COMPARISON OF APPROACHES TO INVENTORY VALUATION IN RAS 5/2019 AND IFRS 2 IN THE CONTEXT OF SOLVING THE PROBLEM OF CONVERGENCE OF RUSSIAN AND INTERNATIONAL ACCOUNTING PRACTICES

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ABSTRACT
Currently, the implementation of the Program for the Development of Federal Accounting Standards for 2019-2021, approved by the Order of the Ministry of Finance of Russia No. 83n dated 05.06.2019, is being carried out and certain results of this work can be stated. These include changes in the content of a number of existing standards. First of all, it should be noted the amendments already adopted to PBU 1/2008 "Accounting Policy of the Organization", adopted and coming into force for reporting for 2022 "Accounting for Leases" (PBU 25/2018), as well as amendments to the standards that have come into force for reporting for 2020 "Accounting for State Aid" (PBU 13/2000), "Accounting for Calculations of Corporate Income Tax" (PBU 18/02), "Information on Discontinued Operations" (PBU 16/02). But the breakthrough year, based on the reform program, promises to be 2021, from the beginning of which the application of seven new standards should begin, including the FSBU "Inventories".

Keywords: inventories. International financial reporting standards. Valuation. Fair value. Accounting.

COMPARAÇÃO DE ABORDAGENS PARA AVALIAÇÃO DE ESTOQUE EM RAS 5/2019 E IFRS 2 NO CONTEXTO DA RESOLUÇÃO DO PROBLEMA DE CONVERGÊNCIA DAS PRÁTICAS CONTÁBEIS RÚSSEAS E INTERNACIONAIS

RESUMO
Atualmente, a implementação do Programa para o Desenvolvimento de Normas de Contabilidade Federal para 2019-2021, aprovado pela Ordem do Ministério das Finanças da Rússia n.º 83n de 06.06.2019, está sendo realizada e alguns resultados deste trabalho podem ser declarados. Isso inclui mudanças no conteúdo de vários padrões existentes. Em primeiro lugar, deve-se notar as alterações já adotadas na PBU 1/2008 "Política de Contabilidade da Organização", adotada e entrando em vigor para o relatório de 2022 "Contabilidade de Locações" (PBU 25/2018), bem como as alterações às normas que entraram em vigor para o relatório para 2020 "Contabilidade para Auxílio Estatal" (PBU 13/2000), "Contabilidade para Cálculos de Imposto de Renda Corporativo" (PBU 18/02), "Informações sobre Operações Descontinuadas" (PBU 16 / 02). Mas o ano de avanço, com base no programa de reformas, promete ser 2021, a partir do qual deverá começar a aplicação de sete novas normas, entre elas os "Inventários" do FSBU.


COMPARACIÓN DE ENFOQUES PARA LA VALORACIÓN DE INVENTARIOS EN RAS 5/2019 Y IFRS 2 EN EL CONTEXTO DE LA RESOLUCIÓN DEL PROBLEMA DE LA CONVERGENCIA DE LAS PRÁCTICAS CONTABLES RUSAS E INTERNACIONALES

RESUMEN
Actualmente, se está llevando a cabo la aplicación del Programa para el Desarrollo de Normas Federales de Contabilidad para 2019-2021, aprobado por la Orden del Ministerio de Finanzas de Rusia No 83n de 06.06.2019, y se pueden declarar algunos resultados de este trabajo. Esto incluye cambios en el contenido de varios patrones existentes. En primer lugar, cabe señalar los cambios ya adoptados en la PBU 1/2008 “Política contable de la organización”, en vigor para el informe de 2022 “Contabilidad de Arrendamientos” (PBU 25/2018), así como los cambios en las normas que entraron en vigor para el informe para 2020 “Contabilidad para Ayuda estatal” (PBU 13/2000), “Contabilidad de cálculos del impuesto sobre la renta de las sociedades” (PBU 18/02), “Información sobre operaciones discontinuadas” (PBU 16 / 02). Pero el año de avance, basado en el programa de reformas, promete ser 2021, a partir del cual debería comenzar la aplicación de siete nuevas normas, incluidas las “Inventarios” de la FSBU.

INTRODUCTION

The standard has already been approved by the Order of the Ministry of Finance and it seems necessary to analyze the content of the new standard for its compliance with the international financial reporting standard IFRS 2 "Inventories", which was introduced for use in Russia by the Order of the Ministry of Finance of the Russian Federation No. 217n dated 28.12.2015 (as amended dated 11.07.2016). (http://www.consultant.ru/document/cons_doc_LAW_19353)

Comparison of the objectives of applying the standards draws attention to its wording in the IFRS 2, which lists all the main meanings of the standard in terms of key issues related to accounting for inventories, including statement that "the main issue in accounting for inventories is to determine the amount of costs that is recognized as an asset and carried forward until the related revenue is recognized", as well as inclusion in the standard of guidance on determining the acquisition cost and its subsequent recognition as an expense, including any write-down to net realizable price and guidance on costing formulas used to allocate costs to inventories. There is no such clarification in the objective of FSBU 5. (http://www.consultant.ru/document/cons_doc_LAW_348523)

Both standards contain exceptions to the objects regulated by them. The difference in the content of these objects reflects the absence in assets classified in Russia of such a type as biological assets, the essence of which is not defined in Russian accounting and is not distinguished as an independent reporting item. This, as before, causes additional tasks in the transformation of Russian financial statements into the IFRS format. It should also be noted that raw materials, materials, products intended for use in the creation of non-current assets of the organization are excluded from the inventory. This group of assets was mentioned in the draft FSBU 5, but was excluded in the final version. However, this rule was reflected in the draft FSBU "Capital Investments in Progress", which is also expected to be applied from 2021.

The standards provide the types of assets classified as inventories. FSBU 5/2019 significantly expands the list of items regulated by the standard in comparison with PBU5/01 and is close to the list provided in the IFRS 2.

METHODS

The inclusion in the assets regulated by the standard of immovable property acquired or created (being created) for sale in the ordinary course of business of the organization and objects of intellectual property acquired or created (being created) for sale in the ordinary course of business of the organization poses a methodological problem of accounting for such objects and the formation of reporting items, since the unified chart of accounts used in Russia and the existing ideology of "correct recording" do not provide for such objects. And this issue is the subject of a separate study.

IFRS 2 states that inventories should be measured at the lower of cost or net realizable value. FSBU 5 also approves this rule, however, the authors divided the rules for assessing inventories into recognition (at actual cost) and post-recognition (at the lower of a) the actual cost of inventories or b) net realizable value of inventories), which is absent in the IFRS, but this seems to be more useful for the practical application of the standard. The rules for estimating reserves at acquisition are similar in two standards. When purchasing inventories on the terms of a deferred (installment) payment, the standards require the actual cost of inventories to include the amount of cash that would have been paid by the organization in the absence of the said deferral (installment). FSBU clarifies the period of such an installment - more than 12 months, but the organization has the right to establish a shorter deferral period for the application of such an assessment, eliminating the discrepancies with the edition of this provision in the IFRS 2.

IAS 2 "Inventories" does not provide for the procedure for estimating inventories under contracts that provide for the fulfillment of obligations (payment) in whole or in part by non-cash funds. FSBU 5 establishes the valuation type for such inventories - at the fair value of the transferred property, property rights, works, services, - new for the Russian accounting practice. If such a valuation is not possible, it is proposed to use a sequence of valuations based on the fair value of the property received or the carrying amount of the property transferred. The fair value determination procedure is applied in accordance with the International Financial Reporting Standard (IFRS) 13 "Fair Value Measurement", enacted in the Russian Federation by the Order of the Ministry of Finance of the Russian Federation No. 217n dated 28.12.2015. This is another example of the reference in the Russian Standards for direct application of the IFRS 13 "Fair Value Measurement". (http://www.consultant.ru/document/cons_doc_LAW_193740).
Obviously, the application of fair value will be similar when evaluating inventories received by the organization free of charge.

FSBU 5 also changes the previous procedure for assessing inventories remaining from the disposal of non-current assets or recoverable in the process of current maintenance, repair, modernization, reconstruction of non-current assets. The valuation is now required at the lower of a) the cost at which similar inventories acquired (created) by the organization are accounted for in the normal operating cycle, or b) the amount of the book value of assets being written off and the costs incurred with regard to the dismantling of objects, recovery of material assets, bringing them to the state necessary for consumption (sale, use) as inventories. IFRS 2 does not separately address inventory valuation for such transactions, but suggests that a general approach should be applied to such inventories— at the lower of cost or net realizable value.

The standards do not specify how inventories are valued when received as capital contributions. This is a separate procedure in the PBU 5. Obviously, it is assumed that fair value applies for such transactions, which would be consistent with the need for an independent valuation of non-cash contributions required by civil law.

The composition of costs included in the cost of inventory is similar in the compared standards. Certain types of costs included in the cost of inventories are new for accountants working in accordance with the Russian standards, which requires changes in the accounting policy and accounting methodology.

One should point out the possibility of using in trading activities the valuation of goods at purchase price without considering acquisition costs among the specific features of the Russian rules for the inventory valuation, which is not specified in the IFRS 2.

The standards being compared allow for the possibility of accounting for this type of inventory as purchased goods at selling price, separately taking into account margins. At the same time, the amount of markups is subject to regular review in accordance with the current conditions of purchase and sale of goods.

RESULTS AND DISCUSSION

An innovation for Russian regulation is the inclusion of the issue of evaluating the work in progress. The rules apply to the work in progress concerning products, works, services. In particular, it has been established that the cost of work in progress can include both direct and indirect costs, which are distributed among specific types of products, works, services in a reasonable way established by the organization independently. At the same time, attention should be paid to exclusion (from the composition of costs forming the cost of work in progress and finished products) of the costs incurred with regard to the improper organization of the production process (excess consumption of raw materials, materials, energy, labor, losses from downtime, rejects, violations of labor and technological discipline), as well as management costs, except when they are directly related to the production of products, performance of works, provision of services. The application of this procedure will require certainty with respect to the concept of regulatory and excess expenditure, which is not a category of financial accounting at the moment.

Another new type of inventory valuation in accordance with the FSBU 5 is valuation based on net realizable value at subsequent valuation. IFRS 2 defines this valuation as the net realizable price, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to be incurred to sell. FSBU 5 defines net realizable value as the estimated price at which an entity could sell inventory as it would normally sell it in the normal course of business, less the estimated costs of producing, preparing for sale, and selling. Thus, the approaches to valuation are similar in the standards under consideration.

FSBU 5 introduces the concept of inventory impairment as the excess of the actual cost of inventories over their net realizable value and establishes that the devaluation amount of inventories to their net realizable value is recognized as an impairment of inventories and an expense of the period in which the impairment provision was created (increased). In this case, the carrying amount of inventories is considered to be their actual cost less this reserve. The norm almost coincides with the IFRS edition. The Unified Chart of Accounts provides for the methodology for recognizing such an assessment through the formation of a provision for inventory impairment (provision for inventory impairment as amended by the standard). The procedure for reducing the provision due to an increase in the net realizable value under the FSBU 5 also coincides with the the IFRS 2.

The standard regulation subject is also the valuation of inventories at their disposal (issue and write-off). The valuation methods proposed by the standards are the same as previously used in the Russian accounting and stipulated by PBU 5. The valuation methods will differ depending on whether or not the valued inventories are
classified as those that cannot normally replace each other, as well as reserves accounted for in a special order (precious metals, precious stones). In the first case, valuation at the cost of each unit is used to value such inventories. For other inventories, the valuation method is determined by the accounting policy of the organization by choosing from two options: at average cost or at the cost of the first units in time (FIFO method).

It is up to the organization to qualify each type of inventories for the purpose of applying valuation techniques.

The formulas for calculating the cost price for each valuation method in the compared standards are similar.

The standards also define how inventories are written off when they are derecognized as assets. Transactions leading to a change in the type of inventories (release of inventory for production, release of products, shipment of finished products, goods to the buyer before revenue recognition) are not the grounds for inventory derecognition as assets. In this case, the change in the type of inventory is associated with the value transfer of the changed type of inventories to the value of another type of assets. In other cases of inventory disposal, the standard requires recognition at the carrying amount of expenses for inventories that shall be recognized separately for disposal on sale or another disposal. If an impairment was previously recognized for a disposed asset...

A point that should be mentioned is the issue of valuation of agricultural, forestry and fishery products of own production, as well as goods traded at the organized auctions, which are allowed being valued upon recognition and subsequently at their fair value. This is what the FSBU 5 defines. IFRS 2 also contains this rule for the cost of harvested agricultural products derived from biological assets with reference to the IAS 41 "Agriculture". [http://www.consultant.ru/document/cons_doc_LAW_193593]

One more feature should be pointed out in terms of inventory valuation. FSBU 5 extends its action, including the inventory valuation rules, to commercial organizations, non-profit organizations and organizations that have the right to simplified accounting. IFRS 2, like the entire composition of the standards of this format, implies only commercial organizations. There is a separate standard for items in which there is no public interest.

The accounting features applied by the organization are disclosed in the financial statements. The standards indicate the need to disclose information in the reporting on the book value by type of inventory, calculation methods of the cost of inventories and the consequences of their changes compared to the previous reporting period, the amount of impairment and recovery of the cost of inventories, the value of inventories pledged as collateral to secure the obligations. IFRS 2 also requires disclosure of the accounting policies adopted for measuring inventories, including the costing formula used. FSBU 5, in turn, provides information on the amounts of advances, prepayment, and deposits paid by the organization with regard to the acquisition, creation, processing of inventories. The standards are close in terms of material disclosures.

**SUMMARY**

Thus, the new FSBU 5/2019 standard introduces into the Russian accounting and reporting practice the new categories for assessing reserves, which are similar in meaning to the approaches presented in the international standard.

The practice in Russian accounting is to use fair value, which is the baseline estimate of inventories. Also, the use of the present value comes into Russian accounting in case of delay in fulfilling an obligation to the inventory supplier. This is also close to the ideology of international standards, the key assumption in which is the formation of the most reliable information about the asset value.

The close attention of Russian accountants will require the need to include in the cost of inventories the estimated obligations for inventory disposal, which, in fact, is not an innovation and has long been regulated by the domestic standard. But it is extremely rare in the practice of forming the cost of inventories.

**CONCLUSIONS**

The most problematic, in our opinion, will be the valuation of inventories based on net realizable value, if this valuation is lower than the actual cost of inventories. The issue of determining the net sales value requires a qualitatively new approach to calculating the cost of inventory produced in order to answer the question about the magnitude of the expected costs of production and sale. However, the standard contains an indication that in case of difficulty in determining such indicators, it is possible to use as net realizable value the price at which it is possible to acquire similar inventory as of the reporting date. And this is concession to the current practice in Russia, which is different from the approaches adopted in the IFRS.
In general, it should be recognized that the norms of the new Russian standard confirm the implementation of the task of convergence with the international standards, but with some peculiarities of the prevailing accounting practice in Russia.

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