STAGES UPON ELABORATING THE ACCOUNTING POLICY OF THE ESTABLISHMENT

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ABSTRACT
Accounting policy is important for any enterprise, since it is pledged specific rules which apply in preparing and presenting financial statements. Development of accounting policy is a complex and lengthy process. In this study, we set for purpose to systematize the stages through which the development of an accounting policy and the need for disclosure.

Key words: Accounting policy, stages of development, accounting standards, rules.

INTRODUCTION
The accounting policy is typical for states with market-regulated economy because it depends on the economic independence of the economic units. For many years, the accounting specialists have been searching for a solution of the problem how should the accounting policy be elaborated and what should its contents be. Up to the present moment each establishment may elaborate its own accounting policy by taking into consideration the national accounting legislation, other normative acts, the international accounting standards as well as the domestic normative acts that conform to the specificity of the carried out activity by the same.

With the present report we set as a goal to systematize the main stages, which the elaboration of an accounting policy of the establishments goes through.

STAGES IN THE DEVELOPMENT OF ACCOUNTING POLICIES
The accounting policy represents a certain combination of separate elements in which specific principles, initial positions, conventions, rules and practices have been set that will be used upon the current reporting of the activity and should be applied upon drawing up and submitting the financial reports. Due to these reasons the elaboration of the accounting policy represents a complex, long and profoundly considered process that goes through the following stages:

First stage: Preparatory – related to preliminary research and gathering information that must be taken into consideration upon choosing the rules of making the accounting policy. The following circumstances are due to be taken into consideration:

• whether the accounting policy is made for a newly established establishment or for an establishment that has been transformed i.e. went through one legal form to another. For example: from a Limited Liability Company to a Joint Stock Company. In the first case an accounting policy will be elaborated for the first time. While in the second the company has had an accounting policy that could be used as a basis and the same to be modified in conformity to the new circumstances.

• what is the structure of the establishment. From it depends: whether an accounting policy for a separate establishment will be elaborated for the mother company or for the separate establishments in the economic group.

• what is the subject of activities of the establishment. It determines: to which branch it belongs and what are its characteristics; what is the specificity of the carried out activity; the size and the economic power of the

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establishment, the volume of production and others.

- what is the legal status of the establishment: a Single Trader, a Public Establishment or a Business Company.
- what is the organization of the accountancy: centralized (one accounting department) or decentralized (by separate structural units, under the form of departments, sections, groups); is the accounting information processed manually or automatically, what is the organization of the accounting work, how the chronological and systematic (synthetic and analytical) reporting is carried out, how the individual plan of accounts is made, how the turnover of documents is organized and others.
- what is the nature of the production process/the provided services i.e. whether it is seasonal (tourist establishments, agricultural and others) or non-seasonal activity. According to I. Yovchev, “the non-seasonal establishments are characterized with evenness of loading of the production programme, the expenses made and the realized incomes. The personnel occupation, respectively –its incomes are in principle guaranteed all round the year. The receiving of loans and their paying off is uniformly distributed in time. The assets of the establishment are used and maintained all round the year. In seasonal establishments within one year, the assets are loaded in a different manner. Here it is typical the time displacement of making the expenses and realizing the incomes that determines the more frequent using of loan funds for operational needs and the uneven loading of the company with their paying off. There are demanded idle times, dismissal from work, replacing workers and employees.”(1) This determines the different parameters of the accounting policy.
- what is the organization of the production. There must be analyzed: how many main activities the establishment has (one or more); is there any subsidiary activities; what are these activities by type; what is the organization of the production (by workshops or not); what is the organization of labour: collective (team) or individual and others. There should be taken into consideration that the main activity is a priority compared to all the remaining activities that are carried out in the establishment. According to E. Averkovich, “the differentiation of the main from the usual activity is significant upon elaborating relevant models of accounting policy and its constituent elements.”(2)

- what is the phase of the life cycle in which the establishment is: depression, crisis, liveliness, upsurge. This determines the accounting policy.
- what are the active normative prescriptions as: National and International Accounting Standards, Accountancy Act, VAT Act, Corporative Income Levy Act and others.
- what is the environment which the establishment is functioning in and what are the conditions for stimulating the business on behalf of the state. It is important what phase the economy of the state is in, because this reflects on: the development of the market interrelations with other states; opportunities for the establishment to be financed on behalf of the state; are there programmes (projects) for promoting a certain sector and others.

According to I. Dushanov it is preferable to study the accounting policy of the competitors, including these of the same type and similar establishments from EU states, because they also apply International Accounting Standards. Here this means not to “copy” the accounting policy of the competitors but “rather to carefully study their policy and on this basis to accept an appropriate model for elaboration of accounting policy of the establishment. Here also is in force the rule for distinguishing the specificity of the relevant state and the active legal frame in which the economic activity is normatively regulated and from here the specific organization of the accounting activity.” (3) Particularly important is the foreign experience upon elaborating an accounting policy of an establishment that is a monopolist in its field (for example: nuclear power station for producing electricity). In this case it will stake on specific rules of reporting, submitting and publishing the accounting information.

In her study A. Tarca (4) points out that upon elaborating the accounting policy, the establishment must conform to: the national accounting requirements, the requirements of the stock exchange, the competitive forces on the market, some clarifications for choosing the company accounting policy and the effect of the pressure of the harmonization on choosing accounting policy. According to Watts and Zimmerman, who she cites, choosing the accounting policy by US managers depends on three aspects:
1) bonus-plan – the manager will choose a policy for increasing or reducing the company
incomes in conformity to the maximization of their wealth from the point of view of their plans for bonus.

2) debt against property – the manager may choose a policy for reducing the limitations related to taking loans, for examples through recognizing incomes of future periods for the current period.

3) political price – the management of major companies may choose a policy that will reduce the incomes for the current period in order to avoid regulatory interference.

The standards contain opportunities for making a choice that affords the management to determine incomes through which to reduce/increase the corporative incomes in conformity to the chased by them goals. Considering that the standards afford choosing policies, there can be expected the use of different alternatives on behalf of the manager upon choosing appropriate policies.

As the accounting policy is elaborated by the head accountant it is important to establish: is the accounting personnel qualified enough; do the establishment have many years of experience; is it well familiar with the organization and the technologic characteristics of the establishment; the active normative organization in order to make an effective accounting policy. If qualified personnel is missing (or the same consists of only a head accountant only), a consultant may be sought or a specialized accounting establishment that will assist upon its elaboration. It is preferable to hold debates between the specialists from different fields (accountants, financier, jurists and others) in order to take into consideration all factors and their impact on the accounting policy.

Second stage: Formulating the goals and the possible problems upon elaborating the accounting policy. Under the general conditions of the accounting policy there are defined the goals that are sought with its elaboration and the necessity of it. A major goal of every accounting policy is to present the information in the Annual Financial Report authentically. At the same time through it the company management may realize short term (in operative plan) and long term goals. For example: choosing a method of assessing the consumption of the stock-material reserves and making an adequate for the establishment amortization policy, realization of innovative projects and innovations and others.

Upon elaborating the accounting policy the following major problems may arise: S. Kierzek points out that „a significant methodical and practical problem for every establishment is how will the management elaborate an apply accounting policy when there are no specific rules that refer to particular transactions and events.”(5) Here it means that for specific cases (for a certain class of operation or balance items) the accounting standards do not regulate a relevant approach of action. In such a situation it is counted on the professional judgement of the management. There may taken into consideration the final resolutions of other bodies, determining the standards that use similar conceptual frame of elaboration of the accounting standards; other accountancy literature and accepted sector practices to the extend to which they do not contradict to the General Provisions to International Accounting Standards (6).

Schipper has reached to the conclusion that it is „necessary for the different companies to apply the same accounting policies for identical or similar transactions and events in order to achieve comparability.”(7) This is hard to achieve because in the accounting standards there is an opportunity to choose between different alternatives. Furthermore each state applies its own accountancy, tax system, has its own standards and on this grounds some differences appear. They are due to the fact that the financial-accounting practices are different and therefore the accounting principles are construed and applied in different manner as well as the financial reports are submitted differently.

The accounting principles are not construed synonymously. Each state gives a different priority to the accounting principles. In this manner, the accounting policies of the establishments between the different states will be interpreted differently even if they are based on the International Accounting Standards. For example: in Germany, the German accounting standards tend to be extremely conservative and are highly detailed in terms of the manner of assessment and submitting the information from the establishments, as the principle of cautiousness is a priority for them. In France it is accepted to follow the rules of the principle for “truthful and fair presentation” as its
application is different from the one adopted in USA.

It is important to have common grounds upon the logical choice of accounting policy and in respect of its submitting between the different establishments, because as FASB stresses, the society is admittedly sceptical to the reliability of the financial report in particular when two establishments report in a different manner identical economic events.”(5)

G. Robert reaches the conclusion that it is necessary to have “a systematic manner of making an accounting policy that affords to those who made it to choose between alternatives on the grounds of the individual characteristics of the establishments. At the same time there is no such systematic manner that conforms even relatively slightly to the desired properties.” (8)

Noves (9) points out that problems in international aspect among the states that apply International Accounting Standards (that also reflect on the accounting policy) arise from: the different versions of the International Standards of Financial Reporting; the different translations of the same; errors in it, expressed opportunities; hidden opportunities; in the application of the assessments and the different acceptance of International Standards of Financial Reporting by the relevant national regulative bodies.

Also to the present moment, the so stated problems are not solved, but the states are trying to harmonize as far as it is possible the approaches related to the contents and the announcement of the accounting policy.

Third stage: Making an accounting policy – this is the most important stage related to elaborating the essential part of the accounting policy. It consists of selecting the elements that will be included in the accounting policy, their arrangement in a certain order and choosing approaches for accounting treatment of the reported subjects. The main aspects of this stage include:

➢ conformation to the accounting principles; the requirements determined in International Accounting Standards/National Accounting Standards, domestic normative acts of the establishment that reflect on the specificity of its activity.
➢ choosing a conception for maintaining the capital: financial or material. Upon drawing up the financial reports, the establishments adopt a certain conception for maintaining the self-owned capital. Pursuant to the financial conception upon assessing the assets both the historical price and the current value apply; the profit is only just the part from raising the price of the assets that exceed the raising of the general level of prices. It is implied in the active accounting legislation. According to the material conception for the assets the current value applies and the raising of the prices of the assets is not treated as a profit, but as recalculations for maintaining the capital.(10)

➢ Long term tangible and intangible assets. There should be determined: the conditions of recognition, the manner of determining the initial assessment, chosen value threshold for consistency, manner of recognition of subsequent expenses, method of amortization, remaining value of the asset, method of subsequent assessment. Of great significance is the chosen value threshold as it has an impact on the amount of the current expenses. Another essential moment is what is the chosen method of amortization. Practically most often the linear method is applied. The establishments however are interested to apply degressive methods as in this manner they will accumulate funds more quickly. There must not be underestimated the fact that between the amortization and the cost of the production made there is a direct ratio connection. Therefore if the expense for amortization is increased this will raise the sale price of the production made and this may reduce its demand.

➢ Financial instruments. There should be specified: what is the type, the conditions for initial recognition and assessment, the manner of subsequent assessment.

➢ Commercial and other takings. There should be specified: the conditions of recognition, how are assessed and submitted the Annual Financial Reports, conditions and manners for their depreciation.

➢ The stock-material reserves. There it is specified: how they will be classified and recognized, the manner of determining their initial and subsequent assessment, method of writing off, classification and elements of cost. Upon the consumption of the stock-material reserves there may be chosen between the following approaches: specifically determined value; first incoming – first outgoing value; averagely weighted value or last incoming – first outgoing value. Of great significance upon choosing is the speed of convertibility of the
stock-material reserves and the type of activity of the establishment (if it is a manufacturer or not). At the end of the reporting period according to the requirements of the principle of cautiousness, a depreciation of the available stock-material reserves is made.

- Type of the manufactured production/provided services and approaches for calculating the cost. It is important to determine what is the manufactured by the establishment production: a production for end consumption or a production with manufacturing purpose; type of production; is it material or immaterial (under the form of services); do the manufacturing consist of just one product/service or a number of products. In the accounting policy there should be pointed out the way and manner of calculating the cost of production unit that depends on: the type of production, its organization, the nature of the production and the adopted manner of analytical reporting of the expenses. The methods of calculating the cost of production unit that the establishment may choose from are: a direct method, a proportional method, a coefficient method, a summary method and a method of excluding the expenses. Practically the combined application of the mentioned methods is preferred.

- Reporting currency, manner of reporting the operations in foreign currency and reassessment. It is important to specify in what periods of time a reassessment of the available currency will be made and how will the arisen rate differences will be reported when the change of currency rate occurs between the date of the transaction and the date of payment.

- Recognizing the expenses and the incomes. Upon recognizing the incomes, there should be observed the principle of current finding in deficit as the type of the received incomes and the organization of their reporting depend on the activity of the establishment. It is important to determine: how it will be distributed, the fixed and the variable general production expenses; which expenses will be included in the cost of the manufactured production/provided services; how will be organized the distribution of the administrative expenses, sale related expenses and others.

- Commercial and other obligations. There should be specified: the conditions of recognition; the manner of their accounting reporting, are there any delayed obligations and found in deficit interests for delayed payments, how will the same be assessed and submitted in the Annual Financial Reports.

- The personnel and reporting the incomes of the personnel. Here must be defined: the types of incomes of the hired persons, how should the same be found in deficit and in what terms the labour remunerations will be paid, amount and type of leaves, indemnifications, maternity benefits, incomes after leaving the employment, incomes under the form of compensations etc.

- Manner of submitting the Annual Financial Reports. The establishment should conform to the requirements of the applied accounting standards in regards with the manner of submitting the Annual Financial Reports and the supplements to it.

- Errors and approaches for fixing them. It is important to specify: how will be fixed errors arisen during the current reporting period, which error will be considered as essential for the establishment and to determine an approach for fixing it.

- Indices for analysis of the financial state of the establishment. They should be announced in the accounting policy and are a subject of the analysis and assessment both on behalf of the internal users and the external ones.

Forth stage: Validating and testing the made practical-applied model of accounting policy. Each accounting policy should be confirmed by the management of the establishment as it is responsible in regards with the authenticity of the submitted information in the Annual Financial Reports. In order to establish whether the model of accounting policy that was made is “working”, the same should be tested. For this purpose it is necessary for the accounting policy to be applied consecutively, without being changed for a number of reporting periods. As a result of this there can be found out errors and to be chosen new methods in measuring the reporting subjects.

Fifth stage: Modification of the accounting policy. Such can be made only when this is required by law; a specific accounting standard; or when this leads to submitting the financial reports of reliable and appropriate information. Reporting the modifications is made under strictly determined methodology, regulated in the accounting standards depending on the type and the cause of accepting the relevant modification.
CONCLUSION
The accounting policy of each establishment should be announced mandatory at the end of the reporting period as a special supplement to the Annual Financial Reports. Despite announcing a relatively small part of the entire accounting policy the following is achieved (11): it assists the users and the financial analysts to interpret more easily the submitted in the Annual Financial Reports information; there may be established whether the establishment is applying the same methods consecutively or using new ones; it facilitates the prognostication; it reduces the time and the expenses for analysing the information. It is expected that the announcement of the accounting policy will be more useful when companies can chose only such accounting approach by which to submit a certain type of transaction.

REFERENCES