

Comparison of Legal Regulation of Expense Accounting in the Russian Federation and the People's Republic of China

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Abstract

Based on the preliminary definition of the objects of comparison, the paper aims to compare the regulations governing expense accounting in the Russian Federation and the People's Republic of China. The authors achieve the research purpose by using various methods, including analysis, synthesis, deduction, induction, multidimensional comparison, dogmatic method, comparative legal method, tabular method, and graphical method. The research materials include the works of various authors and the regulations governing accounting in the Russian Federation and China. The originality and scientific novelty of this research lie in determining the objects of comparison of accounting standards in terms of expense accounting and identifying similarities and differences between standards. As a result of the research, the authors identified the objects of comparison of accounting standards, as well as differences in standards. For most of the objects of comparison, there were no similarities in the standards, which may become a possible reason for the incompatibility of reporting data when conducting spatial comparisons. Further study of this scientific problem should be aimed at further comparison of accounting standards governing the accounting of objects related to expenses that affect the amount of expenses.

Keywords

Expenses · Accounting · Accounting standards · Comparison

JEL Code

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1 Introduction

Expenses are one of the most important accounting items, information about which is of great importance for managerial needs. In this regard, the amount of expenses is disclosed in financial statements, which are widely used in the analysis of economic activity. The analysis necessitates a spatial comparison of expenses of various enterprises, especially when comparing indicators of economic entities located in territories of different countries, which is necessary to study the experience of cost management. However, when making such comparisons, one should not be limited to an algebraic comparison of the figures given in the reporting because processes for preparing and compiling reports and maintaining records may differ due to differences in accounting standards underlying the organization of accounting processes. Such differences cause the incompatibility of data. Therefore, before comparing reporting indicators, it is necessary to identify the existence of differences in accounting standards governing the accounting procedure for objects similar in the name; otherwise, unreliable results may be obtained. Therefore, the research topic is relevant.

Thus, based on the definition of the objects of comparison, this research aims to compare the regulations governing the accounting of expenses in the Russian Federation and the People's Republic of China and identify similarities and differences.

Achieving this purpose involved solving the following tasks:

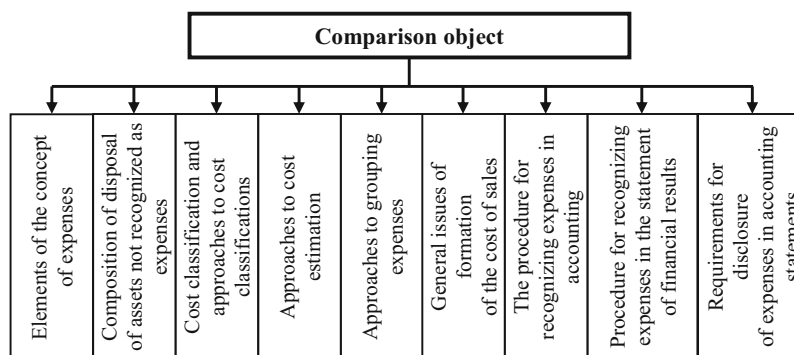
1. Establishing the composition of the compared normative acts;
2. Defining the objects of comparison;

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Fig. 1 Objects of comparison.

Source: Compiled by the authors



3. Comparing selected objects to identify similarities and differences, as well as their justification.

The scientific novelty of the research lies in the definition of objects of comparison of accounting standards in terms of expense accounting.

The scientific significance of the research lies in identifying similarities and differences in the standards that objectively cause differences in the amounts of actual expenses reflected in statements.

The practical significance of the research lies in identifying and evaluating the feasibility of using accounting data, including publicly disclosed, without bringing them into a comparable form for spatial comparisons.

2 Methodology

To achieve the research purpose, the authors used analysis, synthesis, deduction, induction, multidimensional comparison, dogmatic method, comparative legal method, tabular method, and graphical method.

The used materials are the regulations on expense accounting applied in the Russian Federation and China and scientific publications.

During the research, the authors conducted a literature review, including the publications of the following authors: Chen and Rezaee (2012), Ching Chi Heng and Noronha (2011), Duvanskaya and Sverchkova (2016), Fang et al. (2021); Goncharenko and Khadaroo (2020), Habib (2015), Kruglyak and Shvyreva (2017), Kuzmina et al. (2017), Labyntsev et al. (2017), Li et al. (2018), Liu and O'Farrell (2011), Ma et al. (2018, 2022), Pasko et al. (2021), Sokolov (2016), Song and Zhou (2021), Sozinova and Meteleva (2022), Xie (2012), Wang (2013), Wen et al. (2021).

The conducted literature analysis shows that available publications do not compare the accounting standards of the Russian Federation and China in terms of expense accounting, which indicates that today's science does not pay attention to such issues, which determines the relevance and scientific novelty of this research, as well as its scientific and practical significance.

3 Results

The solution of the set tasks led to the following results.

First, the authors established the composition of regulations in the field of expense accounting regulation in the Russian Federation and China.

Second, the authors identified the objects of comparison, the composition of which is illustrated by the diagram shown in Fig. 1.

The description of the comparison objects is given in Table 1.

Third, the following similarities and differences between the standards were identified (Table 2).

As can be seen from Table 2, for almost all comparison objects, there are differences between Russian and Chinese standards, which can lead to incompatibility of reporting data in terms of expenses. This makes it challenging to conduct spatial comparisons of reporting data of economic entities.

4 Discussion

The comparison of accounting standards was based on the preliminary study of the accounting regulation system, which made it possible to define the composition of the compared normative acts clearly.

The similarity of regulatory systems was found, namely, that it is based on the relevant law in the studied countries:

1. In the Russian Federation—Federal law “On Accounting” (December 6, 2011 No. 402-FZ) (Russian Federation, 2011)
2. In the People's Republic of China—the People's Republic of China Accounting Law (People's Republic of China, 1985)

Both laws define expenses as accounting objects:

1. In the Federal Law—Article 5,
2. In the Law of the People's Republic of China—Article 10.

Table 1 The description of the comparison objects

Comparison object	Description
1. Elements of the concept	The elements of the concept are form, result, and reference to life
2. Composition of disposals of assets not recognized as expenses	The standard establishes certain exceptions or examples of disposals that do not lead to the recognition of expenses
3. Approaches to the classification of expenses	The standard establishes the division of expenses into groups for the purposes of reporting
4. Approaches to expense estimation	The standard defines the procedure for valuation of consumption
5. Approaches to expense grouping	The standard defines the procedure for grouping expenses and their distribution
6. General issues of cost formation	The standard establishes approaches to the process of cost formation
7. Procedure for recognizing expenses	The standard specifies conditions for recognition or certain dates or events that determine the statement of expenses
8. The procedure for recognizing expenses in financial statements	The standard contains conditions, indications of specific dates, or events that determine the transformation of expenses
9. Requirements for disclosure of expenses in reporting	The standard establishes the composition of indicators required to be disclosed in financial statements

Source: Compiled by the authors

Table 2 The results of the comparison

Comparison object	Result
1. Elements of the concept	No matches
2. Composition of disposals of assets not recognized as expenses	Not determined
3. Approaches to the classification of expenses	Not determined
4. Approaches to expense estimation	Not determined
5. Approaches to expense grouping	Not determined
6. General issues of cost formation	Not determined
7. Procedure for recognizing expenses	Matches
8. Procedure for recognizing expenses in financial statements	Partial matching
9. Requirements for disclosure of expenses in reporting	No matches

Source: Compiled by the authors

In the Russian Federation, expense accounting is regulated by the Regulations on accounting “Expenses of the organization” PBU 10/99 (Ministry of Finance of the Russian Federation, 1999).

In the People’s Republic of China, expense accounting is defined by the Basic Accounting Standards for Commercial Organizations (Order No. 76 of the Ministry of Finance of the People’s Republic of China) (Ministry of Finance of the People’s Republic of China, 2006).

The objects of comparison (i.e., parameters that can determine the amount of expenses in accounting) are determined based on the analysis of the content of the above regulations. The following objects of comparison are distinguished:

1. Elements of the concept of “expenses”;
2. Composition of disposals of assets not recognized as expenses;
3. Classification of expenses and approaches to classification of expenses;
4. Approaches to expense estimation;
5. Approaches to expense grouping;
6. General issues of cost formation;
7. Procedure for recognizing expenses in accounting;

8. The procedure for recognizing expenses in financial statements;

9. Requirements for disclosure of expenses in reporting.

Elements of the concept provide for the definition and comparison of all attributes of the concept of expenses. The allocation of this object is due to the fact that differences in the concept will necessarily lead to differences in amounts.

The composition of disposals of assets not recognized as expenses implies that the standard establishes certain exceptions or examples of disposals that do not lead to recognition of expenses, including their approximate list, or approaches to determining such disposals. The introduction of this parameter is necessary because differences in the composition of such disposals will lead to differences in the amounts of expenses.

Classification approaches should allow for the grouping of expenses for reporting purposes. This object of comparison is highlighted since there are different classifications of expenses, which affects their presentation in the reporting.

Approaches to estimating expenses involve normative fixing of the valuation procedure. The allocation of such an

object is necessary because differences in the assessment will lead to different amounts of expenses.

Approaches to grouping expenses involve the distribution of expenses between groups and periods. Differences in such groupings will lead to differences in the amounts of expenses.

The regulation of general issues of cost formation in normative acts allows determining and introducing uniformity in the process of calculating and reporting the amount of actual cost.

The procedure for recognizing expenses consists of specifying the conditions for recognition, dates, or events, the occurrence of which requires the recognition of expenses (their statement). This can also lead to differences in the amount of expenses.

The procedure for recognizing expenses in the statement of financial results involves the establishment of a system of conditions, dates, or events, in which expenses are involved in the formation of the financial result of the period (transformation of expenses). Mismatched conditions (dates and events) also lead to differences in the amounts of expenses.

The requirements for disclosing expenses in reporting determine the composition of the indicators prescribed for reflection. This object is singled out because the requirement to disclose indicators leads to differences in the amount of expenses.

Further comparison of these objects revealed the following.

The Russian accounting standard identifies the following elements as elements of the concept of expenses (paragraph 2 of PBU 10/99):

1. Form: a decrease in benefits due to disposal of assets or incurrance of liabilities;
2. Result: a decrease in equity not related to the actions of owners.

In the same way, the Chinese Standard (Article 33) establishes the following elements:

1. Form: outflow of economic benefits;
2. Result: a decrease in equity not related to the distribution of profits to the owner;
3. Attitude to everyday life.

After comparing this element, we can conclude that the concept formulated in the standards of the People's Republic of China is not specific enough in terms of form. Expenses are reduced only to the facts of everyday life, while Russian standards are broader in this regard, and the consequences of extraordinary facts and events also apply to expenses. There are also differences in results: the Chinese standards do not indicate a possible decrease in equity arising as a consequence of decisions taken by owners.

Disposals of assets not recognized as expenses are set in paragraph 3 of PBU 10/99. There are no analogs in Chinese standards.

The classification of expenses in the accounting of the Russian Federation is determined by paragraph 4 of PBU 10/99; the approaches to classification are established by paragraphs 5 and 11 of PBU 10/99. Simultaneously, prescriptions are established for recognizing specific expenses in a certain class and the possibility of recognizing expenses in different classes, depending on the assignment of corresponding income to certain classes. This issue is not defined by the Chinese standards in terms of the Basic Standards. Simultaneously, Accounting Standard for Commercial Enterprises No. 30—Presentation of Financial Statements provides for disclosing expenses divided into several groups in the income statement, the names of which do not coincide with the Russian standards; there are no approaches to forming groups. In this regard, we can conclude that the obtained result is not obvious.

Approaches to expense estimation are defined in the Russian standard in paragraphs 6 and 14. In the Chinese standard, there are no such approaches.

Approaches to grouping expenses are established in PBU 10/99 in paragraphs 7 and 8. There are no such approaches in the Chinese standards.

General issues of the formation of the cost of sales are disclosed in paragraph 9 of PBU 10/99, including the need to allocate expenses between periods. The possibility of full recognition in the cost of sales of management and commercial expenses for the period was also established. No analogs were found in the Chinese standard.

The procedure for recognizing expenses in accounting is established by paragraph 16 of PBU 10/99 by specifying the following conditions:

1. Justification of expenses by law (contract and custom);
2. Certainty of the amount of consumption (its measurability);
3. Confidence in decreasing economic benefits.

Similarly, paragraph 34 of the Basic Standards defines the following conditions:

1. Confidence in decreasing economic benefits;
2. Measurability of expenses.

Thus, the conditions for recognizing expenses do not completely match, but this will not lead to differences in the amounts of expenses.

The procedure for recognizing expenses in the income statement is established in the Russian Federation by paragraph 18 of PBU 10/99 in the form of the following provisions:

1. Correspondence of income and expenses;
2. Compulsory direct or indirect distribution of expenses that determine receiving income in several periods;
3. If it is confirmed that it is impossible to complete the creation of an asset, costs of its creation are recognized as expenses of the period;
4. Expenses are recognized regardless of taxation rules;
5. Expenses are recognized when a liability is incurred, whether or not it resulted in the creation of an asset.

In the Chinese standard, this procedure is regulated by article 35. Based on the analysis of this article, the following provisions can be determined:

1. Correspondence of income and expenses is determined by a decrease in sales income by the amount of cost when recognizing revenue;
2. Expenses reduce the profit of the period in which it becomes evident that no economic benefits have been received or assets have been recognized.
3. If liability is recognized that does not depend on the recognition of an asset, it is included in expenses in the period in which it arises.

It can be concluded that expenses are recognized regardless of taxation rules based on the fact that the regulatory system includes Accounting Standard for Commercial Enterprises No. 18—Income Tax, which requires accounting for objects related to differences between taxable and accounting profit.

The requirement for distributing expenses between periods was not found in the regulations of the People's Republic of China.

Thus, the compared standards partially correspond.

The requirements for disclosing expenses in reporting are established by Sect. V of PBU 10/99. It requires disclosing expenses with their division into specified indicators, including other expenses. No other costs are identified in the Chinese standards. Additionally, the Russian standards require that expenses be singled out in reporting if the corresponding income amounts to five or more percent of the total income. There are no similar requirements in the Chinese standards.

It should also be pointed out that this research cannot be considered complete because the amount of expenses is determined not only by the very concept of expenses or the rules for ascertaining and transforming expenses but also by the amount of disposal of a previously recognized asset and an incurred liability. The amounts of such objects are formed in accordance with the standards that determine the accounting treatment for a particular asset or liability. Differences can be identified only in the process of comparing almost all

accounting standards, which should be the subject of other studies in which the results of this study can be used.

Thus, as the comparison showed, there are differences in standards, which can lead to differences in the amounts of expenses disclosed in the financial statements. These differences should be considered when making spatial comparisons of the value of expenses and corresponding business indicators.

5 Conclusion

This research compares the regulations governing the accounting of expenses in the Russian Federation and the People's Republic of China, which is necessary to identify possible incompatibility of reporting data due to differences in the procedure for forming and assessing reporting indicators.

The composition of the compared normative acts was determined to conduct the comparative analysis. Particularly, it was found that the accounting regulation in the Russian Federation and the People's Republic of China has common features.

To carry out the comparison, the authors determined the following objects of comparison:

1. Elements of the concept of "expenses";
2. Composition of disposals of assets not recognized as expenses;
3. Classification of expenses and approaches to classification of expenses;
4. Approaches to expense estimation;
5. Approaches to expense grouping;
6. General issues of cost formation;
7. Procedure for recognizing expenses in accounting;
8. The procedure for recognizing expenses in financial statements;
9. Requirements for disclosure of expenses in reporting.

The need to use these objects of comparison was justified based on their impact on the value of indicators of expenses given in the financial statements.

Based on the selected objects of comparison, the authors identified similarities and differences in the standards. Differences were found in almost all objects. The reasons for these differences are seen in the fact that the People's Republic of China adopted the policy of divergence of its own standards with international standards, whereas the Russian Federation formed its own system of accounting regulation, in which international standards form a certain basis for developing the Russian standards.

The presence of the identified differences may explain the differences between the financial statements of Russian and Chinese enterprises.

Additionally, the causes of differences include not only the identified differences in expense accounting standards. They may also be due to a connection between expense indicators with resource flows and liabilities, and differences in asset and liability accounting standards. The identification of such differences requires a separate study, in which the results obtained during this research can be used.

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