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BASIC RULES OF ACCOUNTING AND BOOKKEEPING FOR SMALL BUSINESSES IN FOREIGN PRACTICE

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Abstract. *The article compares the general economic indicators of the development of small and medium-sized businesses in the country with similar indicators of a number of foreign countries. A noticeable lag of the domestic sector of small and medium-sized businesses from foreign countries. Also, a comparative analysis of the formation and disclosure of accounting policies in accordance with international standards and Russian accounting standards was carried out. The main differences in the development and changes in accounting policies in accordance with IFRS and PBU are given.*
Keywords: *accounting policy, international financial reporting standards, accounting regulations, simplified accounting; simplified accounting reporting, accounting.*

Introduction

Many small- and medium-sized practices (SMPs) operate in one local area, others in a number of regions, while others operate in multiple countries. Practices don’t have to be large to extend their geographic footprint—technology, like the Cloud and VoIP, is a great enabler, and SMPs are taking advantage of this. Numerous small- and medium-sized entities (SMEs) are doing likewise and looking for support in doing so. This provides a perfect opportunity for SMPs to grow with existing clients and also to bring new clients into their practice. SMEs are a vital and integral part of the global economy. According to the Organisation for Economic Co-operation and Development, they account for the majority of private sector employment and GDP as well as a disproportionately large share of new jobs; they are a major source of entrepreneurship and innovation. And, SMEs are increasingly becoming part of the global business community. Dramatic changes in communications, transportation, and information technology have accelerated the pace of globalization. SMEs now regularly manufacture products and provide services in many countries and sell to customers and clients around the world—just as large multinational companies have been doing for many years. Globalization presents both great opportunities and significant challenges for SMEs. Perhaps the greatest challenge is the lack of human capital, including managerial expertise, and financial resources to take advantage of these opportunities. IFAC research indicates that SMEs will often look to accounting practices, their trusted advisors, for support.[12]

According to the EG report, the internationalization of SMEs demands that SMPs carefully examine and assess the services they provide to these clients. The report contends that SMPs have the potential to become a key agent for the internationalization of small business if they are able to provide SMEs with the advice they need. The report also emphasizes that accounting practices themselves, especially SMPs, must ready themselves to capitalize on the opportunities created by the internationalization of small business.[12]

Many SMPs have already gone international—by outsourcing country-specific work like tax and employment law to overseas jurisdictions, by assisting international individuals or businesses in investing in their home jurisdiction, or by helping their existing clients expand into other jurisdictions. Technology offers the opportunity to provide services to clients irrespective of their physical location, and to provide that service 24-7.[12]

Small business accounting requires accurate bookkeeping, which entails maintaining organized records of a business's financial transactions, including sales, expenses, assets, and liabilities. If this is your first time exploring small business accounting, visit our helpful glossary to become familiar with basic accounting terms.

Bookkeepers commonly work with three types of accounting reports: balance sheets, income statements, and cash flow. Each report records different values and provides unique insight into a business's financial health. The following section explores the differences between these reports.[6]

Basic rules of accounting and bookkeeping for small businesses in foreign practice

The development and support of small businesses play a decisive role not only in Russia, but also in almost all highly developed countries. Great hopes are placed on the functioning of small organizations, and the state is pursuing an active policy in their favor. However, a comparison of the general economic indicators of small business in Russia and foreign countries indicates a noticeable lag in domestic small business [1]. So, according to the Report of the State Council of the Russian Federation for 2013-2014, the share of small business in the value of GDP is about 18%, while in a number of foreign countries this figure fluctuates at around 50%. As for the share of small business in the total employment of the population, in Russia the share of those employed in small business is about 25% of total employment, while in foreign countries this indicator varies from 35-80% [2]. As for the data on small business for 2016, in 2016 there are approximately 5.6 million small and medium-sized businesses in Russia, which provide employment for 25% of the population and create about 20% of the country's GDP. We can say that a slow growth in the share of small business in the value of GDP is still observed, but the gap with the data of foreign countries in the near future will be almost impossible to fill. Thus, seeing a significant backlog of small business from foreign countries, it is of particular relevance to study the experience of these countries in the field of small business. As a study, we will select the countries: USA and Germany. The USA is the country with the largest economy in the world, the foundation of which is small and medium-sized enterprises (99% of the total number of organizations in the country). However, in the United States there is no division into small and medium-sized businesses: they act as a single group - small business. And in order to classify an organization as a small business, it is necessary that it meets the following criteria: the structure of the organization's ownership; field of activity; the amount of average annual revenue; the average number of employees in the organization [3]. Thus, American legislation lacks quantitative principles for classifying organizations as small businesses. Moreover, threshold criteria for small businesses are set separately for each area of economic activity. The US accounting and accounting system refers to the British-American model, which is characterized by: priority of shareholders and investors as users of information; predominantly non-state control in the field of accounting and reporting. Despite the almost non-governmental control of accounting, in the United States, accounting rules are regulated by the document "Generally Accepted Accounting Principles", or US GAAP. In addition to generally accepted accounting principles in the United States, there is an alternative financial reporting framework for small and medium-sized enterprises (Financial Reporting Framework for Smalland Medium-Sized Entities, FRF for SMEs). It helps provide external and internal users with the reliable and reliable financial information that these users need [4].

In this concept, special methods have been developed, the use of which makes it possible to simplify the accounting and reporting of small businesses:

1) cash method;

2) a modified cash method, which involves taking into account the least liquid items on the accrual basis;

3) special principles of accounting for income tax;

4) application of valuation at historical cost;

5) the company can choose to submit consolidated statements or only the statements of the parent company, guided by what the users of the statements want to see;

6) goodwill is amortized over the same period as for tax purposes, or 15 years, etc.

Moreover, referring to the concept, small businesses are entitled to submit fewer financial statements than the requirements specified in the US GAAP. Thus, having studied the main provisions of the US accounting and reporting system for small businesses, we can say that in this country these principles are quite simplified, which allows small businesses as a whole to function effectively at the head of the national economy of the United States of America. Consider aspects of accounting and reporting for small businesses in Germany. Small business in Germany accounts for 95% of the total number of enterprises and provides employment for the population in the amount of 63%. [11]

Like other countries, Germany has its own criteria for classifying organizations as small and medium-sized businesses:

1) the balance sheet does not exceed 4840 thousand euros less the loss, which is reflected in the balance sheet asset;

2) sales revenue does not exceed EUR 9680 thousand for the reporting period;

3) the average number of employees does not exceed 50 people [5].

The basic principles governing the accounting and reporting of organizations are defined by the German Commercial Code. Moreover, the simplifications are different depending on the size and volume of entrepreneurship. The financial statements for small businesses in Germany consist of a balance sheet, a profit and loss statement, explanations and a management report on the main results and prospects of operations. The statement of cash flows is not included in its composition at the level of a number of individual organizations and is drawn up only within the framework of consolidated statements. Small businesses are free to publish their balance sheet and income statement in an abbreviated format and can opt out of some general disclosure requirements. Among other things, they may not generate explanations and a management report on the main results and prospects for activities. Summing up, it is advisable to highlight the following provisions: - In economically developed countries, the criteria for classifying organizations as small businesses are quantitative and qualitative indicators. However, these indicators are so different that the indicators of the economic development of small businesses in different countries are not comparable with each other. - With the release of IFRS and other standards and rules, almost all developed countries have come to simplify the accounting and reporting of small businesses. This allowed the latter to reduce the labor intensity of various accounting operations and, accordingly, to increase their economic performance and the economic performance of the country as a whole.

Comparative analysis of the formation and disclosure of the accounting policy of the organization in accordance with IFRS and PBU

Immediately we can note the purpose of the formation of accounting policies by organizations. In contrast to IFRS, the definition of accounting policy adopted in Russian practice focuses on the methods of accounting in an organization, including the organization of workflow and accounting registers, and not on the preparation and provision of only financial statements. Also, one of the differences is the absence in IFRS of the concepts of “requirement” and “assumption” in the formation of accounting policies. Meanwhile, we can say that paragraph 10 of IFRS 8 can be considered an analogue of these concepts. Continuing the thought about the differences in the compared standards, it should be noted that the accounting policies adopted by the organization are applied consistently to all similar accounting items, unless otherwise provided by other IFRSs. However, unlike IFRS, Russian standards do not specify a general requirement for consistent application of accounting policies to all accounting entities. Nevertheless, in each separate PBU it is assumed that the company will adhere to this particular approach [10]. Although the accounting policy adopted by the organization should be applied consistently, there may be a need to adjust it. Both IFRS 8 and PBU 1/2008 provide for situations of changes in accounting policies. International standards imply a change in accounting policy due to revaluation of fixed assets and intangible assets. In turn, PBU 1/2008 does not provide for the rules for changes in the accounting policy associated with the transition to accounting for the revalued cost of fixed assets and intangible assets [10]

However, at the request of the organization can apply the approach described in IFRS 8 With regard to changes in accounting policy, it should be noted that the consequences of this phenomenon, which can have a significant impact on the financial result of the organization's activities, should be reflected in the financial statements retrospectively. Here international and Russian standards are similar to each other [10]. However, unlike IFRS, PBU does not contain specific instructions on the procedure for reflecting the tax consequences of such changes in accounting. Also, in cases where retrospective adjustment of data is not possible, the guidance of Russian standards is limited. Thus, according to PBU, in cases where the assessment in monetary terms of the impact of changes in accounting policies for previous periods cannot be carried out with sufficient reliability, the changed accounting method is applied prospectively. The above can be called the main differences in approaches to the formation and disclosure of accounting policies in accordance with IFRS 8 and PBU 1/2008.

The accounting statements of an organization are an information base that allows all interested external and internal users to receive information of interest to them.

Representatives of professional organizations and information agencies, based on the analysis of accounting data, publish economic forecasts that ultimately influence the formation of public opinion regarding the economic processes taking place in the country as a whole. The management personnel of the organization, analyzing the financial statements, receives information that allows them to carry out competent current and strategic management of the enterprise: prospects for maintaining and increasing capital; security of existing liabilities with assets; profitability; liquidity, etc.

Employees of enterprises evaluate the organization from the point of view of stability, the possibility of increasing wages, obtaining additional social guarantees, benefits, pension plans. Thus, accounting is the fundamental principle that allows you to prepare and analyze reports of various types and purposes, as well as evaluate the results of financial and economic activities throughout the country. The financial statements compiled for the reporting period on the basis of accounting data in accordance with the established forms represent a unified system of data on the property and financial position of the organization and on the results of its economic activities. The reporting period in the preparation of financial statements is the period for which an organization must prepare financial statements in accordance with legislative and regulatory documents or in order to meet internal needs.

Organizations independently determine the detailing of indicators according to the articles of the above reports. Small businesses have the right to submit annual financial statements, consisting of the above forms. These entities form financial statements according to the following simplified system:

a) in the balance sheet, the profit and loss statement includes indicators only for groups of items;

b) in the appendices to the balance sheet and the profit and loss account, only the most important information is provided, without which it is impossible to assess the financial position of the organization or the financial results of its activities.

Non-profit organizations are obliged to include in the annual financial statements a report on the intended use of the funds received, which provides data on the balances of the received resources, their receipt for the reporting year, the use and balances of funds at the end of the period. Obligation is existing at the reporting date the organization's debt, which is a consequence of the completed projects of its economic activities and, the calculations for which should lead to an outflow of assets. The obligation may arise by virtue of a contract or legal regulation, as well as business customs.

Extinguishing liabilities usually involves an outflow of related assets in the form of cash payments or transfers of other assets (rendering of services). Liabilities can also be repaid in the form of replacing liabilities of one type with another, converting liabilities into capital, and removing claims from the creditor. The liabilities of the organization are classified according to various criteria - subjects, types, maturity, etc. In the classification by subjects, it is necessary to distinguish between obligations to the owner of the organization and obligations to third parties. Obligations to the owner are of two types: arising from the initial and subsequent contributions of the owners to the authorized (pooled) capital (fund) liabilities are recorded on account 80 "Authorized capital" and are reflected in the balance sheet under the same item; arising in the course of the organization's activities are accounted for on accounts 82 "Reserve capital", 83 "Additional capital", 84 "Retained earnings (uncovered loss)" and are reflected in the corresponding items of the balance sheet. "equity". Liabilities to third parties are debts on loans and borrowings, various types of accounts payable (to suppliers and contractors, to subsidiaries and dependent companies, to the organization's personnel, etc.) and other obligations. [10.] Taken together, obligations to third parties form the concept of "debt capital". These obligations are reflected in sections IV and V of the balance sheet. The division of liabilities into equity and debt capital is of great practical importance in terms of the urgency of their repayment. Liabilities constituting equity capital are not subject to repayment during the activity of the organization, debt capital obligations must be repaid in due time.

Conclusions and recommendations

The analysis allows us to draw some conclusions: first of all, a small number of significant differences were revealed in the framework of the formation and disclosure of the accounting policy of the organization. The regulation of the Accounting Regulations regarding the purpose of the standard, the content of assumptions and requirements, as well as the procedure for changing accounting policies and calculating the consequences of these changes is close to the content of the corresponding IFRS. The fundamental factor in the existence of discrepancies in Russian and international standards is that the former are drawn up from the point of view of the accounting process, starting from primary observation and ending with the preparation of financial statements, and the latter, from the point of view of financial reporting.

Accounting practices can enhance their capabilities in the provision of international services in a number of ways including:

Identify which clients are, or plan to be, in the international marketplace, and determine the related challenges and opportunities they will need help with.

Focus on the international opportunities that fit best with your existing client base and practice capabilities and capacity. Then either enhance your competencies in those service areas or seek a strategic alliance that can fill the gaps in your service offering.

Consider how best to develop, or gain access to, the requisite international resources—for example, by participating in an international network of accountancy practices or building more direct close relationships with practices in other countries.

Reconsider your marketing approach and potential audience as this is crucial to attracting the attention of international prospects or identifying clients that need advisory services. Are you seeking to provide services to domestic or overseas clients, or both?

Develop knowledge and information resources to guide SMEs through the regulatory challenges associated with international activity, and to help them access appropriate sources of funding. There are some useful websites to help, such as Doing Business.

Join international trade associations as a way of building contacts in a particular country and consider hiring locals who have a network there. Speak the language and know the customs. You need to adapt to the market: don’t expect them to adapt to you.

Provide more proactive support to SMEs in their planning for internationalization, including support in identifying the most attractive, fast-growing international markets. If you already have established international clients or contacts, is there a way you can connect them with your SME clients? See also the European Commission's SME Internationalization Portal to help European Union-based SMEs extend their business to markets outside the EU and provide access to a range of existing public support services in the target country.

Build relationships with banks and other key financiers of international investment and trade, to facilitate introductions between these funding sources and SME clients.[12]

Identify which SMEs are dealing in foreign currency and seek opportunities to provide value-adding advice in areas such as managing foreign exchange risks and forecasting currency needs.

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