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## IMPROVEMENT OF THE MANAGEMENT STRATEGY IN ELABORATING OF ACCOUNTING POLICIES OF THE ENTITY IN ACCORDANCE WITH IFRS

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**ABSTRACT.** *In modern conditions, the role of enterprise management is increasing significantly, and this is primarily due not only to the ability to manage the enterprise qualitatively, to approve the correct policy of its activities, to concretize budgets, but also, based on the approved development strategy, to understand which indicators, in which assessment should be reflected in financial statements. For the correct completing of the financial statements of the enterprise and presentation of high-quality financial information, the management of the enterprise must correctly develop and approve its accounting policies. If an entity prepares financial statements in accordance with International Financial Reporting Standards (IFRS), then in elaborating accounting policies it should use the provisions of International Financial Reporting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". In a real situation, there may be cases when an enterprise plans certain transactions, however, IFRS do not disclose information: how to reflect such transactions in accounting, in such cases, management must make the right decision, choose the option that will allow to correctly reflect income and expenses, calculate the correct financial result, as well as disclose information in the financial statements.*

**KEYWORDS:** *accounting policies, IFRS, disclosure of information*

**JEL:** *M21, M41*

### INTRODUCTION

The development strategy, which is established by the management of the enterprise, should be based on the competent management of its financial flows, as well as in-depth analysis of the financial indicators presented in the financial statements. The indicators that are presented in the financial statements of the enterprise were initially reflected in the accounting. However, before economic transactions are reflected in accounting, management must elaborate and approve accounting policies that will indicate provisions for the recognition and measurement of elements of financial statements. Accounting policies are a necessary tool for doing business. An effective accounting policy allows, on the one hand, to properly regulate the process of accounting and financial reporting at the enterprise, and on the other hand, to improve the quality of its

management by ensuring the reliability of information. In addition, the elaboration of accounting policies of the enterprise refers to the legal optimization of taxation.

It should be noted that the IASB has issued the Guide to Selecting and Applying Accounting Policies — IAS 8 on the practical application of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” [1].

### **ANALYSIS OF THE COMPOSITION OF THE ACCOUNTING POLICIES OF THE ENTERPRISE FROM THE POINT OF VIEW OF THE MANAGEMENT STRATEGY.**

The main goal of the company's management in the preparation of financial statements is to provide its users with reliable and relevant information in terms of making economic decisions.

The main difficulties in the elaboration of accounting policies arise when the company's management must rely on its professional judgment in the event that IFRS do not specify certain cases of reflection of economic transactions, or the standards offer several options that need to be analyzed and the most optimal one selected.

Thus: when elaborating the accounting policies of an enterprise, its management must first of all determine which of the available International Financial Reporting Standards can be applied when recording economic transactions. If they are applicable in a given situation, The IFRS must be used; if there are no standards, then it is necessary to apply the requirements of the standards that cover similar or related situations. If there are no similar situations in other IFRS, then it should refer to the Conceptual Framework for Financial Reporting and to develop an accounting policy based on it.

If applicable IFRS requirements exist, an entity should design its accounting policies applying them. The IASB emphasizes that this should be done even if these requirements are at variance with the basic provisions of the Conceptual Framework for Financial Reporting. This requirement is specified in IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” (clause 7): “when an IFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS. [2].

At the same time, IAS 1 "Presentation of financial statements" stipulates a reliable presentation of the "financial position, financial results and cash flows of the enterprise", which requires "a truthful representation of the consequences of transactions, other events and conditions in accordance with the definitions and criteria for the recognition of assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting.

However, as noted above, even in the case of discrepancies between the requirements and the basic concepts, accounting policy should be determined precisely on the basis of the requirements of a particular standard or standards, but not the “Conceptual Framework for Financial Reporting ” itself. Let's look at the example of the application of the provisions of specific IFRS and Conceptual Framework for Financial Reporting.

***Example 1.** Suppose that in accordance with the tax policy of the state, an enterprise must pay income tax for 200X, already next year 200X+1, based on data on income received for 200X. Thus: the company's management can use the provisions of IFRIC 21 " Levies ". In accordance with the provisions of this explanation, the event as a result of which an enterprise has an obligation to pay in favor of the state is to receive income in 200X + 1 year, however, the presence of income in the previous year is also necessary: on its basis, the amount of the obligation is calculated. Just the income received in 200X is not enough yet, and this is not a binding event. Therefore, for the annual period ending December 31, 200X, the company does not recognize the obligation, but will recognize it in January 200X + 1 year, when it begins a new reporting period.*

Suppose that the management of the enterprise has decided to follow the Conceptual Framework for Financial Reporting, then it is necessary to recognize the tax obligation already in 2020. Since, in accordance with the provisions of the "Conceptual Framework for Financial Reporting ”, the obligation arises if the enterprise has already received economic benefits. Thus, the management of the enterprise, indicating in accounting policies the provisions that should be followed when reflecting transactions, in case of an incorrect choice, may distort the financial indicators of the financial statements, which may subsequently affect the adoption of correct management decisions.

**Example 2.** Suppose an enterprise has issued a financial instrument, preferred shares, which are not redeemable, but they have the characteristic of "blocking" dividends to other holders of ordinary shares of this enterprise until dividends for a certain amount are paid specifically to the holder of this financial instrument. As a result, the company still has an obligation to pay dividends by a certain amount to the holder of the financial instrument, even if there is no such contractual condition. It is necessary to refer to the requirements of IAS 32 "Financial Instruments: Presentation", which stipulates, among other things, the procedure for their classification. In order for the issuer to classify the financial instrument issued by it as capital and not a liability, among other requirements, the instrument must not contain contractual obligations to transfer cash or other financial asset to its holder. The IASB confirmed that the contractual obligation to transfer cash or other financial asset to the holder of an instrument should be formed precisely by the terms of the contract for this instrument, since IAS 32 "Financial Instruments: Presentation" does not allow, and even more so does not require, that other, third-party factors be taken into account. That is, economic necessity in itself will not yet lead to the classification of the instrument into the quality of an obligation. This means that in our example, the obligation to pay dividends to a shareholder will not have an impact on the classification. In accordance with the provisions of the "Conceptual Framework for Financial Reporting", the obligation is defined as "the currently existing obligation of an organization to transfer an economic resource that arose as a result of past events."

In a situation where there are no relevant IFRS to reflect economic transactions, the company's management should consider the provisions of other international standards that apply to similar or similar situations. IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" states that in the absence of a standard suitable for a particular situation, professional judgment should be used in elaborating accounting policies that will lead to providing users with reliable and relevant information. However, professional judgment will also be required in order to decide which IFRS standards cover similar situations with their requirements, and then to apply all the requirements related to a particular situation in these standards. Some of the requirements may also relate to the disclosure of information in the financial statements. It is unacceptable to apply only some of the requirements of IFRS covering similar or similar situations when drawing up accounting policies, while ignoring others.

**Example 3.** Currently, there is no specific IFRS that sets the rules for accounting with cryptocurrency. In this regard, first of all, the question arises as to how to reflect in the accounting of cryptocurrencies, whether to recognize them as an asset. It is necessary to emphasize that in the accounting policies of the company should specify the procedure for accounting, evaluation and recognition of cryptocurrencies. In the modern economy there are more than 1,500 cryptocurrencies, and every time many new cryptocurrencies appear.

Based on the definition, we can conclude that cryptocurrency, if the conditions of this definition are met, is an asset, but in each new case, when transactions with a new cryptocurrency, the company must independently determine whether it is reasonable to recognize the new cryptocurrency as an asset. If cryptocurrency is recognized as an asset, the second question arises according to which standard in IFRS should be recognized? In accordance with paragraph 7 of the SIC (IAS 8) "Accounting policies, changes in accounting estimates and errors", where applicable, the company may use a specific IFRS standard for elements of financial reports (e.g. IFRS 2 "Share-Based Payments").

The accounting treatment of assets according to IFRS, relevant to analyze their provisions for cryptocurrency accounting, is reflected in the following standards:

1. IAS 7 "Statement of cash flows"; IFRS 9 "Financial Instruments — for cash accounting,
2. IAS 32 "Financial instruments: presentation", IFRS 9 "Financial Instruments" - for accounting for non-cash financial assets,
3. IAS 40 "Investment property" — for real estate investment accounting,
4. IAS 38 "Intangible assets" — for accounting for intangible assets,
5. IAS 2 "Inventories" — for accounting for stocks.

Therefore, it is necessary to consider which of them are applicable in cryptocurrency accounting. We analyze the provisions of the above-named Standards to determine which of them are applicable to cryptocurrency accounting. The essence of cryptocurrency is not strictly applicable

to the definition of currency, which is presented in IAS 32 "Financial instruments: presentation" such as "currency (cash) is a financial asset because it represents the means of exchange...". For example, some cryptocurrencies cannot be used as a medium of exchange, that they have a limited exchange environment compared to most traditional fiat currencies. In addition, a number of financial institutions in the world have banned the use of cryptocurrencies, as they pose an increased risk in financial transactions.

The cryptocurrency also does not meet the definition of cash equivalent, which is "short-term, highly liquid investments that are easily convertible into known amounts of cash and that are subject to insignificant risk of change in value". In most cases, transactions with cryptocurrency are aimed at the long-term period. In this situation a question arose: whether can be reflected in accounting cryptocurrencies as cash or cash equivalent? Taking into account the provisions where cryptocurrency can be recognized as a non-cash financial asset? The main feature of a financial asset is that its holder has the contractual right to obtain cash or another financial asset from another company or to exchange financial assets or financial liabilities with another company on potentially favorable terms to the holder. In general, the essence of the cryptocurrency transaction is to make settlements by transfer, without obtaining the munerar and from this point of view the holder of the cryptocurrency has no contractual rights. However, some contracts, such as forward or option contracts to buy or sell cryptocurrencies in the future, may meet the definition of a derivative and may be subject to accounting for financial instruments.

Attention should be paid to situations where cryptocurrency can be registered as intangible assets. IAS 38 "Intangible assets" defines "an intangible asset as an identifiable non-monetary asset without physical substance. Indeed, cryptocurrencies broadly meet this definition and can be recognized as non-monetary assets and therefore fall within the scope of IAS 38 "Intangible assets".

At the same time IAS 38 "Intangible assets" (paragraph 9.10) establishes that: entities frequently spend resources or incur liabilities for the acquisition, development, maintenance or improvement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and titles of publications). Common examples of elements in these general categories are software, patents, copyrights, films, customer lists, mortgage service rights, fishing permits, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights. In the list of intangible assets presented by IAS 38 "Intangible assets" is not mentioned cryptocurrency. But still if the entity in accordance with the provisions of IAS 38 "Intangible assets", recognizes the cryptocurrency as an intangible asset, then it can be assessed either at cost or at fair value (revaluation method).

But in some jurisdictions cryptocurrencies are recognized as intangible assets with an indefinite lifespan, if there are no factors indicating a defined useful life. If the company will record of the cryptocurrency at cost, it must take into account the provisions of IAS 36 "Impairment of assets" and record depreciation in the statement of profit or loss. To account for cryptocurrency at fair value, an active market for it is necessary to be in order to measure it correctly. Accounting under the revaluation method is more complex: increases in fair value are reflected in other comprehensive income (OCI), while decreases are recorded in profit or loss. To determine the fair value of the cryptocurrency, the provisions of IFRS13 "Fair Value Measurement" apply. However, the current application of IAS38 "Intangible assets" and the measurement of cryptocurrencies at cost do not correspond to the economic essence and do not provide relevant information to users of financial statements.

Another standard on asset accounting is IAS 2 "Inventories", indeed, their application can be justified if the company owns a cryptocurrency for sale. According to the provisions of the IAS 2 "Inventories" is stipulated: as stocks would be measured at the lowest sum between cost and net realizable value. Thus, the decrease in the net realizable value would be recorded in the statement of profit or loss. Probably the use of the provisions of IAS 2 "Inventories" for cryptocurrency accounting is justified for "broker-traders, those who buy or sell assets for others or on their own for the purpose of selling in the near future and generating a profit from price fluctuations." They measure stocks at fair value minus selling costs and changes in value. But the use of the provisions of this standard is reasonable for accounting for cryptocurrency for a broker-trader.

It should also be determined: when the company's management should use only the "Conceptual Framework for Financial Reporting" for the elaboration of accounting policies. Clearly, you should use these provisions only if the provisions of relevant IFRSs are not provided for specific transactions, and the corresponding provisions of other IFRSs cannot be used.

**Example 4:** An enterprise has a controversial situation with the tax authorities regarding the need to reflect and pay a certain tax, while the tax inspectorate claims that it is necessary to do this. The company transfers the tax to the tax inspectorate and simultaneously files a lawsuit. Depending on the court's decision, these funds will either be returned to the company or not.

In this situation, when elaborating accounting policies, the company needs to determine:

- *does the transfer of funds in the form of a tax lead to the formation of a contingent asset, just an asset, or can it be stated that there will be neither one nor the other,*
- *if the transfer of funds leads to the formation of an asset, then whether it should be recognized, and if so, how it should be measured and disclosed in the financial statements.*

The definition of contingent assets is given in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets": *a contingent asset is a possible asset arising from past events that will be confirmed by some future events not fully under the entity's control.* [3]. If the cash transferred to the tax office is just such a contingent asset, then the enterprise will apply the requirements of this standard: to recognize expenses, unless there are future economic benefits (in this case, the tax refund is practically indisputable). If this situation leads to the formation of just an asset, then no IFRS can be directly applied. For example: if it is a monetary asset, then it does not meet the definition of IAS 38 "Intangible Assets" and if there is no separate contract for it, then it will also not fall within the scope of IFRS 9 "Financial Instruments". Thus, after analyzing all possible situations, the enterprise has the right to consider applicability of the asset definition and related concepts of the "Conceptual Framework for Financial Reporting". In particular, it says that the definition of an asset implies that an enterprise will have the right to create potential economic benefits, which can be realized in different ways - among other things, used to settle obligations.

Indeed, if we focus on the provisions of the Conceptual Framework for Financial Reporting, then in the above situation, we can conclude that the company has the right to receive economic benefits regardless of the outcome of the tax dispute. If everything is decided in favor of the enterprise, then it will receive economic benefits in the form of monetary compensation. If not, then the funds transferred will be used to pay off the tax liability. There is uncertainty about the form of these benefits, but not the very right of the enterprise to receive them in one form or another. Consequently, according to the Conceptual Framework for Financial Reporting, the transferred cash gives rise to an asset, but not a contingent asset, since there is no uncertainty about its existence.

At the same time, one should pay attention to clause 12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", which reads: "In making the judgement described...., management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources ....." [2].

In addition, as you know, all IFRS standards contain requirements for information disclosure. If none of the standards apply to a situation, it means that no specific disclosure requirement applies specifically such cases. In terms of presenting information in the statements of financial position and income statement / statement of other comprehensive income, disclosures of items are required if this is relevant in order to understand the financial condition or financial performance of the entity.

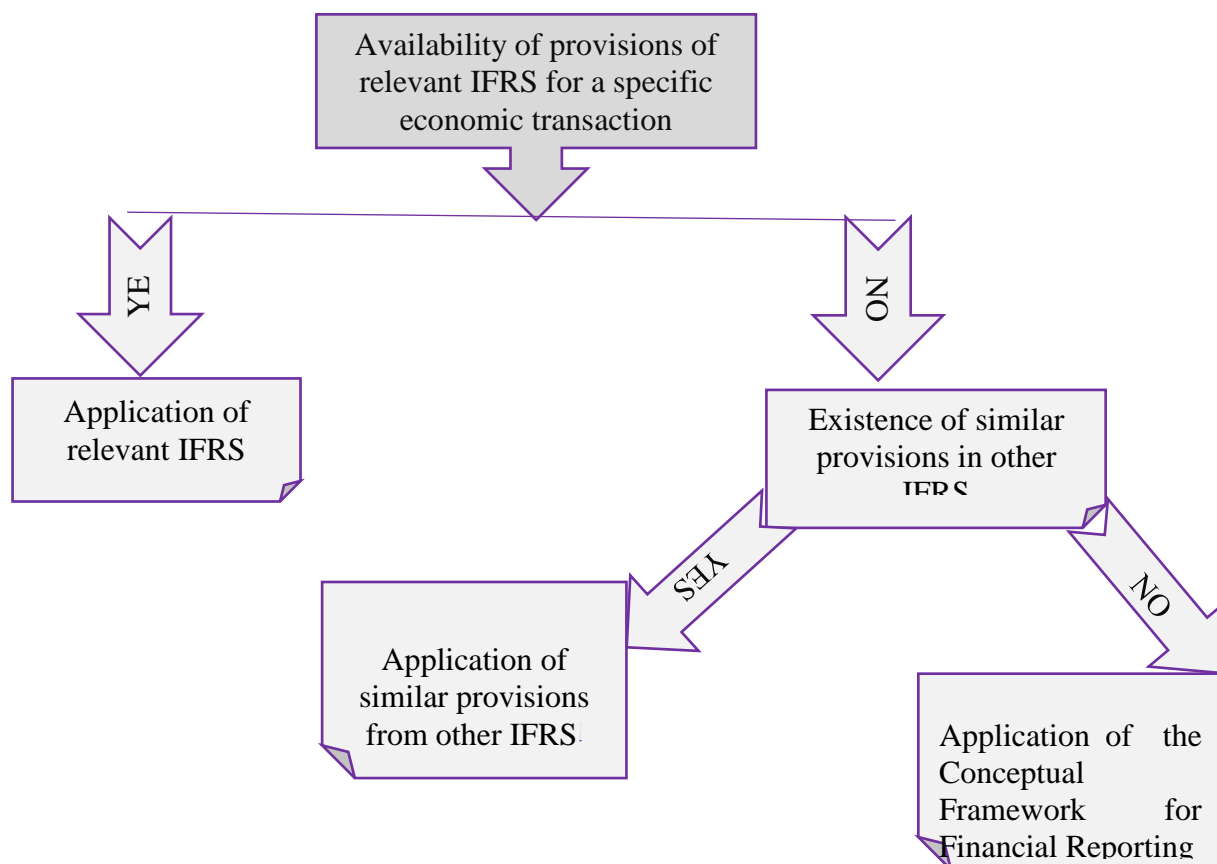
The financial statements must disclose:

- ✓ *the nature and amount of material elements of income or expenses,*
- ✓ *information relevant to the understanding of any financial statement,*
- ✓ *significant provisions of accounting policies and*
- ✓ *information about the assumptions made about the future and other significant sources of uncertainty.*

## **CONCLUSION**

Forming accounting policies correctly, the company's management builds its financial strategy in terms of recognizing income and expenses, financial results of the enterprise, recognizing and evaluating other elements, as well as disclosing information in financial statements.

In this regard, the management of the enterprise for the correct recognition, classification, assessment of the elements of financial statements in accordance with the provisions of IFRS, should use the following scheme presented below.



**Figure 1. Stages of application of the company management policy in the elaboration of accounting policies**

*Source compiled by the author based on the materials of the Guide to Selecting and Applying Accounting Policies—IAS 8*

It should be emphasized that the management of the enterprise developing accounting policies, in fact, sets the strategy of financial development of the enterprise. This is primarily due to the fact that the well-thought-out provisions of accounting policies that will form the basis for reflecting economic operations at the enterprise will serve as the correct basis for making profitable management decisions.

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