Journal of Accountancy

Volume 64 | Issue 2 | Article 4

8-1937

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IN THE U.S.S.R. special stress has been put upon modern socialist accounting as an instrument in the solution of basic economic and financial problems and recent developments in administering accounting practice in Russia have wrought many changes since the period, 1927–1935.

During those years accounting procedure was directed by a special accounting and statistical department of the State Planning Commission of U.S.S.R. That department went far toward establishing uniformity in accounts and centralized control of the methods of record keeping and reporting. Periodic reports to this department and to the administrative offices by all industrial and other economic and business concerns of U.S.S.R. were required, and the department prescribed the principles and forms to be used in their preparation. The department issued many important instructions to meet the requirements of greatly changed conditions after 1927, that is, the year when basic regulations governing the preparation of balance-sheet valuation of assets, etc. were first issued by the Council of Labor and Defence.

The main purpose of the 1927 regulations was to explain how to value old buildings and equipment inherited by socialist economy from private owners of the means of production, and how to account for idle plant and rented property. There was, of course, no need to provide means of accounting for construction on the immense scale that has taken place since in U.S.S.R. There were all sorts of topics treated in the regulations, such as shares, bonds, bills of exchange and dividends, for which no need exists under present conditions.

During the period of industrial reconstruction in the Soviet Union, newly built modern plants and new equipment have largely supplanted the old industrial buildings and equipment. Scientific research institutes devoted to the solution of various industrial problems have been placed under the supervision of industry itself. "Credit reform" has brought about great changes in accounting methods and procedure.

These economic phenomena were not contemplated when the 1927 regulations were drafted, and although numerous amendments to the old regulations were made during 1927–1935 as the need arose, there was still need for a general "overhauling." Furthermore, the regulations had grown so numerous as to make administration difficult. Codification was badly needed.

For these reasons a new law was issued in July of 1936 placing the People's Commissariat of Finances in charge of accounting affairs of U.S.S.R. This law is, in effect, a revision of all previously issued rules and instructions. It provides a solution of all disputable questions and removes the "nebulous spots" of the previous accounting code.

The law consists of two parts. The first requires monthly, quarterly and annual balance-sheets and prescribes how they shall be certified and published. The second contains rules governing the construction of balance-sheets and the procedure to be followed in their preparation.

Special rules regulate accounting for capital investments in workers' supply organizations, scientific research institutes, workers' schools and workers' dwellings. The problem of workers' dwellings, for instance, has become one of great significance because of its social and political importance as well as because of the huge investments which they represent. The results of operating such enterprises must be clearly and accurately shown in periodic and annual reports.

Balance-sheets under the new regulations do not merely indicate the financial condition of individual economic units; consolidated balance-sheets of like enterprises are provided for the information and guidance of offices which are charged with responsibility for the financial and economic development of the various branches of industry.

Thus accounting now serves to reflect currently each change in the industrial development of U.S.S.R. and as a means for the control of the national economy as a whole.

Inasmuch as the consolidated balance-sheet of the state industrial organizations on January 1, 1937, showed capital assets valued at some 50 billion roubles, it is easy to understand why the new accounting regulations of 1936 dealt chiefly with the presentation and valuation of capital assets in balance-sheets.

Accounting for Capital Investments

The so-called "exploitation" and "construction" balance-sheets of an enterprise are required to be kept strictly separate and accounting for all capital investments, without distinction, must be done only through "construction" balance-sheets. In fact this balance-sheet should really be called the "capital-investment" balance-sheet.

To keep this article within some definite limit, I shall confine myself to discussion of the new accounting legislation as it affects capital assets.

The "capital-investment" balance-sheet of an enterprise records all appropriations for construction work and acquisition of ready-made means of production. When "capital work," as it may be termed, is finished, and the products of manufacture, whether they be plant or equipment, are actually handed over to "exploitation management," these assets are said to be "introduced into exploitation."

An entry is then made for these assets debiting "capital-assets" account and crediting the "status-fund" account. (The latter account corresponds to what is known elsewhere as the "capital" account or "net-worth" account.)

Thus appropriations made by the state banks, as well as financing received from other sources, are transformed into means of production and a corresponding increase in "status-fund" account takes place. The financing of construction and acquisitions is chiefly made by the Long-Term Credit Bank of U.S.S.R., otherwise known as "Industrial."

In the exploitation balance-sheet the capital assets are shown under the following headings:

(a) Productive means—Acting
(b) Productive means—In reserve
(c) Non-productive means
(d) Capital work done to leaseholds

The treatment of depreciation on the balance-sheet in U.S.S.R. is different from usual practice in other countries—a difference resulting from the introduction of scientific methods by the State Planning Commission. The sum of depreciation is charged to the operating accounts as usual, and the credit is given to "depreciation-fund" account. The whole of the latter amount is then subject to deposit with the Industrial Bank. At the same time another entry is made charging "status-fund" account and crediting "wear-and-tear" account with the equivalent of the amortized portion of the capital assets. Thus the total amount of capital assets on the books of account is always offset by this contra item. In the financial statement, however, this contra item disappears, being recorded beneath the balance-sheet liability total as a statistical "out-of-balance-sheet" sum. The capital asset total is at the same time reduced by a corresponding amount, which is placed beneath the asset total of the balance-sheet opposite "wear-and-tear" account. Thus the equilibrium is maintained and the sum of capital assets appears "net" in the financial statement. No journal entry is made, of course, for this temporary showing on the financial statement.

Periodically deposits are made with the Industrial Bank on account of yearly depreciation liability in accordance with plan, and these amounts are not charged to "depreciation-fund" account until the closing of accounts at the end of the fiscal year. Until then this item appears on the asset side of the balance-sheet among other "tied-up" amounts under the heading of "Deposits with the Industrial Bank on account of depreciation." As soon as the yearly accounts have been checked and approved by the Balance-sheet Committee, this deposit is debited to "depreciation-fund" account. As a rule, the whole of yearly depreciation should be thus deposited. The balance, if any, at the end of the year is subject to deposit in the next fiscal year. It is considered to be a standing liability to the Industrial Bank, and the enterprise can in no way dispose of this money.

The "wear-and-tear" account, however, grows as the process of physical depreciation continues. This item may decrease when capital assets are disposed of, either through change of "ownership," or liquidation if found to be no longer useful.

In cases of liquidation, there may be expenses incurred, and on the other hand, certain material values may be salvaged. These are recorded in a special "liquidation-of-property" account. This account is charged with the book value of the asset under liquidation and with the expenses or removing, dismounting, etc. and is credited with the amount of "wear and tear" accrued on the property liquidated and with the amount of salvage resulting from the liquidation. The balance, usually a debit balance, is then charged to the "status-fund" account as ultimate loss on liquidation.

Some material values usually remain after liquidation and these are entered on the asset side of the balance-sheet. This transformation of a portion of "immobile" assets into "mobile" assets, into working funds of the enterprise, is again subject to adjustments with the Industrial Bank. The money equivalent of such liquidation proceeds is required to be deposited with the bank. This deposit will afterwards be deducted from "status-fund" account by the Balance-sheet Committee when it reviews the annual accounts.

Accounting for Capital Repairs

Capital repairs to buildings, plant or equipment is also recorded as a "capital-investment" balance-sheet item. The necessary appropriations are made by the government through the Industrial Bank and the accounting procedure required is similar to that which is prescribed in the case of new construction or erection of machinery.

As soon as the capital repairs are completed, the cost thereof is taken into the exploitation balance-sheet, in the following manner: The amount of capital repairs is charged not to the "depreciation-fund" account, as was the case in the previous years, but to "wear-and-tear" account. The credit is made to "status-fund" account, in the amount appropriated by the financing agency. Inasmuch as the "wear-and-tear" account is thus decreased, the value of capital assets on the balance-sheet is correspondingly increased, for, it should be remembered, the amount of "wear-and-tear" account is subject to deduction from the total of capital assets on the financial statement. It is self-evident that, as the subtrahend decreases, the balance becomes bigger. The "growth" of capital assets on the financial statement is compensated by the "growth" of the "status-fund" account. Equilibrium is thus maintained.

At this point, an interesting accounting, or rather administrative, problem presents itself. The amount of capital repairs to any given property should not exceed the amount of "wear-and-tear" allowance accumulated for this kind of property through the yearly depreciation charges. Should the provision not be sufficient, however, there arise such questions as whether the surplus cost of repairs should be added to exploitation costs of the same year or deferred, whether the rates of depreciation should be increased or the value of the property revised upward to an amount of annual depreciation large enough to meet the inevitable cost of capital repairs. It was decided by the new law to defer the surplus cost of capital repairs and to increase the next year's depreciation allowance to the extent necessary to cover it.

In many instances the "wear-and-tear" fund is accumulated for the entire value of capital assets without sufficient records of the depreciation allowance for individual property units. In such cases the total sum of "wear-and-tear" fund will, of course, always be sufficient for any charge thereto, but it may easily happen that the depreciation allowance of a given kind of property will be "swallowed" by the cost of capital repairs to quite another capital asset. To avoid this it is necessary to keep as many subaccounts of "wear and tear" on separate records as there are different kinds of movables and immovables. Thus the overdraft of "wear-and-tear" allowance may easily be noticed and even prevented.

It is also interesting to note the treatment of capital repairs or investments in "leaseholds." Previously such sums were simply charged to "deferred-operating-expenses" account with the intention of including them in the production costs of ensuing years within the term of the leasehold. Now a new practice is recommended by the law—the practice of including such capital expenses in the "capital-assets" account of the leaseholder's balance-sheet. The money for such investments is appropriated by the Industrial Bank and the increase of capital assets by this item is accompanied by a corresponding increase in the "status-fund" account. The value of such temporary, "contingent" capital asset should be depreciated during the leasehold period, of course, and "depreciation-fund" account credited as usual. As soon as the term of leasehold is ended and the property in question passed over to the original owner, those items disappear from the balance-sheet by means of a cross-entry crediting the temporary "capital-asset" account and debiting "status-fund" account with the value of capital investment in the leasehold.

The "Zero" Section

To close my present contribution to THE JOURNAL OF ACCOUNTANCY, I should like to let its readers know about a rather interesting device introduced in Soviet accounting practice to reflect in the same balance-sheet all the details of capital investments made during the year, as well as during each month. The procedure followed is believed to be unique.

Some four years ago a special "zero" section was introduced in the "capital-investments" balance-sheet as an appendix thereto. It was placed, however, at the top, not the bottom, of the statement. This "zero" section is self-balanced—it is in equilibrium at the close of the yearly balance-sheet; but during the year the asset side of this section is in operation accumulating the value of all capital work and other investments made month by month and actually introduced into exploitation process. This section constitutes a visible, tangible and dynamic index of all capital assets created during the fiscal year—a complete, accumulative record of the transformation of all appropriations into the various means of production.

In this "zero" section there are also shown, under separate headings, various expenses financed by the Industrial Bank which are not to be capitalized, not added to the value of capital assets. Appropriations to meet these expenses are considered "presents" made by the socialist government to the industry. They provide for scientific research, assays and prospecting which are in the public interest, even though they directly benefit a single given branch of industry. In this "zero" section there are also reflected the outlays of the government in performing various safety and welfare work within the field of a particular industry. The cost of combating forest fires, of strengthening river banks, of general surveys of land and forest are illustrative examples. The bank also appropriates money for the expense of training personnel for a new enterprise. It makes appropriations to enable one enterprise to participate in construction projects of another when the resultant facilities will be used by both for their common benefit. It is felt that, in such cases, the capital asset should appear on the balance-sheet of the original constructing party and the participation of the second party should not be capitalized.

Through this "zero" section are written off as loss the expense of construction work which is abandoned or expenses incurred when a construction project is proposed but not undertaken. It also absorbs loss arising from accidents to construction projects before they are completed and handed over to the party concerned.

The liability side of the "zero" section serves only to receive, at the close of fiscal year, the amounts of appropriations actually entered in the asset side during the period. Equivalent amounts are taken off banks' accounts (construction of residential houses is being financed by Communal Bank of U.S.S.R.) and other investors' accounts. Corresponding amounts are then placed on the liability side of the "zero" section under appropriate headings.

As soon as all appropriations and investments have been checked and found correct, the asset and liability sides of the "zero" section are cancelled by cross-entries made in the journal, crediting asset and debiting liability totals of the "zero" section. In the opening balance-sheet of the next year the "zero" section does not appear at all.

Control of Investments

The enterprise itself has no right to invest money in basic capital work or major acquisitions. A small part of yearly investments, in cases of urgent necessity or where the general plan of appropriations does not provide for certain minor acquisitions or construction work, can, however, be made out of working funds of the enterprise by virtue of a special law of September 19, 1935.

The basic plan of investments for a given enterprise is carefully made by the enterprise itself, checked and approved by the trust, and sanctioned by the head office of the particular industry of which it is a member. Strict control is maintained to prevent any "free," or non-planned, investments.

The yearly accounts are designed to show the following:

(a) The total project cost of the entire authorized capital expenditure planned by an enterprise to be made during the period of new construction or during the fiscal year of the going concern.

(b) The plan of the current year's investments and work, also at project cost.

(c) Plan of the current year's investments and work—at planned cost, i.e., at project cost less a certain amount of economy prescribed.

(d) Project and planned cost of investments actually made during a period, whether completed or not.

(e) Actual cost thereof.

(f) Project and actual cost of investments completed and "introduced into exploitation."

(g) Project and actual cost of investments not yet completed or not yet "introduced into exploitation" by the end of the fiscal year.

The comparison of sums in the columns thus outlined for every kind of capital work, appropriation, etc. illustrates the whole process of plan-fulfillment, the volume planned and volume actually done, the difference between costs prescribed and actual costs, etc. The annual balance-sheet is accompanied by many forms and schedules setting forth all essential economic data related to the production and acquisition of means of production.