

# Natalia Lytvynenko

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## Accounting policies in mutual internal settlements organization according to financial accounting and reporting standards of Ukraine

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Tekst jest udostępniony do wykorzystania w ramach dozwolonego użytku.

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*Accounting policies in mutual internal settlements  
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Polityka rachunkowości w obszarze wzajemnych rozrachunków jednostek powiązanych według rachunkowości finansowej i standardów sprawozdawczości na Ukrainie

**Keywords:** accounting, accounting policy, mutual internal settlements, the procedure of accounting, measurement, inventory, accounts

**Słowa kluczowe:** rachunkowość, polityka w rachunkowości, wzajemne rozrachunki, procedury rachunkowości, pomiar, inwentaryzacja, konta

## **Introduction**

Special nature of management of a multilevel company with a compound structure requires methodologically new approaches to organizing the accounting. To the foreground comes the task of constructing a stable system of interrelation of subjects of integrated structures that cannot function without properly developed methodological basis on the level of a state as well as on the level of an enterprise. This function is performed by the accounting policy of an enterprise which is perceived as “the unity of principles, methods and procedures used by an enterprise to draft and submit financial reports”<sup>1</sup>. This internal envisages a legitimate possibility for an enterprise to choose different methodological accounting techniques including the methods of

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<sup>1</sup> Закон України «Про бухгалтерський облік та фінансову звітність в Україні» від 16.07.1999, № 996-XIV.

assessing assets and liabilities when performing internal settlements among enterprises or their associations. Therefore, while developing their accounting policy, enterprises have to take into account not only multiplicity of treatment of the concept apparatus but also pay attention to the wide circle of users of financial reports whose needs define accounting measurements.

The above presented proves topicality of the theme and stipulates its goal. The goal of the publication is to present the main elements of the accounting policy that define the procedure of internal settlements accounting with the aim of optimization of the accounting process in groups of related enterprises on the one hand and ensuring of analytical nature and maximum trustworthiness of accounting measurements used to determine financial result on the other hand.

### **1. Accounting policy and accounting procedures: the notion and terms.**

The regulation of the accounting process of internal settlements among related parties is realized within the normative base of the system of external regulation and as stipulated by Art. 8 of the Law “On Accounting and Financial Reporting in Ukraine”, it is fully within the competence of the owner of an enterprise. The above mentioned level of accounting management is realized in the form of development and implementation in the group of related with controlling and subordinating relationship enterprises of a complex of internal organizational and administrative documents (orders, directions, regulations), which is one of priority directions of organizing accounting in economic entities of related subjects of economic activity.

One of the main internal administrative documents is accounting policy meant to ensure systematic interrelation of legal, methodological, organizational and economic factors of each subject of economic activity included into a group of related enterprises. “Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements”<sup>2</sup>. All significant accounting principles and methods that management has chosen from among alternatives or that are peculiar to a particular industry<sup>3</sup> are to be disclosure in accounting policy.

The least studied components of accounting policy include procedures of accounting. If we consider the essence of the accounting procedure as a sequence of ordered actions, we can state that the accounting procedure envisages methodological as well as arithmetic approach to accounting, defines the order of registration of facts of economic life and in this way proves realization of elements of the method of accounting<sup>4</sup>. In general terms the procedures of accounting should be perceived as

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<sup>2</sup> IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, <http://www.iasplus.com/en/standards/standard8>.

<sup>3</sup> I. Kieso, E. Donald, *Intermediate accounting*, John Wiley & Sons Canada 2007, Ltd., pp. 768, index.

<sup>4</sup> М.С. Пушкар, М.Т. Щирба, *Теорія і практика формування облікової політики: моногр.*, Тернопіль: Карт-бланш, 2009, pp. 260.

established order of actions towards reflection and processing of information streams concerning financial and economic activity of a subject of economic activity.

The accounting policy that belongs to internal provisions (regulations) ensuring rational construction of internal settlements accounting is the means of documentary execution of the accounting procedure of internal settlements. Therefore, it is necessary to analyze the main stages of accounting procedure (accounting process) of internal settlements in order to determine expediency of their formulation in an administrative document on the accounting policy of a subject of economic activity with separate subdivisions or groups of enterprises related with controlling and subordinating relationship.

## **2. Stages of accounting procedure of internal settlements**

### **2.1. The documenting of internal settlements**

The first stage of the accounting procedure which includes processing of initial documents is ensured through organization of document circulation at an enterprise. Rationally organized process of processing and drafting documents, especially accounting ones, is a precondition of effectiveness of financial management of an enterprise. In order to correctly reflect each economic activity in the accounting, the economic essence of an economic operation and its legal form should coincide. This ensures compliance with the principle of the essence prevailing over the form.

As it was mentioned above, this stage of the accounting procedure is realized through development of the schedule of documents circulation on the basis of a structured scheme of an enterprise and the group of related subjects of economic activity as one economic unit, provisions on structural subdivisions and job descriptions of employees, other internal normative acts.

The schedule of documents circulation is to include the following items: typical forms of primary accounting that should be used on an enterprise or in the group of related subjects of economic activity, pre-printed forms of strict reporting specialized primary documents, documents drafted by an enterprise itself. This document regulates terms of drafting, submitting and processing of primary documents, defines the list of documents, the period of their processing and approval; officials responsible for drafting documents; the period of submitting the documents to the accounting office; the period of their processing and transition of documents inside of the accounting service of an enterprise; the term of completing all works for the reporting period before drafting accounting balance and submission of financial statement; the procedure of submitting documents to relevant authorities.

It is advisable to draft and approve the order of documents circulation as a separate annex to the administrative document on the accounting policy with which as well as with job descriptions it should be logically coordinated. It should comply with envisaged procedures of transition and registration of all primary documents, in

particular concerning internal settlements accounting. This organizational technique ensures compliance to such element of the method of accounting as documentation.

## **2.2. The procedure of transferring data proving the facts of realization of internal settlements to accounting registers**

The procedure of transferring data that prove facts of realization of internal settlements to accounting registers depends on a number of economic, organizational, legal and methodological factors. It is defined by the form of accounting applied on the enterprise as well as by availability of technical and program means for keeping records following one of selected forms (the specific form should be indicated in the general part of an administrative document on accounting policy of an enterprise). This stage ensures compliance with such element of the method of accounting as measurement, double record and bookkeeping accounts.

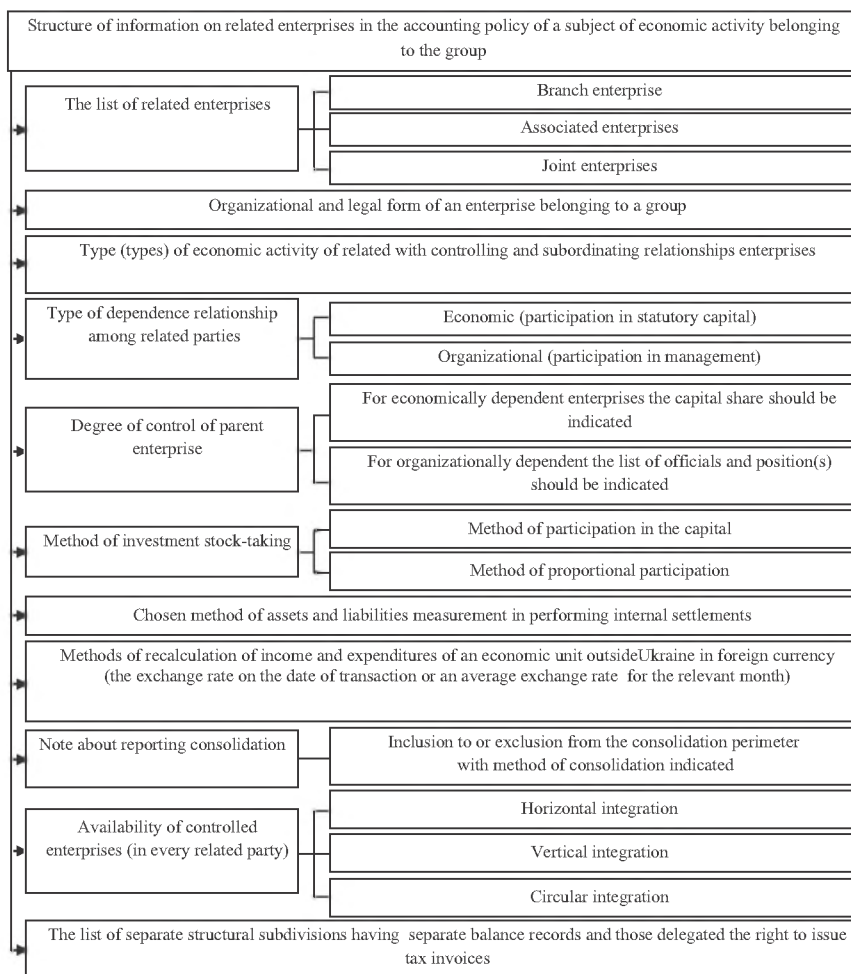
As organizational basis of trustworthiness of forming data at this stage of current accounting of internal settlements serves established list of enterprises included into the group of subjects of economic activity related with controlling and subordinating relationship as well as branches having separate balance records, representative offices, divisions, other separate subdivisions, common activity (without creating a legal entity) of enterprises included into the group. The recommended order of disclosing information on related enterprises in the accounting policy of a subject of economic activity belonging to the group of related subjects of economic activity is structurally presented in Picture 1.

Methodologically the transference of data from primary documents from internal settlements records into accounting registers is ensured through stipulation of the choice of methods of measurement of operations of transference of assets and liabilities among related parties.

Therefore, implementation of internal settlement operations on transference of assets and liabilities among related parties as a dynamic process stipulates the need to apply methods of measurement directly during implementation of such economic operations. Moreover, the debt sum according to internal settlements that is unredeemed at the end of reporting period as static remains should be remeasured. Thus, methods of measurement of internal settlements as a dynamic process and debt balance should be reflected in the accounting policy.

## **2.3. Methods of evaluating internal settlements as a dynamic process and a balance of indebtedness**

According to Provision (standard) of accounting 23, "Related parties' relationship disclosure", the measurement of the transactions concerning the assets and liabilities



Pic. 1. Suggested structure of disclosing formation on related enterprises in accounting policy of a subject of economic activity\*

\*Source: author's elaboration

in transactions of related parties can be implemented using the following methods: comparative uncontrolled price; resale price; "plus expenditure"; balance costs.

Among the four above presented methods of measurement of transactions among related parties [4] in the national legislative basis, definitions of only three terms are included: "balance value of assets" that should be understood as "value of assets at which they are included into the balance sum"<sup>5</sup>.

<sup>5</sup> Положення (стандарт) бухгалтерського обліку 32 «Інвестиційна нерухомість». Затверджений наказом МФУ від 02.07.2007, № 779, [Електронний ресурс]. Режим доступу: [http://search.ligazakon.ua/l\\_doc2.nsf/link1/RE14090.html](http://search.ligazakon.ua/l_doc2.nsf/link1/RE14090.html).

In our opinion, for purposes of accounting records of internal groups we can also use such a definition as “carrying amount” – value of assets, liabilities and own capital reflected in the balance”<sup>6</sup>.

On the basis of the method of comparative uncontrolled price the methodology of price setting envisages application of the price “calculated by the price for analogical ready products (goods, works, services) sold to the buyer unrelated to the seller in usual conditions of work”<sup>7</sup>, “fair value is the sum at which the assets exchange can be realized or payment for liabilities as a result of the transaction among informed, interested and independent parties”<sup>8</sup>. Thus, we can consider that methodology of price setting using the method of comparative uncontrolled price and essence of the term “fair value” are identical.

What concerns such methods of measurement of assets or liabilities in transactions of related parties as “resale prices” and “expenses plus”, they can rather be considered a short name for the methodology of price setting that can be used in transactions among related parties. Summarized presentation of methods of internal settlements as a dynamic process and static remains is given in Table 1.

Taking into consideration different hierarchal levels of management on which internal settlements are performed, each participant of the transaction should measure debit and credit debt when drafting individual balance (the level of subject of economic activity subordinated to the main [parental] enterprise) and when realizing an elimination procedure (the level of the main enterprise of the group) in the period of formation of consolidated reports. These methods should be unified for enterprises related with controlling and subordinating relationship reports of which should be consolidated, while for enterprises included into the group of related parties – legal units reports of which are not consolidated they can differ but on agreement of their owners.

When choosing the method of measuring economic transactions among related parties, it is necessary to keep to the same approach. Decisive factors of adoption of an economically stipulated decision about rational choice of the method of measurement are: conditions in which one or another economic transaction is performed (or a transaction is performed in common conditions of functioning), and type of the activity within which it takes place (operational, investment or financial); consequences of each economic transaction from the point of view of their impact on the

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<sup>6</sup> Положення про порядок визначення вартості чистих активів інститутів спільного інвестування (пайових та корпоративних інвестиційних фондів). Затверджено рішенням Державної комісії з цінних паперів та фондового ринку від 16.12.2008, № 1441, [Електронний ресурс]. Режим доступу: <http://zakon.rada.gov.ua/cgi-BIN/LAWS/MAIN.CGI?NREG=Z0606-02>.

<sup>7</sup> Положення (стандарт) бухгалтерського обліку 23 «Розкриття інформації щодо пов'язаних сторін». Затверджений наказом МФУ від 18.06.2001, № 303, [Електронний ресурс]. Режим доступу: <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=z0539-01>.

<sup>8</sup> Положення (стандарт) бухгалтерського обліку 19 «Об'єднання підприємств». Затверджений наказом МФУ від 08 жовтня 1999, № 237, [Електронний ресурс]. Режим доступу: <http://zakon.nau.ua/doc/?code=z0725-99>.



Table 1. Measurement of economic transactions on transference of assets and liabilities among related parties\*

Time of measurement	Subject of measurement	Method of measurement	Characteristics of the method		
Performance of economic activity	Assets and liabilities transference of which is realized among related parties	Compared uncontrolled price	The price is calculated by the price for analogical ready products (goods, works, services) sold to the buyer unrelated to the seller in usual conditions of work		
		Exchange sum	Resale price	Application of price for ready products excluding the relevant extra charge	
			Expenses plus	Application of the price that includes cost price of ready products (goods, works, services) determined by a seller and relevant extra charge	
		Balance value	Measurement of assets and liabilities using the balance value		
On the date of balance	Debit debt	Current	For the main activity and other	Primary value/pure sale value	Historical (actual) cost price
		Long-term	For which interests are calculated	Current value	Discounted sum of future payments (excluding the sum of expected reimbursement) that is expected to be needed to clear off liabilities in the process of usual functioning of the enterprise
			Other	Primary value	Historical (actual) cost price
	Credit debt	Current	For the main activity and other	The sum to clear off	Undiscounted sum of costs or their equivalents which is expected to be paid to clear off liabilities in the process of usual functioning of an enterprise
		Long-term	For which interests are calculated	Current value	Discounted sum of future payments (excluding the sum of expected reimbursement) that is expected to be needed to clear off liabilities in the process of usual functioning of the enterprise
			Other	The sum to clear off	Undiscounted sum of costs or their equivalents which is expected to be paid to clear off liabilities in the process of usual functioning of an enterprise

\*Source: author's elaboration.



share and amount of corporative rights and correspondingly the degree of control by the owner as a result of the transaction of transference of assets or liabilities; the form of settlement (monetary, non-monetary, combined).

Thus, we propose to reflect internal settlement transactions as a dynamic process in accounting at balance or fair value while debt balance formed as a result of such transactions – at primary value, current value or value of clearing off. All necessary amendments stipulated by the need to apply different accounting measurements should be made only on the date of drafting financial statement.

#### **2.4. Methodological grounds of reflecting internal settlements on accounting records, formation of accounting registers and the procedure of drafting financial reports**

When forming the working plan of accounting records, in particular records for accounting internal settlement relations, there should be taken into consideration organizational and legal form of each enterprise and its separate structural subdivisions subordinated to the group of enterprises related with controlling and subordinating relationship, while paying attention to the type of report drafted by each participant of the group of related subjects of economic activity as well as management needs in obtaining efficient information on internal settlements.

From the whole range of synthetic accounts it is necessary to choose those application which will allow to adequately reflect commercial, financial and economic activity and will ensure systematized formation of comprehensive and reliable information on financial situation of each individual subject of economic activity – the participant of the group of related enterprises – as well as the group of related subjects of economic activity as one economic unit. This means that on the basis of the list of accounts and subaccounts of general accounts it is necessary to develop a nomenclature of subaccounts acceptable for each subject of economic activity included into the group of enterprises related with controlling and subordinating relationship.

When developing the working plan of accounts, it is necessary to remember that data on economic transactions generalized on accounts meant for accounting internal settlement relations are used not only for drafting primary, combined and consolidated report statements but also for management of monetary streams inside of the group of related parties, decision-making concerning crediting, provision (and receipt) of subvention, cross-subsidizing and tax planning. Therefore, in the working plan of accounts of the group of related enterprises it is necessary to envisage subaccounts and analytical accounts in such a hierarchal sequence that will ensure systematization of participants of internal settlements according to their organizational and legal forms and their division into those whose reporting documents are subject to consolidation, and those whose reporting documents are not consolidated. Moreover, there should be ensured arranged generalization of economic transactions among such participants

and methods of measurement of internal settlement relationships for transactions in investment, financial and operational activities. The above mentioned is reached with the help of hierarchal approach to construction of analytical bookkeeping accounts.

Transference of data on internal settlements from accounting registers to the ledger should be ensured with the list of related parties, a schedule of documents circulation, a working plan of accounts. Thanks to the check of turnover balance and accounts of the ledger the controlling function of accounting is realized. Taking into consideration the fact that transference of data from registers of synthetic accounting does not envisage any peculiarities concerning individual subjects of accounting policy (in particular internal settlements), at this stage of accounting procedure there is no need to present possible methodological techniques meant for displaying this object in an administrative document on accounting policy.

In order to check the amounts of remains registered on accounts of the ledger before drafting financial statement it is necessary to establish norms of inventory keeping of internal settlements according to their structural components. The accounting policy of the group of related enterprises can envisage the composition of a permanent inventory commission and terms of conducting an inventory. Frequency of conducting the inventory should be determined by the executive management body for the group of enterprises related with controlling and subordinating relationship. The terms of conducting the inventory should be indicated separately for external and internal settlements in relation to the group of counteragents. Considering the fact that the amount of internal transactions is usually big, it is reasonable to envisage monthly inventory of internal settlements.

When performing the procedures of drafting financial reports and reflection of internal settlements in them (transference of data of synthetic accounting of internal settlements from the ledger into primary financial reporting documents), it is necessary to take into consideration types of financial reporting: primary, combined and consolidated envisaged for compound in terms of organizational structure groups of enterprises related with controlling and subordinating relationship and to take into consideration availability in such groups of separate structural subdivisions. In an administrative document on accounting policy this accounting procedure should be presented through characteristics of procedures of combination and consolidation.

Such stages of accounting procedure as processing of primary documents, registering accounting entries into special journals (sheets), transference of data into the ledger, check of balance of ledger accounts can be regarded as standardized ones. In the accounting policy they are realized through formation of the schedule of documents circulation, the working plan of accounts (developed on the basis of the list of related parties), introducing certain form of accounting.

In organizing the accounting process of internal settlements special attention should be paid to the procedures aimed at formation of primary reporting documents of separate subdivisions, procedures of combined reporting (aggregation of indices with mutual excluding of internal economic turnovers) and consolidation (in particular

taking into consideration combined balances envisaging aggregation of indices and elimination of some of them). Methodological provision of the procedure of report drafting will ensure comparison of consolidated financial reports for different reporting periods<sup>9</sup>, disclosure of information on accounting policy of a legal unit and its branches as a unified economic unit as well as on the change of accounting policy.

Accounting policy adequate to economic processes of each individual participant of the group is a precondition for formation of relevant information characterizing relations of ownership, income distribution, financial streams and compliance with settlement discipline inside of the group of related enterprises. Basic grounds of the accounting policy should be developed by the main enterprise of the group or the central company. They have to be unified within the group of related enterprises where each participant being a legal unit has to make individually the final decision as for disclosure in the accounting policy of information, taking into consideration concrete economic situation in which it functions.

Accounting policy for consolidated groups included into economic formations of subjects of economic activity related with controlling and subordinating relationships should be agreed. Such an approach ensures representativeness of results of the group in general, especially of those of its participants whose reports are consolidated.

## Conclusions

Thus, agreed accounting policy of a group of enterprises related with controlling and subordinating relationship and unified accounting policy of subjects of economic activity belonging to such economic groups and having separate structural subdivisions should be adapted to conducting representative accounting on each concrete enterprise-participant of the group through the complex of principles, methods and procedures called to adequately reflect economic processes and should be ensured through realization of organizational, methodological and technical components.

Internal regulations of a group of related enterprises developed with consideration of presented in the paragraph provisions should correspond to specific nature of business processes of each subject of economic activity belonging to the group and disclose organizational provision and contain documentary registration of accounting procedure the technology of which should be realized through methods of accounting. Complex approach to drafting internal regulations should ensure unity of the system of accounting in internal settlements in a group of enterprises related with controlling and subordinating relationship, in particular those having separate structural subdivisions.

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<sup>9</sup> В.М. Костюченко, Облік і аналіз діяльності групи підприємств як єдиної економічної одиниці: моногр., К.: Центр учбової літератури, 2007, рр. 504.

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### Accounting policies in mutual internal settlements organization according to financial accounting and reporting standards of Ukraine

Separate theoretical positions of accounting procedure which will enable complex forming of prescriptive document about accounting policy of enterprise in the cut of its structural constituents (principles, methods and procedures) were described. Standardized procedures of operations, concerning measurement and elimination of transactions with other components of the same entity and transactions between the related parties while forming consolidated financial reporting of multilevel enterprises and economic groups of such enterprises were analyzed as well.

### Polityka rachunkowości w obszarze wzajemnych rozrachunków jednostek powiązanych według rachunkowości finansowej i standardów sprawozdawczości na Ukrainie

W artykule opisano poszczególne teoretyczne pozycje procedury rachunkowości, która umożliwi stworzenie kompleksowego dokumentu normatywnego na temat polityki rachunkowości przedsiębiorstwa w części dotyczącej jej składników strukturalnych (zasad, metod i procedur). Analizie poddano również standardowe procedury operacji dotyczących pomiaru i eliminowania transakcji z innymi składnikami tej samej całości oraz transakcje między powiązаныmi stronami podczas tworzenia skonsolidowanej sprawozdawczości finansowej wielopłaszczyznowych przedsiębiorstw i grup ekonomicznych tych przedsiębiorstw.