Accounting in U. S. S. R.

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Accounting Problems and Practice Under Credit Reform

The recent developments and the ensuing administrative decrees (the government acts of January 14 and March 20, 1931, regarding credit reform) regulate and give form to all business transactions of this country in accordance with the principle of "hosrastchet" (setting up the production on an economical and self-paying basis). In order to ensure proper fulfilment of contracts by the producers (who are direct vendors) as regards time of delivery, quantity and quality of goods, etc., the purchasers are now required to "accept" vendors' invoices prior to their being covered by the statebank in favor of the producers.

This regulation is nothing but a sound guaranty of the proper treatment of the facility opened by the statebank in favor of the purchaser and a check upon the automatic crediting of producer's account with the bank. Should the purchaser desire to open a "letter of credit" or a "special" account in favor of all or certain of his vendors, the bank performs such operations in a usual way, thus segregating the transactions and directing them through the proper channels of control.

In case of transportation difficulties or when a governmental prohibition is proclaimed to stop the circulation of certain goods, the bank opens a loan account in favor of the producer to the extent of 75 per cent. of the estimated cost of the consignment in question.

Now the difference between the selling value and the planned cost (the "settlement price") subject to transfer to the credit of the enterprise's head-office account is to be calculated on the basis of percentage of the profit obtained by the enterprise in the preceding year. The charge for depreciation is also included in the selling price.

Finally the additional profit predetermined by the enterprise to be the result of its cutting down the costs is credited to the head office to the extent of 50 per cent. only, the other half being placed by the bank to the credit of a special account with the particular head office—the "profit insurance" account. As soon as the monthly accounts reveal the actual percentage of the decrease in costs this "profit insurance" account is closed and its sums are transferred to enterprises' current accounts with the statebank.

These are the principal amendments and modifications of the credit reform that were made in January and March, 1931, after I had submitted certain information about this reform in my previous article published in this JOURNAL (see March, 1931, issue of THE JOURNAL OF ACCOUNTANCY).

Another modification to the "credit reform" effected in the fall of 1931 requires that the current accounts of all enterprises have a permanent credit balance on the books of the statebank, that is, current accounts with the statebank must be asset and not liability accounts on the enterprises' balance-sheets. In case of a lack of operating funds when this credit balance on the bank's books is endangered the enterprise is required to pledge its finished goods or material stocks with the bank for additional credit granted by the bank on a regular loan account, thus replenishing the current account.

By this measure producing units are compelled to finance themselves through their own production. They are thus set up on an economical and selfpaying basis of production.

Now let us consider certain accounting problems which reflect all those features of business transactions under the conditions and requirements of the credit reform in U. S. S. R.

I. Under "acceptance of invoice" method

First case: When the producer and purchaser are in different towns:

After the goods have been shipped to the purchaser the producer prepares an invoice in quadruplicate, of which two copies are sent to the purchaser, one copy to the local branch of the statebank and one copy to the producer's head office. An entry is then made for the goods shipped on the books of the producer charging "goods shipped" account and crediting "finished products" account at a fixed plan value which is a predetermined cost established for the plan year.

This transfer of the amount carried in the "finished products" account and now placed to "goods shipped" account reflects the actual position of the inventory of the producer on the monthly balance-sheet. The bank is then enabled to regulate the producer's credit affairs on the basis of information concerning inventories appearing in the producer's balance-sheet, a copy of which the bank receives each month.

After acceptance the purchaser enters the invoices on a special schedule which he submits to the bank with one copy of invoices attached, returning the other copy of invoices to the producer(s).

The schedule submitted to the bank stipulates the following particulars:

(1) The value of goods received (at settlement prices).

(2) The difference between the settlement and selling values of the consignment.

The bank makes all necessary entries and credits the producers' accounts as per above "register" of the purchaser.

Having received from the bank the invoice with a credit note to the effect that the invoice is being covered by the bank, the producer makes the following entries in his books:

(a) Dr. sales account (or "realization" account).
Cr. "goods shipped" account.
Being the value of consignment "X" (at settlement prices).

Note. It is not customary in this country to keep a "cost of sales" account, all reverse entries and other corrections being made in red ink to the same side of the sales account.

(b) Dr. statebank account (at settlement prices).
Dr. head-office margin account (the difference between the settlement and selling values of the consignment).
Cr. sales account (at selling prices).

Note. As long as there are two balance-sheets, one for exploitation and the other for construction activities, there are also statebank accounts in each balance-sheet to reflect operations and values relative to either of those two activities of the enterprise. In the given case "statebank account in exploitation" balance-sheet is debited.

Second case: When the producer and purchaser reside in the same town:

The procedure remains the same and the entries are made as above, but instead of transferring the value of the consignment to "goods shipped" account the producer gives credit to "finished products" account direct.

In both cases at the end of the month the "head office margin" account is closed back into "sales" account.

Now we come to purchaser's accounting. Here we must take into consideration the following cases:

(a) The goods have arrived and been actually received by the producer who makes an entry, charging material (inventory) account and crediting statebank account (exploitation or construction, as the case may be, according to destination of the material). This is, of course, the selling value of goods received.

(b) The goods still are in transit but the purchaser "accepts" the invoice, nevertheless.

Dr. material in transit account.

Cr. statebank account.

(c) The goods arrived before the invoice has been received from the producer, or

(d) All credit facility is fully utilized by the purchaser.

In those cases ("c" and "d") the entry is made as follows:

Dr. material (inventory) account.

Cr. documents payable account.

(e) The goods are received but not entered in material (inventory) account, being stored apart and left at the disposal of the sender pending further details, negotiations or explanations. The entry will read as follows:

Dr. "material values under trust receipt" account.

Cr. "creditors per goods received under trust receipt" account.

The above are the "out-of-balance-sheet" accounts mentioned in my first article (see July, 1929, issue of THE JOURNAL OF ACCOUNTANCY).

In all cases described above the head office of the particular industry, having received the bank's advice of the difference between selling and settlement values (the "margin") credited by the bank to its account, makes the following entry:

Dr. "statebank" account.

Cr. "realization results" account.

To enter the difference between settlement and selling values of the consignment in question (less "profit insurance" amount).

When the enterprise delivers the goods produced to the head-office special selling department direct it presents to the bank the way-bill receipted by the selling department, the goods being priced at settlement prices. The enterprise makes the following entries in its books:

(1) Dr. "goods delivered to selling department" account.

Cr. "finished products" account.

(2) Dr. "statebank" account.

Cr. "goods delivered to selling department" account the extension being made in both cases at settlement prices only. It is evident that the entries are of statistical meaning, the "goods delivered to selling department" account being always balanced, and serving to show the volume of deliveries made to selling department during a period.

II. Under "Letter of credit" method

When the purchaser opens a "letter of credit" in favor of his producer the latter is requested to look after all formalities as to preparation of invoices, the "register" and other documents, as well as to settle all formalities involved in that sort of banking operation.

Having presented the "register" with invoices, etc., to the bank the producer makes entries:

(1) Dr. sales account—Cr. "finished products" account for the "settlement" value of consignment shipped.

(2) Sundries.

To sales account (at selling prices).

Statebank account (at settlement prices).

Head-office margin account (the difference).

Should there be considerable lapse of time between the date of shipment and the date of presentation of invoice to the bank, the value of the consignment must first be charged to "goods shipped" account (sub-account "under letter of credit") to make the trial balance real and to put it in accordance with the actual state of affairs.

Upon receipt of the documents covered by the Bank for his account as per his letter of credit, the purchaser at once makes an entry debiting "material in transit" account and crediting "state bank letter of credit" account.

As soon as the goods arrive, he makes another entry transferring the value of the consignment from "material in transit" account to the regular material (inventory) account.

Prior to this the purchaser, of course, charges the "statebank letter of credit" account with the amount of the letter of credit, upon receipt of the bank's acknowledgment to that effect, and gives credit to the regular current account with the bank.

III. Under other credit reform methods

(a) Under "special" account method

When such a special account is opened in favor of the producer, the procedure remains practically the same as under the letter-of-credit method previously described and a "statebank special" account is opened and kept in a like manner.

(b) Under "part finished order" method

Sometimes the maker gets his money in parts as soon as certain amount of work or production contracted for is done by him. This fact is proved by special statements signed to that effect by both parties concerned.

The settlement procedure is performed along the lines of either of the above described methods (acceptance, letter of credit, special account). In preparing the invoice to be presented to the bank the maker (producer) shows the amount due him for the volume of work done to certain date and makes the following entry:

Dr. debitors "part finished order" account.

Cr. statebank account (the general current account).

Under this method no difference between the settlement and selling values is ever computed, the whole affair being postponed until the final settlement of the transaction.

(c) Settlement of accounts for various services done (construction, mounting, transporting, etc.) are made in the same manner as for merchandise transactions in either of the above described ways and methods.

(d) The loans of money against material values pledged with the bank in cases of transportation difficulties or governmental prohibition for certain goods to circulate are performed by transferring the necessary amount from "statebank loan" account to the general current account in the particular balance-sheet with the bank, the entries being made in the usual way.

I must further mention that all petty payments amounting to less than 1,000 roubles are made by "cash" cheques. The producer presents all such cheques received from his customers to the statebank, together with special "register," and the whole procedure goes on in a way similar to that under the letter-of-credit method, the difference (the head-office margin) being treated in a usual manner. When c.o.d. or cash payments are made to the producer's account with the bank there are also transfers made to the credit of head office's account for that difference three times a month.

Such are the latest accounting problems encountered by every accountant in U. S. S. R. under the credit reform now in vogue. The above described methods and practice are established for every trade and there may be only very slight variation in procedure and names of accounts involved in any particular branch of production and distribution.

The whole matter seems rather complicated and the accounting department of the statebank—especially in Moscow—has really become a factory, producing and handling millions of records during every month and using large modern office machinery.

However, this universal rôle of the bank gives this important institution the key for regulating affairs of all the trades and business activities throughout the vast union and in fact our statebank has thus become "the skeleton of socialist society, the 9/10th of socialistic apparatus, the state accounting for production and distribution." (Lenin's prediction of 1922.)