Accounting policy of construction companies in accordance with International Financial Reporting Standards

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Abstract. This paper examines the practical experience of construction companies in terms of their disclosure of information about significant elements of accounting policy in the notes to their financial statements prepared in accordance with International Financial Reporting Standards. The aim of the study is to identify the main problematic issues that arise in construction companies when preparing accounting policies in accordance with International Financial Reporting Standards and find ways to solve them. Using such methods as analysis and synthesis, comparison, logical and systematic approaches, the author identifies the main problems that occur in construction companies when drafting accounting policy, as well as offers solutions to them. As a result of the research, the paper compares the practice of forming accounting policy by leading construction companies, identifies the main problematic aspects and suggests ways to solve them. The article concludes on the uniformity of approaches to disclosure of information about significant elements of accounting policy, proves the identity of most of the problematic aspects that arise in the formation of accounting policy in accordance with International Financial Reporting Standards by construction companies, and substantiates the analogy of ways to solve them.

1. Introduction

Issues related to the formation of accounting policy for the preparation and presentation of financial statements by construction companies are regulated at the international level in International Financial Reporting Standards (hereinafter referred to as IFRS), at the Russian level - by the Ministry of Finance of Russia, which develops Federal Accounting and Reporting Standards for organizations based on IFRS. Currently, the procedure for standardization of accounting (financial) statements of organizations in Russia is expressed in the implementation of a number of practical steps:

- the Russian Ministry of Finance has published a translation of the document “Conceptual framework for the presentation of financial statements”, which means its implementation in Russia;
- the Ministry of Finance of the Russian Federation has adopted regulations that introduce IFRS and IAS in Russia;
- the Ministry of Finance of the Russian Federation has adopted regulations that give effect to IFRS clarifications in Russia - IFRIC Clarifications and SIC Clarifications;
- Official Letters of the Ministry of Finance of the Russian Federation have been published that answer practical questions that arise when organizations prepare and submit IFRS reports;
- Federal Accounting Standards have been adopted;
• a number of draft Federal Accounting Standards are under public discussion;
• research has already been conducted on practical and theoretical aspects of the formation of financial statements by construction companies under IFRS and the results of these studies done by such authors as E.S. Druzhilovskaya [1], L.I. Kulikova [2], A.Yu. Sokolov [3], A.V. Ivanovskaya [4], M.R. Safiullin [5], G.G. Derzaeva [6, 7], O.V. Dedova [8], E.N. Zaporozhtseva [9], T.N. Shilova [10] and others have been published [11, 12].

According to IFRS, a reporting company is a company that is responsible for (or voluntarily decides to) submit general-purpose financial statements, which in turn include regulated general-purpose financial statements that disclose the assets, liabilities, equity, income and expenses of that company. In addition, a general purpose financial report is a report that provides financial data about the reporting company’s economic capabilities, the company’s obligations, and changes in economic capabilities and obligations that users will need to make decisions about providing resources to that company.

2. Materials and methods

The subject area of this research is the largest Russian construction companies. Let us consider the general purpose financial statements published in accordance with International Financial Reporting Standards as of December 31, 2019, by six major Russian construction companies:

- Construction company PJSC “LSR Group” - hereinafter LSR [13].
- Construction company PJSC “PIK Group” - hereinafter PIK[14].
- Construction company JSC “Soyuzdorstroy” - hereinafter SDS [15].
- Construction company PJSC “IDCC of the North Caucasus” - hereinafter IDCC [16].
- Construction company PJSC “Setl Group of Companies” - hereinafter Setl [17].
- Construction company JSC “RBI Group” - hereinafter RBI [18].

When preparing financial statements in accordance with IFRS, significant attention should be paid to the disclosure of information in the notes to the financial statements. Information that is reflected in the notes to the financial statements should include the following elements: the conditions of the construction company, significant accounting policies, financial risks that may have a significant impact on the company’s activities, and so on. The most important information that is disclosed in the notes to the financial statements of construction companies is information about the significant accounting policies of the organization, as it is necessary for users to evaluate the company’s work and understand the main indicators of reporting.

Russian construction companies use IFRS (IAS) 8 “Accounting policies, changes in accounting estimates and errors” to form accounting policies for the purpose of preparing and presenting financial statements in accordance with IFRS. In IFRS 8, accounting policies are defined as the specific methods, assumptions, bases, methods and rules used by a company to prepare and present financial statements.

In table 1, we will consider the content of the accounting policy sections reflected by the above-mentioned construction companies in the financial statements, and how each of the Russian construction companies under consideration reflects information about accounting objects in the notes to the statements prepared under IFRS in terms of disclosure of information about accounting policies.

| Table 1. Information about the disclosure of accounting policies in the notes to the financial statements made according to IFRS by Russian construction companies. |
|---|
| Content of accounting policy sections | LSR | PIK | Setl | IDCC | SDS | RBI |
| 1. Principles of consolidation | + | + | + | + | + | + |
| 2. Foreign currency | + | + | + | + | + | + |
| 3. Financial tools | + | + | + | + | + | + |
| 4. Authorized capital | + | + | + | + | + | + |
| 5. Fixed assets | + | + | + | + | + | + |
| 6. Intangible assets | + | + | + | + | + | + |

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The study of disclosure in the notes to the financial statements on significant accounting policies made in table 1 allows making a conclusion about the objects that are included in the Russian construction companies in the accounting policies based on IFRS, as well as significant identity of the majority of approaches to formation of accounting policy according to IFRS. The study also shows that the analyzed Russian construction companies do not apply the new accounting standards that have already been approved by the IASB, but their use for the preparation of financial statements has not been required yet. The research conducted in table 1 on the disclosure of information in the notes to the financial statements about significant elements of accounting policies suggests that not all of the information disclosed in the financial statements of construction companies relates to the data that should be disclosed in the accounting policy. A significant part of the data provided is redundant. For example, this “extra” data includes the inclusion of inventory valuation rules in the accounting policy. A description of the inventory valuation rules is neither required nor necessary, as all of these rules are not accounting options developed or selected by the company itself, but regulations of the corresponding IAS 2 “Inventory”. For the same reason, according to the study conducted in table 1, it is “unnecessary” to disclose in the notes to the financial statements presented under IFRS, in terms of significant accounting policies, such information as:

- characteristics of the equity method that accounts for investments in associates and the definition of associates (as such data duplicates word for word the provisions of IAS 28 “Investments in associates and joint ventures”);

|   |   |   |   |
|---|---|---|---|
| 7. Advance payments given | + | + | + |
| 8. Value added tax | + | + | + |
| 9. Leased assets | + | + | + |
| 10. Investment property | + | + | + | + |
| 11. Inventory | + | + | + | + |
| 12. Assets and liabilities under contracts | + | + | + |
| 13. Impairment of assets | + | + | + | + |
| 14. Non-current assets held for sale | + | + |
| 15. Employee benefits | + | + | + | + |
| 16. Reserves | + | + | + | + |
| 17. Revenue | + | + | + | + |
| 18. Government subsidies | + | + |
| 19. Social payments | + | + |
| 20. Other expenses | + | + | + |
| 21. Finance income and expenses | + | + | + | + | + |
| 22. Income tax expense | + | + | + | + | + |
| 23. Profit per share | + | + |
| 24. Segment reporting | + | + |
| 25. New standards and interpretations not adopted yet | + | + | + | + |

3. Results
The study in table 1 of the disclosure of information in the notes to the financial statements about significant elements of accounting policies suggests that not all of the information disclosed in the financial statements of construction companies relates to the data that should be disclosed in the accounting policy. A significant part of the data provided is redundant. For example, this “extra” data includes the inclusion of inventory valuation rules in the accounting policy. A description of the inventory valuation rules is neither required nor necessary, as all of these rules are not accounting options developed or selected by the company itself, but regulations of the corresponding IAS 2 “Inventory”. For the same reason, according to the study conducted in table 1, it is “unnecessary” to disclose in the notes to the financial statements presented under IFRS, in terms of significant accounting policies, such information as:

- characteristics of the equity method that accounts for investments in associates and the definition of associates (as such data duplicates word for word the provisions of IAS 28 “Investments in associates and joint ventures”);
• definition of related parties (as this definition duplicates the rules of IAS 24 “Disclosure of information about related parties” and IFRS 12 “Disclosure of information about participation in other organizations”);
• determining the functional currency (as this information copies the provisions of IAS 21 “Effect of changes in exchange rates”);
• the composition and general rules for the assessment and offsetting of financial instruments (as they duplicate the requirements of IAS 39 “Financial instruments: recognition and assessment” and IFRS 9 “Financial tools”);
• defining financial and operating leases and listing the terms of their recognition (as this information duplicates the provisions of IFRS 16 “Leases”);
• determination of investment property, terms of initial recognition (as such information copies the provisions of IAS 40 “Investment property”);
• description of the accounting rules for impairment and the order of de-recognition of fixed assets and intangible assets (as these rules word-for-word repeat the requirements in IAS 36 “Impairment of assets”, and also the aforementioned IAS 16 “Fixed assets” and IAS 38 “Intangible assets”);
• definition of non-current assets and discontinued operations, and the conditions for their recognition (as this information repeats the provisions of IFRS 5 “Non-current assets held for sale and discontinued operations”);
• description of defined contribution and defined benefit programs, the difference between long-term and short-term employee benefits (as this information repeats the provisions of IAS 19 “Employee Benefits” and IAS 26 “Accounting and reporting on pension programs”);
• description of the conditions for creating each of the reserves (as this information is similar to the provisions of IAS 37 “Estimated liabilities, contingent liabilities and contingent assets”);
• general rules for accounting the revenue (as this information repeats the relevant provisions of IFRS 15 “Revenue from contracts with customers” and IAS 18 “Revenue”);
• principles and conditions for the recognition of government grants (as this information duplicates IAS 20 “Accounting for government grants and disclosure of government assistance”);
• description of the calculation of current and deferred income tax, deferred tax assets and liabilities (as this information copies the provisions of IAS 12 “Income Taxes”);
• definitions of common and preferred shares, formulas for calculating diluted and basic earnings per share (as this information repeats the provisions of IFRS 2 “Share-based Payments” and IAS 33 “Profit per share”);
• definitions of the operating segment, conditions for recognizing the segment as an operating one (as this information is similar to the provisions of IFRS 8 “Operating segments”).

Let us summarize the above results of the study of information disclosure in the notes to the financial statements about significant elements of accounting policies by construction companies in table 2.

Table 2. Summary of the results of the analysis of accounting policy data of construction companies that are not subject to disclosure in financial statements prepared in accordance with IFRS.

| Accounting policies | Duplicated standards |
|---------------------|----------------------|
| Definition and description of the evaluation rules | IAS 2 “Inventory” |
| Characteristics of the equity method, definition of associates | IAS 28 “Investments in associates and joint ventures” |
| Definition of a related party | IFRS 12 “Disclosure of information about participation in other organizations” |
| Defining the functional currency | IAS 21 “Effect of changes in exchange rates” |
### Composition and general rules for evaluating and offsetting financial instruments
IFRS 9 “Financial tools”

### Definition of financial and operating leases, listing the conditions for their recognition
IFRS 16 “Leases”

### Definition of investment property, conditions for initial recognition
IAS 40 “Investment property”

### Description of the rules for accounting for impairment and the procedure for de-recognition of property, plant and equipment and intangible assets
IAS 36 “Impairment of assets”
IAS 16 “Fixed assets”
IAS 38 “Intangible assets”

### Definition of non-current assets and discontinued operations, conditions for their recognition
IFRS 5 “Non-current assets held for sale and discontinued operations”

### Definition of defined contribution and defined benefit programs, distinction between long-term and short-term employee benefits
IAS 19 “Employee benefits”
IAS 26 “Accounting and reporting on pension programs”

### Description of conditions for creating reserves
IAS 37 “Estimated liabilities, contingent liabilities and contingent assets”

### Description of revenue accounting rules
IFRS 15 “Revenue from contracts with customers”
IAS 18 “Revenue”

### Description of the principles and conditions for recognizing government grants
IAS 20 “Accounting for government grants and disclosure of government assistance”

### Description of the calculation of current and deferred income tax, deferred tax assets and liabilities
IAS 12 “Income Taxes”

### Definitions of common and preferred shares, formulas for calculating diluted and basic earnings per share
IFRS 2 “Share-based Payments”
IAS 33 “Profit per share”

### Definition of an operating segment, conditions for recognizing a segment as an operating one
IFRS 8 “Operating segments”

### 4. Summary
It seems that the inclusion of data duplicating the regulations of the IFRS standards leads to “cumbersome” accounting policies in the accounting policy, that is, their overload, redundancy and inconvenience for use. However, provided that this data is not information about the accounting options selected by the organization from the accounting options allowed by the IFRS standards or the accounting methods developed by the organization independently (if they are not included in these standards). Disclosure of unnecessary information in the accounting policy makes it very difficult to find really significant and necessary information about the accounting methods selected and independently developed by the organization.

So, construction companies do not need to disclose extra data in their accounting policies that repeat the requirements of accounting standards.

Thus, the conducted study allowed comparing the significant accounting policies disclosed in the notes to the financial statements prepared under IFRS by the six largest Russian companies, to identify the identity of many approaches to formation of accounting policy according to IFRS for Russian construction companies, to identify the main problematic aspects and to suggest possible solutions to improve the quality of the information disclosed in the notes to the financial statements prepared under IFRS.
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