

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Finance



Bachelor Thesis

**Comparison of the accounting standards in Russia and
United Kingdom**

Angelina Shostak

© 2022 CZU Prague

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Angelina Shostak

Business Administration

Thesis title

Comparison of the Accounting Systems and Financial Reporting in Russia and in the United Kingdom

Objectives of thesis

The aim of the bachelor thesis is to compare the continental accounting system (represented by Russia) and the Anglo-Saxon accounting system (represented by the United Kingdom), to point out the similarities and differences and to specify the advantages and disadvantages of these accounting systems for financial reporting.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the results of a questionnaire answered by accounting professionals from both countries. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

The proposed extent of the thesis

40-50

Keywords

accounting systems, continental accounting system, Anglo-Saxon accounting system, accounting system in Russia, accounting system in the UK, accounting law, accounting standards, financial statements, balance sheet, income statement, notes to the financial statements, accounting principles, accounting methods

Recommended information sources

ERNST & YOUNG, LLC. IFRS, US GAAP and RAP. Comparison and basics, Introduction., 2016, p. 56, ISBN N/A, available online

EU. The Council of the European Communities. Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies. In Official Journal OJ L 222, 14.8.1978.

NOBES, CH., PARKER, R. Comparative International Accounting. Harlow, UK:Pearson, 13. edition, 2016, 640 p., ISBN-13: 978-1292081908

Russian Federation. Ministry of finance. Federal Law on Accounting, dated December 6, 2011, No. 402-ФЗ, as amended

Russian Federation. Ministry of finance. Order No. 34n of 29.07.1998. Position on accounting and financial statements in the Russian Federation., as amended

SIVOVA, M. Form 2 of the balance – Income statement. Сивова Марина: Заполнение формы 2 бухгалтерского баланса (образец), 2020, available online

The Institute of Chartered Accountants in England and Wales. UK regulation for company accounts – overview, available online at icaew.com

UK. 2008/409 The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, as amended, available online at legislation.gov.uk

UK. 2008/410 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended, available online at legislation.gov.uk

Expected date of thesis defence

2021/22 SS – FEM

The Bachelor Thesis Supervisor

Ing. Enikő Lörintzová, Ph.D.

Supervising department

Department of Trade and Finance

Electronic approval: 27. 2. 2022

prof. Ing. Luboš Smutka, Ph.D.

Head of department

Electronic approval: 2. 3. 2022

doc. Ing. Tomáš Šubrt, Ph.D.

Dean

Prague on 09. 03. 2022

Declaration

I declare that I have worked on my bachelor thesis titled "Comparison of the accounting standards in Russia and United Kingdom" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 14.03.2022

Acknowledgement

I would like to thank Ing. Enikő Iöriczová, Ph.D. and all other persons, for their advice and support during my work on this thesis.

Comparison of the accounting standards in Russia and United Kingdom

Abstract

Accounting standards help to create systematized and constructive financial records; however, different countries have different standards and accounting structures. Russia has the Continental model and adapts the International Financial Reporting Standards (IFRS). Whereas United Kingdom has Anglo-Saxon model and uses the Generally Accepted Accounting Practice (GAAP). As these countries operate under two different models and two different standards, it creates many difficulties and misunderstandings between international companies. The survey was distributed among people working in the accounting companies at different positions both in Russia and in United Kingdom in order to understand main problems. The respondents, of varying age groups and different work experiences, used different accounting standards at their companies and therefore the survey analysed their responses to understand the need of a common globalized accounting standard.

Keywords: accounting system, standards, Continental model, Anglo-Saxon model, accountant, Russia, United Kingdom, accrual, cash, IFRS, GAAP.

Srovnání účetních systémů v Rusku a Spojeném království.

Abstrakt

Účetní standardy pomáhají vytvářet systematické a konstruktivní finanční záznamy, avšak v různých zemích existují různé standardy a účetní struktury. Rusko má kontinentální model a přizpůsobuje se Mezinárodním standardům účetního výkaznictví (IFRS). Zatímco Velká Británie má anglosaský model a používá obecně uznávané účetní postupy (GAAP). Vzhledem k tomu, že tyto země fungují podle dvou různých modelů a dvou různých standardů, vzniká mezi mezinárodními společnostmi mnoho potíží a nedorozumění. Průzkum byl rozeslán mezi lidmi pracující v účetních společnostech na různých pozicích jak v Rusku, tak ve Velké Británii s cílem pochopit hlavní problémy. Respondenti různých věkových skupin a s různými pracovními zkušenostmi používali ve svých společnostech různé účetní standardy, a proto průzkum analyzoval jejich odpovědi, aby pochopili potřebu společného globalizovaného účetního standardu.

Klíčová slova: účetní systém, standardy, kontinentální model, anglosaský model, účetní, Rusko, Velká Británie, akruální, hotovostní, IFRS, GAAP.

Table of content

1 Introduction	10
2 Objectives and Methodology	11
2.1 Objectives.....	11
2.2 Methodology	11
3 Literature Review	12
3.1 Basic Models of Accounting in the World.....	12
3.1.1 Anglo-Saxon model.....	12
3.1.2 Continental model	13
3.2 Globalizing world harmonization of accounting.....	13
3.2.1 Adoption of IFRS in Russia	13
3.2.2 Generally Accepted Accounting Practice in the UK.....	14
3.3 Introduction to accounting and basics terms	15
3.4 Accounting systems, methods and principles	19
3.5 Accrual and cash method	22
4 Practical Part	26
4.1 Research description	26
4.1.3 Survey notes	26
4.2 Interpreting survey results.....	27
4.2.1 General Representation of Results.....	27
4.2.2 Representation of Work.....	28
4.2.3 Accounting systems in use	33
4.2.4 Training of Accountants.....	35
5 Results and Discussion	37
5.1 Similarity and Differences	37
5.2 Summary based on questionnaire.....	38
5.2.1 Limitations of the research	38
6 Conclusion	39
7 References	40
8 Appendix	43

List of figures

Figure 1 GAAP vs IFRS	15
Figure 2 Respondents by Age	27
Figure 3 How long do you work in accounting sphere?	28
Figure 4 Results by Job Position held.....	29
Figure 5 Employed in Internal or Multinational companies	30
Figure 6 Primary Work of the Respondents Accountants	31
Figure 7 Customer Services	32
Figure 8 Single- and Double-entry System.....	34
Figure 9 Training for Newly Hired Accountants	35

List of tables

Table 1 Features of Anglo-Saxon Model.....	12
Table 2 Features of Continental Model	13
Table 3 Revenues and expenses.....	20
Table 4 Job position by country.....	29
Table 5 Customer Services by country	33
Table 6 Duration of training by country	36

List of abbreviations

IFRS - International Financial Reporting Standards

GAAP - Generally Accepted Accounting Practice

LIFO - Last Income First Outcome

FIFO - First Income First Outcome

1 Introduction

Accounting is one of the most important process for smooth functioning of any company or firm. It is essential to keep track of all the financial reports and records for transparency of all finances. Accounting system helps in managing expenses, revenues and other financial activities. However, different countries work on different accounting systems and it creates some problems between international companies and employees working in accounting procedures.

This thesis will provide analysis of the survey distributed among employees in two countries: the United Kingdom and the Russian Federation. It will analyse how employees face various problems and misunderstandings due to discrepancy between these accounting standards. It also reflects their willingness to receive training from their company. The survey also provides input regarding accounting standards and systems being used in various companies where the respondents work.

Author includes terms like assets, liabilities and equity in accounting systems and how they are transferred in the documents. In addition, the descriptions of the double entry and the single-entry system along with accounting methods as accrual and cash, also describing where these systems and principles were used in accounting.

Moreover, this document will illustrate different accounting models and explain specific models used in certain countries. Thereby, the differences between two basic accounting models are illustrated, which are:

- Anglo-Saxon
- Continental

Harmonization of codes and standards to create an international set of accounting and financial reporting guidelines is a pressing issue. (Lehman, 2005) Due to globalization, Russia implemented such system as IFRS (International Financial Reporting Standards). Whereas GAAP (Generally Accepted Accounting Practice) is used in the United Kingdom.

2 Objectives and Methodology

2.1 Objectives

The main objective of this bachelor thesis is to analyse different accounting standards in the United Kingdom and Russian Federation. It includes following parts:

- To provide analyse of accounting models and accounting standards.
- Identify weaknesses for creating an international set of accounting and financial reporting guidelines in the two main accounting models: Continental and Anglo-Saxon. Analyse will be done between Russia and United Kingdom correspondingly.
- Perform survey between accountants in Russia and UK in order to understand main difficulties in the working area.

2.2 Methodology

The Bachelor thesis will consist of three main parts such as theoretical review, practical part and results.

The first part will be based on durable and dependable information from the internet, books and scientific researches. Analyse of two main accounting models will be performed: Continental and Anglo-Saxon. The author will show different standards in these counties and compare them. In addition, this part includes information about basic terms in accounting.

The second part is practical one. It includes analyse based on questionnaire, which is consist of 19 questions. The analysis will investigate through qualitative and quantitative research. This part explores the main problems of accounting between Russia and United Kingdom.

The third part refers to results and discussion. The main points and overview of the literature review and survey will be performed here.

3 Literature Review

3.1 Basic Models of Accounting in the World

There are four models of accounting in the world: Anglo-Saxon, Continental, Latin-American, and Islam models. Two of them are more popular and used. It is Anglo-Saxon and Continental. However, because of beginning of active integration of business processes in the global economic environment International Financial Reporting System Standards (IRFS) aroused. In order to unify accounting processes and eliminate all contradictions in connection with the use of the above accounting models, international methodological associations and committees in the field of accounting were created (Lehman, 2005).

3.1.1 Anglo-Saxon model

This model appeared in America, Great Britain and Netherlands that is way, it called British-American-Dutch model. The main task of this model is to interest investors and creditors without government intervention. These three countries have stable and developed financial market and the most number of stocks from huge companies are on the securities market. There are many shareholders, who have good income from stocks. This way people can save money and increase them as well, thus this model is perfect for the preservation (Gurieva, 2022). The table 1 shows the main features of this system.

Table 1 Features of Anglo-Saxon Model

Features of Anglo-Saxon Model
• Ownership of shares is distributed
• Banks only slightly engage in the operations of the company
• Capital is raised on large and liquid capital markets
• Internal supervisory authority is the Board of directors
• Market is an active mechanism of control over the corporation
• Measure of success is the share price and dividend
• Capital markets are characterized by high transparency

Source: <https://www.slideshare.net/Meghaanilkumar/angloamerican-model>

3.1.2 Continental model

This model is typical for Europe, Japan and Russia. These countries have significant government control over the business sector. With the help of a well-developed banking sector, the state pursues its policy aimed at achieving macroeconomic objectives (Gurieva, 2022). The table 2 shows the main features of this system.

Table 2 Features of Continental Model

Features of Continental Model
The strong impact of legislation on the regulation of accounting
The close relationship between accounting and taxation
Orientation towards state needs
The weaker development of professional organizations that perform a consulting role
The main financial donors in most European countries are banks
The quality of information disclosure in these countries is lower, and the state is making some efforts to increase it

Source: shorturl.at/admEK

3.2 Globalizing world harmonization of accounting

Harmonization of codes and standards to create an international set of accounting and financial reporting guidelines is a pressing issue (Lehman, 2005). IRFS standards help to make accounting processes easier and more convenient for different countries and international companies - more than a third of all financial transactions occur across borders. The three important advantages of IRFS are transparency, accountability, efficiency (IFRS - Why global accounting standards?, 2022).

3.2.1 Adoption of IFRS in Russia

Russian financial reporting framework regulated by the state. International Financial Reporting Standards (IFRS) are a set of international accounting standards that specify how certain types of transactions and other events should be treated in financial statements. IFRS are published by the International Accounting Standards Board and detail how accountants

should keep and present financial statements. IFRS were created to have a 'common language' for accounting, as business standards and accounting practices can differ both from company to company and from country to country. There are 17 IFRS standards, which are commonly used in Russia (Ministry of Finance of Russia: International Financial Reporting Standards, 2022).

In Russia, IFRS are obligatory only for some organizations (Article 2 of Law 208-FZ):

Credit institutions;

Insurance companies, with the exception of CHI;

Non-state pension funds;

Management companies of investment funds, mutual investment funds and non-state pension funds; clearing companies;

Federal state unitary enterprise included in a special list approved by the Government of the Russian Federation;

Joint stock companies whose shares are owned by the state;

Companies whose securities are admitted to organized trading.

3.2.2 Generally Accepted Accounting Practice in the UK

The Generally Accepted Accounting Practice in the UK (UK GAAP) is the body of accounting standards published by the UK's Financial Reporting Council (FRC) (UK GAAP, 2022). The new UK GAAP standard is **FRS 102**, 'The financial reporting standard applicable in the UK and Republic of Ireland'. It is based on the IFRS for SMEs, a streamlined IFRS standard developed by the International Accounting Measures Board for non-publicly responsible substances. It has been revised for UK-specific circumstances.

The basic difference between GAAP and IFRS represent figure 1.

Figure 1 GAAP vs IFRS

GAAP vs IFRS		
	GAAP	IFRS
BOARD GOVERNING	International Accounting Standard Board overseas GAAP.	Financial Accounting Standard Board overseas GAAP.
GLOBAL APPEAL	GAAP is primarily used US	IFRS is used by around 110 countries. Thus has global appeal.
PRINCIPLE vs RULE BASIS	GAAP is Rule Based and not principle based.	IFRS is principle based i.e. companies has some flexibility with disclosure.
INVENTORY METHOD	GAAP prefers LIFO method for valuation of inventory	IFRS does not recommend LIFO (as it reveals lower income)
FIXED ASSET VALUATION	Only cost model can be used for valuing Fixed Asset	IFRS also recognizes the Revaluation model in addition to cost model.
INTANGIBLE ASSET	Intangible assets are valued at Fair Value.	Intangible Assets are valued on the basis of future economic benefits.
EARNING PER SHARE	This averages the individual interim period	This does not averages the individual interim period.
EARNING PER SHARE	If Market Value increases, the company cannot reverse write down	Here, reversal of write down of inventory is possible / allowed.
DEVELOPMENT COST	All development costs are expensed out under GAAP.	Some development costs are expensed and other are capitalized & amortized.
LIABILITIES GROUPING	GAAP requires splitting of liabilities into current and non current.	IFRS does not make such classification.
INCOME STATEMENT	Extra Ordinary and unusual amount are shown below net income	Such items come under income statement.
PREPARATION OF CONS FS.	GAAP prefers a risks-and-rewards model	IFRS is in favor of a control model

Source: efinancemanagement.com

UK Corporate Governance Code was published by the Financial Reporting Council - FRC in July 2018, applies to reporting periods beginning on or after January 1, 2019. The Code sets out standards of good practice regarding board leadership and effectiveness, remuneration, accountability and shareholder relations (Directors I Corporate Governance and Stewardship I UK Corporate Governance Code I Financial Reporting Council, 2022).

3.3 Introduction to accounting and basics terms

Accountancy is communication of financial and non-financial information about economic system such as business, company or corporation. The main person in accountancy is accountant; he is responsible for counting and money of company. However, there one more important person and it is bookkeeper. Between these two, the difference is clear-cut.

The main tasks of accountant are:

- Look at the financial losses, ensure that expenditures are not more than benefit, and profit
- Show the data to manager or director of company for best understanding how the company develop
- Collect all information about cash-flow such as inflow and outflow
- Make financial record at the end of year

The main tasks of bookkeeper are:

- Make record for each financial transaction entered into by company
- Make records of all accounts receivables and account payables
- Maintain the payroll and ensure that each employees receives their salary
- Monitors cash-flow, including expenses (Accountant, 2022).

To be a good accountant/bookkeeper, need to know and understand next consequential terms:

- **Balance sheet**, or in the other words, statement of financial position. Balance sheet consist of assets, equity and liabilities. There is an accounting equation in balance sheet, which is **Assets = Equity + Liabilities**. In balance sheet, assets are in the left side, equity & liability are in the right side.
- **Assets** are things of value held by company. Assets subdivided into non-current assets, which are subdivided at the same time into intangible (software, valuable right, copyrights), tangible (machines, land, building, cars, vehicles) and financeable (shares, bonds); current assets – subdivided into inventory (material, products, merchandise, work-in-progress, young animal), receivables (customers, receivables from employees), financial assets (cash, bank account); accruals & deferrals.
- **Equity**, also named owner's equity, is owner's rights to assets of company. It is subdivided into capital; funds; profit & loss.
- **Liability** is rights to assets of individual company and organizations. Examples of liabilities: suppliers, bank loan, social & health insurance, employees, income taxes)
- **Accounts Payable** are the bills company owes to suppliers.
- **Accounts Receivable** are the amounts owed to company by customers.

- **Allowance for Bad Debts**, also called reserve for bad debts, it is an estimate of uncollectable customer accounts. Often dubbed a "contra" account because it is listed with the assets, it will have a credit balance instead of a debit balance. For balance sheet purposes, it is a reduction of accounts receivable.
- **Cost of Goods Sold** cost of inventory items sold to your customers. It may consist of several cost components, such as merchandise purchase costs, freight and manufacturing costs.
- **Drawing Account** is a general ledger account used by some sole proprietorships and partnerships to keep track of amounts drawn out of the business by an owner.
- **Ledger** is record an individual account
- **Journal** is record the accounting events chronologically
- **Expenses** are accounts you use to keep track of the costs of doing business. Expenses are income statement accounts. Expenses divided into operating, which is subdivided into purchases, services, changes in inventory, capitalization, taxes & charges, depreciation; financial and income tax expense. Usually expenses record on the debit side with corresponding account of asset decrease or liability increase on the credit side.
- **Depreciation** is an annual write-off of a portion of the cost of fixed assets, such as vehicles and equipment. Depreciation is listed among the expenses on the income statement.
- **Revenues** are income statement account. Revenues divided into operating (revenues from products, revenues from merchandise, and revenues from services) and financial revenues (revenues from share sales, interest revenues). Usually revenues record on the credit side with corresponding account of assets increase or liability decrease on the debit side.
- **Income accounts** are accounts, which company use to keep track of sources of income.
- **Income statement**, also named as statement of financial performance, or Profit & Loss account, is comparing of revenues and expenses, consequently equal to profit/loss.

- **Inventory** is a product, which company hold for sale to customers.
- **Prepaid Expenses** are amounts you have paid in advance to a vendor or creditor for goods or services. A prepaid expense is actually an asset of your business because your vendor or supplier owes you the goods or services.
- **Prepaid Income** are also called unearned revenue, it represents money you have received in advance of providing a service to your customer. Prepaid income is actually a liability of your business because you still owe the service to the customer.
- **Retained Earnings** are profits of the business that have not been paid to the owners and have been "retained" in the business. Retained earnings are stored in an "equity" account that is presented on the balance sheet and on the statement of changes in owners' equity.
- **Trial Balance** is prepared at the end of an accounting period by adding up all the account balances in general ledger. The debit balances should be equal to the credit balances.
- **Debits** - at least one component of every accounting transaction is a debit amount.
- **Credits** - at least one component of every accounting transaction is a credit amount.
- **Closing** - closing the books refers to procedures that take place at the end of an accounting period. Adjusting entries are made, and then the income and expense accounts are "closed." The net profit that results from the closing of the income and expense accounts is transferred to an equity account such as retained earnings (Basics).

Assets, during the year, on the debit side increase and on the credit side decrease.

Operating balance is located on the debit side.

Closing balance of assets accounting is total debit side minus total credit side.

Equity & Liability, during the year, on the debit side decrease and on the credit side increase. Operating balance is located on the credit side.

Closing Balance for equity & liability is total credit side minus total debit side.

There is straightforward way how to record in debit/credit from:

1. Define what two accounts/balance sheet items will be affected by business transaction
2. Define is it asset, equity or liability
3. Define is it increase or decrease of particular items

The simplest way to understand, where to put item, on the debit or credit side, accountancy had four types of changes in the balance sheet items:

Asset increase / liability or equity increase

Asset decrease / liability or equity decrease

Asset increase / asset decrease

Liability or equity increase / liability or equity decrease

3.4 Accounting systems, methods and principles

There are two systems, such as double entry and single entry.

Double-entry system means, that each transaction will have amounts that have to record minimum two accounts. This system requires both side, debit and credit side, have the same amount. Using this system is easier to find mistakes in calculations. This system is focused on revenues, expenses, liabilities, equities and assets. The following example of this system shows how it looks like in trial balance:

Company borrowed \$8,000 from bank. Cash account increase by \$8,000 and liability account must increase by \$8,000. Follow the rule from previous subchapter, assets and liability will be both increase. Hence, cash as asset account will be debited for \$8,000 and loan payables as liability will be credited for \$8,000 (AccountingCoach.com. 2022).

Debit	Credit
Cash 8,000	Loan payables 8,000

By this example, we can see, that debit and credit side are equal to each other and it proved accounting rule of changes in the balance sheet items.

Advantages of using double-entry system are:

- Scientific way to record transactions;
- Debit and credit form of recording, where is registered all purchases and expenditures;
- The perfect way to control money, thanks to debit/credit form, it is straightforward path to find mistake;
- Provide the data about Profit and Loss for the specific period;
- Benefit to head of company, thus he could make decision focus on provided information and make further plans for the promotion of company (Advantages and Disadvantages of Double Entry System, 2021).

Single entry system means that each accounting transaction is recorded only a single entry, which is centered towards results of business enterprise and shown in the statement of income of the company. This system is the oldest one, because of maintained only one side of each transaction and less popular than double-entry system. This term is used to describe the problems associated with the accounts from an incomplete transaction and is popularly called as “Preparation of accounts from incomplete records”. The core includes cash receipts and cash payments. The primary form is the cashbook, which is an expanded form of the check register. It mainly has columns that record particular sources and uses of cash, and starts with the opening balance and ends with closing balance. This approach uses small companies and for manual calculations, but all computerized, system uses double-entry system.

For instance, as we already know, this system is focused on revenues and expenses, therefore in this example will be next accounts:

Table 3 Revenues and expenses

Small Company Five – Column Record June 20YY				
Date	Transaction	Revenues	Expenses	Balance
1 June 20YY	Starting balance for the day			\$4,520.00
1 June 20YY	Electricity bill for the month		(\$149.80)	\$4,370.20
2 June 20YY	Postage stamp purchase		(\$43.00)	\$4,327.20
2 June 20YY	Inventory purchased		(\$624.15)	\$3,703.5

3 June 20YY	Daily product sales	\$1,040.25		\$4,743.30
3 June 20YY	Sales tax paid		(\$83.22)	\$4,660.08
4 June 20YY	Daily service revenues	\$592.25		\$5,252.33
4 June 20YY	Bank interest received	\$180.83		\$5,433.16
5 June 20YY	Customer refund paid		(\$42.95)	\$5,390.21
5 June 20YY	Ending balance for the day			\$5,390.21

Source: own example of revenues and expenses

(Single entry system)

There are several types of single-entry system:

1. Pure single entry – here is only information about personal accounts; no sales, purchases, cash and bank balances. This method cannot be used in practice, because there is no information about cash or daily transactions.
2. Simple single entry – based on double entry system, there are only two accounts: cash and personal.
3. Quasi single entry – in this way, apart from personal and cash accounts, additional accounts are included. The main are sales, purchases accounts and bill books, likewise discounts. Additional accounts such as wages, rent, salaries are available, as well. This approach is used as substitute to double entry system.

In this accountant system, there are several advantages such as:

- Simple to use
- Simple way for calculation for small companies
- Revenues and expenses are calculated daily
- Only limited accounts are opened since all transaction related to personal and real accounts
- This system based on income statement, hence, it easier to determine profit and loss

Definitely, between double entry and single entry systems are difference:

- Single-entry system is easier to use, and double-entry system requires some experience and knowledge for using it
- Easier way to find mistakes and fraud is using double-entry system, than single-entry system
- There are no standards for recording data in single-entry system, unlike double-entry system

- Single entry system suitable for small companies, at the same time, double-entry system suitable for big and advanced companies (Single-Entry vs double-entry Accounting Systems Examples Compared, 2022).

3.5 Accrual and cash method

Cash accounting method or cash basis accounting is an accounting method where payment receipts are recorded during the period in which they are received, and expenses are recorded in the period in which they are actually paid. In other words, revenues and expenses are recorded when cash is received and paid.

Quite often small businesses use cash accounting, because it is simpler and more straightforward and it provides a clear picture of how much money the business actually has on hand. Corporations, however, are required to use accrual accounting under Generally Accepted Accounting Principles (GAAP). Most small businesses are permitted to choose between either the cash or accrual method of accounting, but the IRS (Internal Revenue Service) requires businesses with over \$25 million in annual gross receipts to use the accrual method. When transactions are recorded on a cash basis, they affect a company's books with a delay from when a transaction is consummated. As a result, cash accounting is often less accurate than accrual accounting in the short term (Cash-method).

Examples of cash method manipulations:

- *Revenue.* A business receives a check from a customer near the end of its fiscal year, but does not cash it until the next year, in order to delay the recognition of taxable income in the current year.
- *Expenses.* A business pays its suppliers early in order to recognize more expense in the current fiscal year, thereby reducing its taxable income in the current year.

The behavior noted in both examples is prohibited by the IRS, but can be difficult to spot unless a detailed audit is conducted (examples).

For complete understanding, we need to know what Internal Revenue Service (IRS) is. Internal Revenue Service (IRS) is federal government agency of USA, which collect

taxes and control compliance with a tax legislation, operates under the direction of the ministry of finance of USA. Avraham Lincoln created IRS in 1862. Likewise, it exists in Great Britain and Russian Federation (IRS, 2022).

Audits play important role in Internal Revenue Services. Firstly, auditor is a person, who makes report on financial statement of company that means it gives a complete picture of financial results and cash flow of company and it meets the requirements of accounting rules. For making decision, auditors have to study the annual finance statement and information that confirms it (McLaney, Peter Atril and Eddie, 2020).

For example, consider a consulting company that provides a \$5,000 service to a client on October 30. The client receives the bill for services rendered and makes a cash payment on November 25. The entry of this transaction will be recorded differently under the cash and accrual methods. The revenue generated by the consulting services will only be recognized under the cash method when the company receives payment. A company that uses the cash accounting method will record \$5,000 revenue on November 25 (Method).

Limitation on using the cash method:

- It is allowed when the reporting entity has average annual gross receipts of \$25,000,000 or less for the last three [tax years](#).
- It is allowed for a personal service business for which at least 95% of all activities are related to services.

In overall, the cash method is allowed for small business, but if it develops, it has opportunity to switch away from cash method to accrual method (examples).

Accrual method is an accounting method, where revenue and expenses are recorded, when a transaction occurs, rather than when payment is received. Revenue is usually not equivalent to cash received, and expenses to cash paid. That is why profit is not equivalent net cash received for the period. According to this, it is important to understand difference between profit (the net increase in capital because of company's activities) and liquidity (the property of assets to be quickly sold at a price close to the market price). All information above constitutes an accrual convention, in appliance with profit exceeds revenues over expenses for period, and excess of cash receipts over

cash payments. In this way, balance sheet and income statement complied according to the accrual method (McLaney, Peter Atril and Eddie., 2020).

The main point of this method is that matching income and expenses (matching principle) recognize economic events at the time of the transaction, rather than at the time of making or receiving payment. This method usually uses big and advanced companies, for them it is standard accounting practice. The accrual method gives a more accurate picture of the current state of the company, but its relative complexity makes it costlier to implement. With accrual accounting, firms receive immediate feedback on expected cash inflows and outflows, making it easier for businesses to manage their current resources and plan (Bragg, S. and Bragg, S., 2022).

For example, taking into assumption Company XYZ must insure one of its buildings. The insurance company bills Company XYZ \$600 every six months (one bill in January, the next in July). If each bill is for six months of coverage, then under the accrual method, Company XYZ would not record a \$600 expense in January and a \$600 expense in July (doing so would mean Company XYZ was using the cash method); it would instead record a \$100 expense each month for the whole year. That is, Company XYZ would match the expense to the period in which it was incurred: \$100 for January, \$100 for February, \$100 for March, and so on (Method).

Both these methods are important and useful in accounting, but they are both absolutely difference:

- Cash method always use cash exchange
- Accrual accounting is almost always required for companies that carry inventory or make sales on credit
- The main difference between accrual and cash basis accounting lies in the timing of when revenue and expenses are recognized
- Tracking the cash flow of a company is easier with the cash method
- The big disadvantage of cash method is exaggeration of the state of the company; judge by this, company has a lot of cash and large account payables, which are over cash in accounting books. In this case, company may mislead an investor

- Accrual method can illustrate more accurate picture of the company's profitability in the long term. That's why all revenues are taken into account when received, and all expenses when they are happened
- The disadvantage of the accrual method is that it does not track cash flow and, as a result, may not account for a company with a cash shortage in the short term, even though it looks profitable in the long term.
- Small companies use more cash method, and advanced companies use accrual method

Therefore, both of these methods have advantages and disadvantages and each method illustrate only one part of financial health of the company (Cash Accounting, 2022).

4 Practical Part

4.1 Research description

This research is based on the analysis of the survey results distributed among people working with accounting systems in Russia and United Kingdom. The survey consists of 19 questions. This survey shows results given in by 132 respondents. These respondents comprise of different age groups, with different work experiences and performing various roles in accounting divisions. Author used qualitative and quantitative methods in order to describe main problems in accounting misunderstanding between two countries – Russia and United Kingdom. This survey will help to compare how accountants manage with systems in their home countries.

4.1.3 Survey notes

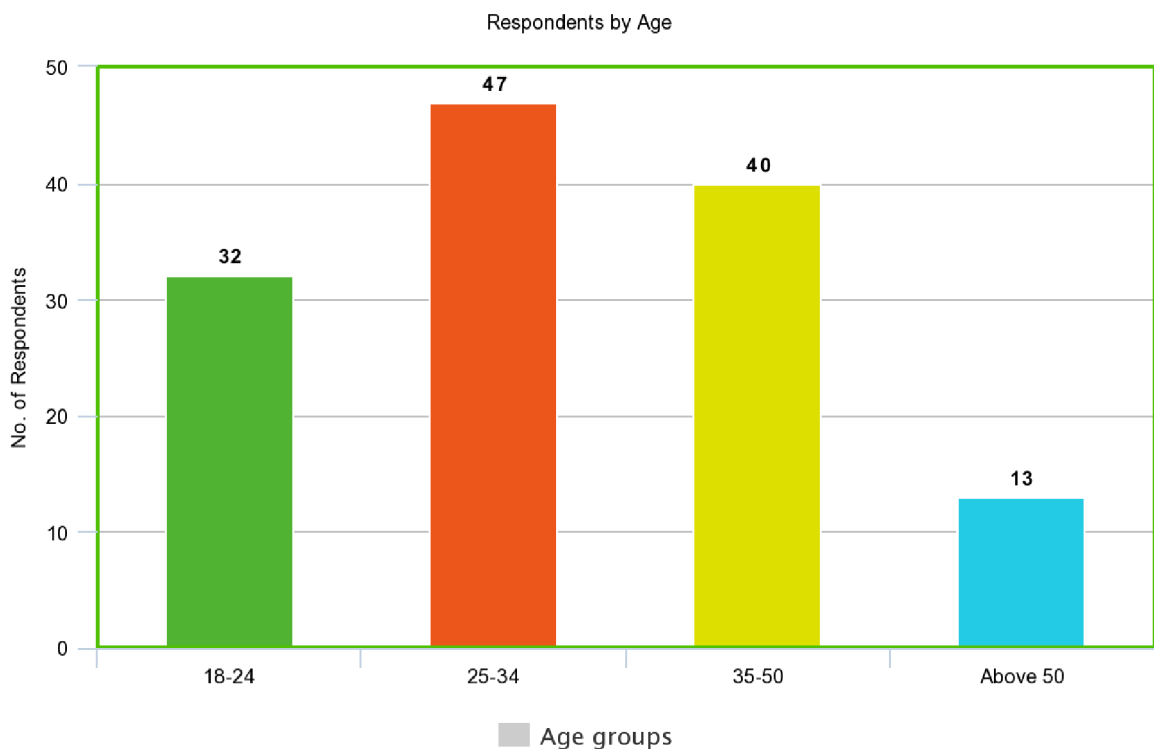
The survey was provided in January 2022 and was conducted between 132 respondents through Google Forms. The collected data was analysed to perform statistical analysis. The respondents **comprised** of both working and retired accountants both from United Kingdom and from Russia. Thanks to the accountant community active over the internet, this survey could reach these accountants to give in their valuable input to understand the problems faced due to different accounting standards used by different countries all over the world. All percentages are rounded to whole numbers for better perception.

4.2 Interpreting survey results

4.2.1 General Representation of Results

As mentioned before, the respondents of this survey are accountants of various age groups ranging from early 20s to the age of 50 or even above. Therefore, in the bar chart below, it can be seen that most of the respondents were of age group 25-34 and followed closely by age group 35-50. Then there were respondents of age group 18-24 and lastly least number of respondents above the age of 50.

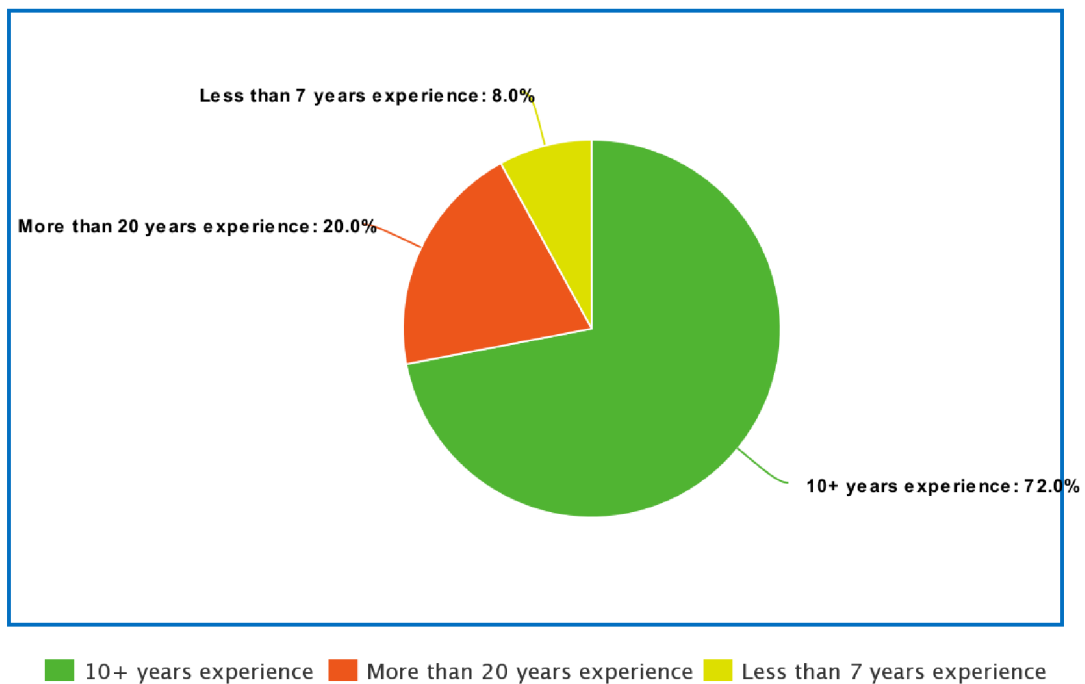
Figure 2 Respondents by Age



Source: Based on individual survey results.

As visible from the above graph, most of the respondent accountants fall in the age group of 25-34 and 35-50, therefore we now analyse the work experience of these accountants with the pie chart below. We see that more than 72% of respondents have a work experience of more than 10 years and therefore it is evident that the respondents giving in the inputs for this survey on accounting systems are well experienced.

Figure 3 How long do you work in accounting sphere?



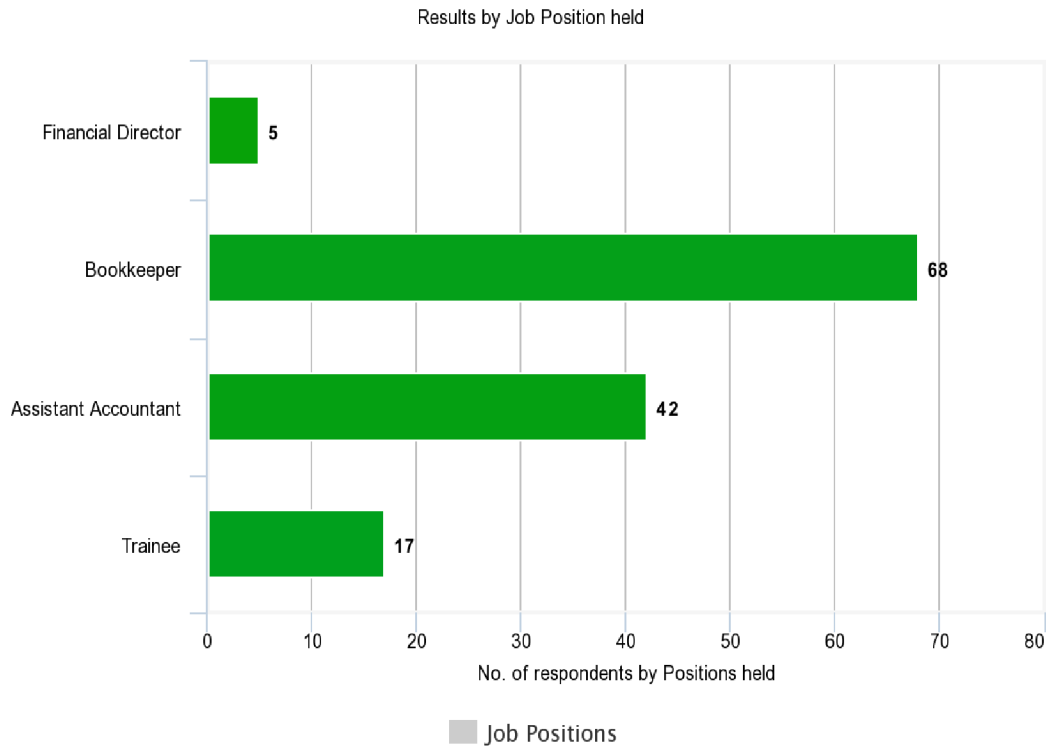
Source: Based on individual survey results.

In addition, it was noted from the results that 64 of the respondent accountants were from United Kingdom and 68 of them from Russia. Whereas all of them had seemingly good knowledge of accountancy and were able to answer all the questions satisfactorily.

4.2.2 Representation of Work

The results of this survey also analysed the work roles, work environments and the companies where these respondent accountants work. The bar graph below represents the various positions our respondents hold in their respective companies, ranging from senior director level positions, assistants, and bookkeepers and until trainees. There were various inputs received by our respondents, but it is seen that most of the respondents work as assistant accountants and bookkeepers, while directorial positions and trainee positions were less.

Figure 4 Results by Job Position held



Source: Based on individual survey results.

Table 4 Job position by country

		What is your job position?				Total
		Financial Director	Bookkeeper	Assistant Accountant	Trainee	
In which country do you work?	United Kingdom	2	30	25	7	64
	Russia	3	38	17	10	68
Total		5	68	42	17	132

Source: Based on individual survey results.

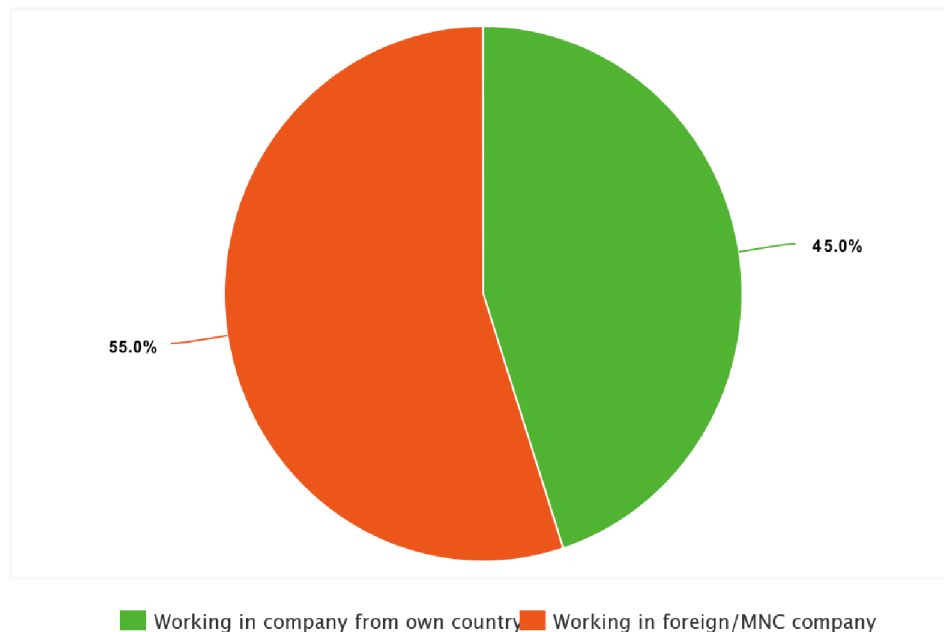
In addition, the survey gave us the information that more than 80% of the respondent accountants had a full-time work contract while almost 20% of them had a part-time contract. It shows that most of them already have full time stable jobs as accountants and they are well

established. While the part-time workers are mostly still trainees or part-time workers in the early stages.

It was also analysed that more than 2/3rd of the respondents had some education in accounting. The education included either degree, training programs or learning experiences. The rest of them still are undergoing the study programmers or training.

Another part of this survey analysis gave the input about what type of companies do these accountants primarily work in, it can be a foreign company- with its origin from some other country, or it can be a company established in their own country. The input gave the results that around 45% of the respondents worked in companies that were established in their own resident country, that is United Kingdom or Russia, while the majority of them worked in either foreign or Multinational companies that were established in some other country but had its subsidiary companies in United Kingdom and Russia.

Figure 5 Employed in Internal or Multinational companies

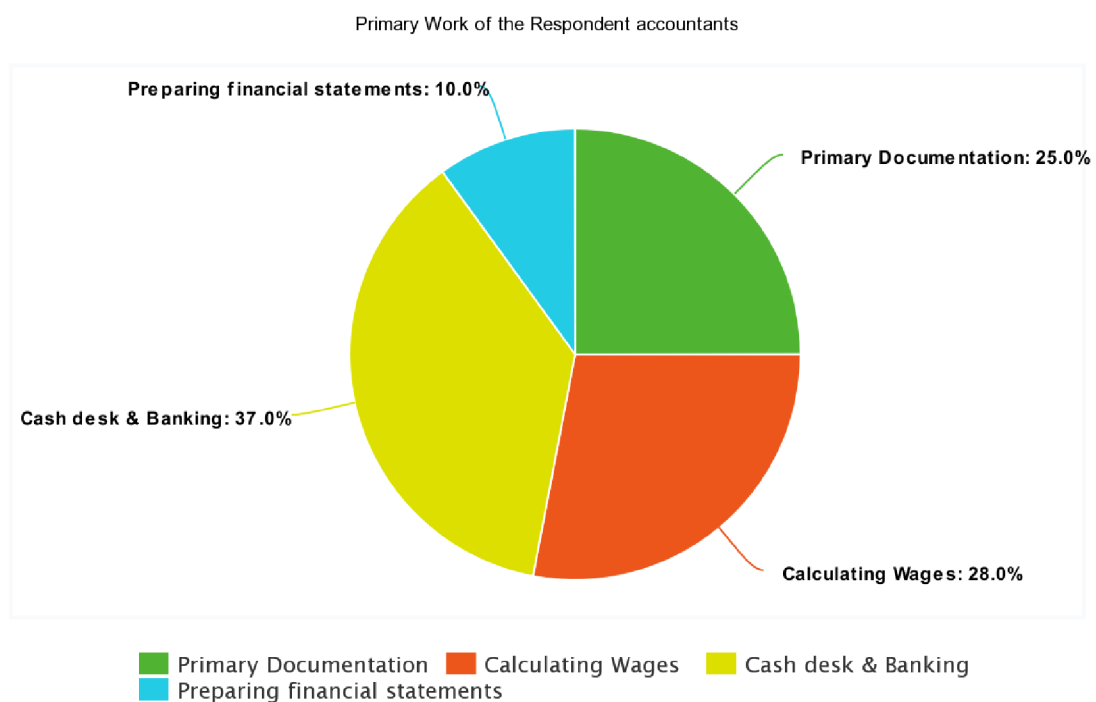


Source: Based on individual survey results.

The responses also concluded that the respondent accountants work on various projects and have different specific work that they do in accountancy. Some of them work on primary

documentation, some work on calculation of wages; some of them prepare financial documents while others work with the cash desk and other banking departments. According to the analysis, 25% of the employees work on primary documentation, around 28% on calculation of wages and almost 37% work on cash desks and banking sectors while rest of 10% work on preparing financial documentation. Therefore, it is evident that most of these accountants work on cash and banking departments. In addition, the least number of the respondents work in preparation of financial documents

Figure 6 Primary Work of the Respondents Accountants



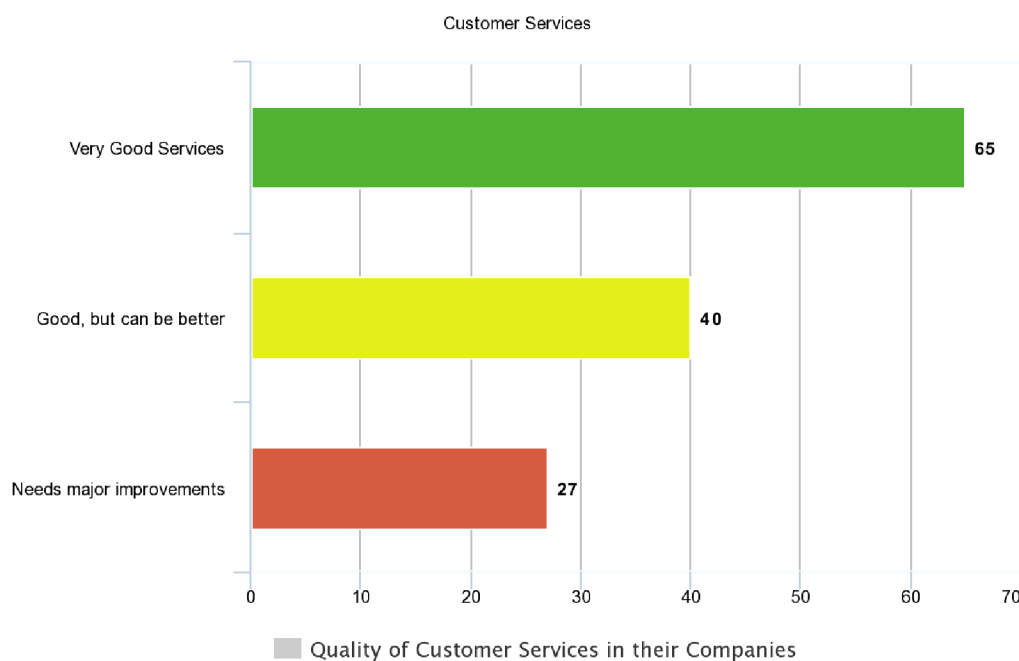
Source: Based on individual survey results.

The analysis also included data related to the workplace of these respondents, their work environment, the working hours and colleagues. This data was very vast and rather diverse as it included the personal experiences of the respondents at their workplace. Some regarded their experience as good while some suggested that there could be some better upgradations and changes to make it easier for the employees.

Moreover, the survey analysis also included inputs regarding the customer services at their company. As customer, service is very important in a company and it is regarded as one of the most crucial departments because the customer services directly interact with the customers and are the first point of contact at an organization. The survey analysis results interpreted the data that 65 out of the total 132 respondents believed that the customer services at their company was good. Thereafter 40 respondents believe that the customer service at their company is good, but I can be better to become really good. At least 27 respondents are with the opinion that the customer service operations at their company needs major improvements as of now. These inputs give us a percentage that almost approximately 80% of the respondents believe that their companies have overall good customer services at their company and therefore this signifies that the customer satisfaction rate might as well be high at these companies.

As seen in the bar chart below, it is evident as in reference to the above given information that maximum respondents have an opinion that their company has good customer services as of now. This reflects a positive impact on their positive views about their workplace, which indicates that most of the respondent's work companies have a good work environment that is very important for motivation of their employees.

Figure 7 Customer Services



Source: Based on individual survey results.

Table 5 Customer Services by country

In which country do you work?		Customer Services			
		Very Good Services	Good, but can be better	Needs major improvements	
Total	United Kingdom	38	26	7	64
	Russia	27	14	20	68
Total		65	40	27	132

Source: Based on individual survey results.

The above analysis helped to understand the level of customer service operations in the respective companies of the respondents. Therefore, follow-up survey also included questions regarding the problems that the respondents think they have in the customer service at their companies. The respondents responded with vast variety of responses. The question was regarding if they thought that the problems the customer service has is due to the misunderstandings in the different accounting standards, where almost 66% of respondents believed that the problem was not because of the accounting standards. Around 25% gave different opinions like lack of sufficient staff, linguistic issues, due to outdated equipment and a lot more ranging from software issues to hardware upgradation. In addition, around 9% of the respondents believed that the problems the customer services face are due to misunderstandings and discrepancies between **different accounting standards**.

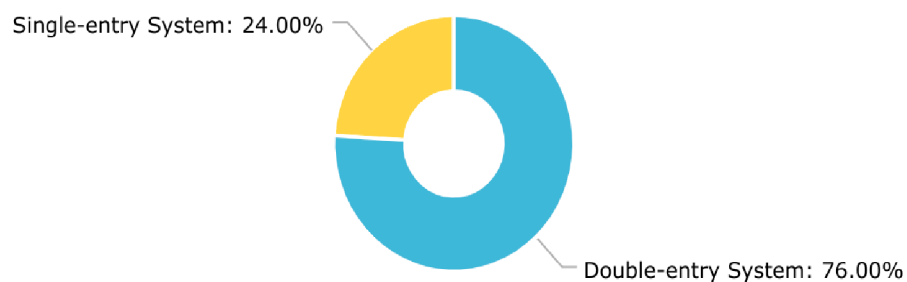
4.2.3 Accounting systems in use

There are variety of accounting software used all over the world according to different needs and specific accounting methods as per the convenience of the companies, all of them working on either the **single-entry** or the **double-entry** accounting system. While it is preferred to have a double-entry accounting system, some of the companies still use a single-entry system, as it is cost effective and applicable to smaller businesses.

The analysis revealed about what accounting systems are used in the companies where the respondents work and the results showed that almost 76% of the respondents' companies use the double entry system while only 24% still used the single-entry system. Nowadays most

companies need more clarity in their transactions and therefore we see that most of them used the double entry system which is actually more reliable so as to keep a check on both sides of the transaction keeping both credit and debit records and also reliant for tax purposes. In addition, double system is based on the accrual principle, which is the same in both countries.

Figure 8 Single- and Double-entry System



Source: Based on individual survey results.

Out of these respondents, almost 80% of the respondents were entirely satisfied with their existing systems of accounting. As it was already evident from the previous analysis that most of them prefer to use the double entry accounting system, therefore it can be evident that the satisfaction levels among people using the double entry systems are comparatively more than single entry system, which are used only on a small scale in the current time.

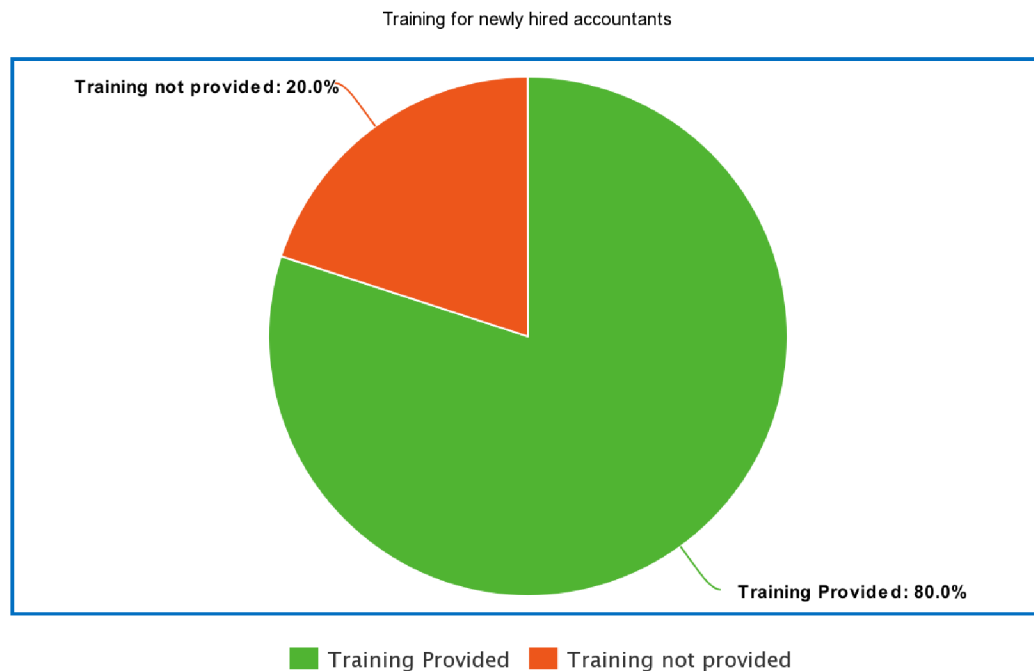
Another analysis relating to the same topic was that if the respondents would prefer that the accounting standards all over the world would be globalized and if these **globalized standards would be more efficient**. Majority of the respondents are of the opinion that yes, the global standardized accounting standards would be really efficient as it would allow interoperability and globally compatible bookkeeping, which would be really helpful in case of multinational organizations. The respondents also responded positively on another survey question, which was of the opinion if these globalized standards of accounting systems would enhance the efficiency of the accountants and their firms. Majority respondents gave

yes as their answer as in their opinion it would definitely enhance the efficiency and compatibility along different countries.

4.2.4 Training of Accountants

The survey also consisted of questions pertaining to the training and on boarding of the **newly hired accountants**. It consisted of training periods, training and other related analysis. The first question analysed that if the respondents' companies provide training to newly hired accountants who were not familiar with these accounting standards.

Figure 9 Training for Newly Hired Accountants



Source: Based on individual survey results.

According to the analysis, it was found that almost 80% of the companies provide training while only 20% of companies did not provide any sort of training to the newly hired accountants who are not familiar with their accounting system. It is actually very important for companies to hold some sort of familiarisation training to get the new employees familiar

with their existing accounting systems as it would make them more efficient from the day one.

The next analysis showed about the companies who do provide training, and it analysed how long does this training normally last. Ranging from a few days to a month, respondents gave various answers.

Table 6 Duration of training by country

In which country do you work?		Duration of Training				
		1-5 Days	2 weeks	1 month	No trainings	
Total	United Kingdom	17	26	15	10	64
	Russia	10	24	20	10	68
Total		27	50	35	20	132

Source: Based on individual survey results.

The results included 27 of respondents saying their company provided 1-5 days of training to newly hired accountants, and 50 of them said their company had around 2 weeks of training, and 35 said their company provided 1 month of training for newcomers whereas same as analysed previously, 20 said their company doesn't provide any training at all.

5 Results and Discussion

5.1 Similarity and Differences

These two specific countries (Russia and United Kingdom) have been chosen by author to show the difference and similarity in their accounting standards and to perform main difficulties, which accountants face working in international environment. The basic difference is that United Kingdom refers to Anglo-Saxon, while the Russian Federation to Continental modal.

Russia includes 17 ISFR standards, whereas UK accounting is under financial reporting 102 (GAAP). The **main difference between these systems** are following: GAAP is Rule Based, when IFRS is principle based. It means that companies under IFRS system has some flexibility. For valuation of inventory, GAAP refers to LIFO (Last In First Out) method, but IFRS does not recommend it as it leads to lower income. Therefore, only FIFO (First In First Out) accounting used. The splitting of liabilities into current and noncurrent are very important in GAAP, however, it does not make any difference in IFRS. GAAP prefers a risk-and-rewards model, when control model takes place in IFRS. As for intangible asset – they are valued at Fair Value in GAAP, but they are valued based on future economic benefits.

However, these systems have some things in common. Such **similarities** as conceptual framework is alike in both systems. GAAP and IFRS use income statement, a balance sheet, and a statement of cash flows. Therefore, financial statements include in both countries: balance sheet, profit and loss statement, cash flow statement, statement of changes in equity. Both countries use double entry. It happens because double system is based on the accrual principle, which is the same in both countries.

The **advantage** of the using of standards is that they help to complete work easier. It facilitates cooperation between companies. Without these standards were a lot of misunderstanding and mess in reports. However, misunderstanding and complicated rules in different standards could be considered as **disadvantage**.

5.2 Summary based on questionnaire

The survey was provided between people, who works in accounting industry in Russia and United Kingdom. Respondent's answers showed the main problems in their work. At the same time, this survey showed the level of support and help from employers to employees with different systems. This survey analysed that majority of the companies prefer to use double entry system to single entry system. It also provided a valuable input that some companies do not have training procedures for accountants not familiar with current accounting system. Another analysis revealed that majority of the accountancy firms/companies have very good customer service operation according to respondents. Other responses suggested that globalized accounting standards would be beneficial for streamlined processing of accounting reports. The most number of accountants in the world would like to globalised systems/models and unite it in one system/model. There is one thing that cannot make it in life, is safety of accounting data. If there will be one system/model than it could increase numbers of theft due to it will be familiar to every educated accountants. Nowadays these differences help to avoid steal cases.

5.2.1 Limitations of the research

However, this study has a number of limitation that should be addressed by future research. First, others countries should be involved in the survey as well. Many external factors (which should be included into next research) can be a reason why different countries have different accounting systems. Second, customer satisfaction is crucial for all companies that is why the role of the consumer in accounting should be analysed.

6 Conclusion

This thesis showed different standards in the Russian Federation and United Kingdom. These countries are representatives of two different models and standards: Russia – Continental model and IFRS; and United Kingdom – Anglo-Saxon and GAAP. As these countries are under two different models two different standards, it creates many difficulties and misunderstandings between international companies. Theoretical part provided examples of different types of records (such as single- and double-entry systems, income and expenses, balance sheet), for better understanding each of them. The comparison between the different types of accounting models such as the Continental & the Anglo-Saxon model, quoting its similarities and differences. Another part explains the important parts of the two accounting standards taken into consideration for this thesis- The International Financial Recording Standards (IFRS), and the Generally Accepted Accounting Procedures. Thereafter, various accounting terms and methodologies such as the Accrual and the cash methods are explained, also including the importance of Audits.

The practical part whereas concluded results with opinion from 132 respondents, both working in the accounting sector and retired. The survey analysis discusses the inputs regarding various factors that could be affecting the efficiency of accountancy in various companies in the United Kingdom and Russia. Trainings, training times, customer service operations of the companies where the respondents' work is also analysed. In addition, as differences in accounting standards among different countries can be problematic sometimes and might **lead to misunderstandings**, thereafter, this survey analysis also gave various valuable inputs towards the need of globalized accounting standards that can be congruent for easy internationalized accounting procedures among companies.

7 References

Lehman, G., 2005. A critical perspective on the harmonisation of accounting in a globalising world. *Critical Perspectives on Accounting*, 16(7), pp.975-992.

Ifrs.org. 2022. *IFRS - Why global accounting standards?*. [online] Available at: <<https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/>>

Gurieva, E., 2022. COMPARATIVE ANALYSIS OF ACCOUNTING MODELS USED IN INTERNATIONAL PRACTICE. [ebook] Khabarovsk. Available at: <http://www.science-bsea.bgita.ru/2009/ekonom_2009_2/gurieva_sravnit.htm>

Icaew.com. 2022. *UK GAAP*. [online] Available at: <<https://www.icaew.com/technical/financial-reporting/uk-gaap>>

Minfin.gov.ru. 2022. Ministry of Finance of Russia :International Financial Reporting Standards. [online] Available at: <https://minfin.gov.ru/ru/performance/accounting/mej_standart_fo/>

Corporate Finance Institute. 2022. *Accountant*. [online] Available at: <<https://corporatefinanceinstitute.com/resources/knowledge/accounting/accountant/>>

Bizfilings. 2022. *Accounting Basics and accounting system*. [online] Available at: <<https://www.wolterskluwer.com/en/solutions/bizfilings>>

Investopedia. 2022. *Accrual Accounting vs. Cash Basis Accounting: What's the Difference?*. [online] Available at: <<https://www.investopedia.com/ask/answers/09/accrual-accounting.asp#:~:text=The%20main%20difference%20between%20accrual,on%20anticipated%20revenue%20and%20expenses>>

Investopedia. 2022. *Cash Accounting*. [online] Available at: <<https://www.investopedia.com/terms/c/cashaccounting.asp>> [Accessed 29 January 2022].

AccountingCoach.com. 2022. *What is the double-entry system?* | *AccountingCoach*. [online] Available at: <<https://www.accountingcoach.com/blog/what-is-the-double-entry-system#:~:text=The%20double%2Dentry%20system%20of,the%20amounts%20entered%20as%20credits>>

Corporate Finance Institute. 2022. *Accountant*. [online] Available at: <<https://corporatefinanceinstitute.com/resources/knowledge/accounting/accountant/>>

Bragg, S. and Bragg, S., 2022. *Cash method of accounting definition* — *AccountingTools*. [online] AccountingTools. Available at: <<https://www.accountingtools.com/articles/2017/5/15/the-cash-method-of-accounting>>

Investopedia. 2022. *Internal Revenue Service (IRS)*. [online] Available at: <<https://www.investopedia.com/terms/i/irs.asp>>

McLaney, Peter Atril and Eddie. 2020. Accounting and finance for non-specialist.

Investopedia. 2022. *What Is Accrual Accounting and Who Uses It?*. [online] Available at: <<https://www.investopedia.com/terms/a/accrualaccounting.asp>>

Tracy, P., 2020. *Investinganswers*. [online] Accrual accounting. Available at: <<https://investinganswers.com/dictionary/a/accrual-accounting>>

WallStreetMojo. 2022. *Single Entry System in Accounting*. [online] Available at: <<https://www.wallstreetmojo.com/single-entry-system-in-accounting/>>

2022. *Single-Entry vs double-entry Accounting Systems Examples Compared*. [online] Business Case Website. Available at: <<https://www.business-case-analysis.com/single-entry-accounting.html>>

CommerceMates. 2022. *Advantages and Disadvantages of Double Entry System*. [online] Available at: <<https://commercemates.com/advantages-and-disadvantages-of-double-entry-system/>>

Frc.org.uk. 2022. Directors I Corporate Governance and Stewardship I UK Corporate Governance Code I Financial Reporting Council. [online] Available at: <<https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>>

8 Appendix

1. What is your age group?
 - 18-24
 - 25-34
 - 35-50
 - Above 50
2. How long do you work in accounting sphere?
 - Less than one year
 - 1-5 years
 - 5-10 years
 - More than 10 years
3. In which country do you work?
 - United Kingdom
 - Russian Federation
4. What kind of contract do you have?
 - Full-time
 - Part-time
5. Is your mother company has subsidiaries in another companies?
 - Yes
 - No
 - Difficult to answer
6. Is your mother company in another country?
7. Do you have accounting education or accounting related study program?
 - Yes
 - No
8. What is your position?
 - Assistant
 - Bookkeeper
 - Finance Director
 - Trainee

9. What is your primary work as an accountant?
- Work with primary documentation
 - Calculate wages
 - Work with the cash desk and other banking sections
 - Prepare financial statements
10. How would you rate the customer service in your place of work?
- Very Good
 - Good, but can be better
 - Needs major improvements
11. Do you think the main problem with customer services is due to the misunderstandings in accounting standards?
- Yes
 - Not at all
 - The problem is different (specify)
12. Which accounting system does your company use?
- Double-entry system
 - Single-entry system
13. Are you satisfied with your existing accounting system?
- Yes
 - Rather yes than no
 - Rather no than yes
 - No
14. Do you think globalization of accounting standards will be more efficient?
- Yes
 - Rather yes than no
 - Rather no than yes
 - No
15. Does your company conduct training for newly hired employees who are not very familiar to the accounting systems?
- Yes

- No

16. How long does your company conduct training for those who are unfamiliar with your accounting system?

- 1-5 days
- 2 weeks
- 1 month
- Doesn't provide

17. Do you have any difficulties working with companies from other countries?

- No
- Yes
- Other

18. If you were to leave your current job, the reason would be...

19. Do you think your productivity can improve if a globally compatible accounting system is used?

- Definitely yes
- Maybe
- Do not think so
- Do not know