

## **A critical approach to the allowance for doubtful accounts of accounting Safonova K.**

### **Критический подход к резерву по сомнительным счетам бухгалтерского учёта Сафонова К. А.**

*Сафонова Кристина Анатольевна / Safonova Kristina Anatolyevna – магистр,  
кафедра экономики и финансов,  
Российский Государственный Аграрный Университет,  
Московская сельскохозяйственная академия им. К.А. Тимирязева, г. Москва*

**Abstract:** *this article deals with the problem that arises from a mismatch in terms of product shipment and receipt of payment for shipped products, especially in the case where payment is provided later and there is a possibility of delay in payment.*

**Аннотация:** *в данной статье рассматривается проблема, возникающая из-за несовпадения сроков отгрузки продукции и поступления оплаты за отгруженную продукцию, особенно в случае, когда оплата предусмотрена позже и есть возможность задержки оплаты.*

**Keywords:** *accounting, allowance for doubtful debt.*

**Ключевые слова:** *бухгалтерский учёт, резервы по сомнительным долгам.*

Doubtful receivables are considered to be an organization that is not repaid, or high degree of probability will not be repaid within the time limits established by the contract, and provided appropriate safeguards. [1]. The main purpose of the formation of allowance for doubtful accounts at the end of the reporting period is to bring the value of the assets, which are presented in the balance sheet prior to the current (real) value.

In Sec. 70 of the Regulations on accounting and financial reporting in the Russian Federation (the order of the Ministry of Finance from 29.07.1998 № 34n / rev. on 24.12.2010) regulates the formation of reserves. The organization creates a provision for doubtful debts in the case of recognition of doubtful receivables, with such amounts of reserves on the financial results of the organization. Provisions are determined separately for each doubtful debt depending on the financial condition (solvency) of the debtor and the probability of repayment of the debt in full or in part. If before the end of the accounting year following the year of the creation of a reserve for doubtful debts, the reserve in any part not used, the unspent amounts are joined at the balance sheet at the end of the accounting year financial results.

Until a change n. 70 Regulation 34n contain a reference to the fact that the allowance for doubtful debts is created on the basis of conducted inventory receivables organization. But now the current version of the paragraph does not contain any indication of the inventory in the case of an allowance for doubtful accounts. However, as the provision for accounts receivable is part of its evaluation (p. 3 AP 21/2008 «Changes in estimates» [2]), it should be controlled within the inventory of receivables. The same view was voiced IR Sukharev, Head of methodology of accounting and reporting the Russian Finance Ministry, in an interview with «Russian Tax Courier», № 4/February 2013.

Note also that n. 70 Regulation 34n does not indicate that the reserve is created only for doubtful accounts in respect of settlements with other organizations and individuals for products, goods, works and services with such amounts of reserves on the financial results of the organization. That is doubtful in accounting can be recognized any accounts receivable whether, in connection with which it originated. Recently, however, some auditors are increasingly expressed the view that the creation of a reserve for doubtful debts is not a right but an obligation of the organization. This paragraph of the Regulations on accounting interpreted as follows: «a situation may arise where the organization is to create a reserve for doubtful debts». The argument is one of the fundamental principles of accounting - the requirement diligence that is, that the organization should be more willing to recognize in accounting expenses and liabilities than the possible income and assets, and to avoid the creation of hidden reserves (p. 7 AP 1 / 2008) [3]. In my opinion, the application of the requirements of diligence to prove this position itself is extremely imprudent. This is due to the fact that the requirement of diligence does not mean that you can disparage the accounting for revenue and, on the contrary, carefully and thoroughly consider all costs. Most of the requirements are fully disclosed in the Concept of accounting in a market economy in Russia. The concept states that the formation of the information in the accounting should follow certain prudence in the judgments and estimates, which take place in conditions of uncertainty, such that assets and income are not overstated and liabilities and expenses are not understated. It does not allow the creation of hidden reserves, the deliberate understatement of assets or income, and the deliberate overstatement of liabilities or expenses. In other words, the requirement of diligence rather talks about parity in the recognition of income and expenses, which would give the most accurate picture of the financial condition of the organization. In addition, there are several other, quite compelling arguments in favor of the fact that the presence of doubtful debts organization may itself decide whether to create a reserve.

Applying in accounting reservation for bad debts before the organization reflects the negative financial impact of the recognition of such debts hopeless. Thus, the creation of a reserve always worsens the balance sheet structure and financial soundness indicators (due to the decrease of loss of own funds) as well as profitability (ratio of net profit to the amount of certain assets and costs reduced due to the loss) during the creation of the reserve. Of course, the actual payment by the debtor doubtful debt, or vice versa, its recognition hopeless lead to a single financial result as in the case of an allowance, and in his absence, but still in the statements for all periods before the write-off of unused reserves of the Organization would show the worst financial performance [4, 126].

I would like to draw attention to the very definition of bad debt. As mentioned above, such is considered receivable, that is not repaid, or high degree of probability will not be repaid within the time limits established by the contract, and provided appropriate safeguards. First, the accounts receivable can't arise until they become due, a specific agreement on its payment. Up to this point in the Registered could be reflected only obligatory right to receive cash instead of debt a company-buyer. Secondly, I would like to refer to the interpretation of «not provided adequate safeguards». If this advance payment or prepayment that these funds within the contract period must be set off against the corresponding amount of receivables reflected in the debit account 62 «Settlements with buyers and customers» and to consider them as a reserve is not allowed. As for the guarantees to ensure the calculations by third parties that's rather the reclassification of the debtor, not the receivables.

Earlier enough common approach - a reflection of allowance for doubtful debts in the structure of estimated reserves, along with the provision for impairment of tangible assets and impairment of financial investments. The two latter provisions, in fact, can be attributed to the valuation allowance, but they did not correlate with the loss of earned income, reflecting the real losses in cash flow in the future. But «convenient» to write off the loss of earned income due to the provision for doubtful accounts: Debit Account 63 «Provision for doubtful accounts» credit account 62 «Settlements with buyers and customers». Of course, the record does not contradict the semantics of the language of accounting, but the loss of earned income camouflages their inclusion in the costs and other expenses, thus reducing taxable income and, accordingly, the net profit of the shareholders.

There is one more question, how is it that there are bad debts? The question is not difficult, however, as it somehow always forget as accountants and managers. The answer is quite simple: a doubtful debt arises from the terms of the contract for the supply of goods or services, with conditions on the subsequent payment for the delivered asset. Thus, it appears that the supplier makes delivery of the asset, and money, as such, is not and never will. In fact, the «investor» to ensure delivery of the asset, lost ownership of the asset is cash, but even if not lost, then in accordance with the contract of sale, received only the right to receive cash in the future. Not by chance the word «investor» in quotes. According to the contract of sale in a deal involving two subjects of trade: the seller and buyer. In addition, the contract should specify the necessary condition for post-paid. It is not contrary to the economic content of the transaction if the buyer was available the object of the transaction - cash. Then vendor to make delivery has a legitimate right to demand immediate payment of the goods to your address, and the buyer is obliged to do so. In this case, the question would be settled, and the need for provision for bad debts would disappear.

Unfortunately, in the Russian practice of accounting distorts the economic content of the contract of sale. As a rule, delivery of assets produced by the supplier's intention to pay the buyer a product or service. This provider does not check the solvency of the buyer and its financial capacity. In this regard, and there are bad debts.

Currently, during the reforming of the Russian accounting and adapt it to IFRS of particular importance and urgency, issues of accounting and analysis of the allowance for doubtful accounts, eliminating the existing contradictions on certain issues of redundancy, as well as the development and introduction of unified principles taking into account all types of financial reserves. The composition of the allowance for doubtful accounts, the sources and targets of their formation in accounting require clarification.

Thus, the development of market relations and the reorientation of Russian accounting to IFRS require rethinking and development of the modern interpretation of the content of the reserves, methodology and techniques of accounting, analysis and control in the new economy.

### *Литература*

1. «Regulations on conducting book keeping and accounting reporting in the Russian Federation» (Order of the RF Ministry of Finance 29.07.1998 N 34n (Ed. Of 24.12.2010)).
2. AP 21/2008 «Changes in estimates».
3. AP 1/2008 «Accounting Policies of the organization».
4. *Rasskazova-Nikolaeva S.A.* The accounting policies of the organization: accounting and taxation. M.: Economics and Life, 2014.
5. *Sukharev I.R.* «Russian Tax Courier», № 4, February 2013.