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V. A. Diakonoff

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By V. A. Diakonoff

In my previous article (see The Journal of Accountancy, July, 1929) I gave a general outline of accounting here. Now I am about to relate some new stories of our profession with reference to recent developments and changes of economic life in U. S. S. R.

There have been two most important reforms that changed the external appearance of soviet balance-sheets and affected the very procedure of accounting.

I bear in mind:

(a) The splitting-up of the heretofore single balance-sheet into two balance-sheets, viz., the exploitation balance-sheet and the construction balance-sheet.

(b) the credit reform, which has eliminated the bill of exchange and simplified main business transactions between every two parties concerned by doing away with opening and keeping current accounts.

The Two Balance-sheets

The old balance-sheet has lost its part that dealt with creation of "capital assets." Certain other assets as well as liabilities have been transferred to the "construction balance-sheet" to form a separate systematic accounting for the values entrusted to it for "creation" purposes.

Thus the exploitation balance-sheet has the assets and liabilities reflecting the main activity of the enterprise—the production of goods or services (or the distribution of them) as the case may be. All subsidiary departments and shops, power plants, transportation facilities, etc., are usually left in the operating balance-sheet, unless those shops, etc., belong as a rule to the construction organization.

The construction balance-sheet is quite independent from the operating balance-sheet, but it has no capital account of its own. Instead it has a liability to the head office for all financing received therefrom to be accounted for. This liability account we call a construction financing account. In fact it is an "account payable" for the construction balance-sheet and an "account receivable" for the head office (on its construction balance-sheet, too).

Of course, there are other local liabilities recorded in the construction balance-sheet of the enterprise among which there is a regular liability to the exploitation balance-sheet for all values and services received by one from the other.

Thus the head office—be it a "trust" (local regional administration managing affairs of a group of enterprises) or the central board of the whole branch of industry in question itself—does also keep the two balance-sheets, accurately recording thereon all the pertinent transactions and showing to the government at any given moment the extent of construction in progress.

As soon as a building or a plant, or even a single structure, is ready to enter the exploitation body of an enterprise, the "production" account (in the construction balance-sheet) is credited and an asset account called "completed features" is debited, to receive the value of such "finished product." Further, upon receipt of the structure by the exploitation people, all formalities being over, there is a settlement performed by the enterprise.

The "head office construction financing" account is then charged with the value of the structure in question and the sum is cleared off the construction balance-sheet of the enterprise.

At the end of the fiscal year all miscellaneous indebtedness of construction balance-sheet to the exploitation balance-sheet is liquidated through the head office.

As in fact there are permanent construction, extension and capital improvements going on all over the U. S. S. R. the two balance-sheets always remain within the scope and care of the accountant's work, splitting up his mental strain and his daily worries.

Of course, a purely constructive enterprise has only one balance-sheet with ordinary appearance. The "production" (or work in progress) account is thus charged with the values of all material and equipment necessary to build up the structure. The settlement is made in the usual way (through the state bank, see "The credit reform" below) and only construction balance-sheets are charged and credited.

The settlement for the value of a structure built by the same enterprise for its own exploitation needs, however, to be registered not only in the two balance-sheets of the enterprise but in the balance-sheet of the head office also.

The entries in question are as follows:

(1) The first entry, that of charging the value of the structure built to the head office has been dealt with above.

(2) The head office makes the following entries:

(a) Dr. "Exploitation balance-sheet account." To transfer the amount from one balance-sheet to the other.

Cr. "Construction financing account" (of particular enterprise). To credit it for the value of structure built. This entry is made in the head office construction balance-sheet.

(b) Dr. "Enterprise N" investment account. To charge the enterprise for the value of structure received for its operation needs.

Cr. Construction balance-sheet account. To credit this balance-sheet for the value of structure built and handed over to the exploitation part of the enterprise.

The latter entry is made in the head office exploitation balance-sheet.

(3) The exploitation balance-sheet makes an entry debiting property account and crediting "head office investment account" for the value of the structure in question.

There are a good many other accounting problems involved and solved with the existence of the two balance-sheets, but I shall not go further in this direction at present.

The Credit Reform

Starting on October 1, 1929, the industrial coöperative unions began a new practice of settling their accounts through the state bank instead of opening credit or issuing bills of exchange to one another.

On April 1, 1930, this practice was ordered by the supreme council of national economy to be the regular and only way of making such settlements by all industries of U. S. S. R.

Prior to this arrangement a change in administration and formation of industrial units took place. Under this regulation all enterprises have been re-grouped and the head offices of particular lines of trade have been organized combining duties of the regulating, supplying and selling bodies. Thus those central head offices now have special departments supplying the enterprises with all material and equipment they need, as well as disposing of the finished products which the enterprises produce.

By virtue of a special governmental decree of January 30th and a joint law of February 24, 1930, issued by the state bank and the supreme council of national economy, all industrial head offices have begun signing special agreements with the bank wherein it has been provided that the bank undertakes:

(a) To settle the accounts between the enterprises and their head offices for the value of goods shipped to the latter or to their order;

(b) To settle the accounts between the enterprises and their head offices for the value of material and equipment supplied by the head offices to their enterprises;

(c) To settle the accounts between head offices and their customers (soviet establishment only) for the value of goods sold to the latter;

(d) To pay head offices' debts for the purchases they make.

(e) To finance the head offices and their enterprises according to their operating and construction programmes and financial plans.

Thus all basic transactions of every enterprise and its head office are now being done without any bill of exchange or open credit accounts. All those innumerable and responsible operations and accounting manipulations involved in the old credit system are now eliminated. All enterprises present to the state bank their operating and construction programmes, together with balance-sheets reflecting their financial position, as well as the nature of their assets, which are now considered to belong to the bank.

Thus the state bank has become not only a "clearing house" but an actual and severe comptroller of industrial affairs. It has to look after overdrafts and timely fulfilment of the planned financial and production programmes of every branch of soviet industry.

As soon as the enterprise has shipped the goods according to the direction of the head office, it presents supporting documents to the local branch of the bank and its current account with that branch is immediately credited "as per invoice." The supporting documents are then sent to the other branch of the bank, where the particular head office of the enterprise is located and this latter branch charges head-office current account. The supporting documents are now sent over to this head office with a debit note to that effect (showing also the balance of the account to date).

When a reverse case takes place, i.e., when the latter gets its material and equipment from the former, the whole procedure goes the same way, but in an opposite direction—from head office to the enterprise.

Of course, it is not necessary that the goods of the enterprise should go direct and only to the warehouses of the head office. And not all material and equipment are shipped to the enterprise from head-office warehouses only. All modern practices of through shipments direct from actual suppliers and to actual consumers are maintained in all cases where the central head office plays the part of an intermediary or of a regulating body. In those cases credits due to the selling organization and charged to the purchasing enterprise are made direct through local branch office of the state bank and the head office gets copy of the invoice for its regulating and planning needs.

Should any claims arise from these transactions such claims are subject to acceptance prior to their presentation to the bank for collection.

Now there comes a problem of *cost and profit.*

The supreme council's act 1144 of April, 1930, provides for a "settlement price" to be introduced in all transactions between an independent enterprise (i.e., with its own balance-sheet and a current account with the state bank) and its head office, instead of using actual cost which may or may not be known at the moment of shipment.

The "settlement price" is based upon the estimated cost according to financial and operating plans of the enterprise. It is predetermined at the beginning of the fiscal year and the difference between it and the actual cost of the article produced forms either profit or deficit as the case may be.

This difference is understood to be the production result and appears as debit or credit balance of a special account called "order execution account." The idea is that every production is only made upon specific orders and plans outlined by the head office and bearing the estimated or plan cost—the settlement price of the article. When the sales are made to the head office for its further disposal of the merchandise, the enterprise charges the head office with that "settlement" price and value of the goods shipped. If, however, the sales are made to the customers direct, two prices and values are shown on the duplicate invoice forwarded through the bank to the head office: the "settlement" and the selling values. The bank credits the enterprise with the selling value and debits the purchaser. At the same time, the difference between selling and "settlement" values is credited to head office (through the respective branch office of the bank) and charged back to the enterprise. Thus the difference accumulates in favor of the head office, making a sum of gross profit collected on local operations of the enterprise. The recent developments of these transactions have led to a new practice of making transfer of the difference every ten days instead of constant charging and crediting. These lump sums of difference are wanted by the head office for its financial operations.

In some industries, however, there is no possibility of local sales made by the enterprises. Very often sales are made in a centralized way through a chain of head office warehouses spread over the whole vast area of this union. Then it is arranged that the enterprises ship their entire output to certain regional offices of the selling department of the head office without charging those offices for the cost of goods. The gross profit is then computed by the selling department and the warehouses only report the quantity of goods received as well as the quantity and value of goods sold.

To regulate all financial and trading operations of a head office and its enterprises the bank keeps two current accounts for them —one for exploitation turnover and another for construction operations. Now that the main items of monetary transactions are eliminated, i.e., the purchases and sales are made without cash or bill of exchange, leaving cheques to cover payments up to 1,000 roubles, the sum of money needed by the head office and its enterprises to pay labor, traveling expenses and other charges of miscellaneous character is comparatively small and is being given at certain intervals according to financial plan and production programme.

Let us now refer to the accounting problems and technique arising from the credit reform.

First of all, we must conceive the enormous economy in forces and time as well as the enlightenment produced by elimination of main accounting trouble in keeping, settling and adjusting transactions that used to be recorded in accounts receivable and payable, as well as notes receivable and payable.

The first group of accounts does still exist in our balance-sheet but it is reduced to record special transactions only—mostly export and import rights and obligations as well as accounts with outsiders covering petty and occasional operations. Such small accounts may all be called "sundry debtors and creditors."

Next comes elimination of "mutual settlements account" between the head office and the enterprise as all their financial transactions are now made through the bank only. Of course, there are yet old unliquidated balances left over from the old way of accounting, but they were to be liquidated by October 1, 1930. All fresh transactions, after the credit reform has been effected in a particular industry or in its local enterprises, are now conducted through the bank.

Now, apart from "purchase and sale" operations, as well as other monetary transactions for various services, etc., let us review a number of "through" transactions of various accounting origins.

There is, for instance, "amortization" (the equivalent of American "depreciation") fund, to be now recorded as belonging to the head office and not to the enterprise. This amortization fund, unlike your "depreciation reserve" is not only an item offsetting in part the value of the property and other depreciable assets. It is a regular "capital" account to be charged for the cost of "capital repairs," renewals and the like done to the property in question. It is, therefore, a source of financing capital expenditure and is accumulated in the head offices' balance-sheets.

This fund, or capital, is now to be periodically transferred to head-office account and this transfer is also made through the bank, the entry involved being:

Dr. Amortization account (an item of factory costs).

Cr. State bank account (for account of the head office).

Such an entry is made by all industries where there are no more "trusts" as intermediaries between the enterprises and the head office. If such trusts are left as an administrative necessity, owing to special geographical and economic conditions of a particular industry, they obtain the rights and accounting prerogatives of a head office.

But as the central head office has now the only right to regulate financial matters and assignments the trust must transfer the amortization fund to its central head office. The matter is being settled in this way: The trust shows the amortization fund in its balance-sheet as accumulated from the transfers made by the enterprises through the bank. The trust, in its turn, transfers the equivalent of this fund to the head office, but without touching the amortization-fund account, which remains on the liability side of its balance-sheet for statistical purposes. Instead of charging this account for the transfers, the trust charges head-office account thus creating a temporary and contingent asset, and credits state bank. The latter credits head office for the amortization money and the head office credits trust's account, also forming a temporary and contingent liability on its balance-sheet. When periodical consolidation of balance-sheets takes place at the central head office those mutual open accounts are cancelled out as having equal balances and the amortization-fund account appears on the consolidated balance-sheet in a summarized total. As a matter of fact only exploitation amortization is transferred to central head office. The amortization of construction assets remains in the balance-sheet of the enterprise and its amount is deducted by the head office from periodical assignments made for construction purposes.

Other transactions, such as transfers of property from one enterprise to another, as well as of various other amounts for accounting regulation, are not made through the bank inasmuch as the investment account is concerned. Its increases and decreases are not of a financial nature and no bank's control is necessary here.

To close I must dwell a little upon the recent developments in the matter of preparing yearly accounts.

Up to recently the existence of two balance-sheets threatened to produce a complication in preparing the yearly accounts and statements. The trouble was that a construction enterprise had to close its fiscal year as of the first of January, whereas the exploitation enterprises used to prepare their yearly balance-sheets as of the first of October. This fact prevented the balance-sheets from being made simultaneously and many inconveniences could arise out of this conflict.

Luckily for our profession, the governmental decree of September 20, 1930, completely eliminated this trouble. It was decided on that date that the financial year be commenced on January 1st now that the country is under permanent industrial construction, instead of being a purely agricultural one as heretofore. Thus the two balance-sheets can now be prepared and printed simultaneously on one sheet of paper in two adjoining columns.

The last quarter of the calendar year 1930 was ordered to be a special economic and accounting period with its own plans, estimates and balance-sheet.

This change of date for starting and closing the fiscal year involved another complication for the accountant, however. In order to make a comparison of the forthcoming—1931—year with the previous year, it is now necessary to prepare yearly accounts for the 1930 calendar year, which had not existed on our books. According to act 2079 of the supreme council of national economy, dated September 24, 1930, there are three balance-sheets (with certain detailed forms and statements) to be prepared; viz:

(1) For the period of twelve months beginning October 1, 1920, and ending September 30, 1930—the old "business" year.

(2) For that special quarter—October–December, 1930.

(3) For the whole calendar year of 1930, beginning January 1st and ending December 31st.

It should be mentioned, by the way, that the new forms of yearly accounts introduced now are entirely different from those we have had before. Over 50 per cent. of those new forms (out of 46 in all) are to be filled by economists and statisticians and should reflect technical and economic factors of factory life for those three periods. The accounting group of forms includes those that throw light upon output and cost, capital expenditure, sales and results, as well as upon financial position of the enterprise as usual.