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Accounting in Soviet Russia

BY V. A. DIAKONOFF

In discussing accounting in modern Russia one must first recognize that the profession is under the special guidance of a socialistic government régime. Aside from the general merits or demerits of the socialistic doctrine, its powerful influence on accounting in Russia can not be ignored.

The interference of the state in the most minute affairs of industry and commerce results in a constant check upon all methods of record keeping and reporting—not merely for tax purposes, but to insure governmental control of all economic activities. It is, naturally, to the advantage of the state to have all its producing and distributing organs constructed in an analogous way and managed by the same methods of accounting and statistics. Uniform methods and principles of cost finding are obligatory in the various industries. Uniform classification of items of expenditure and a standard nomenclature of accounts are required.

This situation may be contrasted with that in the United States as described in the article, *Uniform Cost Accounting Methods of Trade Associations; the Legal Aspects*, by Benjamin S. Kirsh, in THE JOURNAL OF ACCOUNTANCY for May, 1928.

The accountant in Russia, whatever his personal inclinations and qualifications, must defer to that huge force, the state. He must constantly be on the lookout for rules, regulations and laws promulgated by certain central authorities, dealing with business in general and even with individual details, such as labor, materials and expenses, which add to the accountant's worries.

There is little left to the accountant's imagination and understanding. Practically everything is predetermined and prescribed in the exhaustive instructions of controlling centers. He is told how to construct his balance-sheet, and even the correlation of accounts is being established in such a way as to preclude incorrect posting and errors in describing operations.

The main regulating and controlling bodies demand that balance-sheets of concerns subordinate to them correctly display the results of business activities in strict compliance with the regulations. The authorities, it must be remembered, regard the balance-sheet and profit-and-loss statement from a peculiar view-

point. They in no way recognize profits as the primary aim of a concern's operations. The correct application of capital entrusted to firms by the state is their particular care. Accumulation of profits is strictly limited by the state to suit its plans for national progress and welfare.

The tax agents ("people's commissariat for finance") are directly interested in the profits of business and they analyze the balance-sheet accordingly. Errors in the statement of expenditure, depreciation, inventory, losses and other items offsetting gross income are their principal concern. Tax agents also insist on the correct statement of turnover, which is subject to taxation.

The "workmen's and peasants' inspection commissariat" is mainly interested in the correct organization of business enterprises and in proper planning and budgeting. It performs an onerous task in checking every unit in order to insure compliance with the laws and with the decisions of the communist party. This commissariat controls the campaign for "a régime of economy" and enforces the fixed orders of the party to curtail the percentage of overhead and administrative expenses.

It is clear how great a responsibility is imposed upon the accountant in any specific enterprise. He must cope with so many interests, both inside and outside the business, that he is often the center of attraction. He must act as advisor to the management, as instructor to his juniors, as comptroller and as auditor acting on behalf of the enterprise and of the state. He must be fully conversant not only with all modern scientific and practicable developments in accounting, but with all the laws and regulations issued by numerous governmental institutions.

PROFESSIONAL ASPECTS

In Russia there are no independent auditors nor firms of public accountants to assist the management of an enterprise. Every business must employ its own accountant to fulfil its particular needs in the great chain of official requirements.

There is, however, a supreme accounting authority—the State Expert Accountants Institute, organized under the auspices of the workmen's and peasants' inspection commissariat. This organization does not serve individual purposes or miscellaneous needs. Its members, usually the accountants of big trading organizations, are chiefly employed by the courts to give practical and scientific testimony in cases where books of account are sub-

mitted as evidence in litigation. Members of the institute are also sometimes appointed by the authorities to reorganize administrative methods or install accounting systems in enterprises which encounter difficulties in such matters.

A more or less private help to business units and their accountants or bookkeepers is rendered by the Association of Accountants, organized and controlled by the Clerks' Trade Union. This association maintains a group of consulting experts to deal with various accounting problems encountered by the management or the employees of a business. Members of trade unions receive this assistance gratis. The scientific council of the association closely watches developments in the science and practice of accounting and submits to the membership particularly significant problems which come to its attention. Such questions are discussed at meetings of the association or in its publications, of which there are three, each adapted to the needs of a certain type of reader. The State Expert Accountants Institute also issues a monthly magazine, making four such publications in Moscow alone.

The association also carries on a series of lectures and practical courses on technical accounting subjects, and it controls the accounting curricula of various business theory and practice courses—both communal and private ones—throughout the country.

There are no such organizations in Russia as the English chartered accountant students' societies or American institutions which train young men for the certified public accountant certificate. The title of "expert accountant" is bestowed on members of the State Expert Accountants Institute who are admitted after adequate theoretical preparation and professional experience.

The rights and duties of the accountant are virtually provided for in a series of special regulations, and he is permitted to exercise authority and discretion in accounting matters, even to the extent of refusing to execute orders of the management if they seem to him to be illegal. In case of a difference with the management on such a question the accountant may appeal for support to the workmen's and peasants' inspection.

PECULIAR FEATURES OF THE SOVIET BALANCE-SHEET

Leaving banks out of consideration, the balance-sheets of industrial and commercial enterprises in soviet Russia are valued,

constructed and audited under the auspices of the two important bodies of the socialistic economy to regulate trade—the commissariat for trade and the supreme council for national economy.

The object and scope of the balance-sheet are in some respects peculiar. Unlike the balance-sheet of capitalistic economy the soviet balance-sheet can not include among assets the value of land or its minerals. Land is the property of the state as a whole and merely the acreage is shown on the balance-sheet in a special footnote, for statistical purposes only. The forests may be sold by the forestry departments to lumber companies, which can then show this asset in the usual way and in the amount of stumpage for which payment has been made.

Goodwill, franchises and similar intangible assets are also excluded from the soviet balance-sheet. Such conceptions can not exist in socialistic enterprise. They are foreign to the business psychology of the country in general. Some consideration is likely to be given the question of premiums paid for inventions and important improvements—as a feasible and depreciable asset to the concern.

Contingent assets or assets which are not actually owned by an enterprise, but are accounted for systematically and recorded in accounts under the double-entry system, are understood to be “out-of-balance-sheet” accounts and are shown under the totals of assets and liabilities in the same amounts. For example:

<i>Assets</i>	<i>Liabilities</i>
(a) Material values under trust receipts and on consignment	(a) Creditors (or depositors) per trust receipts or consigners
(b) Debtors for collateral securities	(b) Collateral securities issued
(c) Notes receivable, guaranties and other securities received as collateral on loans, etc.	(c) Creditors per contra
(d) Leaseholds	(d) Owners of leased property

This should suffice to emphasize the peculiar tendency of Russia's requirements for explicitness and reality in the balance-sheet. Actual values at the disposal of the enterprise and its responsibilities are the prime considerations.

In valuation of balance-sheet items, again, a special viewpoint of socialistic economy is evident. All material values must be shown at cost—the market price is never a basis of valuation. Certain fixed prices are published periodically by the commissariat for trade and they must be strictly adhered to by all trading units. It is permitted to show a reserve for possible loss in sales of the

future year, in view of the unchanging tendency of the state to protect purchasers against excessive prices.

Depreciation of any asset should be shown only in a corresponding reserve. No writing down of book values is allowed. Depreciation rates are also established by certain authorities and are scheduled in advance.

Doubtful debts on open accounts or on questionable notes, as determined by inventory committees, may be covered by reserves limited to the amount of actual possible loss estimated. Bad debts are written off to profit-and-loss account as usual.

It is clear that since "surplus" is the object of national care and elucidation the problems of balance-sheet valuation are subject to strict control by the various governmental agencies concerned. The construction of the balance-sheet and the profit-and-loss account becomes an onerous task for the management and the accountant. Little wonder that the official date for presentation of financial statements to the proper authorities is December 31st—three months after the close of the fiscal year!

Many exhibits and schedules supplementary to the financial statements must be carefully prepared to show tax agents, the central board of statistics and other officers the exact significance of all items in the balance-sheet and the profit-and-loss account.