

The Fact of Economic Life as an Object of Accounting of an Economic Entity



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Abstract: *The analysis of the category "fact of economic life" in accordance with the legislation on accounting in the Russian Federation has been carried out, the elemental decomposition of this category has been carried out, each of the selected elements has been analyzed, and substantiating conclusions have been formulated. As a result of the work the author's definition of the fact of economic life has been formulated and proposed, which, according to the authors, most fully reflects the essence of the category "fact of economic life".*

Key words: *Accounting, primary accounting document, fact of economic life, accounting (financial) reporting, users of reporting*

I. INTRODUCTION

Issues related to the definition of economic life as an economic and legal category, with its place in the system of accounting relations and in the civil process, are of concern to methodologists who study accounting theory. In this article, the authors have made an attempt to answer some of the questions on the basis of the study, and also proposed the original author's formulation of the category of the fact of economic life.

II. METHODS.

Such methods as analysis method, grouping method, decomposition method, logical approach, system approach have been used in the article.

III. RESULTS.

For the purposes of this article, the object of research is the fact of economic life, which is, among other things, one of the key (from the point of view of importance) grounds for the reflection of transactions in the accounting. In accordance with Article 3 of the Federal Law of 06.12.2001 No. 402-Ф3 " On Accounting" [4] (hereinafter - the Federal Law No. 402-Ф3), the fact of economic life is understood as a transaction, event, operation,

which have or may have an impact on the financial position of an economic entity, the financial result of its activities and (or) cash flow. Therefore, the fact of economic life may also affect the decisions of users of financial statements.

A transaction should be understood as a term established by Article 153 of Part 1 of the Civil Code of the Russian Federation [1], namely, the actions of citizens and legal entities aimed at establishing, changing or terminating civil rights and obligations.

In the framework of Article 5 of Federal Law No. 402-Ф3 the facts of economic life are attributed to the objects of accounting. Here it should be noted that the legislator does not introduce an unambiguous concept of "accounting object" within the framework of the Federal Law № 402-Ф3, more specifically - the concept is absent in the law. Nevertheless, based on Clause 2 of Article 1 Federal Law No. 402-Ф3 and defining the category of "accounting", the legislator clearly emphasizes that accounting - is the formation of a documented systematized information about the objects (including the facts of economic life), provided for and in accordance with the requirements of the Federal Law No. 402-Ф3, and the compilation of accounting (financial) reporting on its basis. Thus, it is possible to draw an unambiguous conclusion that the object of accounting, including the fact of economic life, is described by the information which is formed, documented and systematized.

A legitimate question to ask is: what kind of information are we talking about here?

Responding to it, let's turn to article 9 of Federal Law № 402-Ф3, in accordance with clause 2 of which 7 details refer to the mandatory details of the primary accounting document:

- 1) name,
- 2) the date of preparation,
- 3) the name of the economic entity that drew up the document,
- 4) the content of the fact of economic life,
- 5) the amount of natural and (or) monetary measurement of the fact of economic life with indication of units of measurement,
- 6) name of the position of the person/persons who made/executed the transaction, the transaction and the person(s) responsible for its execution, or the position of the person/persons responsible for the execution of the completed event,
- 7) signatures of the persons specified in clause 6 with indication of their surnames and initials or other details necessary for identification of these persons.

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Let's pay attention to the fifth position: the legislator means that the primary accounting document should contain a natural and (or) monetary measurement of the fact of economic life, i.e. there is a reference to the variation (in other words - the optionality) of the "measurer" of the fact of economic life.

However, Article 12 of the Federal Law No. 402-Φ3, which states that accounting objects are subject to monetary measurement, introduces specifics into this situation.

Thus, the following conclusions can be drawn:

- 1) to the information on accounting objects may include "details" of the primary accounting document;
- 2) the legislator determined that there are mandatory details (clause 2 of Article 9 of the Federal Law № 402-Φ3) and all other (optional) details of the primary accounting document [4];
- 3) the primary accounting document may not contain a monetary measurement of the accounting object, but the monetary measurement of the object should be defined by other documents or sources of information.

In accordance with article 9 of Federal Law No. 402-Φ3, every fact of economic life is subject to registration as a primary registration document. At the same time, the legislator emphasizes that no documents are accepted for accounting, which have not been used to draw up facts of economic life, including those which are the basis of fictitious and sham transactions.

Developing this thesis, it is possible to come to ambiguous conclusions, for example, that the facts of economic life can be documented on transactions that are fictitious and sham.

At the same time, we note that the concept of fictitious and sham transactions is established in accordance with Article 170 of the State Code of the Russian Federation [1]. In particular, a fictitious transaction is understood to be a transaction made without intent to create legal consequences corresponding to it, and a sham transaction is a transaction that is made with the purpose of covering up another transaction, including a transaction on other terms.

Let's get back to determining the fact of economic life. In article 3 of Federal Law No. 402-Φ3 the fact of economic life is understood as a transaction, event, operation.

Thus, it would be logical to conclude that the legislator understands the facts of economic life to mean transactions, events, and operations in respect of which an economic entity has a certain confidence in their inconsistency with the criteria of fictitious nature and sham.

This definition is somewhat puzzling, since it defines the role of the controller in relation to the transaction for an economic entity, and, in the context of the definition of a primary accounting document, imposes on the economic entity an additional obligation to demonstrate to users of accounting (financial) statements the implementation of a control function on its part in terms of compliance of the facts of economic life to the criteria of fictitious nature and sham. This conclusion is confirmed by the provisions of Article 19 of Federal Law No. 402-Φ3, which states that the obligation of an economic entity is to organize and carry out internal control over the facts of economic life. But,

unfortunately, the legislator in the Federal Law № 402-Φ3 did not disclose the procedure of internal control.

In addition, in accordance with clause 3 of Article 9 of the Federal Law № 402-Φ3, the primary accounting document should be drawn up when committing a fact of economic life, and if this is not possible - immediately after its completion. In this case, the legislator determined that the fact of economic life has a time lag, i.e. the period of time during which the transaction/event/operation takes place, which has or may have an impact on the financial position of the economic entity.

We believe that it is interesting to define what is the end of the economic entity's business life from the point of view of internal control organization. From the point of view of the principle of priority of content over the form (clause 6 of the Russian Accounting Standards 1/2008) [6], even if the primary accounting document indicates any term of termination of the fact of economic life, it will not mean its actual termination, based on the essence and content of the fact.

In case of such a situation and relying again on Article 19, the economic entity will have to demonstrate to the interested user of the accounting (financial) statements the basis on which the decision was made that the fact of economic life is over.

Thus, the end of the economic life must be documented and documented.

In addition, it should be noted that within the framework of clause 3 of Article 9 of Federal Law No. 402-Φ3 the legislator has defined the following subjects:

- the person in charge of processing the fact of economic life,
- the person in charge of keeping accounting records.

Thus, within the framework of the Federal Law No. 402-Φ3 the relations on registration of the fact of economic life and their reflection in the accounting are singled out as a separate category of relations.

Special attention should be paid to the previous version of the law on accounting - Federal Law No. 129-Φ3 [5] (hereinafter - Federal Law No. 129-Φ3), according to which the category under study was not defined and it (i.e. the fact of economic life) was also not referred to the objects of accounting: it should be reminded that in accordance with clause 2 of Article 1 of the Federal Law No. 129-Φ3 property of organizations, their obligations and business operations performed by organizations in the course of their activities were referred to the objects of accounting.

Taking into account that the current norm of the law on accounting should be maintained by all economic entities (clause 3 of Article 6 of the Federal Law № 402-Φ3), and not only by organizations (as in the Federal Law № 129-Φ3), it is likely that the current edition introduces into the understanding of users of financial statements a broader concept of economic life. If we consider the objects of accounting contained in the Federal Law № 129-Φ3, the most appropriate, we believe, is the concept of "transactions".

This conclusion is also confirmed by the definitions: in accordance with clause 1 of Article 9 of the Federal Law № 129-Ф3, it was established that all business transactions conducted by the organization, must be documented by justifying documents (primary accounting documents), on the basis of which the accounting is conducted.

The current version (clause 1 of Article 9 of Federal Law No. 402-Ф3 Primary Accounting Documents) states that each fact of economic life is subject to registration with the primary accounting document.

The analogy is obvious. Why are these approaches to definitions and terminology so dynamic and significantly different? We believe that it may even have been possible to identify a legitimate question: from the point of view of users of information has not changed the understanding of the fact of economic life and whether it has not affected the adoption of management decisions on the basis of the compiled reports, based on another conceptual apparatus?

The answers to these questions are also obvious. The current version of the Law On Accounting (Federal Law No. 472-Ф3) is more clearly and specifically designed and more in line with international standards than the old one (Federal Law No. 129-Ф3). The term "fact of economic life" in its name already contains an element of completeness of the fulfilled obligation or action. In contrast to this term, the concept of "transaction" does not possess the property of completeness and certainty, and, in our opinion, did not fully allow to make a decision on the reflection or non-reflection in the accounting (financial) accounting of its result (in other words - the fact of the transaction).

On the other hand, the fact of execution refers to the mandatory norms of civil law, and at the time of entry into force of the new Federal Law No. 402-Ф3 and the invalidity of Federal Law No. 129-Ф3 there were no significant changes in the civil legislation of the Russian Federation. Most likely, the legislator made a thorough decision reflecting the actual requirements of reporting users, including business representatives.

Separately, it is necessary to focus on understanding the fact of economic life used in the norms of the tax legislation of the Russian Federation.

It is not a secret, but in accordance with the current legislation of the Russian Federation the concept of "fact of economic life" is not contained in the norms of the tax law. However, in accordance with clause 1 of Article 11 Institutions, Concepts and Terms Used in this Code of Part 1 of the Tax Code of the Russian Federation [2] - institutions, concepts and terms of civil, family and other branches of legislation of the Russian Federation, used in the Tax Code of the Russian Federation, are used in the sense in which they are used in these sectors of legislation, unless otherwise provided by the Tax Code. Therefore, for the purposes of application in the tax legislation of the Russian Federation the terminology used in the accounting legislation (Federal Law № 402-Ф3) is used.

The question will be asked logically, in what form and where will the "fact of economic life" be used within the framework of tax legislation?

Answering this question, it would also be logical to recall the tax accounting system, the obligation to maintain which is established by the legislator in Article 313 of Chapter 25

of Part 2 of the Tax Code [3]. It should be reminded that in accordance with Article 313 of the Tax Code of the Russian Federation, tax accounting is a system of generalization of information to determine the tax base for corporate income tax on the basis of these primary documents, grouped in accordance with the procedure provided for by the Tax Code of the Russian Federation.

At the same time, Article 313 of the Tax Code states that the confirmation of tax accounting data are as follows:

- 1) primary accounting documents (including accountant's certificate);
- 2) analytical registers of tax accounting;
- 3) calculation of tax base [3].

Taking into account that the calculation of the tax base and analytical registers are not the primary source of information on the taxpayers' (economic entity's) transactions and fully depend on the primary accounting documents, it is therefore necessary to determine, and as the primary accounting document is defined in the tax legislation of the Russian Federation.

The answer is simple - this term is not defined for the same reason: in accordance with clause 1 of Article 11 Institutions, Concepts and Terms Used in this Code of Part 1 of the Tax Code of the Russian Federation [2] - institutions, concepts and terms of civil, family and other branches of legislation of the Russian Federation, used in the Tax Code of the Russian Federation, are used in the sense in which they are used in these sectors of legislation, unless otherwise provided by the Tax Code. That is, in this situation, we are again forced to turn to the Federal Law № 402-Ф3.

At the same time, characterizing the "fact of economic life" as the object of study, but in the tax plane, we note that the article 38 of Part 1 of the Tax Code [2], given the key and very important concepts for understanding by taxpayers:

1) object of taxation - sale of goods (works, services), property, profit, income, expenses or other circumstances having a value, quantity or physical characteristic, with the presence of which the legislation on taxes and fees connects the taxpayer's obligation to pay the tax [2];

2) work - for tax purposes - is an activity the results of which are materially expressed and can be implemented to meet the needs of the organization and (or) individuals [2].

3) a service - for tax purposes - is an activity the results of which are not materially expressed, implemented and consumed in the process of implementation of these activities [2].

Taking into account the definition of "fact of economic life" given in clause 8 of Article 3 of Federal Law No. 402-Ф3, this definition for the purposes of tax legislation is more convenient and applicable for the calculation of taxes and fees, since the document fixing the fact of economic life will be the primary accounting document, which is also the basis for the reflection of data in the tax accounting.

In addition, attention should be paid to the definitions of "work" and "service". In the case of the definition of "work",

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everything is clear - here there is an expressed result, which can be compared in the form of a fact of economic life documented in the primary accounting document.

On the other hand, there is no such clarity about the tax "service", since, in our opinion, the service as a category assessed by its purchaser is very subjective for such assessment (by regulatory authorities) of its quality and compliance, for example, with contractual terms, is very inconvenient. Therefore, the obvious fact of providing a service as a fact of economic life can be argued very conditionally and only in terms of the degree of satisfaction of the needs of the consumer (customer) of the service.

IV. CONCLUSIONS.

In view of the above, we formulate the final definition of the fact of economic life as an object of accounting.

A fact of economic life is the result of the actions of persons aimed at establishing, changing or terminating civil rights and obligations of a legal event, which has or may have an impact on:

- the financial situation of an economic entity,
- the financial result of its activities (increase in economic benefits or decrease in liabilities), and (or)
- cash flow (inflow or outflow),
- decisions of users of accounting (financial) statements.

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