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Uncompensated Property Receipt Accounting Operations

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Abstract: The study suggests practical methods for accounting operations of uncompensated property receipt complying with the general concept of international financial reporting standards. In particular, the research proves the expediency of uncompensated assets estimation according to its fair market value and formulates a proposal of the fair value reflection within other comprehensive income, subject to further reclassification as a separate item of profits and losses. Such reclassification is carried out according to these uncompensated assets writing-off to costs and expenses.

Key words: Accounting, uncompensated receipt, other comprehensive income, income of future periods, government grants

INTRODUCTION

Accounting operations of uncompensated property receipt are quite rare in practice of commercial companies but, however, sometimes they do happen. Herewith, International Accounting Standards (IAS) contains practically no specific recommendations concerning the above stated operations.

In the context of IFRS application by the companies all over the world, the deficiency problem of the requirements for uncompensated property accounting operations is considered to be a pressing challenge. This entails the necessity in the opinion expressed by the professional accountants for the helpful financial information development in the reporting procedure (Kulikova *et al*., 2014).

The research goal is development of practical methods for accounting operations of uncompensated property receipt in compliance with the general concept of international accounting standards.

MATERIALS AND METHODS

In case International Financial Reporting Standards (IFRS) contain no specific recommendations concerning the accounting of one or another operation in compliance with IAS 8 requirements "Accounting Policies, Changes in Accounting Estimates and Errors", a company shall formulate the procedure of such operations in its accounting policy. IAS 8 indicates, that at the accounting policy development in similar situations it is necessary to comply with IAS requirements concerning the same issues and associated approaches containing in the conceptual framework for financial reporting (Vetoshkina and Tukhvatullin, 2014). Hence, the given research work will deal with the basic practices such as the methods of comparison, analogy, analysis and synthesis. The analysis of the main provisions in the international accounting standards has revealed that operations of public subsidies obtaining in their economic sense are the closest to the operations of uncompensated property receipts. The sole difference lies in the fact that public subsidies are subject to recognition in accounting only in case of justified confidence in the fulfillment by the company of conditions related to subsidy provision. Herewith, uncompensated property is subject to recognition in accordance with the usual procedure and subject to complying with standard conditions of assets recognition.

Accounting of government grants devoted to research by Forker and Green (2000) and Todea *et al*. (2011). General approach of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" to public subsidies accounting is represented.

However, IAS 20 specifies that accounting of government grants as part of profit and losses is not the only possible variant, the alternative of which is the recognition of subsidy as a part of the company capital.

Availability of several accounting alternatives for public subsidies in IAS 20 gives a full scope for professional accounting estimates and assumptions in forming the accounting policy of the company.

RESULTS AND DISCUSSION

At receipts of uncompensated property different from monetary funds we face two problems requiring the solution for adequate information formulating in the financial report:

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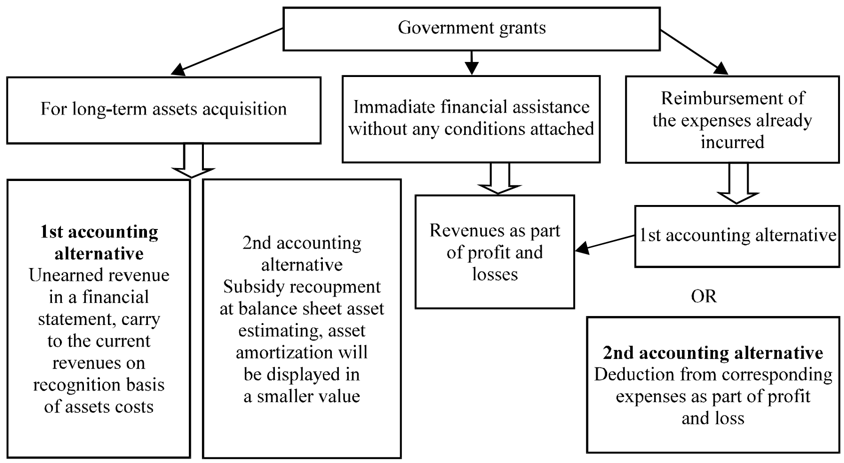

Fig. 1: Alternatives of government grants accounting in compliance with IAS 20

- What is the cost of the assets recognition?
- How to reflect the source of the given assets in the financial reporting?

IAS 20 specifies that at the receipt of the governmental grant in the form of the non-monetary asset, both a subsidy and an asset are recognized according to the fair market value of the obtained asset. In our opinion, application of the simplified procedure of subsidy accounting by its deduction from book value of the assets is not properly grounded. This accounting alternative will cause the incompatibility of the similar assets estimation in the company financial reports. That is why, it is expedient to use the fair value of the uncompensated assets receipt for its estimation (Fig. 1). Problems and peculiarities of estimating the fair value of the assets considered in studies by Yao *et al.* (2015), Skoda and Gabrhel (2015) and Kouki (2015).

Let us go to the second problem associated with the uncompensated assets receipts accounting. The conceptual framework for financial reporting specifies that the increase in economic benefits within the reporting period in the form of both receipts or assets quality improvement or the decrease of liabilities value which leads to gains in the owned equity not connected with contributions of the capital participants shall be considered as the company revenues. Furthermore, the revenues are subject to recognition at simultaneous fulfillment of two conditions: possible economic benefits incoming into a company, the amount of revenues can undergo a reliable estimation (Kulikova *et al.*, 2015).

In absolute terms, the revenue which can bring economic benefits to the company is formed in the amount of the obtained assets' fair value as a result of uncompensated assets receipt operation, since such operation complies with the revenue definition as well as with terms and conditions of its recognition. In accordance with IAS 1 "Presentation of Financial Statements" all company revenues can be divided into two groups:

- Accounted as part of profit and loss
- Accounted as part of other comprehensive income
- Herewith, the following equality shall be observed

$$CI = P(L) + OCI$$

Where:
CI = Comprehensive income for the period
P(L) = Profit or loss for the period
OCI = Other comprehensive income for the period

Let us analyze the peculiarity of net earnings and other comprehensive income indicators for recognition of the revenues from uncompensated property receipts to one of these groups.

Such income types which some standards prohibit for including into profit and loss, belong to the other comprehensive income in a formal sign. IAS 1 contains an exhaustive list of other comprehensive income elements. It is not possible to use formal criteria to determine the group under consideration to which the revenues from uncompensated property receipts in the form of fair value belong, since IAS does not contain the requirements for accounting operations under our analysis.

In this connection, let us get to the economic content of profit and loss and other comprehensive income indicators. One of the key differences between them lies in the fact that the elements of other comprehensive income undoubtedly display the company's welfare gains but as distinct from the revenues accounted as profit and loss are considered to be unearned and unrealized.

Problem reporting of profit and loss and other comprehensive income of companies reflected in the studies (Du *et al.*, 2015; Gordon *et al.*, 2015). Profit performance for the accounting period shall be considered by the users of financial reporting information as the source of company's funds subject to distribution between the owners, investment into the company development or payment in redemption of previously borrowed assets. The elements of other comprehensive income display such incremental values of the assets which cannot be distributed between the owners in the form of dividends or aimed at investment purposes. For instance, the capital assets revaluation sums displayed as an element of other comprehensive income fully correspond to the definition and the conditions of income recognition but cannot be allocated to any other aims by virtue of the fact that they are considered to be unrealized assets (Ivanovskiy and Azmitov, 2015).

As of the time of the uncompensated and non-monetary asset receipt its fair value shall be the unrealized earning for the company, that is why, it is necessary to display them as a part of other comprehensive income. In the process of the asset value write-off to costs or expenses (in case of sale or other retirement of the asset) we offer to reclassify other comprehensive income into profits and loss as a separate item ($_{\Delta}$I). This will enable to properly form the cost of sales basing on the total value of all assets used in the company's business operation and provide compatibility of cost data in financial reporting. But, on the other hand, the influence of the expenses actually not incurred by the company and formed basing on the fair value of uncompensated property receipt ($_{\Delta}$C) over the company income ($_{\Delta}$P(L)) will be evened, since no resources were given as payment for such asset.

This accounting instrument will enable to implement gradual carry of uncompensated asset fair value to the company income in the process of economic gains acquisition from application of this asset. That is, the carry of unrealized revenues to profits will be implemented as far as the expenses recognized due to the uncompensated property use in the company business activity will be covered by the gains.

In case, a company receives uncompensated monetary funds, it is necessary to consider whether these receipts possess a targeted character character. If the monetary funds are designed for the certain asset acquisition, the accounting procedure of such operation shall be the same as by the uncompensated non-monetary assets receipt. Otherwise we consider it possible to acknowledge the amount of monetary assets receipts as a lump sum of gains within profits and loss statement (Fig. 2).

We consider that the offered approach to operations of uncompensated property receipts has a distinct advantage, since the balance of the revenues not carried to profits will be displayed as part of a company own capital which totally complies with the economic content of the given item in the financial standing statement. The example: on December 15, 2015 the founder donated the company the materials of industrial process implementation, their fair value made 500,000 rub. On December 18, 2015 the materials for the amount of 200,000 rubles were launched into circulation. The company's reporting date falls on December 31, 2015. Accounting records of the above operations in compliance with the method offered here are stated in the Table 1.

The company financial standing statement as of December 31, 2015 will display the balance of the materials

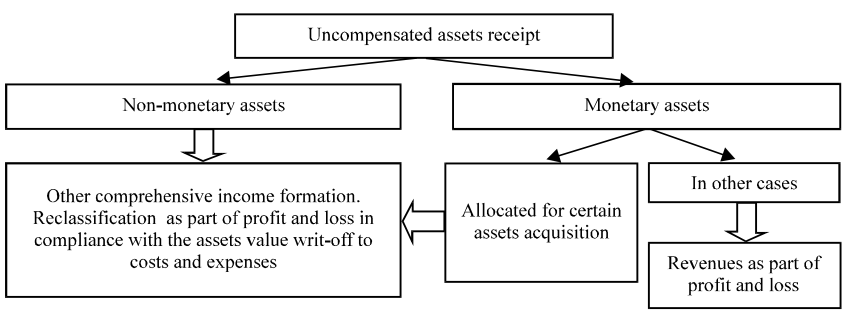

Fig. 2: Recommended approach to operations of uncompensated property receipts

Table 1: Accounting of the uncompensated materials receipt

Subject of the operation	Sum (rubles)	Debit of an account	Credit of an account
December 15, 2015. Uncompensated materials receipt	500,000	Materials	Revenues on uncompensated assets receipt (other comprehensive income)
December 18, 2015. Materials launched into circulation	200,000	Production costs	Materials
December 18, 2015. Reclassification of other comprehensive receipts (profit and loss) income as part of profits within the reporting year	200,000	Revenues on uncompensated assets receipt (other comprehensive income)	Revenues on uncompensated receipts (profit and loss)

to the amount of 300,000 rubles as part of the current assets as well as not reclassified revenues on uncompensated assets as part of the owner's equity.

IAS 20 specifies that at accounting of government grants referred to the assets according to the first alternative (Fig. 1), the financial standing statement refers a subsidy to the unearned revenue (income received in advance). As usual, companies refer this item to the part of liabilities (Vetoshkina and Tukhvatullin, 2015).

In our opinion, this approach can be considered as reasonable only until there is an uncertainty in relation to the conditions fulfillment of the actually obtained subsidy, in other words, until there is any probability of its repayment. Since, all conditions are fulfilled, it is not considered as liability. Information displayed in financial statement will be more reliable, if the grant accounting is fulfilled basing on the method of uncompensated receipts accounting suggested by the researchers.

CONCLUSION

The study presents a well-grounded practice of the received uncompensated asset fair value inclusion as part of other comprehensive income. Note that in this case a more precise result will be obtained if the opportunity of further reclassification of other comprehensive income value as part of profit and loss has been envisaged as a separate item of income reclassified progressively with the assets value writ-off to expenses or in case of such assets disposal. The offered procedure of accounting information arrangement will enable to implement gradual carry of the uncompensated asset fair value to the company profits in the process of economic gains acquisition from their use as well as to obtain compatible data on the self-cost in the comprehensive income statement. Moreover, it is necessary to display the balance of income from uncompensated asset receipt not transferred to profits as a part of a company owned capital in the financial standing statement. Thus, the offered method of arranging and presentation in the financial accounting of information concerning the uncompensated assets receipt operations will enable to obtain more precise data for all interested users thereof.

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