
THE ROLE OF ACCOUNTING POLICIES IN FORMING THE FINANCIAL RESULTS OF COMPANY'S ACTIVITY

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Purposes: the aim of article is determination of the role of accounting policy in the formation of financial results of company's activity and also revealing its influence on profit or loss. *Discussion:* the study of the accounting policy, as a factor which influence on the formation of financial results, was carried out on the basis of generalization and systematization of information presented in regulatory legal acts in the field of accounting, as well as approaches of specialists in the field of economic analysis. *Results:* the essence of the accounting policy is determined as the basic normative document at the organizational level. Moreover the main requirements to the formation of the accounting policy are given in result of research. The influence of the accounting policy is examined as a tool for managing the amount of financial result. Besides, we consider the consequences of influence of the accounting policy on the financial result. Also we determine that it is necessary to evaluate the quality of the accounting policy while preparing economic analysis.

Keywords: accounting policy, financial result, income, profit management, revenue, management, quality assessment of accounting policy.

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1. Introduction

Accounting policy is a fundamental document that regulates the conduct of accounting at the organizational level. Representing a set of methods of accounting for each particular organization, the accounting policy is the main instrument for organizing the accounting activities of the economic entity. Depending on the chosen methods of accounting, the process of forming information about accounting objects takes place. Accordingly, the resulting evaluation of the object is directly dependent on the chosen accounting variant.

The financial result as an outcome of the company's activity is an indicator which accumulates the influence of the accounting aspects of all accounting objects, because each of them directly or indirectly affects on the formation factors of the financial results which means incomes and expenses. Everyone who uses

accounting (financial) reporting strives to obtain the most reliable and significant information as a result of conducting both external and internal economic analysis and the accounting policy being the basis of accounting is designed to ensure the reliability of the indicators being developed in the accounting data.

Consequently, the practical importance of this research is conditioned by the need for reliable accounting information and accounting (financial) reporting, the content of which will allow external users to make the most reasonable management decisions.

2. Research methodology

The economic entity independently forms its accounting policy guided by the legislation of the Russian Federation on accounting, regulatory acts of the Ministry of Finance of the Russian Federation and structures that have the right to regulate accounting. That is why the methodological basis of research presented the provisions of the acts of standards in the field of accounting, the main ones being the Federal Accounting Act № 402-FZ, Russian Standards on Accounting and Reporting in the Russian Federation, Russian Accounting Standards «Accounting Policy of Organizations» (PBU 1/2008), Russian Accounting Standards «Accounting of Inventories» (PBU 5/01), Russian Accounting Standards «Accounting for Fixed Assets» (PBU 6/01), Russian Accounting Standards «Provisions, Indirect Liabilities and Indirect Assets» (PBU 8/2010), Russian Accounting Standards «Accounting for income tax of organizations» (PBU 18/02) and others.

The order of financial results' formation has a direct impact on the results of economic analysis. That is why it is necessary to examine this topic with the involvement of such specialist's works in the field of economic analysis as Sheremet A.D., Gilyarovskaya L.T., Efimova O.V. Also Druzhilovskaya T.Y., Korshunova T.N., Ustinova Y.I., Kalinskaya M.V., Kruglyak Z.I. who investigated the role of the accounting policy in the formation of the accounting (financial) statements and studied influence of professional judgment on the content of accounting policies.

3. Discussion of the results

Accounting policy as the main document which represents the ways of keeping accounting records of each particular organization should comply with the requirements and assumptions set by the Russian Accounting Standards «Accounting Policy of the Organization» (PBU 1/2008) (Tab. 1) [9].

Table 1

Requirements and assumptions set by RAS «Accounting Policy of the Organization»(PBU 1/2008)

Name	Characteristics
Assumptions	
1. The business entity assumption	Assets and liabilities of the organization exist separately from the assets and liabilities of owners and other organizations

Name	Characteristics
2. The continuity assumption	The company will continue its activity into the future and it not assuming liquidation or a significant reduction of company's activities
3. The consistent application of accounting policies assumption	The adopted accounting policy is applied consistently from one reporting year to another
4. The time-period assumption	Transactions refer to the reporting period in which they were committed and it is not regard with time of actual receipt or payment related to these facts
Requirements	
1. The full-disclosure requirement	Transactions should be full-disclosure in accounting
2. The timeliness requirement	Transactions should have timely reflection
3. The prudence requirement	The accountant should be more prepared to recognize of expenses and liabilities than possible incomes and assets and should not allow the creation of hidden reserves
4. The substance-over-form requirement	Operations should be reflected in the accounting, proceeding from their economic content and conditions of management
5. The consistency requirement	The analytical accounting data should be identical to the synthetic accounting data
6. The rationality requirement	Accounting should be rational and based on business environment and company's size.

Assumptions and requirements for the formation of accounting policies which are represented in Tab.1 are identified as the accounting rules, since their notional characteristics are oriented to the activities of the entire organization as a whole. If these rules are observed the accounting organization becomes the most effective and leads to the formation of the most reliable information in the accounting (financial) statements.

The rationality requirement deserves special attention. Gilyarovskaya L.T. drew attention to the significant role of accounting policy for the formation of indicators of accounting (financial) reporting in the framework of studying the theory of economic analysis. Gilyarovskaya L.T. was firmly convinced that the examination of accounting policy, the assessment of objectivity and rationality of its content allows to discover methods of veiling indicators of accounting (financial) statements [6]. Companies are often guided by their own subjective goals when choosing accounting methods. These include the desire to reduce the complexity of accounting work, to bring the accounting with IFRS, to increase company's investment attractiveness [7]. Also, the management of the company may neglect the rationality requirement to reduce the tax burden or convergence of accounting and tax accounting.

Sheremet A.D. paid special attention to the effect of accounting policy on profits. The author noted that one of the most important tasks of financial analysis is to reduce the distance between the nominal value of profit fixed in the accounting (financial) statements and its real value [10].

Efimova O.V. also paid attention to the examination of the issues of accounting policies' influence on the formation of profit and profitability indicators [5]. Efimova O.V. was certain that the simplest example is the determination of the concrete way the depreciation is charged because the choice may significantly affect the financial result being generated. Also O.V. Efimova noted that the amount of retained earnings largely depends on the content of accounting policies.

To achieve subjective goals in the process of accounting policy formation companies may influence on the final financial result through the choice of the depreciation's method of fixed assets. To increase the cost of sales value is often chosen as a means of calculating depreciation, which allows increasing the amount of expenses incurred in the coming periods [1]. Consequently, an artificial overestimation of the production cost price will lead to an underestimation of profit margins, which will reduce the tax burden. However, the issue of choosing how to calculate depreciation can be considered from the opposite point of view. If the company's aim is convergence of accounting and tax accounting, then it will choose a straight-line method or a linear method of calculating depreciation when forming its accounting policy. It should also be noted that the choice of straight-line method may be due to the desire to reduce the complexity of accounting work. It largely relates to the possibility of avoiding the application of the Russian Accounting Standards «Accounting for Income Tax Calculations» (PBU 18/02), if the accounting and tax accounting procedures full compliance. Unification of the accounting policy for the purposes of accounting and tax accounting helps make possible to reflect the current income tax in the Profit and Loss Account (P&L) [3, 11] on the basis of data generated in accounting, which does not entail the formation of permanent and temporary differences [2, 8]. Accordingly, it excludes the influence of strings «incl. Permanent tax liabilities (assets)», «Change in deferred tax liabilities», «Change in deferred tax assets» for the final financial result.

The next area of impact on the financial result is the refusal to allocate administrative expenses between the objects of calculation. This fact will lead to a decrease in the accuracy of the formation of the value of management costs, administrative expenses or the cost of sales, but it will help to reduce the complexity of maintaining accounting records.

Choosing the way to assess inventories when they leave for production or other retirement, the organization is also able to have a significant impact on the formation of financial results. For example, if company selected the FIFO method in the conditions of constantly growing inflation, the cost of production is underestimated which leads to an overestimation of profits and an increase in the income tax.

One of the tools for manipulating the profit may be estimated reserves which are created at the expense of other costs and, accordingly, have a direct impact on the final financial result. However, it should be noted that the creation of valuation reserves allows neutralizing the affect on the cost of sales of sharp

fluctuations which relate with uneven distribution of costs during the financial year [5]. Therefore, the overestimation of profits in the reporting year due to the creation of the reserve will lead to a gradual write-off of its value in the future, but it helps to create a single artificial overstatement of profits.

Sheremet A.D. identifies the presented tools of financial result's management as the legal possibilities of manipulating the amount of profit. Such interpretation is justified, since in fact the law allows to determine the methods of accounting independently. In our opinion, at the same time, a significant problem is the failure to comply of the rationality requirement according to interpretation by PBU 1/2008. The pursuit of subjective goals to attract investors, reduce the complexity of accounting, reduce the amount of incidence of taxation may hardly correlate with the rational conduct of accounting which based on the conditions of business environment and the size of the company.

Therefore, the subjectivism of the choice of specific methods of accounting may be described as an element of a professional accountant's judgment. Consequently, the accounting policy is a kind of tool for the implementation of professional judgment. However, there are different points of view. In support of this thesis Ustinova Y.I. believes that the professional judgment of the accountant on a microeconomic scale is expressed in the formation of the accounting policy of the business entity and also in solving the problems of accounting practice [12]. However, Druzhilovskaya T.Y., Korshunova T.N. consider that such opinion is erroneous. The authors consider professional judgment as the basis of accounting policy, because the accountant resorts to professional judgment only in the absence of an unambiguous interpretation of accounting standards [4].

It is necessary to note that change of the accounting policy is one of the factors that influence on the financial result. According to paragraph 10 of RAS 1/2008, the change may be made in accounting policy if legislation or accounting standards have changed. In addition, content of accounting policy may be changed as a result of the development of new accounting methods by the organization, but this method should reflect accounting data more accurate and reliable. Method of accounting may also change if there is a significant change in the business environment. Therefore, it is necessary to investigate the issues of changes in accounting policy in preparing for the analysis of financial results, because it directly affects on the comparability of the indicators, which use in economic analysis.

4. Conclusion

Accountability of accounting information is determined by the quality of accounting in the organization. Accounting policy is the basis of such work that is why it predetermines effectiveness and reliability of results. Therefore, it affects on the quality of financial results and accounting (financial) statements in general. The influence of the accounting policy's content has impact on the accounting aspect of the formation of the financial result. This impact is not direct, but it is through the factors of the profit or loss formation. Also, special attention

should be paid to the impact of accounting policies on the results of economic analysis. This makes it necessary to evaluate the quality of the formation of the accounting policy of the organization and to study the cases of changes in accounting policies before conducting analytical work in order to form opinion about reliability, accountability and compatibility of the analyzed information. The conduct of economic analysis which is not supported by confidence in the reliability of the information base it loses its practical importance. That is why a significant role of accounting policy in the formation of financial results and assessment of its contents' quality may be one of the factors that contribute to improving the effectiveness and validity of outcomes based on the economic analysis results.

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РОЛЬ УЧЕТНОЙ ПОЛИТИКИ В ФОРМИРОВАНИИ ФИНАНСОВЫХ РЕЗУЛЬТАТОВ ДЕЯТЕЛЬНОСТИ ОРГАНИЗАЦИИ

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Цель: определить роль учетной политики в формировании финансовых результатов деятельности организации, а также выявить степень её влияния на показатели прибыли (убытка). *Обсуждение:* исследование учетной политики как фактора, влияющего на порядок формирования финансовых результатов, осуществлено на основе обобщения и систематизации информации, представленной в нормативно-правовых актах в области ведения бухгалтерского учета, а также подходов специалистов в области экономического анализа. *Результаты:* определена сущность учетной политики как основополагающего нормативного документа на организационном уровне, приведены основные требования к формированию учетной политики, исследовано воздействие учетной политики как инструмента управления величиной финансового результата, рассмотрены последствия влияния отдельных элементов учетной политики на финансовый результат, а также обозначена необходимость оценки качества содержания учетной политики перед проведением экономического анализа.

Ключевые слова: учетная политика, финансовый результат, прибыль, управление величиной прибыли, оценка качества учетной политики.

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