a commercial organization obtained on its basis will be, and the more effective the business of the commercial organization will be.

Grammova and Persianovsky (2016) proposes to use the assumptions and requirements approved by the «Accounting policy of the organization» (Accounting policy of the organization..., 2019) as criteria for a qualitative assessment of the accounting policy, calling them general ones. In addition, the author identifies the group of “special criteria” to which, among other things, “recognition” is referred. In general, we agree with this approach, but we note the need to supplement the criteria and develop tooling for assessing the fulfillment of these criteria in the accounting policy.

Together with the criteria mentioned, it is reasonable to introduce the “meeting the requirements of the legislation related to the formation of accounting policies” criteria group. Also, such criteria as the «organizational and technical aspects” and the “methodological aspects” can be included in this group (Rooster, Petukh, & Kalinina, 2016).

Due to the fact that the accounting policy is one of the main tools for regulating the financial condition, cash flows and tax burden of the business entities, there is the question of the need to assess the impact of the accounting policy on financial indicators and taxation. It includes profit, tax liabilities, accumulated depreciation, free cash, indicators of financial stability, return on equity, etc.

According to Tsyrukunova, Migunova, and Eelginf, (2019) and Vylkova, (2016) the most well-known and widely used tools for analyzing financial statements include the coefficients that characterize the relationship between different reporting items and make it possible to assess the performance of an economic entity in dynamics. In addition, this is reasonable, since the value of the coefficients proposed by the authors: autonomy; self-sufficiency; availability of reserves with their own sources of financing; absolute solvency and rapid liquidity, is influenced by various elements of the accounting policy of the enterprise (for example, the methods of depreciation and write-off of the reserves, the reserves, etc.). In their turn, these methods have an effect on the amount of tax liabilities (for example, on the income tax and the property tax on organizations). Therefore, Lisovskaya (2011) proposes to include such indicators

as the coefficient of the total tax burden; the share of taxes in value added and the coefficient of tax elasticity in the system of the indicators characterizing the financial condition of an economic entity.

Each of these methods has its advantages and disadvantages, the latter ones include the lack of the indicators to assess risks (audit, tax, etc.) in terms of the adopted accounting policy. Previously the authors of the article proposed the algorithm to assess the tax risks. They defined the qualitative and quantitative methods for their assessment in the framework of tax planning and the role of accounting policy at each of these stages (Elgina & Migunova, 2010; Makarova, 2009). The proposed methodology for assessing tax risks can be adapted for the audit (internal control) of the accounting policy.

## 6. Findings

Having summarized the facts mentioned above, the authors of this article propose the step-by-step algorithm for assessing the quality of the accounting policy, which can be used as part of an audit (internal control) of the accounting policy, or as part of classical tax planning (table 1). The details of the proposed algorithm can be formalized by the internal standard of the business entity.

**Table 01.** Criteria and indicators for evaluating the quality of accounting policy

Stage of evaluating the quality of the accounting policy	Criteria for evaluating the quality of the accounting policy	Indicators for evaluating the quality of the accounting policy	Method of calculation
Evaluation of "General" criteria (Gc)	<ul style="list-style-type: none"> <li>- the assumption of property isolation</li> <li>-the assumption of continuity</li> <li>-the assumption of the sequence of application of the accounting policy</li> <li>– the assumption of temporary definiteness of facts of economic activities</li> <li>-the requirement of completeness</li> <li>-the requirement of timeliness</li> <li>- the requirement of discretion</li> <li>- requiring priority of content over form</li> <li>-the requirement of consistency</li> <li>the requirement of rationality</li> </ul>	<i>Co</i> -coefficient of General qualitative criteria for evaluating the accounting policy;	$\sum Oki / \sum i$
Evaluation of "special" criteria (Sc)	<ul style="list-style-type: none"> <li>-recognition of assets</li> <li>- recognition of obligations</li> <li>- recognition of capital</li> </ul>	<i>Cs</i> -coefficient of special qualitative criteria for evaluating the accounting policy	$\sum Cki / \sum i$
Evaluation of the criterion of "compliance with legal requirements related to the formation of accounting policy". (Cl)	<ul style="list-style-type: none"> <li>-organizational and technical aspects</li> <li>-methodical aspects</li> </ul>	<i>C<sub>law</sub></i> -coefficient of qualitative criteria for evaluating the accounting policy of "compliance with legal requirements related to the formation of the accounting policy".	$\sum Bki / \sum i$
Comprehensive assessment of the quality of the accounting policy		<i>C<sub>quality</sub></i> – <b>a comprehensive indicator of qualitative assessment of the accounting policy</b>	$C_{quality} = (Co + Cs + C_{law}) / 3$

Speaking of the qualitative assessment of the accounting policy, we should note that the assessment of each of the criteria seems to be interesting, but at the same time it is not sufficiently studied in the scientific literature. From our point of view, as an effective indicator of the qualitative assessment of the accounting policy, one could use the coefficient of the "indicator of the qualitative assessment of the accounting policy"; we name it as  $C_{quality}$ . To evaluate each group of criteria, we introduce the coefficients:

$C_o$  – coefficient of general qualitative criteria for evaluating the accounting policy;

$C_s$  – coefficient of special qualitative criteria for evaluating the accounting policy;

$C_{law}$  – coefficient of qualitative criteria for evaluating the accounting policy of the "compliance with legal requirements related to the formation of the accounting policy."

To determine the indicator of the qualitative assessment of the accounting policy, in our opinion, one can use any possible model for calculating complex indicators, for example, the arithmetic mean formula as:

$$C_{quality} = (C_o + C_s + C_{law}) / 3(1)FA$$

The accounting policy, according to which  $C_{quality}$  turned out to be 1, or close to 1, can be considered an effective one. The organization should determine more exact parameters for the evaluation of the obtained value of this coefficient in internal standards. There is no doubt that the growth of this coefficient is positively assessed in dynamics.

Let us dwell on the definition of the methodology for calculating the partial coefficients of the qualitative assessment of the effectiveness of the accounting policy. We are going to test and present in Table 1 the valuation technique based on the content of the accounting policy of LLC "X", the main activity of which is the activity in the field of information and communication.

**Table 02.** Calculation of private coefficients of the qualitative assessment of the effectiveness of the accounting policy of LLC "X"

<b>Evaluation criterion</b>	<b>failed(0)</b>	<b>completed (1)</b>
<b>1</b>	<b>2</b>	<b>3</b>
<b>General criteria</b>		
1. assumption of property isolation	-	1
2. the assumption of continuity	-	1
3. assumption of the sequence of application of the accounting policy	-	1
4. assumption of temporary certainty of the facts of economic activity	-	1
5. the requirement of completeness	0	-
6. the requirement of timeliness	-	1
7. the requirement of discretion	-	1
8. requiring priority of content over form	-	1
9. consistency requirement	-	1
10. the requirement of rationality	-	1
<b>Total</b>	1	9
<b><math>C_o</math>-coefficient of general qualitative criteria for evaluating accounting policy [9/10]</b>		0,9
<b>Special criteria</b>		
1.the recognition of the assets	-	1
2. recognition of obligations	-	1

3. recognition of capital	-	1
<b>Total</b>	0	3
<b>C<sub>s</sub>-coefficient of special qualitative criteria for evaluating the accounting policy[3/3]</b>		1
<b>Compliance with legal requirements related to the formation of the accounting policy</b>		
1. organizational and technical aspects	0	-
2. methodical aspects	-	1
<b>Total</b>	0	1
<b>C<sub>law</sub> -coefficient of qualitative criteria for evaluating the accounting policy of "compliance with legal requirements related to the formation of the accounting policy" [1/2]</b>		0,5
<b>C<sub>quality</sub> – a comprehensive indicator of qualitative assessment of the accounting policy [(0,9+1+0,5)/3]</b>		0,8

In order to make the calculations in Table 1, it is necessary to evaluate each criterion from the general ones in the list. We will evaluate the assessment methodology using the example of criteria for the assumption of business continuity. The particular importance of checking this criterion is indicated by the fact that in its recommendations to audit organizations, individual auditors and auditors for conducting an audit of the annual financial statements of organizations for 2017. The Ministry of Finance of the Russian Federation recommends that audit procedures be carried out with respect to the applicability of the assumption of business continuity of the audited entity. Let us take the recommendations of one of the Self-regulatory organizations as a basis.

**Table 03.** Business Continuity Indicators

Statement
<b>Analysis of the signs of the inability of the audited entity to continue its activities continuously for the foreseeable future</b>
<b>Financial features:</b>
The negative amount of net assets or failure to comply with the established requirements for net assets;
Borrowed funds, the repayment period of which is approaching, with the real lack of the prospects for repayment or extension of the loan term or unreasonable use of short-term loans to finance long-term assets;
The change in the scheme for payment for goods (work performed, services rendered) to suppliers on the terms of the commercial loan or installment payment as compared with calculations as the goods are delivered (work performed, services rendered);
The significant deviation of the values of the main ratios characterizing the financial position of the audited entity from the normal (ordinary) values;
Inability to repay accounts payable in due time;
Inability to provide financing for the development of activities or other important investments;
Significant losses from core activities;
Difficulties in complying with the terms of the loan agreement;
Arrears of payment or termination of payment of dividends;
Economically unsustainable debt obligations;
Signs of bankruptcy established by the legislation of the Russian Federation;
<b>Production signs:</b>
Dismissal of the key management personnel without proper replacement;
Loss of market, license or primary supplier;
Labor problems or a shortage of significant means of production;
Significant dependence on the successful implementation of the specific project;
The significant volume of sales of raw materials and materials, comparable to or exceeding the amount of revenue from sales of products (works, services);
<b>Other signs:</b>
Non-compliance with the requirements for the formation of the authorized capital of the audited entity established by

Statement
The legislation of the Russian Federation;
Lawsuits against the audited entity that are under consideration and may, if the plaintiff is successful, result in a court decision that is not enforceable for that person;
Amending legislation or changing the political situation;
Analysis and discussion with the management of the audited entity of forecasts regarding the movement of financial flows, income, etc.;
Analysis and discussion of the latest available interim financial statements of the audited entity;
Analysis of the conditions for obtaining and repaying a loan and identifying violations of the conditions for repaying a loan;
Familiarization with the minutes of meetings of shareholders, meetings of the board of directors and committees in order to identify references to financial difficulties in them;
A survey of the lawyers and other specialists of the audited entity in order to identify information regarding the existence of legal claims and the correctness of management's assessment of the impact of these claims on the financial condition of the audited entity;
Checking the availability, legality and possibility of ensuring the implementation of agreements on the beginning or continuing financing by affiliates and third parties, as well as assessing the ability of these persons to provide additional funds;
Study of the plans of the audited entity regarding outstanding orders of its clients;
Study of the conditional facts of economic activity;
Analysis of events after the reporting date in order to determine whether such events affect the ability of the audited entity to continue its continuous activities;
A request from the managers of the audited entity to submit in writing information regarding their future plans of activity;
Study of the forecast data of the audited entity.

In order to evaluate the group of the "Compliance with legal requirements related to the formation of the accounting policy" criteria, we suggest using the coefficients of completeness of inclusion of the elements in the accounting policy and "contamination" of the accounting policy. The need to introduce these indicators is due to the fact that the accounting policy may not reflect any aspects provided for by law, as well as it can include unnecessary aspects that are either non-alternative, or affect the objects that are not in the organization.

To calculate the coefficient of completeness of the inclusion of elements in the accounting policy  $C_p$ , it is necessary to divide the number of aspects included in the accounting policy (without taking into account the unnecessary ones)  $A_a$  by the number of aspects that should be included in the accounting policy in accordance with the legislation of  $AI$ :

$$C_p = A_a / AI \quad (2)$$

The ideal value of the coefficient is 1. The growth in the dynamics of the coefficient is evaluated positively.

To calculate the coefficient of contamination of the accounting policy  $C_c$ , it is necessary to divide the number of  $A_e$  aspects that are excessively included in the accounting policy by the number of aspects that should be included in the accounting policy  $AI$  in accordance with the law.

$$C_c = A_e / AI \quad (3)$$

The ideal value of the coefficient is 0. The decrease in the dynamics of the coefficient is evaluated positively.

## 7. Conclusion

As a result of the study, the algorithm for the qualitative assessment of the accounting policy has been developed. The tools were formed to assess the quality of the accounting policy in connection with the stages of assessing the quality of the accounting policy. The coefficients were proposed for assessing different levels of criteria for assessing the quality of the accounting policy. The methodology for assessing the criterion for assuming the continuity of activity was formed.

The methodology for calculating the partial coefficients of the qualitative assessment of the effectiveness of the accounting policy was tested.

The use of the tooling proposed by the authors to assess the quality of the accounting policy of the enterprise for accounting purposes helps to improve the quality of information presented in the accounting (financial) statements. The value of the financial reporting indicators directly depends on the content of the accounting policy and its quality, and, in its turn, it has a significant impact on the estimated indicators determined based on reporting. Therefore, the qualitative and quantitative assessment of the accounting policy should become an integral part for predicting the estimated performance of an economic entity. The proposed tooling for assessing the quality of the accounting policy can be used both at the business planning stage and at the stage of its functioning. The developed tooling can be widely used in organizing the accounting system, in internal and external audit.

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