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## **PLACE OF DEFERRED EXPENSES IN ENTERPRISE STATEMENT OF FINANCIAL POSITION**

**Objective.** *The purpose of this article is research of a place of deferred expenses in static and dynamic theories of financial statements, form of balance of enterprises of Ukraine and other countries for the purpose of optimization of the order of disclosure of information on them in financial statements.*

**Methods.** *In the course of research such knowledge methods as comparison and grouping (in the course of carrying-out of an analysis of a place of deferred expenses in balances of enterprise of Ukraine, the Russian Federation, the Republic of Belarus, Kazakstan and Uzbekistan) were used.*

**Results.** *The proposed new order of disclosure of information on deferred expenses in the accounting balance-sheet of an enterprise taking into account period of their writing-off for period expenses used in the International Accounting Standards.*

**Academic novelty.** *Improved form of assets of accounting balance-sheets of enterprise acting in Ukraine.*

**Practical importance.** *The proposed order of disclosure of information on deferred expenses will be instrumental in more precise and more reliable value determination of current and noncurrent assets from the point of methodology and it will have a positive impact on complexity of analytical procedures execution.*

**Key words:** *deferred expenses, static and dynamic theories of financial statements, balance, active capitalization, passive capitalization.*

The last stage of the accounting process at an enterprise is the accounting balance-sheet drawing up.

The well-known scientist of the first half of the XX century O.P.Rudanovskyi considered balance as a subject of accounting which exists objectively in economy itself [12, c. 87]. By constructing various models accountants just re-create this objective balance. It is obviously that the more improve model the more objectively it shows surrounding reality – the financial standing of the economic entity. Therefore in the terms of assurance of data reliability and authenticity of the balance the issues of its construction according to essence and classification of all objects of accounting

assume topicality. Primarily this concerns the deferred expenses, as capitalization of expenses into the deferred expenses is a powerful regulation instrument of the financial result (profit).

Essence, composition and methodology of business accounting were researched in the doctoral dissertation of Ye.G. Melnyk (Ukraine, 2011) [3] and V.M. Saprykina (Russia, 2008) [10]. Though there is no the unified approach to determination of a place of deferred expenses in the accounting balance-sheet, that ultimately leads to multiple-valued estimation of the financial standing of the enterprise. Therefore this issue requires further investigations.

**The Purpose** of this article is a research of the place of deferred expenses in static and dynamic theories of financial statements, form of balance sheet of the enterprises of Ukraine and other countries for the purpose of optimization of the order of disclosure of information on them in financial statements.

**Main content.** Significance and a place of the deferred expenses in an accounting balance-sheet of the enterprise depends upon the theory of its construction, therefore in the first instance we should consider the order of disclosure of information on such specific accounting entities in various interpretations of financial statements.

At present the accounting experts point out many theories of financial statements, however the main (classical) of them are static and dynamic ones. Selection of these two theories is related to different interests of accounting users.

H. Nicklish is reputed to be the author of the static theory.

The static business accounting represents the accounting, the main objective of which is acknowledgment of that does the sum of funds received from assets sale of the enterprise allow settling credit indebtedness. The static accounting is oriented to the creditors. Therefrom the most significant form of financial statements is an accounting balance-sheet, the main purpose of drawing up of which is a value determination of net property of the economic entity as it enables to determine ability of an organization to acquit their debts.

The «Futurists», the defenders of this theory defined assets as the property and funds, and there is no property in case of deferred expenses, as it is referred to withdrawn resources (expenses are present and subjects are absent). «The withdrawn resources – intelligible category cognized by mind but missing in reality » [11, p. 431]. This is precisely why the article «Deferred expenses» is a foreign element in the static balance, a «hole» as was fairly noted by professor Ya.V. Sokolov [11, p. 464].

The german scientist Eugen Schmalenbach (1873-1955) is the author of the dynamic theory of financial statements.

Dynamic business accounting is an accounting, the main purpose of which is performance measurement (continuous or through close time periods) of economic activity of the enterprise. As noted above, the static business accounting is oriented to creditors and dynamic accounting is oriented to proprietors of enterprises and its administration. At first instance the management of an enterprise is interested in profit amount earned by it. Therefrom the «historians», the defenders of this theory make the corner-stone an estimation of the financial result of an enterprise and the profit and loss account rather than determination of the value of its net property. The

balance for them balance is no more than description of balance of the accounts which are transferred to the next period. For the “historians” the accrual basis and conformity of profits and expenses at the place and by time is top-priority; that is why the category of deferred expenses assumes fundamental importance in the dynamic theory of reporting particularly.

Within the frame of the dynamic theory of balance the asset is not interpreted as a set of funds but as expenses transferred to the expenditures, and liability – as profits that should become values.

Thus, E. Schmalenbach separated five sections in the assets side of the balance sheet according to a phase of capital circularization:

- 1) expenses but not expenditures yet (purchased permanent assets without accrued payments, received materials, not written-off in progress, the deferred expenses are incurred but they have not become the expenses of this reporting period yet);
- 2) expenses, but not receipt of funds yet, - this is a debit indebtedness (the organization released values, rendered services but money for them has not been received yet);
- 3) values which will become expenditures, - it is unfinished production;
- 4) values which will become incoming, - it is a final product;
- 5) money – the central section of the balance from which the circularization of capital starts with and ends.

On the liabilities side the circularization of capital is also presented in five phases:

- 1) expenses but not expenditures yet – it is indebtedness for received values and services (for example, accrued salary, accepted invoices for heating etc.);
- 2) revenue but not expenses yet, - it is merchandise creditors, received loans etc.;
- 3) expenses which will become the values – these are reserves (for example, accumulated amortization owing to which the permanent assets will be bought);
- 4) returns which are not yet the incoming – these are received prepayments, target financing, received rent prepayments etc.;
- 5) the capital is the second most important account after cash account, exactly it admits investment movements in organizations [1, p. 15-16].

It is evident that capitalizable costs are transferred one way or another in all five groups of the asset, in other words the whole asset apart from monetary funds is considered in a general sense as deferred expenses and deferred revenues in the dynamic theory – as revenues which are not incomings yet.

Summarizing it may be said that the «capitalization into deferred expenses» is a «hole» in the static balance and to the contrary if we proceed from dynamic interpretation of the balance then it is the asset of full value invested into the firm against future income» [11, p. 464]. On the basis of the static conception the deferred expenses are subject to exclusion from the asset. On the basis of the dynamic conception of accounting, the information on deferred expenses should be necessarily disclosed in the balance.

At present in Ukraine the form and methodology of the drawing up of an accounting balance-sheet by the economic entities are determined by the Provision (standard) (Provision (Standard) of business accounting) 2 «Balance» [5]. According

to (Provision (Standard) of business accounting) 2 information on the enterprise expenditures that occurred during the previous reporting periods but belong to the following reporting periods, should be disclosed in a separate section of the asset – section III «Deferred expenses» (column 270).

However, the expenses that are subject to distribution during the next 12 months and the expenses that will be subject to distribution during the period over the next 12 months can be a part of such expenses.

The Ukrainian researcher Y.G. Melnyk also points to this circumstance [3]. She proposes to name a part of the deferred expenses designed for distribution during the next 12 months the short-term expenses and that part of the deferred expenses that remains and is planned for disposition over 12 month period – long-term expenses.

Division of accounting objects for a period of exploitation (for assets) and repayment (for obligation) is key in business accounting. Therefore we consider that ignoring of the classification of deferred expenses by time, only writing-off (and not exploitation or discharge) can not be admitted. However, we consider the names of the deferred expenses proposed by Ye.G. Melnyk are not completely accurate and propose the following:

- to name a part of deferred expenses assigned for distribution during the next 12 months not the short-term expenses but the expenses capitalized into current assets;
- to name a part of deferred expenses planned for distribution for a period over 12 months the expenses capitalized into noncurrent assets.

We think that the term «capitalization» discloses the content of the category of the deferred expenses more precisely, as capitalization is representation of the enterprises expenses as assets.

Further, let's us consider the approaches to determination of a place of deferred expenses in the balances of CIS countries (table. 1).

**Table 1 – Approaches to disclosure of information on the deferred expenses in balance-sheets in CIS countries [5, 6, 7, 8, 9]**

Country	Representation of deferred expenses on the balance:		
	as a separate section in the asset	as a part of noncurrent and current assets	on the liabilities side
1. Ukraine	+		
2. The Russian Federation		+	
3. The Republic of Belarus			+
4. The Republic of Kazakhstan		+	
5. The Republic of Uzbekistan		+	
Total:	1	3	1
In % to total number	20,00	60,00	20,00

There are three approaches to representation of deferred expenses in the balance structure in the world practice: as a separate section in the assets side of the balance sheet (20% of the examined countries), as a part of current and noncurrent assets depending on a period of their writing-off (60% countries) and on the liabilities side (20% countries).

In the first and in the second cases there will take place the active capitalization of expenses and in the third one – the passive capitalization.

It should be noted that in Russia till 01.01.2011 the information on the deferred expenses was disclosed as a part of current assets, specifically as a part of reserves (in a column 210). From 2011 the Ministry of Finance of the Russian Federation changed the forms of financial reporting and in general got a column the «Deferred expenses».

Considering the balance structure built in accordance with the rules of the International Accounting Standard (IAS) 1 “Presentation of financial statements”[4], it should be stated that the standard itself does not contain a standard form, it just gives a minimal list of columns which should be obligatory presented in the enterprise balance. The deferred expenses are among such columns. According to IAS the deferred expenses are represented as a part of current and noncurrent assets depending on periods of their writing-off.

As in recent decades in the economy of the world countries and national accounting systems the integration and harmonized processes take place, it is no wonder that the deferred expenses are presented according to the approach of IAS in most of the countries investigated by us (60%).

The Russian scientist V.M.Saprykin thinks that the deferred expenses can be disclosed in the assets side of the balance sheet as well on the liabilities side of the balance [10]. At that the deferred expenses that should be disclosed on the liabilities side are assurance (reserves) of the following expenses and payments for him.

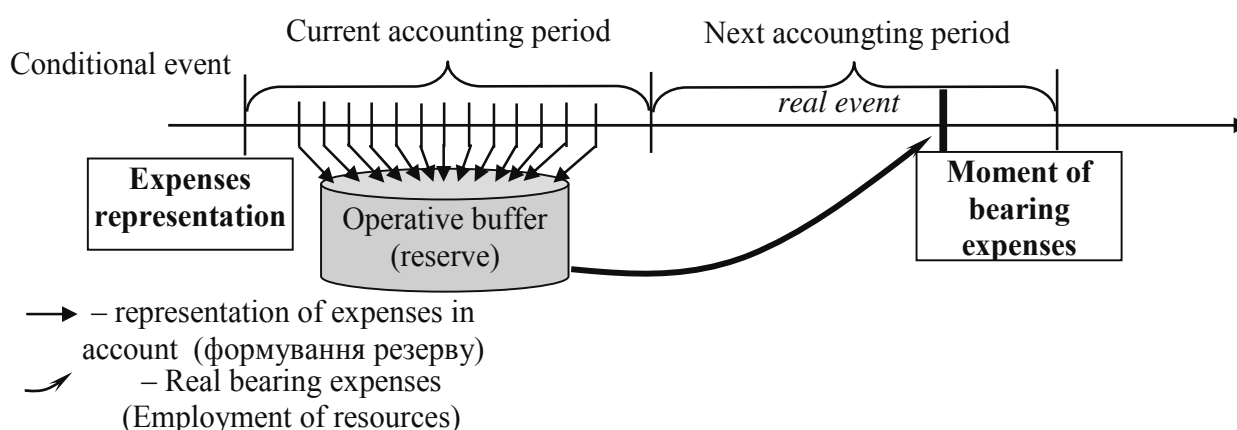
Let's analyze such point of view comparing the deferred expenses and assurance of future expenses and payments (table. 2).

**Table 2 – Comparison characteristics of deferred expenses and assurance of future expenses and payments**

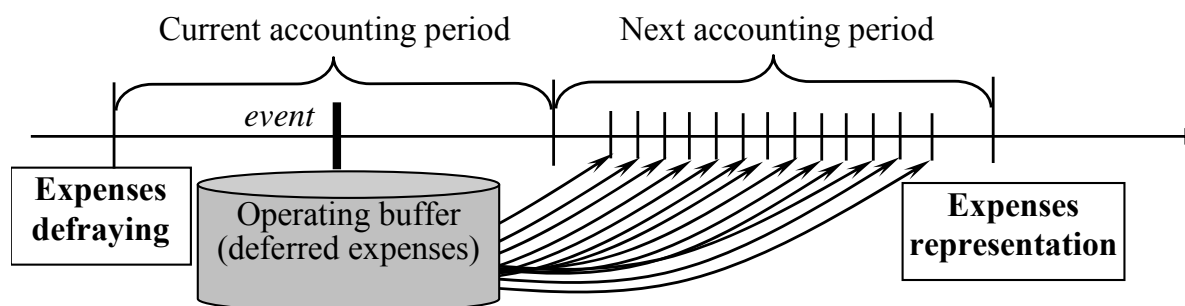
№	Comparison feature	Assurance of future expenses and payments	Deferred expenses
<u>Common features:</u>			
1.	Binding in time	Related to further period of activity of an enterprise	
2.	Type of account on which the examined objects are registered, as intended	accounted on financial- clearing accounts (or budget and clearing accounts) (39 «Deferred expenses» and 47 «Assurance of future expenses and payments»)	
<u>Distinctive features:</u>			
1.	Cause of recognition in accounting	Formed for defrayal of further operating expenses of the enterprise from fulfilment of obligations with indefinite sum or repayment time	The consequence of use of an accrual basis and conformity of incomings and expenses in business accounting
2.	Moment of actual expenses origin	Further accounting period	Current accounting period
3.	Presence of reserve character	Assurance is a reserve i.e. assurance represents the funds reserve which is formed for cover of obligation with indefinite sum or time as on the balance	Absence of a reserve character
4.	Type of account on which the examined objects are accounted concerning to balance	Passive account	Active account

So the deferred expenses are the expenses, the actual funds payment against which was made in this accounting period, but according to the accrual basis and conformity of incomings and expenses, they belong to the next months. Assurance of future expenses and payments is the expenses that are acknowledged in this

accounting period by the actual runoff of assets or increase of obligations against which they will be performed in the future accounting periods. For example, if to include exceeding of sum of actual expenses for leave allowance to the employee who has a leave in January, 2013, over the sum of reserved funds balance at the beginning of this month in the structure of deferred expenses (expenses of February - December, 2013), then from the economic point of view the employee has not gain a right to leave. In this case an enterprise advances an employee as though. Indeed an employee has already gained a right to a leave within 2012. The difference in mechanisms of assurances and deferred expenses can be seen demonstrably in the pictures 1 and 2 represented in the thesis work of M.O.Kozlova [2, pp. 58-59].



**Picture 1 – Mechanism of assurances of future expenses and payments as an operating buffer**



**Picture 2 – Mechanism of the deferred expenses as an operating buffer**

Therefore, in spite of a certain similarity, assurance of future expenses and payments is reverse to the deferred expenses in itself and they can not be equated. Hence the deferred expenses can not be presented in a passive balance.

Taking into account the essence of the deferred expenses as a means of the active capitalization, we consider that it is reasonably to give information on them as a part of current and noncurrent assets depending on writing-off periods. At that it is advisably to represent separate columns in each of the stated sections through specificity of such «assets». Thus, amount of the deferred expenses increases the sum of profit of the account period of an enterprise, though, in actual fact there are no real funds under such profit that is why, sometimes there are situations when officially an

enterprise is profitable and its paying capacity is low. In order to warn the user about possibility of such situation it is reasonably to represent information on the deferred expenses in the balance as a part of current and noncurrent assets in separate columns (table 3).

**Table 3 – Recommended balance structure in reference to representation of the deferred expenses**

Liability	Code of column	At the beginning of an accounting period	At the ene of an accounting period
I. Noncurrent assets			
...			
Deferred expenses, capitalized into noncurrent assets	065		
II. Current assets			
...			
Deferred expenses, capitalized into current assets	245		
...			
III. Non-current assets and replacement groups	275		
BALANCE	280		

 - additional columns

Advantages of use of the developed balance structure are following:

- it takes into account economic essence of the deferred expenses as a means of active capitalization of the enterprise expenses;
- It determines amount of noncurrent and current assets from the point of methodology more precisely and authentically and it will have a positive effect on complexity of analytical procedures execution.

**Conclusions.** In such a way, as a result of the carried out analysis of the essence and place of the deferred expenditures in the forms of balances of enterprises of Ukraine and other countries the following can be noted:

- the deferred expenses assume their fundamental importance in the terms of use of dynamic theory of financial statements, the focal point of which is the most accurate estimation of the result of the enterprise activity;
- there are three approaches to representation of the deferred expenses in a balance structure in the world practice: 1) as a separate section in the assets side of the balance sheet, 2) as a part of current and noncurrent assets, 3) on the liabilities side;
- we consider its reasonable to execute distribution of deferred expenses depending on periods of their writing-off for expenses capitalized into current



assets. Thus it is reasonable to give information on them in the accounting balance-sheet of the enterprise.

The perspectives of the following investigations in this direction is research of International Accounting Standards, International Financial Reporting Standards and National Provision (Standard) of business accounting in a part of acknowledgement, valuation and representation order of deferred expenses and income on the accounts for the purpose of recommendations development in reference to improvement of the acting Ukrainian methodology of their accounting on the basis implementation of advanced world experience.

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