Aliaksandr Buhayeu

THEORY OF INCOME AND CAPITAL AND ITS APPLICATION IN PRACTICE: ACCOUNTING ASPECTS. US GAAP, IFRS & BELARUS ACCOUNTING INSTRUCTIONS

The scientific edition

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“You can not be a little pregnant”
Folk wisdom

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Preface

The book deals with the theoretical issues related to the formalization of the categories of income, profits, expenses, capital and net assets. Practical issues of using existing theories of profits and capital is seen through the prism of their application in the US GAAP, IFRS and acconting legislation of Belarus. This book was written at the Woodbury Business School of Utah Valley University (USA). Studies were carried out under the Fulbright Visiting Scholar Program. The book is intended for researchers and teachers, students of universities, auditors, accountants and economists.

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About the other

Aliaksandr Buhayeu (Александр Бугаев) is the professor of accounting at Vitebsk State Technological University (Republic of Belarus). He earned his doctorate in accounting and is professionaly qualified as a certified auditor. In addition to his work at Vitebsk State Technological University he activly audited corporations in Belarus as an independent auditor. He is a member of professional accounting bodies in European countries and the US. Professor Buhayeu has more then 500 articles on accounting, taxation, IFRS, tax planning in leading academic and practical oriented journals in Belarus. In 2000 he was recognized (according to «Belarus Business Newspaper» ranking) as the most popular writer on accounting topics in Belarus. In 2012 he was named a Fulbright Scholar by the U.S. State Department and was made his reseach at the Utah Valley University (Orem) in the USA. This is his 24 (twenty fourth) book and the first book in English.

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Introduction

The term of profit (or income) has paid only secondary attention in accounting and economic literature both in Belarus and in the former Soviet Union. In part, this was done in the Soviet Union to justify the collapse of capitalism and imperialism, and in the post-Soviet era - as the goal of the better understanding operation of enterprises in the Belarus national economy.

But profit is one of the least studied concepts as an economic category in Belarus. Evidence of this is the absence of any defenitive concept of profit (most of the authors and the accounting normative legal acts of the Republic of Belarus indicate only methods of calculating profits). In addition, there is uncertainty at present in Belarus concepts such as “profit remaining at the disposal of the company”, “net income”, and various “funds generated through profits,” (Ladutko, Borisevsky, Drobyshevsky, 2011, p.374), etc.

The inclusion in the economic literature in Belarus of various categories in the economic lexicon of developed countries, including “Income,” “capital,” “working capital,” “equity” and others, has confused the research on profit.

Therefore, in this paper, the author made an attempt when studying the theoretical foundations of the concepts of income and capital in US GAAP (the United States Generally Acceptied Accounting Principles) and IFRS (International Financial Reporting Standards) to determine the relevance and modernity of the existing approaches to profit and capital in Belarus.

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9 The thing that hath been, it *is that* which shall be;
And that which is done *is* that which shall be done:
And *there is* no anew *thing* under the sun.
10 Is there *any* thing whereof it may be said?
See, this is new?
It hath been already of old time,
Which was before us.

Ecclesiastes 1:9

1. Economic aspects of profit

“And what is the profit?”
Question to the student in the exam on accounting.
And not only to the student.

Review of Belarus and Russian approaches to profit.

There is no doubt that any system of accounting should be based on a concept or doctrine of accounting and financial reporting. This concept is the basis for the development of the methodology of accounting and financial statements. The conceptual framework is a holistic system of concepts that are derived from financial reporting purposes.

In addition, the concept typically defines the limits of financial statements, the composition and the types of transactions, and other events and circumstances to be presented in the financial statements. The concept also reveals the conditions for their recognition and registration and the procedure for their compilation in financial statements.

Thus, the concept establishes the regulations (concepts) that are the basis of the accounting and financial reporting of the organization in any country. Such a concept should provide a system of formal definitions of revenue, equity, income and

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expenses in relation to the subject of this study, and to determine the requirements for building a harmonious and coherent system of financial reporting. Examples of these concepts are the Framework for the Preparation and Presentation of Financial Statements (the Framework) IFRS and Statement of Financial Accounting Concepts - SFAC (USA).

In Belarus, such concept has not been developed so far. Accounting theory in Belarus is only a more or less consistent description of the technique of accounting, without any proof of the possible versions of the classification, evaluation, and methods of depreciation or write-off of assets and liabilities of the organization, not to mention the rationale for the composition, content, and presentation of financial statements.

In the absence of such a concept it is difficult and even impossible to build a complete system of accounting and financial reporting that reflects the model of the financial position of the organization on the reporting date. There is only one law on accounting and reporting in Belarus, that is defines of the basic concepts of accounting and reporting. But that law does not reveal their (definitions) essence. But it is not enough. It is also insufficient only for the instructions of the Ministry of Finance of Belarus on verious aspects of accounting, which do not contain clear logical connections between the terms of accounting and financial reporting, and do not clearly define the purpose of such reporting.

So, in the economic literature circulating in Belarus, the situation reflects several concepts of profit, having clearly non-Belarusian origins. But there are no finished concepts, such as Statement of Financial Accounting Concepts - SFAC (USA), described in all its detail in Belarus accounting literature.

There is no doubt that the absence of at least some concept of profit in the country is associated with the attitude towards profit on the part of the academic community and the Belarus authorities. Thus, the main indicator of economic efficiency in Belarus is GDP growth, but not profit. This opinion has been expressed in the last ten years and was confirmed by the

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director of the Institute of Economics of National Academy of Science (Belarus), Academician Nikitenko at a recent scientific conference in Minsk on September 2012 (http://naviny.by/pda/material/?type=articles&id=133532). He made a proposal to Belarus scientists to compile a "unique experience of the Belarusian economic model" to the level of a theory, which will then be used to train local economists.

According to Nikitenko, the result of such theoretical framework will update many economic concepts, and that is likely to change their traditional meanings. According to Nikitenko, our economic experience gives many of reason not to consider income as the primary indicator of economic performance because the Belarusian economy is showing miracles of efficiency that are not being profitable.

It was Koltunov, Deputy Chairman of the Standing Committee of the Parliament of Belarus on economic policy, who told the Belarus public (October 2012), as, in the opinion of the Belarusian authorities should look like a real investor (which they will not take away the property). "This investor is not interested in buying the company to make a profit, and put money into the money-box. His goals are the development, and modernization of production," said Koltunov. (www.belaruspartisan.org/economic/222055/).

In Belarus literature, the dominant thought up to the present time is the Marxist theory of profit as the legacy of the recent communist past. According to Marx's theory of exploitation, living labour at an adequate level of productiveness is able to create and keep more value than it costs the employer to acquire; which is exactly the economic motive why the employer buys it, i.e. to preserve and increase the value of the capital at his disposal. Thus, the surplus-labour is *unpaid* labour assumed by employers in the configuration of work-time and output goods, on the ground that employers own and equip the means of production (ie fixed assets) worked with. The economical function of labour is only to keep their (ie the means of production) value, add value to them, and transfer value.

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So, Marx in his theory underscore that human labor is the only source of net new economic value, but it is also necessary for the preservation and transfer of economic value (maintenance and redistribution of capital assets). Asset revaluations according to this labour conception only *redistribute* demands to product-value that have already been made previously.

Total surplus value in an economy (Marx refers to the *mass* or volume of surplus-value) is basically equal to the ammount of net distributed and undistributed income.

So, the Marxist conception sees income as a converted form of surplus value, as the unpaid labor of workers in the area of material production, appropriated by the capitalists. And this converted form of surplus value is due to the fact that the profit is not only the outcome of the unpaid labor of workers, but the result of the entire invested capital. According to Marxist theory, the profit of a capitalist society is the production target. At the same time the profit is the motive of economic growth and the engine of technological progress. Because the surplus-labour is *unpaid* labour appropriated by capitalists-employers in the form of work-time and outputs, thus the social justice requires the involvement of employees in the distribution of profits. And this idea came to a fertile ground for further scientific study and development in the former Soviet Union, and it was raised in the form of the following approaches to profit in Belarus and Russia.

In a centrally planned and directed economy (what we have now in Belarus), profit is not the ultimate goal and the motive of production. Profit is only one of indicators of measuring the efficiency of production in conditions, where state ownership is dominant. In essence, it is a form of net income and it is quantitatively measured as the difference between the revenues (income) from sales and the expenses. This approach has retained relevance in the economic literature of Belarus till the present time in the research works of the representatives of the old Soviet school of accounting.

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So Strazhev, Bogdanovskaya, Migun, Vinogorov, Rusak, Shartuh (2010, p.114) stated that profit "is a realized portion of the net income created by surplus labor. "

Nehorosheva, Antonova, Zaytseva (2009, p.261) define profit as " the net income created in the sphere of material production in the business".

Compare the above definitions that arrived in Belarus the early 21th century when some definitions arrived mid-20th century in the former Soviet Union:

Kostyuk (1971 p.108) states that: «profit is the part of the net income of socialist enterprises and organizations. " "Net income is part of the national income, that is equal to the value of the surplus product created by the labor for the society in material production" / ibid, p.154 /;

Makarov (1983, p.49): "Profit is a part of society's net income that is obtained in the enterprise".

Isn't it true, that the definitions are almost identical to each other? But you must agree with me that it is unlikely that any investor would invest his money in the organization only on the grounds that he directly or indirectly is involved in the creation of society's net income. After all, he is not interested directly in the high-level idea of the national economy, because his own selfish interest is in the form of dividends.

We can not see from the above definitions of the profit any particular investor's interest in making a profit. By the way, this approach to the development of certain economic ideas in the first place with the ideological point of view on the state level and with the lack of details of such ideas at the enterprise level was typical in Belarus in the 2nd half of 20th century. Income is part of the net income of the society, it sounds nice, does not it? Especially for people who have never be owned a business, and only have been employees, but who want to participate in the profits without making any investments.

A number of Belarusian authors are moving away from such a disclosure of profit in general. They only give a formula to calculate profit for the purposes of application in accounting or

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in economic analysis of bisuness activity. Income is defined as the sum of the financial results from the sale of goods (works, services), fixed assets, tangible assets, intangible assets and other assets and income (loss), as derived from non-sales operations in any combination. For example, with the division of the total amount of profit into profit from the activities (or basic activity), plus non-operating (the difference between the non-operating income and expenses). This is characteristic of the approach of Ermolovich, Siuchyk, Pusher, Schitnikovoy (2008, p.145), Kravchenko (2009, p.234) , Ladutko, Borisevsky, Drobyshevsky (2011, p.369) etc. You see, it is not so much work for these authors to include the contents of the relevant instructions of the Ministry of Finance of Belarus on accounting income in a book on accounting.

A number of Belarusian writers borrowed approaches to determining the profits from Russian authors (take into account that in the Russian authors determining profits one can find the influence of IFRS and US GAAP). So Levkovich and Burtseva (2005, p.640) gave the following definition: "The financial result reflects the change of equity for a given period as a result of business activity."

And almost similar definition is given by Russian authors Bezrukih, Ivashkevich, Kondrakov etc. (2009, p.461), only five years earlier: "The financial result is the increase (or decrease) in the equity of organization, as a result of economic activity for the period." Thus, this is a more appropriate for the enterprise definition of the profits category.

Medvedev (Russia) (2001, p.442) gives the following definition: "a profit means a capital gain. Losses means loss of capital." This definition in some aspects was borrowed from Western income and equity concepts, and it does not explain what is the relation of grip profit to the equity of organization (the owner is interested in dividends, but what about equity?).

There is only one comment from the author of the study in relation to the above definitions of profit. The use of income definition from IFRS or US GAAP without reference to the

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concepts of capital maintenance is counterproductive. Since in this case there is one question for the unsophisticated reader: what comes first - the profits or capital? What is the cause and effect in this case - the income or capital?

It is the retained earnings that are part of the equity of both Belarusian and Russian organizations, and not vice versa in the the content of section 3 "equity" of the annual reporting balance sheet of organizations in Belarus (Instruction of the Ministry of Finance of the Republic of Belarus, October 31, 2011 № 111) and in Section 3 of "Equity and reserves" in the balance sheet of annual report of the Russian Federation for the year ended on december, 31, 2011 (Order of the Ministry of Finance from 22.07.2003 № 67n). Consequently, if the profit is part of the equity, there is no doubt that increase in earnings result in the growth in equty, and vice versa.

Author of this study decided to bring the point of view of the Belarusian and Russian authors (based only on the Belarusian and Russian editions). So, in modern Western neoclassical economic theory, as measured by estimations of Belarusian authors, there is no single point of view on the nature of profit. Typically, western researchers, as indicated by Loban (2002, p.126) usually identify the risky, economic and functional theory of profit.

A number of Western economists, in her opinion, associate a profit with the ability to manipulate the monopoly price in their favor. Others consider profit as a reward for business or as a compensation for the uncertainty and risks of business (it turns out, and this happens with the capitalist) (2002, p.126).

In addition, there is a point of view that capital is involved in the production process and provides the same service as the labor. So the capital is geting its share of the social product that is equal to the value of the marginal product, created by capital, and so it is getting profits.

Proponents of the functional theories consider profits as a reward for the implementation of innovation and for the economic services to the society and the state.

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In accordance to Loban (2002, p.126) the main forms of income are economic and accounting profit. An accounting profit is part of the entity's revenue that remains from total revenues after recovery of external costs, i.e. payments for resources suppliers. In this approach they take into account only the explicit costs and they ignor the internal (hidden) costs. Economic, or net income, is part of the entity's income remaining after deducting all expenses (internal and external, including a normal profit for the entrepreneur) from the total income.

The most common approach to the definition of income, as indicated by Sokolov (2003, p.441) was originally set by J. M.Keyns (1883-1946), who stated that capital is, in fact, the asset, and the capital is brining benefits in excess of its original cost in the period of its existence. This gain is the profit. From here grow the "legs" of all of the above definitions of profit of a number of Belarusian and Russian authors.

According to the Russian scientist Sokolov (2003, p.442), there are three possible interpretations of the financial result (profit).

The most obvious (accounting, static) definition of income: profit is an increase of the equity of the company for the reporting period. (Accordingly loss is defined as a decrease.)

Dynamic determination of accounting profit: profit is the difference between revenues and expenditures of the company (Sokolov, 2003, p.443).

The third definition of profit is accounting dynamically modified: profit is the increasement of asset valuation during the reporting period due to the changes of its profitability.

Perhaps, we will stop on here. We constantly come up against either the formula for the calculation of profit in its various variants at the entity level, or income at high levels such as the state or society in general, and with rare exception - at the level of the enterprise. Further consideration of other points of view will add almost nothing to the above.

Thus, economic theory in Belarus does not gives any formal definitions of the entity profit. It turns out, that profit is just a

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part of the net income of society. And economic theory does not explain the need for such a profit for a particular investor (owner, founder, etc., etc.).

Accounting, business analysists consider only a mechanism for calculating the profit of the entity (ie from which amount you need to subtract the concrete sum, and what amount you need to add to this amount to get the amount of profit). But what is the essence of the result of the mathematical calculations, is not disclosed.

There is another interesting side of the entity profit, namely, who has the right to use the profits and in what order?

On the one hand, a number of Belarusian authors (e.g.Levkovich, 2005, p.684-685) clearly indicate that "the general rule of profit uses by a commercial organization is the exclusive right of the owner to dispose of the profits remaining after the mandatory payments to the state budget, customs and so on.' This approach was influenced by Bezrukih, Ivashkevich, Kondrakov (2009, p.473), who made a similar point a little earlier.

On the other hand, the widely held view in the literature is an approach that after payment of taxes remaining profits (sometimes also called as the net profit) goes to the company (note - not to the owner of the entity to be disposed of, but namely to the enterprise to be managed by its management).

This is especially typical for Belarusian authors. Thus due to such an approach profit may be used for creating following funds (in modern language - reserves): consumption, accumulation, production development, social development, material incentives, other reserves and other funds in accordance with the constitutive documents. And only the rest of profit goes to the ownes in form of dividends.

This point of view is expressed, in particular, by Ladutko, Borisevsky, Drobyshevsky (2011, p.374). Similar approach was expressed by such Russian authors as Bezrukih, Ivashkevich, Kondrakov etc. (2009, p. 472-473). All of the above authors, as noted earlier, on the one hand recognize the right of the

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owner to receive profit, but on the other hand, the dividend is considered as the latest trend for receiving profit (after creating mentioned earlier funds).

I would like to draw the attention of the reader to another feature of the above mentioned Belarusian and Russian accountants' views: their understanding of funds and assets are synonymous concepts. The same view was expressed in the former USSR (eg, Makarov (1983, p.32). Profit is directed (as any assets) in these so-called funds (Makarov (1983, p.370).

Otherwise profit is distributed in these funds (Kostyuk (1971, p.145), as was the case during the former Soviet Union. That is, in this case we can talk about the redistribution of assets among different areas of use. In fact, the authors are considered income as one source of the entity's assets.

It should also be noted that the use of profits to pay dividends to the owners, according to the approach of a number of authors (for example, Ivashkevich, Ladutko et al.), may be only occur after using the profits to make mentioned above funds. Levkovich (2005, p.685) expresses a very interesting and original idea which can bring up some discussion on the problem of profit. Namely, even though the owner has the exclusive right to dispose of the profit, nevertheless retained earnings already manages by the staff. And the staff uses the retained earnings to make various consumption and savings funds.

It turns out that owners have only a one year limitation period to receive their dividends. If the owners will be a little too late, income does not belong to them, and their staff gets all the right of profit.

In addition, here are a few of Kostyuk thoughts. Thus, "national income is part of the annual gross national product, representing newly created value. The entire national income is divided into two parts: the accumulation fund (for the expansion of fixed and current assets, reserves) and the consumption fund (such funds as: consumption of workers in material production, the development of science, education

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and culture, social services, public administration and defense) "(1971, p.77).

So, from the point of view of Kostyuk, the national income consists of consumption and accumulation funds. The net income is part of the national income. The profit is the portion of net income. The profit of the enterprise as the share of national income also consists of consumption and accumulation funds. That's how high theory was landed with the level of the universe at the level of the enterprise in the communist era.

Thus, a particular feature of the theoretical propositions of company profits is their ideological and propaganda component: the profit is considered at the level of society as part of national income. The profit does not belong only to the owner, but to the rest of society, including Staff and employees. So the first part of the profits distributed to the employees and staff, then some of it goes to the owner on a residual basis (the basic practical principle of communism is everything away and divide). In this case, the authors do not explain what is relationship between the capital and the profit of organization.

Review of Western theories of profit.

The first thing, I would like to draw to the attention of the dear reader, is that the English words such as acquest, income, return, proceeds, profit, revenue, boot, earnings, gainings, interest, net proceeds, producer receipt - have the same translation into Russian namely income. Then why in the various translations into Russian are sounding such words as profit, revenue, gross profit, etc.?

It is very simply. We must have revenue benchmarks for the financial management of the company. And that is why western accountants when using for different levels of income use different English words. The Belarusian financial reporting allocates specific terms for the Belarusian accounting figures such as realization of goods, gross revenue, and profits from

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investments, net profit, etc. The above figures are the different types of income of the organization. So such accounting terms would be used in the developing concept of profit not as the realization of goods, but as sales revenue, not as total income, but as gross profit, and, not as pre-tax profit but as income before taxation, etc. Well, now we will turn to the terms of income and expenses.

Secondly, I would like to draw the attention of my respected reader to one interesting feature virtually all theories of profit: they are the product of economists, but not accountants. Even Luca Pacioli, the first to describe the principle of double entry, was a Franciscan monk, not an accountant. Sure, it's much better than in Belarus. In Belarus, the development of theoretical concepts of profits involved ideologically biased scientists. The result, as you have seen, is that all the theoretical arguments are the ideological basis of the right to profit not only to the owner, but to the staff and employees.

Different economists have put many theories of income forward. All these theories are very familiar to the Western reader, and virtually unknown in detail to the readers in Belarus. Therefore, a more detailed examination of the essence of theories of income will be presented in the Russian version of the book. In the proposed version of the book, we first focus our attention on theoretical approaches economists embodied in the theory and practice of accounting income. We simply list the most common in the economic theory in publications about profits, but first and foremost we describe in more detail the theory which was the basis for the modern concept of financial statements. Thus, in the literature one can find the following concept of profit: Dynamic Theory of Profits (Dynamic Theory of Profits is associated with the name of an American economist, J.B. Clark); Schumpeter's innovation theory; Uncertainty Theory of Profit (Knight); The Rent Theory of Profit (Walker); Risk Bearing Theory of Profit (Hawley); Marginal Productivity Theory of Profit (Champmon); Wages Theory of Profit, etc.

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The accounting nature of income. Thus, income (profit) is the primary economic category, which is a subject of detailed scientific research in economics and in accounting theory as well. Income determination is a central part of accounting theory.

The accountants have traditionally defined income as a surplus stemming from business activity, resulting from the cash-to-cash cycle of business performance and derived from the regularly matching of revenues from sales with relevant costs. So accountant describes income in terms of the business entity and its economic performance in a defined past period. Thus accounting income is that measured "after the event." The matching process is an essential part of the accounting determination function. It causes a collection of unallocated costs to be carried forward at the end of each defined reporting period. These costs represent the non-monetary assets of the entity, such as property, plant, equipment, as well as inventories. Such asset measurements, as well as the corresponding measurement of the entity's monetary capital, after subtraction of its liabilities, lead to the rise to its residual equity (i.e. accounting capital). The traditional accounting balance sheet is the accepted instrument for reporting these related historic determinations.

Thus accounting income (AI) is a measure, which results in a corresponding measure of capital (E). Undoubtedly, it can be described with the periodic movement in such capital, i.e.: $AI = E2 - E1$; where E2 is the residual equity at the end of the period, and E1 is the residual equity at the beginning of the period (on the assumption of no new capital or any payments or borrowing receipts, not any dividends, and of course a constant level of prices. If a dividend had been paid to the owners of the entity, we would then determine it as $D + (E2 - E1)$; where D is the dividend. This means that E2 would be calculated after the dividend payment, and so $E2 - E1$ would be the undistributed amount of AI for the reporting period.

Accounting income is thus a residual measure, and is conceived as a comparison of business accomplishment and

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effort in a past period. It is also a temporal measure, normally calculated in terms of matching revenue and expenditure transactions, although it can be analyzed as a temporal change in capital. It is also a predominantly historical measure of business activity, looking back in time and identifying and equating past efforts and performance.

At the same time there are significant differences in the approaches to measurement of income between the accountant's and economist's – the accountant measures income with capital as a residue, and the economist measuring capital with income as a residue. It a micro-economic sense, the accountant's concept of income is an entity one; whereas the economist's is intended as a personal one.

Practical problems related to the definition of income are most discussed by standard developers, and preparers and users of financial statements as well. Worldwide accounting standards, and - namely US GAAP and IFRS have been experiencing a big conceptual shift in recent years. The crucial factor underlying this change is the strict construction to fair value measurement, which importance within the FASB and IASB pronouncements is confidently growing. Modern financial reporting has been shifting towards fair value accounting, which has been replacing traditional historical cost model.

Because of recent evolution in the standard-setting process, fair value measurement has become pervasive in financial reporting and has resulted in unexampled shift in the contents, importance and utility of information about financial position and performance. The accounting understanding of economic phenomena and the way to present the economic course of an entity's life in financial statements is changing so enormously that some authors, e.g. Barlev (2003) or Hitz (2007), talk about change in the accounting model. However, the new model brings to light principal questions regarding financial reporting. Characteristics, nature and usefulness of income information are the most discussed topics again and again.

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The valuation of financial performance deciding depends on the capital maintenance concept to be in the employ in practice. The capital maintenance approach to determination of entity's income means that income is recognized after capital has been maintained or costs have been recovered. Belkaoui (2004, p. 483) describes four methods of capital maintenance grounded on SFAC 5.45-48 (FASB, 1984):

money maintenance when financial capital measured in money units is to be maintained;

general purchasing-power money maintenance when financial capital measured in units of the same purchasing power is to be maintained;

productive-capacity maintenance when physical capital measured in money units is to be maintained;

general purchasing-power productive-capacity maintenance when physical capital measured in units of the same purchasing power is to be maintained.

We note two directions in the income (or profit) theory. Concepts of capital, income (profit) and value create the integral part of both economic and accounting theories of income. Fisher (1906, 1930), Knight (1921), Hicks (1946) or Mises (1966) introduced the most important economic concepts of income (profit). In accounting theory, the most famous concepts of profit were developed by MacNeal (1939), Edwards and Bell (1961) or Chambers (1974). All of them elect income concepts grounded on capital maintenance. E.g. MacNeal (1979, p. 87) preferred the measurement of all accounting elements by economic value, Edwards and Bell (1973, p. 45 and fol.) suggested opportunity costs for determination of estimated realizable income and current costs for determination of business income or Chambers (1974, p. 92) who dealt with current cash equivalents. Every time when income and capital maintenance concepts are discussed at the conceptual level, a reference to Hicks is likely to be found.

It was Hicks who developed a generally accepted theory of economic income. He presented his concept of "welloffness"

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as the basis for a rough approximation of individual income. He characterized income as the maximum, which can be consumed by a person in a defined period without impairing his "welloffness" as it existed at the beginning of the period. "Welloffness" for purposes of accounting is equivalent to capital (or wealth). Hicks in such a way highlighted the importance of the concept of capital maintenance in income determination.

First of all, we will briefly describe Hicks' concept of income. But we will reveal some weaknesses in his theory for its application in financial reporting. Despite some problems, the economic concept of income can be used for accounting purposes in Belarus as well.

Hicks represents the matter and function of income under two types of economy – static and dynamic. There is not any problem with the determination of income in the static, i.e. non-growing economy. The sum of weekly proceeds is the income of the individual if she/he does not expect any change in economic conditions and if she/he waites for a constant flow of monetary proceeds in each further week. Nevertheless, what would be income for a week? Could we affirm that the income is equal to zero if the wages were paid out on a monthly basis? Of course not.

The problem is how to define the sum of income under such a situation.

"The purpose of income calculations in practical affairs is to give people an indication of the amount they can consume without impoverishing themselves" (Hicks, 1946, p. 172). Based on this thesis Hicks characterizes "a man's income as the maximum value which he can consume during a week, and still expect to be as well of at the end of period as he was at the beginning" (Hicks, 1946, p. 172).

If a man saves, he is projecting to be better of in the future than he is now. If a man

spends more than his income is, he is going to accentuate his well-being in the short time. Hicks declares that his definition of income fully correlated to the requirement so that the

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income is a guide for prudent management. „Remembering that the practical purpose of income is to serve as a guide or prudent conduct, I think it is fairly clear that this is what the central meaning (of income, of course. – A.B. note) must be." This assessment should be of interest from the accounting perspective.

In his book, Hicks discusses profit, comparing two basic types of income: ex ante and ex post, under three levels of fullness. With his respect to ex post income, he states, "Income No. 1 ex post equals … Consumption plus Capital accumulation." (Hicks, p. 178) and "Income No. I ex post is not a subjective affair, like other kinds of income; it is almost completely objective." (Hicks, pp. 178–179).

The core for a successful application of Hicks' theory in practice is the definition and the measurement of the well-being of the economic entity. According to Hicks, income can be determined as the difference of a man's wealth at the end and at the beginning of the period. The measurement of the income requires the measuring of the individual's wealth (capital). With reference to the basics of economic behaviour, Hicks states that the value of capital is the present value of expected cash inflows. Cash flows are discounted at the start and to the end of the period for which the income is measured. The difference is the income, i.e. the amount that an individual can consume during the period without impoverishing himself.

Very many economists and accounting theorists refer to the Hicks' idea of income. And we will focus on changes of formulation of income ex-ante and income ex-post for accounting aims offered by E. Edwards and P. Bell in the 60's of the 20th century.

Edwards and Bell (1973) begin their work with the Hicks' determination of income. They examine income to be an economic category which deals with the wealth of an individual regardless the source and characte of expected cash inflows. To calculate an income of business entities we have to define

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first the thinking that determines the well-offness. According to their point of view, the managers are the only authorities that can make a qualified assessment on the wealth of the entity. The wealth of the business entity is the present value of expected future net cash receipts stemming from the net assets of the entity based on the managers' anticipation. The income (or profit) is one of the tools to measuring the management's ability to choose the right future actions under the presence of uncertainty. Decision-making relates to the future and it is oriented on alternatives bringing the maximum or at least any profit. The profit as a goal of entrepreneurship is prospective and expected; otherwise, it would not be object of decision-making process. When selecting the best course of future actions, the management evaluates the expected results of those actions that will probably affect the position of the entity in the planning horizon. The planned profit for a particular period is the basic measure of the net effects of planned transactions and events for that period. Therefore, the management prepares the plans in which he specifies the quantity, prices and their changes for manufactured or hold assets, prices and changes in prices for hired production factors, amount of liabilities, etc.

The real life always differs from expectations and the evaluation of expectational errors enables the management to:

control the real course of business activities and to take measures to correct the unfavourable development, if possible,

constitute new anticipations, change the plan and to launch new procedures.

Each entity wants to hold such a structure of assets, liabilities and equity, which maximizes the expected profit. The management has to decide on volume, structure and financing of assets. A rationally acting management selects such a structure of assets (under their total given market value) bringing the most expedient cash inflow. The estimation of the amount of this cash inflow is subjective. Cash flows from the selected arrangement of the assets generate value to the firm. The inequality of subjective values of possible alternatives

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makes the management to prefer the variant with the maximum subjective value and maximum profit as well. The subjective value of the assets has to be higher than their market value; otherwise, it would be better to stop the business. Edwards and Bell call the difference between the subjective value of the assets and their market value by the term subjective goodwill.

The business plan contains a pattern of expected cash inflows that generates the subjective value of assets. The decision making process does not end when management selects the plan maximizing the subjective goodwill. The maximization is a continual process and managers have to react to the changing market condition. This is the basic function of management under the uncertainty of the entity's goal is to be a going concern. Regular profit estimation and analysis of the actual profit help to explain the deviation of the real course of actions and its

results from the expected situation.

The subjective value is a synonym for entity's well-offness from the management's point of view. It is the starting point for the calculation of expected subjective profit that is defined as "the amount that could be paid out as dividends in any period without impairing subjective value" (Edwards, 1973, p. 38). This profit is of subjective nature because it is derived from the subjective value of the assets, which is estimated by the managers based on their assessment regarding the future development.

We can affirm that the subjective profit:

is subjective in its essence,

enables to maintain the subjective value of the assets,

enables to forward subjective values into market values.

Edwards and Bell consider three concepts of income, which could be used for accounting purposes. The subjective profit is conceptually congruent with the income ex-ante introduced by J. Hicks.

US GAAP and IFRS require entities to prepare the financial statements free from any subjective judgment as much as

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possible. Financial reporting inform external users about the past events and transactions. Therefore, the traditional accounting practice refuse the application of income ex-ante (or expected subjective profit) which is a wholly anticipated category as a measure of the entity's performance for an accounting period. To investigate the utility and adaptability of the Hicks' idea of income, we have to draw our attention to income ex-post (or actual subjective profit) we could conclude that not only the expected subjective profit (income ex-ante) but also the actual subjective profit (income ex-post) are subjective in their nature. The subjective value is derived as the present value of expected future cash inflows. It is ex facte that as the expected and as well as the actual income, depends on the expectation of the effects of future transactions and events. The subjective hopes of the management are projected into the subjective values at the start and at the end of each period. The subjective value of net assets defined at the end of period depends upon the new expectations regarding the interest rates, prices, costs, etc. At the end of each period the original business plan is revised and the difference between the original and the new subjective value cannot serve as a measure for decision making regarding the placement of scarce resources by outer users.

Income ex-post is not applicable in financial reporting because it cannot be objectively measured. Income ex-post is not utilizable as a tool for the internal management of the entity. One of the main managers' tasks is to evaluate continually the real course of business activities of the entity and to measure it in order to correct eventually unfavorable results. The fulfillment of the plan of evaluation requires comparing forecasted and real profits. The determination of income ex-post for the necessity of comparison cannot dispense with the revision of all the factors involved in the original plan. The revision of the plan always depends on the subjective assessments of the managers. Therefore, the real course of the earnings process would not be compared with the original plan but with the revised plan.

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Of course this problem detains the possibility of using Hicks' income ex-post in the internal management or in the cost accounting. After summing up the foregoing statement, we can assert that Hicks' concept of income could not be used in financial reporting because:

As income ex-ante as well as income ex-post crucially depend on hopes of the managers who have to estimate the future growth and distribution of cash inflows, the level of the interest rate and the length of the interval for which the plan will be composed,

The choice of proper interest rate for discounting cash inflows is not unambiguous,

It is not clear how to deal with the movements of the discount rate; the importance of this issue is multiplied by the fact that interest rates have the biggest effect in sensitivity analyses,

A simple change in hopes would influence the sum as income ex-ante as well as income ex-post; regrettably the problem how to cope with these changes is still not determined – do the changes have an influence on the income ex-post only or do new hopes change initial value of the capital and income ex-ante, too? (i.e. can we consider the alters in hopes as income or are they capital value changes?),

The the present value grounded on profit of expected cash inflows is relatively easy to use for a given asset or group of analogous assets; accuracy and reliability of calculations reduce when taking in account the entity as a whole. The use of this income idea on a enterprise level could elicit the illusion that the final result of the calculation shows the value of the enterprise; a confinement which is not true in come cases,

Even if we succeed to overcome above-mentioned complexities, we still have to resolve the challenge regarding the interest rate for discounting cash inflows generated by all company's net assets jointly.

Contrary to the mentioned disadvantages, we cannot a priori view with regret Hicks' idea of income for accounting purposes. There is one important sphere where his idea is very

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useful. Income ex-ante (or expected subjective profit) is used in decision-making. Managers usually examine a wide range of choices for future economic activities. They act under the economic principles when choosing the best trade-off of future action. One of these principles is the amount of work used to maximize the income. In this context, the management tries to find and to select the trade-off that provides the maximum subjective goodwill.

In our opinion, there are two events when the Hicks' idea of income is or could be put to use in financial accounting. IAS 36 operates with recoverable amounts for testing the impairment of assets. The recoverable sum equals the higher value of the next of two:

The market price of the asset (or fair value of asset less estimated selling costs),

The value in use.

The formula for the computation of the value in use completely corresponds to income ex-ante for a given asset. Accordingly to IAS 36, the value in use must be calculated not only for a single asset but also for a group of assets (the so-called cash generating unit).

The strength of Hicks' idea of profit is not in the sphere of measuring the efficiency of the business activity, but in other very similar areas.

Let us not look at such a fact, that income is calculated as the difference between two volumes of capital. We are sure that Hicks' basic contribution to accounting consists in his emphasis on capital maintenance. The economic concept of profit is grounded on capital and changes in its value. The users of financial statements should be highly watchful of the erosion of capital concerns. This could risk the future existence of the entity and the future source of business income and future flow of dividends to be distributed to owners. Traditional accounting, which prefers measuring assets at their historical costs, prevents the users from evaluating "real" value of the capital, which is considerably influenced by changing market

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prices. This should take into account the introduction of an additional set of financial statements, which should be in line with Hicks' concept of income. This could facilitate users for cogent understanding the entity's well-offness while confronting economic uncertainty and continuously changing prices.

Capital maintenance.

The concept of capital maintenance is a vital part of income determination because of the need to implement in the income calculation a measure of the change in capital during the reporting period. Value is a necessary component in the calculation of capital to which the capital maintenance concept is then applied in income computation. Thus, both of them are necessary to income determination process, but no one of them cepritly can measure income. Two approaches to determining income are customarily discussed in the accounting literature: the transaction approach and the capital maintenance approach. Under the transaction approach, income is computed by analyzing the effects of revenue and expense transactions during a reporting period. Any change in the value of the entity that is not a result of a transaction is not reflected in the entity's net income. Income from continuing operations under current GAAP is based on the transaction approach. Under the capital maintenance approach, net income is calculated as the difference between the net assets (assets without liabilities) at the beginning of a period and net assets at the end of the period, excluding owners' contributions and distributions during the reporting period. The capital maintenance approach captures all changes in the value of the enterprise during a period, regardless of whether the change resulted from a transaction.

Accounting doctrine that a profit can be realized only after capital of the entity has either been restored to its primary level (called 'capital recovery') or is maintained at a predetermined

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level. It is necessary, therefore, to determine the value of capital before the amount of profit can be computed. Capital maintenance (paid from the capital funds budget) is the work performed using a systematic management process to plan and budget for known cyclical repair and replacement requirements that extend the life and retain the usable condition of facilities and systems. This includes what is well known as "deferred maintenance:' work that has been delayed on a planned or unplanned base to a future budget cycle or delayed until funds are available; when the work is performed the deferred maintenance backlog is reduced. The ideas of capital give birth to the following concepts of capital maintenance:

The financial capital maintenance concept is that the capital of a company is only maintained if the financial or monetary sum of its net assets at the end of a financial period is equal to or exceeds the financial or monetary sum of its net assets at the beginning of the period, excluding any distributions to, or contributions from, the owners.

The physical capital maintenance conception is that the physical capital is only maintained if the physical productive or operating capacity, or the funds or necessary resources to provide this capacity, is identical to or exceeds the physical productive capacity at the beginning of the reporting period, after excluding any distributions to, or contributions from, owners during the reporting period.

The idea of capital maintenance is related to how an enterprise defines the capital that it wants to maintain. It establishes the connection between the capital concepts and the income concepts because it provides the point of reference by which income is measured; it is a cause for distinguishing between an enterprise's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as income and therefore as a return on capital. Consequently, income is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from revenue. If expenses

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exceed revenue the residual sum is a net loss.

The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement. Selection of the basis under this concept is dependent on the type of financial capital that the enterprise is seeking to maintain. The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the enterprise. In general terms, an enterprise has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required maintaining the capital at the beginning of the period is income. Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, income represents the increase in nominal money capital over the period. So, growth in the prices of assets held over the period, customary referred to as holding gains, are, conceptually, profits. They may not be recognized as such until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in terms of constant purchasing power units, income represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as income. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity.

Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, income represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the enterprise are viewed as changes in the measurement of the physical productive capacity of the enterprise; hence, they are treated as capital maintenance adjustments that are part of equity and not as income. The selection of the measurement bases and concept of capital maintenance will determine the accounting model

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used in the preparation of the financial statements. Different accounting models exhibit different degrees of relevance and reliability and, as in other areas; management must seek a balance between relevance and reliability.

This is brief comment to this section. Here are some data of Belarus statistics. According to the National Statistics Committee of Belarus in the first half of 2012 there were 513 loss-making organizations, or 6% of the total. During the first half of 2011 there were 652 loss-making organizations, or 7.7%. The net loss of the unprofitable organizations for the first half of 2012 amounted to Br 2 trillion (or $250 millions), or 17.2% more than during the last year [http://economics.bel.biz/news/v_belarusi_sokratilas_dolya_ubytochnyh_predpriyatij/].

The question arises: how to reduce losses and make a profit, while still using the old Soviet habit of work to a minimum, but to maximize profits? Every CEO may be dismissed for the financial results in the form of permanent losses in corporations with nearly 100% of government capital. Therefore, it is suitable for the Belarusian economy concept of capital maintenance. Judge it for yourself.

Specificity of the economists' thinking is very different from the thought specifics of accountants. In Belarus, there is a view that any accountant can become an economist, but that not every economist may be an accountant. And if the accountant believes every cent, for economists, plus or minus $ 100, 000 - this is not the money for economic calculations.

Naturally, under such conditions of losses it is necessary to make accountants improve the financial performance of the corporation in accordance with legislation. In addition, these approaches need to be accepted by society, shareholders, government and other users of financial statements. How to do it? The simplist way is to use the economists approach, for which $ 100, 000 - it is not money, but the product of rounding the results of calculations.

Hence, it is necessary to add to calculations for centuries in Belarus profits some new income. In this case, such profits

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shall not: a) be taxed, and b) are not payable in the form of dividends, and c) be taken by economists to be on the side of the CEO in the event of disputes with the owners and will be with hoarseness in the voice to prove the correctness of managers.

It needs to move away from some of the historical approaches in Belarus accounting. For example, instead of historical cost estimates of certain types of assets to begin assessing fair value. Revaluation of assets are to be included in the profits, which will be fully supported by the economists and CEO lobby. In this case, they will call the profit increase in equity of the owner. Even despite the fact that the assets in such assesment will never be sold. Hence, the results of all such assessments in Belarus accounting practices is an additional "air" in the accounts and reporting, but such results increase total capital and comprehensive profit. Is this approach a fraud? In case of Belarus and Russia you will be right.

Well, since the owner (ie Belarus government) will never receive dividends on those profits, it is a secondary matter. In Belarus, state enterprises have been loss-making for decades, and their economic life is maintained by infusion of government subsidies. The main thing for the Belarus dictatorship is social stability, ie employment, wages, and hope that the dictator would help supply money in every occasion. It is surprising that economists in the Belarusian government did not think of such an idea in the profit of the enterprise. (But they are at Harvard Universities did not study). In this case Belarus would be more on the level of profitability, ahead of all of Europe, and especially the United States.

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2. Legal opinion on income in Belarus, US GAAP and IFRS

Right is primary;
Accounting is secondary to the right".
Unobstructed view of the provisions
of Article 2of the Belarus law
"On Accounting and Reporting"

Belarus is a country in which accounting is highly regulated by the state. The accounting and the financial reporting is based on the whole system of legal acts of the President, the Council of Ministers of Belarus, the Belarusian Ministry of Finance and other government agencies. Let's consider how the theoretical approaches of defining the essence of accounting profits are reflected in the regulatory acts of the Republic of Belarus.

Existing civil law does not provide formal definitions of a profitable organization. In particular, under Article 46 of the Civil Code (in force since 1998) entities can be organizations having profit as the main purpose of the activity and (or) distribute the profits among the parties (commercial organizations) or no profit as such a purpose and do not distribute the profits among the participants (non-profit organization).

So, the profit:

1) it is the goal and the result of business activity of the commercial organization (but not the result of participants activity)

and

2) it is intended for distribution among the participants (but not for use in the interests of the company's staff).

The third, no less important conclusion is from the content of Article 46 of the Civil Code of the Republic of Belarus: A commercial organization cannot be unprofitable.

But the very notion of profit in the Civil Code (and what is profit itself) is not disclosed.

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Article 2 of the Law "About Enterprises" (valid until 2005) stated that the main objective of the enterprise is the economic activity aimed at making a profit to meet the social and economic interests of the staff and the interests of the owners of the business.

This definition shows a different purpose for the profit: it is assumed that the profit is not only for the owner, but for the hired staff. However, Article 61 of the Law "About Enterprises" means that the profit is a major generalizing indicator of financial results for enterprises of all types.

Article 2 of the Law «On Accounting and Reporting» (revised to 2013) defines income as an increase in assets or decrease in liabilities, leading to an increase in equity.

Other regulations of the Ministry of Economy and Ministry of Finance of Belarus in force in 1992-2012, do not give a formal definition of profit. Basically, they reveal the mechanism of calculation a profit as a result of the financial activities of the organization in the form of the difference between income and expenditures.

Thus, the Instruction of the Ministry of Finance of Belarus "Expenses of an organization" (December 26, 2003 № 182; operated until 2012) states that by comparing the amount of expenses with the amount of revenue is calculating the financial performance for the reporting period - the profit or the losses.

Instructions for accounting of income and expenses (the Ministry of Finance of Belarus from 30.09.2011 № 102, in force since 2012) do not use the concept of profit. It applies the concept of income and expenses.

However, the Model Chart of Accounts (Ministry of Finance of Belarus on June 29, 2011 N 50, for use since 2012) states that the profit in 2012 is calculated as the difference between net sales (revenues), taxes from revenues and expenses associated with obtaining such revenues, and other expenses.

Recommendations for the development of business plans for investment projects (approved by Order of the Ministry of Economy of Belarus 31.03.99, № 25) defines income as

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the difference between the revenues and the expenses of the company.

The State Committee for Standardization (Decree of the State Committee for Standardization of Belarus 28.04.03, № 22) defines profit as the excess of income over expenses for a certain reporting period.

Thus, the instructions of government establish a mechanism for calculating the profit, but do not give a formal definition of organizations' profit. Specifically, they define income as the difference between the sales, taxes from sales and the expenses.

The concept of profit remaining at the disposal of the company, was first introduced by Article 62 of the Law "About Enterprises" in 1991. Article 62 of the law stated that the profit retained after the payments of taxes and other payments to the budget (net profit) is at the disposal of the company. The company determines the direction of net profit, unless otherwise provided by statute.

Thus, at the level of the law it was set a priority of the company and its staff for the distribution of profits, but not to the owner. Moreover, Article 63 of the law established the right of the hired personnel ti receive net income on par with the owner of the company. (!)

At the same time, Articles 90 and 103 of the Civil Code of Belarus are establishing the rights of owners to dispose of profit for limited liability companies and joint stock companies.

How do you think the conflict between the Code and the law has been resolved in practice? Of course, in favor of the staff, which, together with the owners was entitled to a profit.

Article 76 of the Law "About Enterprises" has established that profit is one of the sources of the financial resources of the enterprise. The same approach has been established by a number of regulatory legal acts of the Council of Ministers of Belarus (for example, The Council of Ministers of Belarus, 14.04.2007, № 487 "About the distribution and the use of net income and the consumption expenditures of organizations in 2007").

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Therefore, even at the legislative level, it was found that a profit is one of the sources of the property of the business.

Thus, the research results shows that in Belarus:

1. a profit is part of society's net income.

2. a profit is the difference between revenues and expenses; a profit is increases the capital of the organization;

3. profits can be distributed to the owners and to the staff;

4. a profit is one of the sources of the business property.

According to the Law "On Accounting and Reporting" it is the Ministry of Finance of Belarus who was entrusted with the accounting guidance by issuing its regulations. Let's see, how does the existing views on income and expenses translate into the methodology of accounting and financial reporting of organizations under the Ministry of Finance of Belarus approaches.

Definitions of accounting income and expenses in Belarus legislation, US GAAP and IFRS. Legal definition of accounting income and expenses in Belarus

Accounting in Belarus is operating with a number of terms, formal definitions of which are not given until the present day. Thus accounting terms in the regulatory acts often change with the adoption of the new version of regulation. Indeed, since 1994, the only definition of accounting in the law: «On Accounting and Reporting» has changed as much as three (!) times. In this case, accountants used double-entry bookkeeping in their daily accounting processes to the present. And they did not understood how a change in the term «accounting» was affecting their current job.

At present, in the Belarusian legislation and the accounting literature you will not find a definition of such terms as fully diluted earnings (income) per share, or comprehensive income (loss). However, such terms appear in the statement of income for 2012 without any explanation from the Ministry of Finance of Belarus.

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The speed with which the Ministry of Finance of the Republic of Belarus is seeking to make up for lost time to implement certain provisions of IFRS regulations on accounting does not allow the accounting community, occupied with current accounting work understand the essence of this race and the ongoing reporting and accounting changes.

But accounting professors in Belarus only duplicate in their textbooks provisions of the legal acts of the Ministry of Finance. However, the interpretation of these terms is very important for accounting. That it is the basis of methodology for the flow of information about the financial position of the organization. But such information is used throughout the civilized world as a basis for decision-making, for the determining of the cash flows of any economic system.

However, in Belarus so far there is no concept of financial statements, revealing the content of the basic accounting terms in the financial statements. Obvious examples of such terms are revenues, expenses and profits.

In the Belarusian accounting the income and expense terms are recognized in accordance with certain principles, which are provided by the legislative acts of Belarus. Let us consider the interpretation of the income and expenses terms in accordance with Belarusian legislation.

The purpose of business activity in Belarus as we have found, is making a profit and the distribution of profits to owners. In the organization this goal is realized through economic activity. Economic activity is, according to Article 2 of the Law «On Accounting and reporting,» a set of an entity's business transactions. Business transaction is an action or event, causing changes in the volume, composition, and deployment and using of assets and (or) the liabilities of the entity.

The aim of these transactions is income generation and implementation of expenses.

Thus, in the course of business, the company earn revenues and incur expensis.

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Income, as an economic category, expresses the financial results of the company. In accordance with the Law “On Accounting and Reporting”, revenue is an increase in assets or decrease in liabilities, leading to an increase of equity (Article 2).

According to the instructions on accounting of income and expenses (the Ministry of Finance of Belarus of 30.09.2011 № 102), income is increases in economic benefits during the reporting period by the increase in assets or decreases of liabilities, leading to an increase in organizations' equity not associated with the contribution of its owners (founders, participants). But why does is an increase in assets or an increase in equity income? The legislator did not explain to the accounting community any of the regulations. Practically the legislator had borrowed the term «income» from the international practice without any conceptual foundation.

Clear classification of income is the base of the net result in the definition for the reporting period. To determine the sources of income, all activities of the enterprise (according to the Instruction № 102) in Belarus is currently divided into:

Income from current operations (current activity is the main revenue-producing activity of the entity, and other activities that are not related to financing and investing activities));

Income on investment (investment activity is the organization’s activities on the acquisition and creation, implementation, and retirement of fixed assets, intangible assets, income-bearing investments in tangible assets, investment in long-term assets, the implementation of (the provision) and the sale (redemption) of investments, if the specified activities are not related to current operations according to the accounting policies of the organization);

Income from financial activities (a financial activity is the activities of the organization which leads to changes in the size and composition of equity, commitments to credit, loans and similar obligations, if this activity is not related to current operations according to the accounting policies of the organization);

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other income (includes income related to emergencies, other income that is not related to the current, investment and financing activities).

Such division is very important because it allows you to determine what proportion of income is from both the core business as well as from other sources, especially from such sources, which generally are not specific to the activities of the enterprise and cannot be regarded as a constant source of its income. But to answer the question why it was chosen namely for this classification of income, which is strikingly different from that classification under US GAAP and IFRS, you will not find in any of the sources with the Belarusian origin.

Moreover, the classification of revenues and expenses during the last 20 years was changed at least four (!) times. Thus, the financial result consisted of results from the sale of goods (works, services), revenues and expenses from non-operating transactions and other sales in 1993-2003. In 2004-2011 it was consisted of income (losses) from sales of goods, products, works, services, operating income and expenses and non-operating income and expenses. In the financial reports for 2012 financial results consist of income from current operations, income on investment, income from financial activities and other income. It should be noted that the profit for its structure from the sale of goods, products, works and services in 2011, is not identical to that of income from operating activities in 2012. Thus reported incomes on their structure in different periods are not comparable without additional arithmetic operations.

For the financial management of the enterprise managers need to have benchmarks of income. The Ministry of Finance of Belarus determined from the financial reporting for the year 2012, the following income indicators (Ministry of Finance of Belarus from October 31, 2011 № 111 «On establishing accounting forms, approval of the Instruction on the procedure of preparation of financial statements"; hereinafter Instruction

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№ 111) (as always before it was copied from the Russian accouting instructions):

- Revenue from sale of goods (works, services) is the income from sales, net of discounts (premiums, bonuses) provided by the buyer (customer) to the price specified in the contract, net of the value of returned products, goods, and taxes from the sale of products, goods and services. The author of the study specifically showed equality between revenue and income from the sale. That follows from the content of the instruction number 102. Namely: the instruction is called income and expenses, but not revenues and expenses, and furthermore, the revenue is considered in sections covering establishing accounting income. Thus the legislature, willing or unwilling, actually equate income and revenue. I should indicate that the revenue is income from continuing operations in the context of certain regulations of the Ministry of Finance of the Republic of Belarus;

- Gross profit (gross income) from the sale is pure revenue minus production costs of goods sold. This indicator allows you to analyze the effectiveness of production activities;

- Profit (income (loss) from current operations is gross profit (income) from the sale, net of management expenses and the sales expenses. This figure reflects the impact of the management and marketing expenses on the financial result of the sales;

- Income from financial activities is the balance of income and expenditures on the financial activities. This indicator is required in order to separate the income from such sources of income, as the revenue from interest and dividends, from operations with foreign currency, etc.;

-Income from investments is the balance of income and expenses on investment;

- The profit (income (loss) before tax (tax). This figure is the point of transition from accounting income to taxable income. Accounting income is an income, calculated in accordance with the accounting requirements. The main objective of the determination of accounting income is to show the effectiveness

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of the company for the period. Taxable income is the accounting income, restated in accordance with tax legislation;

- Net income (loss) for the year is the income after tax. In a market economy it is the most important indicator of the company is performance. It is the focus of enterprise management and financial markets. From its dynamics depends the very existence of businesses, jobs for its employees, and the payment of dividends. Net income (loss) is defined as the difference between the profit (loss) before income tax and the income tax;

- Comprehensive income (loss) in Belarus is the sum of net income (loss), gains from the revaluation of non-current assets are not included in net income (loss), and results from other operations that are not included in net income (loss). But what is the essence of comprehensive income and why included in the financial statements for 2012, is not clear from the content of Instruction number 111 and other regulations of the Ministry of Finance of Belarus. What is the comprehensive income? The reader will know from the results of our analysis.

Thus, the income of the enterprise in Belarus is an increase in assets or decrease in liabilities in the period, leading to an increase in equity (in terms of the accounting legislation in Belarus). But what caused the relationship between capital and income, and why income is associated with an increase rather than a decrease of capital regulations of the Ministry of Finance of Belarus is not ixplaned.

While earning income, the company has certain expenses.

Expensis are a reduction in economic benefits during the reporting period by reducing the assets or increasing in the liabilities, leading to a decrease in equity not related to its (equity) transfer to the owner, and to the distribution among the founders (participants) (Instruction № 102). The legislature has introduced the term of expenses once again, but than do not gived the corresponding conceptual foundation of this term. It is simply borrowed some elements from different accounting concepts, systems and theories from other standard developers.

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Expenses, according to their nature and the conditions of entity activities are divided into (Instruction 102):

Expenses from ongoing operations;

expenses from investment activities;

expenses from financing activities;

other expensis (includes costs associated with emergency situations, other expenses that not are related to the current, investment and financing activities).

The financial result is the outcome of the financial activity for the period. The financial result may take the form of retained earnings (surpluses) or in the form of uncovered loss (excess of expenditure over income) under the Belarusian legislation.

Revenues, expenses and profits as categories in US GAAP and IFRS

US GAAP and IFRS are not a list of recommendations, but they are the concrete instructions for the practical application of economic theory on accounting, which is based on the approaches (provisions) of the Anglo-American School of Accounting. There are also definitions of income and expenses of the company in this school. Without an understanding of the terms income and expenses it is impossible to study the information on the financial position of the entity from the financial statements prepared according to US GAAP and IFRS. This question is particularly relevant for today's accounting practices in Belarus. Existing regulations in accounting borrowed definitions of income and expenses, as well as equity primarily from IFRS (IAS) and from US GAAP, making such definitions required for the Belarusian accountants.

But the legislature acceptied by the Ministry of Finance of Belarus just selectively borrows some definitions from US GAAP and IFRS coherent systems. Thus it is creating a precedent for the non-systemic exploitation of the ideas of IFRS and US GAAP in Belarus. After all, there is no concept of

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national accounting so far. But only the idea of the accounting transition to IFRS has operated for about 20 years in Belarus.

The alignment of Instractions from the Ministery of Finance with IFRS is currently on the agenda of the Belarus government. In May 1998, the Belarus government issued Order No. 694 "State program of the adoption of IFRS.» This order sets out a program for the harmonization of Instructions of the Ministery of Finance with IFRS during the period of 1998-2008, i.e. in order to set a target for the convergence of Instructions of the the Ministery of Finance with IFRS. Thus the program was a plan for the alignment of Instructions of Ministery of Finance with IFRS. The program stipulated the adoption of new laws, accounting regulations, and accounting standards. The concept for the development of accounting and reporting in Belarus called for a systematic transition for the use of IFRS for both consolidated financial statements and to bring Instructions of the Ministery of Finance for separate financial statements in conformity with IFRS. The implementation of this program required the adoption of new laws and accounting regulations and standards. The result of the program defined the timing for the transition to IFRS for Belarus companies. But in practice the fulfillment of the program resulted mainly in the governmental declaration: alas, harmonization of the Instructions for the Ministery of Finance with the IFRS is currently still at the development stage. Never the less over the last two years, significant progress towards adopting IFRS standards has been made. Already, companies in the banking sector submit financial statements (including consolidated financial statements) to the National Bank of Belarus, which are much closer to IFRS.

Of course IFRS and US GAAP contain some differences. But the general principles, conceptual framework, and accounting results between them are often the same or similar. Most companies in Belarus generate their accounting records in conformity with Instructions of Ministery of Finance, from which they prepare their annual statutory

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instructions-based financial statements. Financial records are generally maintained on local information systems, tailored to the prescribed charts of accounts and reporting formats. Under the Instructions of the Ministery of Finance many (but not all) of the general principles, conceptual frameworks and accounting standards are very similar to IFRS, as they are based on many of the early IAS (International Accounting Standards), but they are not the same. In many instances, however, the Instructions of the Ministery of Finance do not provide guidance, to name a few, on consolidations, business combinations, purchase price allocations, impairment of property, plant and equipment, financial instruments, share-based payments, employee benefits and pension plans. Besides, where there is no guidance, the Instructions of the Ministery of Finance does not allow companies to develop their own accounting policies, which may be compatible with IFRS. There is no specific requirement to prepare consolidated financial statements until IFRS standards are formally adopted in Belarus.

The existence of any differences of the Instructions of the Ministery of Finance - and their materiality relating to an entity's financial statements - depends on a variety of specific factors, including the nature of the Belarus dictatorship, the nature of the governmental property in Belarus, the nature of the entity according to Civil code, its interpretation of the principles, and its accounting policy selections where the standards offer a choice.

Recognition of income and expenses in US GAAP and IFRS is a statement to all users of accounting information about the expenses incurred and revenues received. The understanding of US GAAP and IFRS terms can answer such an important question, such as at what point an organization can make a "statement." It is also important for the content of accounting information on the financial position to identify the moment at which income and expenses are beginning to take part in the calculation of the financial result of the reporting period.

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There are three general approaches to the definition of a reporting methodology for income and expenses.

According to the first approach, income and expenses include both the balance sheet and the income statement;

According to the second approach, income and expenses are recorded in the income statement.

According to the third approach, information on income and expenses of the company contains all the elements of reporting employing a different understanding of these categories.

This is the position adopted in US GAAP and IFRS. The understanding of this position allows everyone to fully and comprehensively assesses the status quo of the organization.

Indeed, the statement of cash flows provides information on income and expenditure of the company. It is made not on the accrual basis as other financial statements, but on the basis of actual cash flows.

A comparison of incomes and expenses in the income statement is used to determine the compliance on revenues and expenditures data with real cash flows. That is, to establish a connection between incomes, expenses and cash.

The Statement of Changes in Equity is a specific form of the statement of revenue and expenditure, because the increase in equity can be considered as income generation.

Comparison of definitions of income and expenses in the US GAAP, the IFRS and the Belarusian legislation.

First of all, one needs to pay attention to the fact that income and expenses in US GAAP and IFRS are considered as a category, subject to the concepts of assets and liabilities. This is due to the fact that income and expenses are related to a particular accounting period, thus forming the financial result of the reporting period (profit or losses). Therefore income and expenses are the factors, which impact the increase (or decrease) in equity. The latter, in turn, is defined

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as the result of the subtraction from asset value of all of its debts (or liabilities). Thus, the balance sheet (statement of financial position) has a preference in the reporting components system over the income statement and statement of changes in equity.

So, Income increases economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants (Framework for the Preparation and Presentation of Financial Statements (70 (a); further - Framework).

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants (Framework, 70(b)).

According to US GAAP in the United States is the use of the term of comprehensive income, which represents changes in equity of a company during the reporting period as a result of the transactions and other events and circumstances not related to the owners. It includes all changes in equity during the reporting period, except for the changes associated with the investments of owners and distributions to owners.

(Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners (FASB CON 6 «Elements of Financial Statements», CON 6 , 70)).

In other words, if a change in the value of assets or liabilities directly affects the amount of equity that is not the result of transactions with owners of the organization, that means that the organization has received income or expenses have incurred. Transactions with owners include contributions to the charter capital; withdrawal of capital, particularly in the form of the repurchase of joint stock

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company shares from shareholders plus dividend income is impact on equity.

Consequently, the change in the value of assets or liabilities as a result of the above transactions is neither income nor expenses, although it has a direct effect on the value of equity. But the owner can act, not as an investor, but as a seller or borrower. In this case, the sale of goods or accrual of interest on the loan is responsible for the recognition of the asset (trade receivables) and liabilities (accrued interest on the loan) on the balance sheet and the related revenue (sales) or expenses (interest).

Obviously, the results of the business activity of the company continuoully change the amounts of assets and liabilities. Commercial activities are focused on earning profits, which means that organizations tend to bear both costs and revenues.

Historically the financial results for each reporting period were reflected in the Income Statement (which represented all incomes and expenses that make this result.). The Income Statement was also used to calculate profitability ratios and the earnings per share ratio. It should be emphasized that the financial result on the Income Statement (or net income) is the gain or loss for the owners of the organization. This result increases (or decreases if a resulting loss) dividend payments and retained earnings.

In Framework of the IFRS include the definition of income and encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an enterprise and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an enterprise. Gains represent increases in economic benefits and, as such are, no different in nature from revenue.

The organization earns income from its ordinary activities. Income is the result of sales of goods and products, works,

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services, from its financial and investment activities. Consequently, income involves an exchange of assets.

The result of the exchange is the receiving of money or the expectations to receive the money.

In US GAAP also uses the term income. According to the US GAAP CON 6, revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations (CON 6, 78). All earnings of organizations are divided into income from continued operations and income from discontinued operations.

Income from continued operations and income from discontinued operations, in this case, take the form of asset growth (ie emergence receivables, cash inflow) or reduction of liabilties (in case of the settlement the liability by the provision of goods, in case of writing off deferred revenues) (CON 6, r.76, 82).

The definition of expenses in IFRS Framework encompasses losses as well as those expenses that arise in the course of the ordinary activities of the enterprise. Expenses that arise in the course of the ordinary activities of the enterprise include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. Losses represent other items that meet the definition of expenses and may be, or may not, arise in the course of the ordinary activities of the enterprise. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses (Framework, par 78- 80).

Losses are most often caused by losses due to natural disasters, adverse market and other external conditions, or specific forms of the disposal of the property. Expenses take the form of an outflow of assets (for example, in writing off the goods or other assets) or increase in liabilities (in registration of expenses, such as rent or payments for services.)

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In Belarus, as we pointed out above, there are two statutory definitions of income. The first is set by the Law "On Accounting and Reporting," under which revenue is an increase in assets or decrease in liabilities, leading to an increase in equity. According to the mentioned instruction № 102, income is increases in economic benefits during the reporting period by the increase in assets or decreases of liabilities, leading to an increase in equity not associated with the contribution of property from its owners (founders, participants).

Expenses are a reduction of assets or increase in liabilities, leading to a reduction of equity («Law on Accounting and Reporting»). Expenses are a decrease in economic benefits during the reporting period by reducing assets or increasing in liabilities, leading to a decrease in equity not related to capital transfer to the owners, or the distributions among the founders (participants) (Instruction № 102). In general, both of these definitions (both income and expenses) are very similar to the definition of income and expenses in accordance with US GAAP and IFRS Framework, from which they were real taken. But the structure of revenues, and expenses in Belarusian accounting is very different from the structure of income, gains and expensis, losses in US GAAP and IFRS. Indeed, according to the Instruction № 102, income and expenses consist of the income and expenses from operating activities, income and expenses on investment, income and expenses on financial activities and other income and expenses. So there is no line of income and expenses reported in Belarus, compure to the income and expenditure structure in US GAAP and IFRS.

In US GAAP and IFRS there is quite a clear justification of income and expenses. US GAAP and IFRS point out not only the components of revenue and expenditure, but also significant differences between the different types of income and expenses. The absence of such approach in the Instruction № 102 resulted a large number of additional questions in accounting and reporting practice.

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It should be noted that in the definition of income and expenditure in the US GAAP and IFRS is applying such an approach, in accordance with which the financial results of the organization are a somewhat larger value than just net income for the period (that is, the result reflected in the traditional income statement). This is due to the fact that there is also a financial result, which is not coming from the income and expenditures are shown in the income statement, but of those that are reflected «in equity.»

Thus, in particular, changes in the book value of revalued assets meet the definition of the gains or losses on revaluation, but in the income statement they are not reflected. The same can be said about the increase or decrease in accounts receivable of the founders (participants) in foreign currency deposits in authorized capital, due to the gain or loss on foreign currency exchange rate differences, income or losses on cash flow hedging instruments and currency risks, as well as results due to the revaluation of financial assets available for sale.

In addition, these revenues and expenses have one important feature - they are caused by external factors beyond the control of Management.

Even if they do not prove the effectiveness of the management, it is certain that they reflect the performance of the organization as a business entity. Consequently, one can truly say that there is in the world a broader concept of profit than traditionally adopted in the financial statements in Belarus, and more suited to the concept of capital maintenance.

This approach to the definition of income resulted at the end of the last century in a new U.S. reporting indicator, ie comprehensive income, the definition of which was considered by us a little earlier.

Comprehensive income is an investment from the owners for a given period as a result of financial and economic activities. Explanation of the relationship between income and Comprehensive income can be illustrated by the following equations:

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Revenues - Expenses + Gains - Losses ± Cumulative effect of changes in the reflection of economic activity = Net Income;

Net income ± Gains and losses are to be included in the Comprehensive income, but are not included in net income = Comprehensive income.

This parameter has been entered in the reporting according to IFRS for periods after January 1, 2009. Such a parameter is recognized in the reporting period forin income and expenses. Comprehensive income is presented in IFRS (IAS) 1 in the structure of financial statements, and it allows users of financial statements more objectively to assess the performance (activities) of both the organization and it's Management.

The Comprehensive income parameter was introduced into Belarusian reporting in 2012 for the 2012 reporting period without any theoretical foundation and the development of scientific concepts (the main motivation in this case for the Ministry of Finance of Belarus is convergence with IFRS). It was named according to the Ministry of Finance of the Republic of Belarus Instruction № 111 as total profit (losses): a perverted translation of the term comprehensive income (losses). But this normative act does not explain the essence of the term and the need for Comprehensive income, and besides, it does not explain the mechanism for the calculation and the importance of this indicator to assess the financial performance of the organization. It simply requires companies to calculate this figure.

If we define Net income as Comprehensive income, net of components of Other Comprehensive Income (OCI), it is possible to describe the mechanism of the transfer of other components of comprehensive income (OCI) into the components of net income. This process consists of two stages.

Step 1. Components of Comprehensive income, which cannot be regarded as constituting Net income, are recognized

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as part of the capital, and are collected on account of other Comprehensive incomes.

Step 2. If in subsequent accounting periods of other Comprehensive income components will change, these components will need to be moved to Net income.

Thus, the OCI components will be recognized as constituting net income. The result of such component transfer is the cumulative sum of net income as a result equal to the accumulated amount of comprehensive income, provided that all components of the OCI could be transferred to Net income.

Now components of OCI according to US GAAP include:

a) Foreign exchange differences (FAS № 52 Effect of exchange rates);

b) Unrecognized gains and losses on securities purchased for sale (FAS № 115 Investments and shares);

c) Gains or losses on cash flow hedges (FAS № 133 Accounting for derivative instruments and hedging activities);

d) Gains or losses on the insurance and assets and liabilities of the transition period (FAS № 158 Accounting for pension insurance payments). All of the components of the OCI can be subsequently recognized as components of Net income.

Under IFRS, the components of OCI are:

a) Foreign exchange differences gains and losses (IAS 21 The Effects of Changes in Foreign Exchange Rates);

b) Insurance gains or losses (IAS 19 Employee Benefits);

c) Unrecognized gains and losses on securities purchased for sale (IAS 39 Financial Instruments: recognition and Measurement);

d) Gains or losses on cash flow hedges (IAS 39);

d) Gains or losses from the revaluation (IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets). All of the above ingredients, except the actuarial gains or losses and gains or losses from the revaluation of the following periods can be recognized as components of Net income.

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The income and expenses recognition and measurement in the IFRS, US GAAP and Belarus Instructions.

Procedure for the recognition of income and expenses, as defined in the Framework, is fairly general. Thus, paragraph 92 states that " Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably) (Framework, par 92)). Thus, if during the reporting period, the amount of assets was increased (or liabilities - declined), this increase (decrease) meets the definition of income and if it is possible to give to it a reliable estimate, it means that the organization received income.

Note that in most cases the income is not only linked with the growth of the asset over a certain period, but is measured by the size of such increase.

To justify the recognition of income you should be guided by the instructions of the standards that are governing the reported amounts of assets and liabilities, the dynamics of the book value of which is to "create" a particular item of income.

According to IFRS, revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in the value of equity, other than increases relating to contributions from equity participants.

So, the revenue from the sale of goods (products) measured by the fair value of the transferred property to the buyer by the seller (minus the amount of cash to the seller), is recognized in the performance of the five conditions of acceptance, among which there is no (unfortunately author of the study) the criterion of transfer of ownership. But that return on investment in the share capital of other organizations (dividend) is recognized only when the investor has the right to receive the funds, that is after the official announcement of the dividend payment.

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Thus, the standards governing the reporting of individual objects specify and narrow the scope of the outlined Framework.

In revueing the initial IFRS standards that establish the definition of revenue, we note the following:

IAS 18 – "Revenue" ;

IAS 11 – "Construction Contracts";

IFRIC 13: Customer Loyalty programmes

SIC 31: Revenue -Barter Transactions Involving Advertising.

In accordance with IFRS, revenue arising from the sale of goods should be recognized when all of the following conditions are met: (IAS 18.14)

1. The seller has transferred to the buyer the significant risks and rewards of ownership;

2. The seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

3. The amount of revenue can be measured reliably;

4. It is probable that the economic benefits associated with the transaction will flow to the seller, and

5. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In Belarus, the revenues from sales of products (goods) are recognized in the accounting under the following conditions:

the risks and rewards associated with ownership of the goods are transferred to the buyer;

The amount of revenue can be determined;

there is potential for the economic benefits the organization as a result of a business transaction;

expenses that are made or will be made when making a business transaction can be identified (Instruction № 102).

CON 5 US GAAP indicates that "revenue should not be recognized until it is realized or realizable and earned".

In accordance with SAB 104 SAB 101, revenue "is realized or realizable" and «earned» only if all the following conditions:

- Persuasive evidence of an arrangement exists,

- Delivery has occurred or services have been rendered,

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- The seller's price is fixed or determinable), and
- Collectability is reasonably assured.

In the US today, more than 180 standard regulate the definition of revenue. As an example, some of these standards:

SAB 101 – "Revenue Recognition" (amendment by SAB 104);

EITF 00-21 – "Revenue Arrangements with Multiple Deliverables";

FAS 48 – "Revenue Recognition When Right of Return Exists";

FAS 5 – "Accounting for Contingencies";

EITF 99-19 – "Reporting Revenue Gross as a Principal versus Net;

EITF 01-09 – "Accounting for Consideration Given by a Vendor …;

EITF 99-17 – "Accounting for Advertising Barter Transactions";

ARB 43 – "Restatement and Revision of Accounting Research ;…

SoP 81-1 – "Accounting for Performance of Construction; ..

SoP 97-2 – "Software Revenue Recognition" ;

FAS 66 – "Accounting for Sales of Real Estate".

But it should be noted that, in practice, in spite of the differences between IFRS and US GAAP, both systems lead to the same amount of revenue.

The conditions for recognition of revenue in Belarus is also borrowed from the IFRS. But, only one version of the recognition of revenue for accounting purposes on an accrual basis in Belarus can be applied to two methods of revenue in 2012, specifically, revenues from sales of products, goods and services. Other income may be recognized on an accrual of products, goods, work, services provided, and other income (hereinafter - the accrual method). Revenue from the sale of products, goods and services, and other income, also may be recognized in the accounting on a cash (hereinafter - the method of payment) (Instruction № 102). The choice of the version selected is determined by the accounting policies adopted by the company.

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Similarities. Under IFRS (IAS 18) Revenue, revenue is defined as "the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity other than increases relating to contributions from equity participants". Under US GAAP, revenues represent actual or expected cash inflows that have occurred or will result from the entity's ongoing major operations. Under both GAAPs, revenue is not recognized until it is both realized (or realizable) and earned. In accordace with the Instruction of the Ministery of Finance «Income and expenses» (№102), revenue recognition is not depend on the transfer of risks and attempts to determine when the earnings process is complete. All three base revenue recognitions contain revenue recognition criteria that, while not identical, are similar. For example, under IFRS, one recognition criterion is that the amount of revenue can be measured reliably, while US GAAP requires that the consideration to be received from the buyer is fixed or determinable. In accordance with the Instruction of the Ministery of Finance «Income and expenses» the entity has a right to chose and applies one of the following methods on revenue recognition to prepare its financial statements: cash basis accounting and accrual basis accounting. **Warning: Cash basis revenue accounting in Belarus includes income when it is received, and claims deductions when expenses are incurred (but not only when they are paid).** So, revenue recognition under all three of these standards is linked to the completion of the earnings process and the sales of assets resulting from such completion with more emphasis on form than on substance in the case of the Instructions of the Ministery of Finance.

Significant Differences. Differences in revenue recognition (despite the similarities) may exist as a result of differing levels of specificity among the three mentioned standards. Under US GAAP there is extensive guidance, which can be very prescriptive and often applies only to specific industry transactions. For instance, under US GAAP there are specific rules relating to the recognition of software revenue and sales

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of real estate, while comparable guidlines do not exist under IFRS or the Instruction of the Ministery of Finance. Besides, the detailed US rules often contain exceptions for particular types of transactions. Further more, public companies in the US must follow additional guidance provided by the SEC. Compare: a single standard exists under IFRS (IAS 18) and the Instruction of the Ministery of Finance «Income and expenses» (№102) which contains general principles and illustrative examples of specific transactions. Exclusive (but not industry-specific) differences among the three standards, the major differences in revenue recognition are given in the table:

Table 2.1: Differences in revenue recognition in accordance to IFRS, US GAAP and Instructions of Ministery of Finance of Belarus

	IFRS	US GAAP	Instructions of Ministery of Finance
Sale of goods	Revenue is recognized only when: risks and rewards of ownership have been transferred; the buyer has control of the goods; revenues can be measured reliably, and it is probable that the economic benefits will flow to the company.	Public companies must follow SAB 104 Revenue Recognition. SAB 104 requires that delivery has occurred (i.e. the risks and rewards of ownership have been transferred), there is persuasive evidence of the sale; the fee is fixed or determinable, and collectibility is reasonably assured.	Revenue is recognized on accrual basis when the following conditions are met: a) The entity has the right to receive revenue that arises from a contractual arrangement or is supported by other means. b) The amount of revenue can be measured reliably. c) It is probable that the economic benefits will flow to the entity as a result of a transaction. An increase in economic benefits is probable when the entity received an asset as settlement or there is no uncertainty regarding the receipt of the asset. d) The costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized on cash basis when the following condition is met: the amount of revenue is received.

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Table 2.1: Differences in revenue recognition in accordance to IFRS, US GAAP and Instructions of Ministery of Finance of Belarus: Continues

	IFRS	US GAAP	Instructions of Ministery of Finance
Rendering of services	Revenue may be recognized in accordance with long-term contract accounting, including the consideration of the stage of completion, whenever revenues and costs can be measured reliably, and it is probable that economic benefits will flow to the company.	Certain types of service revenue, primarily relating to services sold with software, have been addressed separately in U.S. GAAP literature. All other service revenue should follow SAB 104. The application of long-term contract accounting (SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts) is not permitted for non-construction services.	Similar to the recognition of revenue from the sale of goods.
Multiple elements	IAS 18 requires recognition of revenue on an element of a transaction if that element has commercial substance on its own; otherwise, the separate elements must be linked and accounted for as a single transaction. IAS 18 does not provide specific criteria for making that determination.	Specific criteria are required in order for each element to be a separate unit of accounting, including delivered elements that must have stand alone value, and undelivered elements that must have reliable and objective evidence of fair value. If those criteria are met, revenue for each element of the transaction can be recognized when the element is complete.	There is no corresponding accounting guidance in Instructions, but, in practice, the general principles for revenue recognition criteria are applied to each element of a transaction based on the contractual prices.

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Table 2.1: Differences in revenue recognition in accordance to IFRS, US GAAP and Instructions of Ministery of Finance of Belarus: Continues

	IFRS	US GAAP	Instructions of Ministery of Finance
Deferred receipt of receivables	Considered to be a financing agreement. The value of the revenue to be recognized is determined by discounting all future receipts using an imputed rate of interest.	Discounting to present value is required only in certain situations.	Not permitted.
Construction contracts	Construction contracts are accounted for by using the percentage-of-completion method if certain criteria are met. Otherwise, revenue recognition is limited to the recoverable costs incurred. The completed contract method is not permitted. Construction contracts are combined or segmented if certain criteria are met. Criteria under IFRS differ from those in U.S. GAAP.	Construction contracts are accounted for by using the percentage-of-completion method if certain criteria are met. Otherwise, the completed contract method is used. Construction contracts may be, but are not required to be, combined or segmented if certain criteria are met.	Chart of accounts outlines two methods of revenue recognition for construction contracts: percentage-of-completion and completed-contract methods. The percentage-of-completion method may be applied when the amount of expenses and the amount of work completed can be reasonably estimated. Otherwise, an entity should apply the completed-contract method.

Recognition of expenses means the transfer, the loss of an assets or the incurrence of liabilities. Recognition of expenses related to the receipt of income resulting from these expenditures (direct correspondence principle). Thus, according to US GAAP and IFRS expenses are recognised in the income statement on the basis of a direct association

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between the costs incurred and the earning of specific items of income. (Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income (Framework, 95).

Consequently, the positive and negative factors of the financial impact of an operation are recognized simultaneously, but with the rules of recognition of these assets and liabilities. For example, the recognition of sales expressed in the recognition of revenue and all expenses that provided revenue for the reporting period, that is, the cost of sales (ie, cost of production, administrative and selling expenses). Economic benefits received from items of assets over several reporting periods require write-off in consumption of such assets (is not a time, but gradually, that is, their depreciation). Expenses incurred by the organization that do not meet the criteria for recognition of an asset can not create an asset and are considered as expenses of the reporting period in which they are incurred. This applies, for example, to the organizational costs and expenses incurred in the creation of intangible assets during the study.

According to the Belarusian legislation, expenses are recognized in accounting in the reporting period in which the corresponding revenues are recognized, regardless of the date of settlement on them.

Expenses that cannot be correlated with revenue for specified reporting period are recognized in accounting as an expense in the reporting period in which they were produced (Instruction № 102).

The structure of expenditures in Belarus financial statements is partially copied from the US GAAP and IFRS. Thus, the current expenses (ie, ongoing expenses in USA GAAP or finance expenses in IFRS) include cost of sales, administrative expenses, commercial expenses. But instead of the other expenses, such expenses are reported as losses of investment activities and the losses of financial activities. In this case, the current expenses and operating expenses, other expenses and

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losses of investment activities and the losses of finance activities are substantially different.

IFRS, in contrast to the US GAAP, does not contain any specific standards governing reporting of expenses. Individual standards provide requirements for capitalization and de-capitalization of expenses and to write down the book value of assets and liabilities in connection with the calculation of expenditures.

For example, such approach applies to IFRS (IAS) 2 Inventories, which operates at the inventory. This standard approves methods of distribution of indirect production costs.

IFRS (IAS) 23, devoted to the cost of debt (its official name - "Borrowing Costs"), states that these costs are recorded as expenses of the period if they are not directly related to the acquisition, construction or production of objects that meet certain criteria. IFRS (IAS) 2, IFRS (IAS) 16 and IFRS (IAS) 38 sets out how to include expenses in the cost of production (material goods), property, plant and equipment and intangible assets (their capitalization), and how they are written off from the balance sheet (disinvestment) in due to depreciation or disposal.

Accrued expenses (that is, recognition of liabilities) do not mean a one-time recognition of expenses, which means, in practice, the emergence of an income negative factor. So accrued payroll is to be included in the cost of production, which will be charged to expenses only when it is sold. Accrued interest on the loan may be included in the value of fixed assets, intangible assets, products, and thus become an expenses either at time of sale, or as depreciation of facilities. However, some expenses, such as relating to commercial or managerial, that are not distributed at the end of the reporting period, are always included in the full amount of the expenses.

It should be noted that the Framework is silent on the recognition of income and expense in equity, that is, nothing is said about the "other articles of comprehensive income." IFRS (IAS) 1 "Presentation of Financial Statements" contains new elements of accounting information than Framework itself.

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Thus, under the IFRS 1 income and expenses are understood only as business facts that change the value of a firm's equity as well as total liabilities to owners (excluding deposits and withdrawals of capital by owner of the company).

In addition, revenue and expenses are the only facts that form the financial result (income or losses) for the reporting period. Under this approach, income and expenses are the estimate of economic activity, in the first place forming the data of the income statement and statement of changes in equity, but not a balance sheet.

This approach reduces the possibility of considering the facts of economic activities of the organization in terms of their possible impact on the financial results of the company, namely, as revenues and expenses relating to the formation of financial results for future periods.

However, the approach is logically and fully consistent with the concepts of "assets" and "liabilities" in IFRS. After consideration of the asset only as capitalized expenses corresponding to the dynamic balance theory, and the consideration of the expenses capitalization as a criterion for recognition of an asset at odds with the understanding of the asset becomes a factor in the company's profitability.

After all incurred expenses for the formation of an asset may not always bring profit for an organization and, according to IFRS, if the probability of future income from the operation of the asset is low, the asset should not be recognized.

Explanation of liabilities as future outflow of economic benefits, but not as a temporary profits, are the most far-sighted.

The definition of expenses under US GAAP. According to the US GAAP, expenses represent the use or consumption of goods (works, services) in revenue. Expenses are understood as only the use or disposal of assets or liabilities in the emergence of the core activities of the company. If expenses are the result of single or non-systematic activity that is not related to the main, they are recognized as losses.

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Losses differ from the expenses that arise as a result of the facts of the non-profit process, that are not related to the ongoing process of creating the company products and services over a period. Losses are shown in the financial statements on a net basis (ie excluding taxes) and expenses are generated including taxes. An example of losses may serve as expenses, related to changes in inventory values, exchange rates, charges, fines and penalties.

The main types of expenses in US GAAP. All expenses can be divided into assets and other expenses (including deferred), as well as losses. Typically, cash outflows are shown as expenses, and most of the expenses are assets.

38,824 мм Under the "recognition" in the US GAAP refers to the process of including reporting elements (assets, liabilities, income, expenses, etc.) in the financial statements. Any element is recognized in the reporting when the four conditions (recognition criteria) have been met:

It meets the definition specified in FASB CON 6 «Elements of Financial Statements»;

It can be measured;

It is relevant, that is, information about it can influence the decisions of users of financial statements;

Item information is verifiable, credible and neutral.

Typically, expenses and losses are recognized in the financial statements at the time when the economic benefits are consumed for the production of goods (works, services). Consumption can be recognized directly or by reference to income recognized in the same period in the following ways:

1. Cost of goods (works, services) is recognized in the same period as the revenue relating to the same transactions.

2. Administrative and selling expenses are recognized, usually in the period in which they arise.

In US GAAP the accrual concept is used to recognize various non-monetary assets, liabilities, transactions and events that affect them.

Accrual methods use the mechanism of "accruals / deferrals" and allocative procedures that reflects the revenues, expenses

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and losses in the respective periods, and shows the effectiveness of the organization, not just the inflow and outflow of money.

In addition, the recognition of expenses as incurred is typically for expenses that:

Do not resulted in clearly definable future economic benefits;

Were initially recognized as an asset, but which are not expected to reach the future economic benefits;

Rational allocation is not possible.

Some expenses are recognized using a systematic and rational allocation. This usually happens when there is no direct cause-and-effect relationship between expenses and revenues. Accounting uses certain assumptions about the expected period of future economic benefits and the relationship between the economic benefits and expenses of each reporting period. Examples of such assumptions can be:

Depreciation of fixed assets and intangible assets;

Allocation of the expenses of property insurance;

Allocation for rental property expenses, etc.

Since it is impossible to consider the income concept separately from the concept of equity, we next analyze the main ideas of contemporary concepts of capital and equity.

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3. Contemporary concepts of capital and equity

**"Capital is the capital and in the Antarctic...
But it is not capital in Belarus."**
Belarusian folk wisdom of the 21st century

The concept of capital in the Belarusian-Russian Researchs

The term "capital" (from the Latin capitalis – means principal) is ambiguous in its practical application, that is, its value varies depending on the sector of its application.

Thus, in everyday life one refers to capital as 1) the amount of savings that is sufficient to operate the business, and 2) in a broader sense of the word it is everything that has any value to humans.

From the point of view of political economy, the capital is a value that has a property, (bringing the so-called surplus value spontaneously). It emphasizes the entrepreneurial nature of the specific use of the property, that has a certain value. Such property has to increase, should be paid, to make turnover in the production or exchange.

In accounting, a common understanding and interpretation of the term is absent.

As we indicated earlier, Keyns said that the capital is an asset that is the property of the organization. The same follows from the definition of capital under Article 2 of the Belarus Law "On Accounting and Reporting." After all, if from the amount of assets one subtracts the amount of liabilities (what liabilities the Belarusian legislation in this case does not set), then the difference will be, of course, positive.

By the way, this approach of Belarusian lawmaker on how to calculate capital is not new nor original. In general, the formula for calculating capital is called by Cher postulate (Medvedev, 2001, p.441), as follows:

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$A - L = K$,

where A is an asset, L - liabilities, K - capital.

But the approach of Keyns is also not entirely new. In the 16th century Italian L.Pacioli outlined in his classic work "A Treatise on the accounts and records" *(Summa de Arithmetica, Geometria, Proportion et Proportionalita)* his approach to the nature of capital. Thus, according to L. Pacioli, " capital is seen as a creditor" (1995)(L. Pacioli. Treatise on the accounts and records: Per. Translated from Italian. - Mn.: Ed. Journal. "Finance, Accounting, Auditing", 1995, p.93) .

Under the term of capital Pacioli understands "the totality of your present property" (1995, p.50), which is always affects as creditor (lender) in accounting. In fact, Pacioli's capital consisted of property on which the owner has no accounts payable (1995, p. 50 -54) . (This is a very close interpretation of Luca Pacioli in the concept of "capital" to modern views of some authors). The amount of capital annually updated on the amount of profit or loss of the merchant, ie property, for which there was no accounts payable.

Belarusian accounting was emerged in the administrative-command system and so was not adapted to reflect the specificities of the market system. First of all Belarusian accounting and reporting are the product of the officials (and not specialist-professionals). Therefore, accounting and financial reporting are designed more for the various government auditors, than for the owner or potential investor. The latest reporting of Belarus organizations has very little information.

Generally there is not a very extensive flow of information on the specifics of accounting in accordance with the international accounting community rules that come mainly from the Russian Federation.

But in most cases translations from English into Russian are not always correct. This is due to the fact that in Belarus and in Russia there are not many specialist linguists that udestsnd economic English (including accounting).

Therefore at the begining in this country in special economic literature one can find such thing as a "fixed capital", "own sources",

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"own capital" and other gems of the process of borrowing resulted in the implantation of foreign terms in Belarusian economic reality.

I would like to emphasize one more feature in relation to the use of the above terms: they are used in publications on the analysis of economic activity, but not in the accounting literature.

The latter is not related to the fact that my colleagues, writing about the accounting topics have more meager vocabulary, but to the fact that in Belarus accounting is regulated by legislation.

Under Article 2 of the Law "On Accounting and Reporting" capital is the organization's assets after deducting all of its liabilities. And to use a different term of capital in their studies accountants are not allowed to (they are prohibited by law). In addition, accountants, and practitioners can accuse scientists of providing false information on how to calculate capital.

Thus, the Belarusian law determines the formula for calculating the organization capital, but it does not specify the nature of capital. There is no doubt that this is a distinct omission in the law, because it turns more to the dictionary of economic terms than in the document that establishes the essence of the facts of economic life.

Strazhev, Bogdanovskaya, Migun, Vinogorov, Rusak, Shartuh (2010) are indicate that a relevant measure of capital equity depends on the asset or liability of the accounting balance that has been calculated. Ie capital of the organization can be both assets and liabilities of the organization.

Savitskaya (2008, pp.247-249) gives the following definition: "Capital are the assets at the disposal of a business entity to carry out its activities with a view to profit." Is not it true, its approach represents the views of Pachioli, and of Keyns.

But at the same time Savitskaya states: "Capital is formed both by intrinsic (internal), and through debt (external) sources."

No less interesting according to Savitskaya is that capital is invested in fixed capital (noncurrent assets) as well as in working capital (current assets) (2008, pp.249-250).

Thus, Savitskaya defines "capital" as the assets and liabilities of the organization.

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Ermolovich, Sivchik, Tolkach, Schitnikova (2008, p.68, pp.72-73) also allocate capital assets as fixed and working, and in liabilities of organization as invested, equity, etc.

Thus, the Belarusian accounting specialists traditionally understood capital in the context of the classical economists definition. The approach of the Belarusian scientists is not unlike the approach of the Russian Colegio. It is not surprising because the two countries had a common Soviet past and the common Soviet legacy. They view capital as a factor of production, that is, the entire amount of wealth, by which the organization receives income.

Below, we provide an overview of the approaches of Western scholars, but in terms of presentations in Belarusian and Russian translated editions.

According to Adam Smith (1993, pp. 306-312) capital is divided into primary (making a profit without its involvement in treatment or change of ownership) and working (it generates revenue only in the process of applying).

From this point of view, capital is defined as a subject of accounting in Russia.

Thus, the assets of accounting balances are considered as detailed characteristic of the capital components of the company, and liabilities are considered as a demonstration of the sources of capital, including its sources of funds, which form part of the total capital of the company.

According to the Belarusian and Russian scientists capital is characterized by the balance sheet. For it role in the economy and in relation to the balance sheet they are distinguish active and passive equity.

Active capital consists of the organization's assets. In other words, the active capital is the value of the organization's assets under its ownership.

Passive equity is the sum of the sources of the organization's assets, which are classified into debt and equity (2003, p. 363).

The balance sheet requires mandatory equity cost outcomes of assets and liabilities:

Assets = Liabilities.

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This equation was known as the basic accounting equation (the fundamental equation of the balance sheet) and Luca Pacioli formulated as early as 1494.

Economically developed countries as the basic balance equation are considering the following equation:

Assets = Liabilities + Equity.

Who is right in this case? It is simple to ask the author, Luka Pacioli.

Among Russian authors (usually who refer to Western experts in accounting), is very popular the idea that capital can be seen, on the one hand, as their own source of funding, and on the other hand - as a functioning capital, ie total non-current and current assets.

Thus, Wood speaks about this as follows (translated from Russian to English). «Funds, which the firm ownes are called Asset, and it is clear that part of these funds will be provided by the owners of the company. Total funds contributed by them are known as the capital. ... If the owner is the only one who had the assets, then it is fair to the following equation: Assets = Capital «(2002, p. 2). «On the other hand, someone who is not the owner usually pays assets. Indebtedness of the company for the money is called liabilities. Now the equation is: Assets = Liabilities + Equity» (2002, p. 4).

Hendriksen and Van Breda said «equity is the difference between the assets of the corporation and its accounts payable. Often it is called net assets of the corporation» (2000, p. 479). Therefore, the basic accounting equation can be transformed as follows: Assets - Financial Liabilities = Equity (1998, p. 31) (translated from Russian to English).

Anthony and Rice stated that "capital raised from shareholders as direct contributions (paid-in capital) and indirectly in the form of profit redistribution is called proper (equity) capital. Capital received from a loan is called loan capital" (1993, p. 147). (Translated from Russian to English).

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It should be noted that the school of accounting, formed in Belarus as a part of the former Soviet Union, as well as for schools of the CIS states, are characterized by the balance sheet approach for the definition of property and its classification. That is why the total assets balance is equal to total liabilities balance and equal to the property value of the organization. And this is not due to the application of the principle of double entry.

According to the balance sheet approach, assets are defined as funds belonging to the enterprise. Assets are classified according to two main criteria: by type, composition and distribution and on their sources and purpose, which ensures equality outcomes of the assets and liabilities balance. Such a classification of the property business has been introduced into the economy the generally accepted during the struggle with vestiges of the past in the 20-30's years and has retained its relevance to the present day.

In the last 10 years, further development of the balance sheet approach in Belarus accounting led to the replacement of the word «sources» in to the word «capital», and yet, as it turns out, capital is now presented as an asset on the balance sheet, and as well in the equity of balance.

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Comparison of capital definitions in the Belarusian legislation, IFRS and US GAAP.

In most books in Russian the term "Equity" is translated as "Capital".

Revealing the contents of the elements of financial statements of companies, Framework IFRS define equity as net assets with no debt: Equity is the residual interest in the assets of the enterprise after deducting all its liabilities (Framework, 49 (c).). Belarusian legislation defined capital as the difference between assets (ie property of the organization) and all of its liabilities (capital is assets of the entity after deducting all of its liabilities (the Law

"On Accounting and Reporting»). US GAAP identified Equity or net assets as the residual interest in the assets of an entity that remains after deducting its liabilities (CON 6, 49). Thus, as we can see, the definition of capital in IFRS, US GAAP, and in the Law "On Accounting and reporting" are almost the same. The major differences in Equity definition are given in the table:

Table 3.1: Equity definitions in IFRS, US GAAP and Belarus legislations

	IFRS	US GAAP	Belarus law
Equity	Equity is the residual interest in the assets of the enterprise after deducting all its liabilities (Framework, 49(c).	Equity or net assets is the residual interest in the assets of an entity that remains after deducting its liabilities (CON 6, 49). The equity or net assets of both a business enterprise and a not-for-profit organization is the difference between the entity's assets and its liabilities. It is a residual, affected by all events that increase or decrease total assets by different amounts than they increase or decrease total liabilities. Thus, equity or net assets of both a business enterprise and a not-f or-profit organization is increased or decreased by the entity' s operations and other events and circumstances affecting the entity (CON, 50).	Equity is the organization's assets after deducting all of its liabilities (Law on Accounting and Reporting)

In the most common form equity (and its value) is determined by the difference between the amount of accounting estimates of assets and liabilities. This approach allows us to consider the balance sheet not only as a result of recordings on the account during the period, but as a result of the measurement of the company's financial position elements (assets and liabilities) on the reporting date. Thus equity is considered not only as a result of evaluations of past events, but also as a result of current estimates of the current state of the organization. Such estimates are compared to estimates of past events and can serve as a basis for future-oriented investment decisions.

This idea underlies and justifies the use of estimates at fair market value, and as well as the presentation of such items at

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the present value of future cash flows. In other words, this is the reflection in the accounting reporting, of estimates of assets and liabilities, best suited at the reporting time. The amount of equity of the company is basic, on the one hand, due on the facts of economic life during the reporting period, and the other - in the assessments of the balance sheets as the component of the financial position of the organization at the date on the balance sheet.

The interests of the users of accounting information determine equity representation based on the equity data in the statements. In Framework and US GAAP although equity is defined in general as the residual value, in the balance sheet it can be broken up into sub-groups. Exclusive of the differences between the three standards, the major differences in Structure of Equity are given in the table:

Table 3.2: Structure of equity in IFRS, US GAAP and Belarus lagislation

	IFRS	US GAAP	Belarus law
Structure of Equity	Equity may be sub-classified in the balance sheet. For example, in a corporate enterprise, funds contributed by shareholders, retained earnings, reserves representing appropriations of retained earnings and reserves representing capital maintenance adjustments may be shown separately. Such classifications can be relevant to the decision-making needs of the users of financial statements when they indicate legal or other restrictions on the ability of the enterprise to distribute or otherwise apply its equity.	In a corporation, shareholders' equity arises from three sources: contributed (paid-in) capital, retained earnings and the accumulation of other comprehensive income. Contributed (paid-in) capital is the amount of equity invested in a corporation by its owners. It consists of capital stock and additional paid-in capital. Capital stock is the par or stated value of preferred and common shares.	- authorized capital ; - Unpaid portion of the authorized capital; - Own shares (the share capital); - reserve capital ; - additional capital ; - Retained earnings (accumulated losses); - Net income (loss) after tax ; - special-purpose financing .

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Table 3.2: Structure of equity in IFRS, US GAAP and Belarus legislation: Continues

	IFRS	US GAAP	Belarus law
Structure of Equity	They may also reflect the fact that parties with ownership interests in an enterprise have differing rights in relation to the receipt of dividends or the repayment of capital (Framework, 65).	Retained earnins are thecumulative net income of the corporation from the date of its inception (or reorganization) to the date of the financial statement, less the cumulative distribution to shareholders either directly (dividends) or indirectly (treasury stock). Other comprehensive income is the change in equity of a business enterprise during a period that arises from sources other than net income and transactions with its owners: net unrealized holding gains and losses on investments classified as available-for-sale securities (FAS 115), the effective portion of the gain or loss on derivative instruments designated and qualified as either cash-flow hedges or hedges of forecasted foreign-currency-denominated transactions (FAS 133), the excess of minimum pension liability over unrecognized prior service cost (FAS 87), and unrealized gains (losses) on foreign currency translations (FAS 52).	- authorized capital ; - Unpaid portion of the authorized capital; - Own shares (the share capital); - reserve capital ; - additional capital ; - Retained earnings (accumulated losses); - Net income (loss) after tax ; - special-purpose financing.

The balance sheet item of equity can be divided into its constituent sub-elements that are of interest to users. Framework and US GAAP provide that the corporate (share) capital of the company is divided by at least three articles: funds contributed by shareholders, retained earnings, reserves representing the allocation of retained earnings, and certain adjustments to ensure the maintenance of capital.

The first includes the reserves formed in accordance with the statute or legislation and represent additional safeguards

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against possible loss or formed in accordance with the tax laws in order to obtain tax exemption or reduction of taxes.

The second includes provisions related to the revaluation of assets as a result of inflation reduced in the value of currency used for reporting, endowment and other similar amounts (such approaches in general coincide with the Belarusian legislation - Instruction number 111).

In international and national practices of many countries the reserves in the financial statements are classified into four main characteristics:

1. Capital reserves, including the revaluation value (this was mentioned above), and revenue reserves in the future - the various subsidies and grants revenue assets;

2) Reserve requirements (by the law) and non-normative provisions (decision to form that is accepted in the organization);

3) Distributed and non-distributable reserves: the first can be distributed among the shareholders, and sometimes they are created only for this purpose, the second are not to be distributed until the liquidation of the company;

4) Targeted and general provisions: the first is to use them on strictly defined targets, the latter do not have a pronounced target installation.

Presentation of capital in such a structure allows the user of the financial statements to determine the degree of legal and other restrictions on the distribution or use of any organization of its capital.

For example, the revaluation reserve and share premium of the organization cannot serve as direct sources of payment of dividends to the owners of the organization. At the same time, under certain circumstances and depending on the accounting policies, the revaluation reserve may be transferred to retained earnings (see IFRS (IAS) 16), and thus replenish the source of funds for dividends.

The balance sheet capital structure may also reflect the extent and severity of the property claims of the owners of the organization if it reproduces their interest in the capital, and if the notes to the balance sheet reserved their rights (such as rights of preferred shares of different classes).

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Framework and US GAAP are interpreted to create reserves from profit as part of the equity such as a demonstration of certain restrictions on the use of earned profit. This emphasizes the interpretation of equity, which is important to the users to assess the financial position. Under this interpretation the equity of the organization minus the amount of money contributed by its owners (and in their capacity as owners), is not their withdrawn income.

Creation of reserves, as noted in the Framework of IFRS and US GAAP, may be provided by constituent documents of the organization, or the law, so that in a certain way then protect the organization itself and its creditors from the consequences of possible losses. In this case, the creation of such reserves is the use of retained earnings rather than consumption (ie, it is not a profit factor, and its allocation).

In general, equity of the organization can be divided into capital, which it received from shareholders, as well from its own efforts as a result of the capitalization of retained earnings and provisioning. Equity contributed by shareholders in the reported balance sheets is usually divided into two items: the amount of the nominal value of shares and premium (share premium above par) for the shares contributed by shareholders at the time the primary issue.

Framework and the US GAAP specifically emphasize that the definitions given for the equity are suitable for any other form of organization of independent legal entities, but of course, subject to the limitations set by the national legislation on the formation and distribution of equity in such organizations.

Separately, the text of the IFRS Framework notes that the reported value of equity, and the total market capitalization of the organization, as a rule, does not match. The amount of equity shown in the balance was determined by measurement of assets and liabilities. These methods are defined by the standards and the accounting policies, and are based on the professional judgment of the accountant. All this can make the outcome of the element assessment subject.

Thus, the estimated value of equity may only by chance coincide with an aggregate market value of the company, either the amount that would be received from sale of a maturity of its assets and current liabilities, or sale of the company as a whole.

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Two concepts of capital in US GAAP and IFRS.

The so-called concepts of capital are one of the theoretical construct keys underlying the accounting methodology defined by US GAAP and IFRS. Their idea is to determine the possible interpretations of the profits of the company and its capital, based on the economic concept of accounting information. In Belarusian science and Belarusian legislation so far such concepts do not exist. The major differences in concepts of capital and capital maintenance concepts are given in the table:

Table 3.3: IFRS and US GAAP differences in concepts of capital and capital maintenance concepts

	IFRS	US GAAP	Belarus legislation
Concepts of Capital and Capital Maintenance Concepts	A financial concept of capital is adopted by most enterprises in preparing their financial statements. Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the net assets or equity of the enterprise. Under a physical concept of capital, such as operating capability, capital is regarded as the productive capacity of the enterprise based on, for example, units of output per day (Framework, 102). The selection of the appropriate concept of capital by an enterprise should be based on the needs of the users of its financial statements. Thus, a financial concept of capital should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital.	**Concepts of Capital Maintenance** A concept of maintenance of capital or recovery of cost is a prerequisite for separating return on capital from return of capital because only inflows in excess of the am ount needed to maintain capital are a return on equity. Two major concepts of capital maintenance exist, both of which can be measured in units of either money or constant purchasing power: the financial capital concept and the physical capital concept (which is often expressed in terms of maintaining operating capability, that is, maintaining the capacity of an enterprise to provide a constant supply of goods or services). The major difference between them involves the effects of price changes on assets held and liabilities owed during a period.	In addition to the definition of capital, there are no concepts of capital and capital maintenance existing.

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Table 3.3: IFRS and US GAAP differences in concepts of capital and capital maintenance concepts: Continues

	IFRS	US GAAP	Belarus legislation
Concepts of Capital and Capital Maintenance Concepts	If, however, the main concern of users is with the operating capability of the enterprise, a physical concept of capital should be used. The concept chosen indicates the goal to be attained in determining profit, even though there may be some measurement difficulties in making the concept operational (Framework, 103).	Under the financial capital concept, if the effects of those price changes losses» and are included in return on capital, than would be recognized but called «capital m directly in equity and would not be included in return on capital. Under that concept, capital maintenance adjustments would be a separate element rather than gains and losses. The financial capital concept is the traditional view and is generally the capital maintenance concept in present primary financial statements. Comprehensive income as defined in paragraph 70 is a return on financial capital (CON 6, 72).	In addition to the definition of capital, there are no concepts of capital and capital maintenance existing.

US GAAP and IFRS concepts allow companies to choose as the base of accounting methodology one of the two concepts of capital:

Financial capital maintenance;

Maintenance of the physical (or economic) capital.

According to the concept of financial capital income is earned only if there is an increase in net monetary assets for the period, excluding all payments to owners of the organization and their contributions to the organization during the reporting period. It is in line with this concept; that capital is treated as a share of ownership in the assets of the organization, and the earnings - as the increase in the actual purchasing power of invested capital owners.

According to the concept of physical capital maintenance income is earned only if the reporting during period that include a gain of physical productive (or operating) of

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the organization's ability (resources, funds that provide this capability), excluding all payments to owners of the organization and their contributions to the organization during the reporting period.

Obviously, under this concept all of its productive capacity serves as the firm's capital, that is, the set of all of its assets as the carriers of the future economic benefits.

US GAAP and IFRS Framework include specific comments, as the selection of one of the concepts is effected on the treatment of capital and income in reporting. The concept of capital maintenance – it is celebrated as in US GAAP, and IFRS - refers to how a company defines capital that it is going to maintain;

It establishes a link between the capital and the concepts of profit because it provides a benchmark for measuring profit;

It acts as a basis for distinguishing between revenue on capital and return on capital;

Only asset growth in excess of amounts needed to maintain capital may be regarded as corporate profits and, thus, to be called the return on capital.

The profit is the result of subtracting expenses (including adjustments to ensure the maintenance of the capital, where needed) from income. If the expenses exceed income, the difference is a net loss.

There is no doubt that this approach is relatively new and radical for the inexperienced Belarusian accountant. The Belarusian accountant is accustomed to understanding income as the difference between revenues and expenses, which is calculated at the reporting of the facts of economic life during the period. In particular, this implies, for example, the ability to reflect the profit for the period in the presence of uncovered losses of previous years. In this regard, we first need to understand what is the concept of capital maintenance in general.

Capital maintenance. US GAAP and IFRS Framework's conventional wisdom held that income could be recognized for the current reporting period only it represents the preservation of entity capital.

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According to par 105 of the Framework the concept of capital maintenance is concerned with how an enterprise defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an enterprise's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a net loss).

From the above discussion, we can generally conclude that the profit is the increase in the company's capital. But it is so only in the case where the profit is the increase in capital at the end of the period after saving the size of the initial capital. This statement is used to determine the meaning of the idea of capital maintenance.

It is traditionally believed that the profit is the amount of currency earned by the enterprise for its owners during the period. If the profit is calculated as the nominal amount of earned currency, we are dealing with the approach to the measurement of profit and, therefore, of capital in the nominalism concept. But this concept has legal roots. So, if we assume that the initial capital of the company amounted to 100, and its value at the end of the period is 120, then the profit of the company is 20.

This approach can be easily illustrated by the following example. We have a lot of goods, valued at $10,000. The revenue from the sale of these goods for the period was $12 000. Based on the nominalist approach, we got a $2000 profit.

However, between the beginning of the selling the goods and the date of the income statement some time has passed during which the money that we received has changed value (purchasing power). However, this factor, in this case, is not

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taken into account in the calculation of financial performance and the statement of capital growth of our company.

In the concept of capital maintenance, which is based on the idea of Hicks (1946), profit is considered, as the amount that an organization can spend (not be poor relative to its financial position at the beginning of the period.)

The interpretation of these ideas in US GAAP and IFRS is that the organization may not go broke, spending profits. That is, an organization can keep (maintain) capital if its evaluation in terms of profit takes into account the factors of time value of money, price increases due to inflation. That is, changes in capital are estimated adjusted for "today's" value for money. In this case the profit is defined as the amount earned by the company in excess of the amount necessary to replace (recover) the assets.

Continuing the example, we can assume that the purchase price of a similar consignment from suppliers at the reporting date for the company made $11,000 - not $10,000.

In this case, profits and thus capital growth of our organization should be recognized only in the amount of $1, 000 (12, 000 – 11, 000).

Thus, under this concept, profit can be defined as the income left after we have retained sufficient resources to be able to do what we could do at the beginning of the period. Furthermore, this value can be determined after an assessment of the assets and liabilities at fair value at the balance sheet date.

Of course, these arguments are very simplistic, but in general they can describe the features of the concept of capital maintenance as the basic framework of methodology of accounting treatment of transactions that qualify as income generation and expenditures of the company.

The differences between the two concepts of capital maintenance, defined US GAAP and IFRS.

According to the US GAAP and IFRS, the concept of physical capital maintenance requires accepting as a basis for

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the measurement of assets at replacement assessment (current) value. The concept of financial capital maintenance involves measurement of the asset at cost (and its cost). (The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement. Selection of the basis under this concept is dependent on the type of financial capital that the enterprise is seeking to maintain (Framework, par 106).

The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the enterprise. In general terms, an enterprise has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required maintaining the capital at the beginning of the period is profit (Framework, par 107).

According to the concept of financial capital, in which capital is estimated in monetary units of constant purchasing power, the rise in asset prices, which remained on the balance sheet of the organization during the reporting period, commonly are known as income from ownership (holding gains). Conceptually, such gains are profits, but they cannot be recognized as such until the assets are sold.

Since the concept of capital maintenance is defined on the basis of constant purchasing power of the monetary unit, the gains are only the part of the increase in the value of assets that exceeds the increase in the general price level (Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, profit represents the increase in nominal money capital over the period. Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains, are, conceptually, profits. They may not be recognised as such, however, until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in

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terms of constant purchasing power units, profit represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as profit. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity (Framework, par 108).

The remainder of the increase in the value of assets is considered as a correction, which maintains the capital and, therefore, is the part of the saved (supported) capital.

Under the concept of physical capital maintenance, when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the enterprise are viewed as changes in the measurement of the physical productive capacity of the enterprise; hence, they are treated as capital maintenance adjustments that are part of equity and not as profit (Framework, par 109).

US GAAP and IFRS Framework provide companies with the opportunity to select one of the concepts of capital maintenance as the basis of reporting. Currently, most of the companies that compile then financial statements in US GAAP and IFRS format are use the financial concept of capital.

"Essence of the Belarus accounting system - is to prevent future."

Unknown Belarus accountant, the 21st century.

Capital in US GAAP, IFRS and the Belarusian accounting legislation: general conclusions.

Capital is one of the most difficult interpretive accounting categories. Almost every theory gives its own interpretation of this concept. This gives rise to ambiguity and the diversity of interpretations related to terms, such as "capital," "equity," "

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capital of owners," "borrowing capital", "Capital of shareholders," "equity," "residual assets (capital)," etc.

The lack of unity in the definition of assets, liabilities and equity (capital) in the Belarusian literature connected with full absence of financial position concept. As a consequence, the lack of Belarus regulatory legal acts.

An unambiguous interpretation of the terms used in accounting, has a direct impact on the understanding of the users of financial statements. As demonstrated by our investigation, Belarus applied a definition that is close to the IFRS treatment of the concept of income (revenue), expenses and equity (capital) of the organization.

But very close does not mean identical. The Law "On Accounting and Reporting" defines capital as the assets of the entity after deducting all of its liabilities. According to US GAAP and IFRS equity is interest in the assets of an entity after deducting all of its liabilities.

The assessment of capital is based on assessment of assets and liabilities. The issue of the capital assessment is important both from the point of view of profit theory (profit is a part of capital), and from the point of view of practice, as it is important for all users of capital.

Earnings estimates, and a reflection of changes in equity in the financial statements of companies in accordance with the concept of capital maintenance, is one of the basic differences between accounting methodology defined by US GAAP and IFRS ideas, and from the methodological foundations of the current Belarusian accounting practices.

Existing differences are that profit is not seen as the difference between the nominal amount of the liabilities arising in the course of transactions reported by the company (ie, the difference between income and expenditure according to the Instruction № 102), but as the value of showing real growth estimate (from the point of view of economic theory) welfare enterprise, which allows owners to talk about getting income from investments in its operations.

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This approach is more consistent in assessing the success of the company from its inception to the present moment, considering the dynamics of the economic situation, in which the organization operates. In this case, the reliability of the statement presentation, which displays the dynamics of the capital assessment, is largely a consequence of the implementation of the accounting judgment. This actual state of affairs should be evaluated in the reporting by the auditors.

It is very important in this case to understand the differences in the definitions of the concepts under consideration in the original US GAAP and IFRS and their existing Russian translations.

The so-called own sources of funds, called in the Russian translation by the term "capital", in the original text is identified by the term "obligation to the owners" (equity) in total liabilities, but not the "capital of the organization", they are also understanding the value of property of the organization considered under capital in the Belarusian-Russian scientifice books.

Based on this interpretation of the concept of capital, capital corresponds to the classical treatment in economic theory as a set of goods (property), which brings economic benefits, that is, in the end it allows the organization to generate income.

In this case, such an approach is a reflection of the overall approach to the post-Soviet space, and according to which the assets and liabilities on the balance sheet are the capital (and before that - the funds, facilities, property, assets), but grouped according to various criteria: by type, composition and placement (assets), and the sources and intended purpose (liabilities and equity).

Law and practice of accounting in Belarus does not contain provisions relating to the maintenance of capital, but, judging by some of the current legislation and practice, the legal concept of capital maintenance is to be used in the financial statements for 2012, which do not consider US GAAP and IFRS Framework.

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The legal concept is especially important for organizations with limited liability, additional liability and joint-stock companies in Belarus. According to it the payment of dividends to shareholders and owners cannot be made from the amount of capital contributed by them and statutory general reserves are to be retained by law or charter. This concept is generally drawn from the concept of financial capital maintenance in accordance with US GAAP and IFRS, although not fully adequate to it.

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4. Income, expenses and capital financial statements acording to Belarus accounting legislation, US GAAP and IFRS

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Belarusian income, expenses and capital financial statements: an analysis

"The profit is - there is no money;
money is - there is no profit".
Metamorphosis of
the Belarusian
Economic model of
the early 21 th century

It was difficult or even virtually impossible for Belarus Ministry of Finance to build a complete system of accounting and financial reporting in the absence of a complete income theory in Belarus, as well as the concept of income accounting and a reporting system that reflects the financial position model on the reporting date. There is only one Law «On accounting and reporting» and the only Instruction of Ministry of Finance №102, giving definitions of the basic concepts of income accounting and reporting, without establishing a clear logical relationship between them. But it is not enough.

However, in these circumstances, the Ministry of Finance undertook strenuous efforts to develop a methodology of profit accounting. The content and composition of financial statements was periodically reviewed. The names of individual sections of financial statements were changed, as well as the names of the financial results during 1993-2012. The radical changes in the basis of accounting as well as centrally

installed chart of accounts, were borrowing from the relevant regulations of the Russian Federation.

After 1998, the basis of the ideological justification of changes in the financial statements was the thesis of the necessity transition to IFRS. That is IFRS are responsible for all changes in accounting methodology. In this case, as we showed earlier, the changes only in terms of profit and capital do not look like they are closer to IFRS. But minor changes in the income reporting were primarily based on the concepts of profit, inherited from the former Soviet Union.

And almost up to the present these ideas dominate the development of the majority of regulations, somehow related to the issues of accounting profits. And it is quite natural: in the absence of a new doctrine of accounting profit it is naturally for some Belarusian scientists to use the old store of knowledge from the former Soviet Union.

Thus, the specificity of theoretical ideas about profit as part of the income of the whole country, consists of funds of consumption and savings, reflects on the income recording in accounting and financial reporting of organizations.

The penultimate chart of accounts of the former Soviet Union (USSR Ministry of Finance order of 28.03.1995 № 40 "On approval of the chart of accounts of associations, enterprises and organizations, and instructions for its use" (valid until 1991) defined income as the difference between sales and costs.

At the same time, the chart of accounts provided the usage of profit to pay taxes from income and to create economic incentive funds. The use of economic incentive funds are governed by the laws of the USSR (not the company). Before the collapse of the USSR the last chart of the USSR (the order of the Ministry of Finance of the USSR from 01.11.1991, № 56) was adopted, which operated in Belarus (as amended) to 2004 (repealed Ordinance of the Ministry of Finance of the Republic of Belarus of 30.05.2003 № 89).

According to the commentary with the chart of accounts, final financial result (profit or loss) is comprised of the financial

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result of the sale of goods (works, services), other tangible assets and income from non-operating regulations, are reduced by the sum of the costs of these operations.

The overall financial result was impacted by the amount of taxes from income, various expenses from income, including various expenses on any social needs of the stuff, dividends to shareholders and the various funds of profit (capital reserves, funds of consumption and accumulation). Procedure for the formation and use of funds for profits for other purposes was regulated by the constituent documents.

In Belarus, from the first days of independence (1991) accounting was based on regulations from the former USSR. Moreover, in the absence of other regulations that regulated legal lease contracts, commissions, factoring, transaction in securities, it was accounting regulations.

From 1993 to 2011 the balance sheet equation is based on the current legislation of Belarus, and it was based on the following (it is more characteristic of non-profit and unitary enterprises than for corporations and LLC) (Ministry of Finance of Belarus of 19.11.1992, the № 15-6/27 «The composition and the procedure for filling the annual financial statements of enterprises and organizations»):

$$A = P,$$

where:

A - The assets of the organization;

P - liabilities of the organization.

In the balance sheet structure of the organization's assets for 1993-2003 it was reflected property in the same composition, but grouped it in other sections. Thus, in the annual reporting for 1993 (Ministry of Finance of Belarus of 19.11.1992, the № 15-6/27 «The composition and the procedure for filling the annual financial statements of enterprises and organizations", hereinafter - Instruction № 15-6/27) assets were grouped into

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3 sections, namely, long-lived assets, intangible assets and current assets.

Liabilities in balance sheet from 1993-1997 were presented as :

- EQUITY (statutory fund, reserve fund, special purpose, provisions for doubtful accounts, provisions for liabilities and charges, targeted funding and revenues, lease obligations, retained earnings from previous years and the year);
- Long-term financial obligations;
- debt to creditors and other liabilities (ie, short-term liabilities).

Profit equation with respect to the financial statements 1992 -1998, there was the following:

$$BP = B - N - Z - ZN,$$

where:

BP-book income (loss);

B - revenue (gross income) from the sale of products (goods, works,

services);

H - taxes from revenue (value-added tax and other taxes);

Z - the cost of production and distribution of goods sold (goods and services) under applicable law. At that time, the determination of cost of goods (works, services), income and expenses from non-operating regulations should be guided by determining the structure of costs for accounting purposes (basic provisions on the composition of the expenses included in cost of goods (works, services) and regulations governing the procedure for calculating the profit taxes (p.3.15 Instruction № 15-6/27);

ZN - loses that are not included in cost of goods (works, services) under the law (in excess of costs and regulations, non-manufacturing costs, etc.).

According to paragraph 3.24 of Instruction № 15-6/27 the use of the profit was in the following areas: outstanding

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amounts of property tax, income tax and other payments to the budget of profits, contributions to the reserve fund, deductions for savings (profit, aimed at industrial development of the company and other similar purposes), deductions for consumption (income directed towards activities related to social development (excluding capital investment) and financial incentives of staff and similar events and activities that do not lead to the formation of a new property), as well as contributions to charity.

And, perhaps this is most important provision for the use of profits: the company independently determines the direction of net profit, unless otherwise provided by statute and regulations (p.3.24 Instruction № 15-6/27). Moreover, if the funds are not created for special purposes, the use of profit for the development and improvement of production (without creating a new asset) is recognized under the "accumulation fund", and for social services and the promotion is recognized under the "consumption fund."

Since 1993 the profit for accounting purposes is considered, as one of their own sources of capital investment, along with amortization and debt at the legislative level (according with par 3.41 of Instruction № 15-6/27).

For the first time the need for dividend reporting to owners has been set for the annual income reporting for 1998 (clarification from the Ministry of Finance of Belarus 13.01.1999 № 1). Only in the reporting for 1998 and later, it was envisaged that the companies when they are considering the results of the activities of the year, and are making a decision to close operating losses for the year, may apply for this purpose retained earnings from previous years, the reserve fund, the unused funds of funds accumulation, consumption, fund replenishment of working capital, cash contributions from founders and members of a business entity.

In the balance sheet for 1999 assets, instead of three sections in 1998, were divided into two sections: the long and short term assets. The previous year section of balance liabilities

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"EQUITY" was renamed into the section "Shareholders' capital" (Ministry of Finance of Belarus on January 20, 2000 N 23). But the very balance equation has not changed.

The fairly significant changes came in the structure of the income statement. First, the income for the period was defined as the algebraic sum of the profit (loss) from sales, income (loss) from operating income and expenses (please not to be confused with the operating income and expenditure in the US GAAP and IFRS), earnings (or loss) from non-operating income and expenses.

In this case, losses from non-operating expenses were reflected costs for activities on social development (excluding capital investment) and financial incentives of enterprises staff and other similar events and activities that do not lead to the formation of the new property company), as well as the charity. In the income statement from the expenses were for the first time separeted administrative expenses and selling expenses.

Since 1999, the profit equation had the following form:

POP = B-H - Z,

where:

POP - Income (loss) for the period;

B - revenue (gross income) from the sale of products (goods, works,

services) plus income from operations plus income from operating activities;

H - a tax revenue (value-added tax and other turnover taxes);

Z - the cost of production and distribution of goods sold (goods and services), according to the current legislation, and other costs not included in the cost.

The following changes in the structure of the balance sheet occurred in the reporting for 2007 (Ministry of Finance of Belarus March 7, 2007 N 41). The previous liability balance

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“Shareholders’ capital” section was renamed as the «Capital and reserves» section, and sections of long-term financial liabilities and payments and other liabilities were merged into one section «liabilities».

Beginning with 2008 reporting (including reporting for 2011) excluded the section of the balance sheet «liabilities», and instead introduced a new, or forgotten old sections, «non-current liabilities» and «short-term liabilities.»

Names of some profit parts have been changed for the period. Income was defined as the algebraic sum of the profit (loss) from sales of goods, products, works and services, the amount of profit (loss) from operating income and expenses and the amount of profit (loss) from non-operating income and expenses. In this case, in the profit from the sale of goods, products and services has been allocated to gross profit.

In addition, in the income statement profit has been defined as income (loss) before income taxes, and income taxes. Net income in accordance with the new version of the income statement was calculated as follows. Income plus / minus expenses not deductible for tax, plus / minus income, non-deductible, are seting the amount of profit (loss) before tax. Profit (loss) before tax minus income taxes less other taxes, fees from income minus other expenses payments from profits are made the sum of net profit. For the first time since 2008 income reporting has reflected such indicator as income (loss) per share.

Beginning with reporting for 2012 (Ministry of Finance decree, October 31, 2011 № 111) in the balance sheet equation, instead of the term “liabilities” the term “Equity and liabilities” has been applied, while the composition and content of the balance sheet is not changed and it is similar to the previous version of reporting.

However, the accounting equation is as follows (corresponding to modern approaches in developed countries):

$$A = K + L$$

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where:

A - The assets of the organization;

K - capital of the organization;

L - liabilities of the organization.

In the income statement then has been a change related to the presentation of profits itself. Previously profit was defined as non-operating and operating income, and expenses indicators were reformatted accordingly in income from continuing operations (sale of products, goods and services), profit from investing and financing and other activities indicators.

In addition, the calculation of net income has taken into account the changes in deferred tax liabilities and deferred tax assets, which is not actually observed in the income financial statements according to IFRS and US GAAP (where deferred tax assets and liabilities are recognized in the balance sheet only).

Becides, in income statement are appeared such indicators as "Basic earnings (loss) per share", "Diluted earnings (loss) per share" and "Comprehensive income", which must be calculated in accordance with the law so far, that is not yet existing.

The formula to calculate the total profit gained as follows:

$$SP = B - Z \pm IONA \pm IONO \pm D\ (U)$$

where:

SP - comprehensive income (loss) for the reporting period;

B - revenue (gross income) from the sale of goods (works, services), plus investment income plus income from financial operations (net of income taxes);

Z - the cost of production and distribution of goods sold (goods and services), according to the current legislation, and other expenses not included in the cost, and the losses of investing and financing activities;

IONA - change in deferred tax assets;

IONO - change in deferred tax liabilities;

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D (U) - gains and losses are included in the total income, but excluded from net income.

This approach is a modified version of the Belarusian dynamic determination of profit.

Thus, in the period from 1993 to 2012 in the absence of the doctrine of accounting financial statements the organizations in Belarus were presented the financial (accounting) statements. Composition and names of balance sheet items and in income statement during the period was changed several times. Till present time income is defined as the difference between the revenue of the organization (sales revenue, revenue for the reporting period, other incomes, operating incomes, non-operating incomes, etc., in different years of the study period) and expenses related to the receipt of income (income taxes, expenses for the reporting period, revenues from sales of products, goods and services, operating expenses, non-operating expenses, other expenses, etc.).

Revenues and expenses were grouped into articles with different names and on different grounds. And each time the next change in the structure of the income statement is explained by the need for following closer to IFRS. Only in the income statement for 2012 used the term comprehensive income without justifying its necessity and its essence.

Table 4.1: The structure of the income in the income statement for 1993-2012

Income statement–2012	Income statement– –2008-2011	Income statement– –2004	Income statement–-1998	Income statement–1993-1997
Revenues from sales of products, goods and services	Income and expenses for activities. Revenues from sales of products, goods and services	Income and expenses for activities. Revenues from sales of products, goods and services	Revenue (gross income) from sales (goods and services)	Revenue (gross income) from the sale tion of products (goods, works, services)

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Table 4.1: The structure of the income in the income statement for 1993-2012: Continues

Income statement– 2012	Income statement– – 2008-2011	Income statement– – 2004	Income statement– 1998	Income statement– 1993-1997
	Taxes and fees included in the revenue from the sale of goods, products, works and services	Taxes and fees included in the revenue from the sale of goods, products, works and services	Sales tax Charges for services Added Value Tax Excise Contributions to the fund for Supporting of Agriculture product producers Deductions to Fund for the maintenance institutional housing	Added Value Tax Excise Fuel Tax Contributions to the fund for the regulation of retail prices Tax on foreign exchange earnings
			Expenses and deductions excluded from revenue (gross income)	Expenses and charges that are excluded from revenue
	Revenues from the sale of goods, products and services (excluding Taxes and fees are included in the revenues)	Revenue from sales of goods, products, works, services (less VAT, excise duties and other similar payments)		
Cost of products, goods and services	Cost of products, goods and services	Cost of products, goods and services	Production, sales and marketing costs (goods, works and services)	Production, sales and marketing costs (goods, works and services)

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Table 4.1: The structure of the income in the income statement for 1993-2012: Continues

Income statement–2012	Income statement– –2008-2011	Income statement– –2004	Income statement– -1998	Income statement– 1993-1997
gross profit	gross profit			
management expenses	management expenses	management expenses		
Selling expenses	Selling expenses	Selling expenses		
Income (losses) from sales of products, goods and services	Income (losses) from sales of products, goods and services	Profit (losses) from sales	Results from the sale of (goods, services)	Results from the sale of (goods, services)
	Operating Revenues and Expenses		Gains and losses on extraordinary operations + subsidy from the budget for losses, price differences, etc.	Income and expenses from non-operating operations
	PROFIT (losses) from operations income and expenses			
	Not-sale income and expenses			
	EARNINGS (LOSSES) from Not-sale income and expenses			
Other income from current operations				
Other expenses from operating activities				
Other expenses from operating activities				

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Table 4.1: The structure of the income in the income statement for 1993-2012: Continues

Income statement– 2012	Income statement– – 2008-2011	Income statement– – 2004	Income statement– -1998	Income statement– 1993-1997
Income from investment activities, including:				
Income from disposal of fixed assets, intangible assets and other long-term assets				
income from participation in the authorized capital of other organizations				
interest receivable				
Other income from investment activities				
The losses on investment activities, including:				
losses on disposal of fixed assets, intangible assets and other long-term assets				
Other losses from investment activities				
Gains from financial activities, including:				
Exchange differences on translation of assets and liabilities				

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Table 4.1: The structure of the income in the income statement for 1993-2012: Continues

Income statement–2012	Income statement– –2008-2011	Income statement– – 2004	Income statement– -1998	Income statement– 1993-1997
Other gains from financial activities				
Losses on financing activities, including:				
outstanding interest				
Exchange differences on translation of assets and liabilities				
Other losses from financial activities				
Other gains and losses				
Gains (losses) from investments, financial and other activities		Operating gains and losses + Non-operating gains and losses	Result from other sales	Result from other sales
	EARNINGS (LOSSES)			
	Expenses not deductible for taxation			
	Income not taken into account in taxation			
Income (losses) before taxation	**Income (losses) before taxation**	PROFIT (LOSSES) FOR THE REPORTING PERIOD	Balance (book) profit or losses	Balance (book) profit or losses
Income tax	Income tax	Taxes and fees, made out of profits		
	Other taxes, fees from profit	expenses and payments from profit		
	Other losses and payments from profits	Sum benefits on income tax		

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Table 4.1: The structure of the income in the income statement for 1993-2012: Continues

Income statement– 2012	Income statement– – 2008-2011	Income statement– – 2004	Income statement– -1998	Income statement– 1993-1997
Change in deferred tax assets				
Change in deferred tax liabilities				
Other taxes and fees from the profit (income)				
Net income (losses)	**Net income (losses)**	EARNINGS (LOSSES) to the distribution		
Revaluation of non-current assets not included in net income (losses)				
Result from other operations that are not included in net income (loss)				
Comprehensive income (losses)				
Basic earnings (losses) per share	Earnings (losses) per share			
Diluted earnings (losses) per share				

There is no doubt that such frequent changes in the structure of the income reporting does not allow for comparability of the financial results of the organization even for 5 years.

Income was recorded in the balance sheet as part of the "Liabilities" section during 1993-2012. The section carried various names: Sources of funds, equity, capital and reserves. It should also be pointed out that the change in the composition of capital items as well as their content does not make comparable information on the capital by changing the structure of the relevant section of the balance sheet.

Such frequent changes in the content of capital is further evidence of the lack of a conceptual framework of accounting

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as capital, and in its composition of various types of income at different periods: retained earnings, net income, profit for the year, special-purpose funds, etc.

Table 4.2: The equity structure of the organization according to the annual report 1993-2012

equity -2012	equity - 2008-2011	Equity - 2004-2007	equity - 1998-2003	Equity - 1993-1997
the name of section in the balance sheet: equity	the name of section in the balance sheet: liabilities	the name of section in the balance sheet: liabilities	the name of section in the balance sheet: liabilities	the name of section in the balance sheet: liabilities
SubSection III. EQUITY	SubSection III. CAPITAL AND RESERVES	SubSection III. sources of own funds	SubSection III. CAPITAL AND RESERVES	SubSection I. sources of own funds
authorized capital	authorized fund	authorized fund	authorized fund	authorized capital
Unpaid portion of the authorized capital	Treasury stock (shares) purchased from shareholders (founders)	Treasury stock (shares) purchased from shareholders (founders)	Treasury stock (shares) purchased from shareholders (founders))	Reserve fund
Own shares (the share capital)	Reserve fund: Including: reserves formed in accordance with the law; reserves formed in according to the constituent documents	Reserve fund	Reserve fund, Including: reserves formed in accordance with the law; reserves formed in according to the constituent documents	Special-purpose funds
reserve capital	additional fund	additional fund	additional fund	Provision for doubtful debts
additional capital	Net income (losses) for period	Retained earnins	Profits (losses) for the period	Provisions for future expenses and payments
Retained earnings (accumulated losses)	Retained (unused) earnings (accumulated losses)	uncovered losses	Retained earnings (accumulated losses)	Targeted funding and revenues

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Table 4.2: The equity structure of the organization according to the annual report 1993-2012: Continues

equity -2012	equity - 2008-2011	Equity - 2004-2007	equity - 1998-2003	Equity - 1993-1997
Net income (losses) for period	special-purpose financing	special-purpose financing	special-purpose financing	lease commitments
special-purpose financing	Deferred revenues		Deferred revenues	Settlements with shareholders
Total Section III	Total Section III	Total Section III	Total Section III	Retained earnings from previous years
				Accumulated loss of previous years (excluded denotes)
				earnings: for the reporting year; used; Retained profit for the year;
				Loss for the year (excluded)
				Total Section I

Thus, the assignment of the name «Capital and reserves» for the third section of the accounting balance sheet is actually the only formal observance trend of convergence with IFRS. But such actions have no real methodological value. Obviously, this statement may be seen as controversialy, if only because of the fact that according to the instructions on how to use the Model Chart of Accounts, the end of account section VII «equity» model chart of accounts is designed to compile information on the availability and changes in equity of the organization.

Features of income and expenses reflected in the financial statements under US GAAP, IFRS and Belarus accounting legislation or the triumph of the American school of accounting in the development of IFRS

According to the Instruction № 111 of the Ministry of Finance of Belarus financial statements for profit is strictly

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hearded on the prescribed form, without any exception for individual articles from the report. In this case, any additional and specific requirements for recording information in the income statement in the Instruction № 111 is omitted.

Thus, according to the Belarusian legislation, the report on profits appears in one form and contains information about the profit and Comprehensive Income. But the justification for the use of the Comprehensive Income term in the Statement of income does not exist till present day (or in the literature, nor in the legislation of Belarus). Contents Statement of income for 2012 was cited a little earlier. For comparison of the Statement of Belarus income with a reporting format that compered with US GAAP and IFRS, we offer you the following table:

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Table 4.3: The content of information in the reporting of income (profit) in accordance to US GAAP, IFRS and Belarus law

IFRS	US GAAP	Belarus law
Statement of comprehensive profit Revenue; Finance costs; Share of the profit or loss of associates and joint ventures accounted for using the equity method; Tax expense; A single amount comprising the total of: The post-tax profit or loss of discontinued operations and The post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; Profit or loss; Each component of other comprehensive income classified by nature (excluding amounts in next article); Share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and **total comprehensive income.**	Statement of income and comprehensive icome **Income from continuing operations** Sales or service revenues; Costs of good sold; Operating expenses; Gains and losses; Other revenues and expenses; Items that are unusual or infrequent, but both; Income tax expense related to continuing operations; **Results from discontinued operations;** Income (loss) from operations of a **discontinued** component; Gain (loss) from disposal of a **discontinued** component; Extraordinary items; Items that are both unusual or infrequent; Remaining excess of fair value over cost of acquired net assets in a business combinations; Investor's share of an equity method investee's extraordinary item; **Cumulative effect of a change in accounting principle;** **Net income;**	Statement of income Losses on financing activities, including: outstanding interest; Exchange differences on translation of assets and liabilities; Other losses from financial activities; Other gains and losses; **Gains (losses) from investments, financial and other activities;** **Income (losses) before taxation;** Income tax; Change in deferred tax assets; Change in deferred tax liabilities; Other taxes and fees from the profit (income); **Net income (losses);** Revaluation of non-current assets not included in net income (losses); Result from other operations that are not included in net income (loss);

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Table 4.3: The content of information in the reporting of income (profit) in accordance to US GAAP, IFRS and Belarus law: Continues

IFRS	US GAAP	Belarus law
	Other comprehensive income; Foreghn currency adjustments; Unrealized gains (losses) on securities; Minimum pension liability; Gains/losses on cash-flow hedging items; Gains/losses on hedges of forcasted foreghn-currency-denominated transactions; Income tax relatied to other comprehensive income (if components are not shown net of tax); **Comprehensive income;** **Earnings per share information.**	**Comprehensive income (losses);** Basic earnings (losses) per share; Diluted earnings (losses) per share.

IFRS (IAS) 1, as we said a little earlier, gives the following definition of income: recognized profit (losses) represents the change in the capital of the company as a result of transactions, other than transactions with owners of the company.

It should be noted that this definition coincides with the interpretation of the concept of comprehensive income according to US GAAP (FAS 130 «Comprehensive Income»). To simplify the terminology in this paper we use the term comprehensive income, given that US GAAP and IFRS of this concept is fully consistent with the concept of income.

Another concept borrowed from US GAAP, is the term «other comprehensive profit (recognized income or loss).» It is defined as profit or loss, which, in accordance with the requirements of other IFRSs are not recognized as a gain or loss, but is recognized in equity of the organization.

In accordance with IFRS 1, the comprehensive profit for the year is the sum of profit (loss) and other comprehensive income. Based on the above, the organization in accordance with IFRS must be either,

1) A single statement of profit (loss) and other comprehensive income for the year,

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Or 2) two statements: a statement displaying components of profit (loss) for the year (a separate statement of profit (loss)) and statement of profit or loss and the other comprehensive profit (or loss). A single statement of profit (loss) is an advanced modification of the usual income statements.

In this case, after the line «profit for the year" followed by other lines, reveal all components of other comprehensive incomes, the total value of other comprehensive incomes and total comprehensive income (loss) for the year. If the information on comprehensive income is disclosed through the development of two reports, the statement of profit (loss) is prepared in the usual format. But there will be a need to make a further report which will show in its the first line profit for the year (the last line of statement of profit (loss)), and then will wright down other comprehensive income and the total amount in the context of components. Businesses are entitled to choose the manner in which they disclose recognized income (loss) for the period.

So, according to IFRS, all income and expenses must be submitted in one report (a single statement of profit (loss) and other comprehensive income for the year) or two statements (a statement displaying components of profit (loss) for the year and statement of profit or loss and the other comprehensive profit (or loss)). All of the above is presented separately from changes in equity with the participation of owners. Other comprehensive income (that is, other than disclosed in the single statement of profit or loss) should be included in the statement of profit (loss) and other comprehensive income. And in reporting one has to reflect the total comprehensive profit (loss).

IFRS (IAS) 1 in order to consolidate data with similar characteristics and separating items with different characteristics requires that all changes in equity arising from transactions with owners are presented separately from changes in equity without the owners, and all income and expenses mist be presented in the same report.

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As we pointed out a little earlier, the concept of comprehensive income represents changes in equity, caused by income, other income, expenses and losses of the reporting period, as well as all other recognized changes in equity not related to the investment of the owners or paid to them.

Thus, the accounting of the financial statements should reflect all items of income and expense recognized in a given period.

US GAAP. US GAAP offer the following three options for disclosure of comprehensive income (loss):

The combined statement of income and comprehensive income, which revealed not only the sum of net income (loss) for the period, but the amount of comprehensive income;

Total other comprehensive income is disclosed in a separate report that begins with the line "net income;"

Total other comprehensive income is disclosed in an expanded statement of changes in stockholder's equity.

Thus, from the American accounting practices to IFRS come only two options for disclosure of income. But most companies that placed their shares on the New York Stock Exchange prefer to disclose information about comprehensive income in an expanded statement of changes in stockholder's equity. Usually companies with a negative amount in other comprehensive income are likely to disclose this information in an expanded statement of changes in stockholder's equity, and not in the combined statement of income and comprehensive income.

So, the reasons for the change in comprehensive income should be reflected in the combined statement of income and comprehensive income, and the change in capital items due to changes in comprehensive income should be placed in an expanded statement of changes in stockholder's equity.

In the Statement of income and comprehensive income according to US GAAP includes the following information: **Income from continuing operations** (Sales or service revenues; Costs of good sold; Operating expenses; Gains and losses; Other revenues and expenses; Items that are unusual or

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infrequent, but both; Income tax expense related to continuing operations); **Results from discontinued operations** (Income (loss) from operations of a discontinued component; Gain (loss) from disposal of a discontinued component – APB 30); **Extraordinary items** (Items that are both unusual or infrequent; Remaining excess of fair value over cost of acquired net assets in a business combinations; Investor's share of an equity method of investee's extraordinary item – APB 9; APB 30; FAS 101; FAS 141; FTB 85-6); **Cumulative effect of a change in accounting principle** - APB 20; **Net income; Other comprehensive income** (Foreghn currency adjustments; Unrealized gains (losses) on securities; Minimum pension liability; Gains/ losses on cash-flow hedging items; Gains/losses on hedges of forcasted foreign-currency-denominated transactions; Income tax relatied to other comprehensive income (if components are not shown net of tax); **Comprehensive income; Earnings per share information.**

Alternatively, the following information can be presented as a separate statement or in a statement of changes in stockholder's equity: **Other comprehensive income** (Foreghn currency adjustments; Unrealized gains (losses) on securities; Minimum pension liability; Gains/losses on cash-flow hedging items; Gains/losses on hedges of forcasted foreghn-currency-denominated transactions;Income tax relatied to other comprehensive income (if components are not shown net of tax); Comprehensive income (FAS 130, FAS 133).

Core group of users of financial information, according to US GAAP and IFRS, are namely the company's investors. Therefore, their interests define the methodology of calculations defined by US GAAP and IFRS. Investors primarily interested in information about the company's equity, or more precisely, about the dynamics of their (investors) capital in the equity reporting, while being compliant with the financial position. The very same methodology is based on the facts of economic life and to provide information about the financial position of the organization in the US GAAP and IFRS is determined,

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as we mentioned earlier, the concept of capital and capital maintenance.

With the understanding of capital as a share of ownership in the total assets of the organizations' related treatment to US GAAP and IFRS concepts of income, expenses, and profits. Under income and expenditure they understand the facts of economic life-changing amounts of capital (other than transactions with owners of the company). Therefore, disclosure of the factors that determine the dynamics of capital organization is set as the primary objective of financial statements information.

From an accounting perspective profit of organizations should be seen not only as increases in its equity, but as the amount determined by the limits of the owners for withholding funds from the organization in the form of dividends. However, not every transaction is recognized as an increase in equity (for example, an increase in the fair value of non-current assets), can be considered as a potential increase in the organization's debt to pay dividends.

That is why in the Anglo-American concept of accounting experts distinguish realized and unrealized profit (income). Realized income is the profit received or to be received in cash or in the form of other assets resulting from the execution of transactions, and unrealized profits is the result of accounting estimates with only a specific probability to be embodied in the organization based on money received.

Therefore, based on previously established information needs of users of financial statements (especially investors, owners), the entity reporting shall disclose information about:

Changes in equity of the organization;

Changes in equity from transactions with its owners;

Changes in equity as a result of all incomes and expenses (the so-called comprehensive income);

Realized profits, that are profits received or receivable in cash (or other assets) as a result of the execution of transactions;

Unrealized profits, that is profits, reflecting the growth of the owners equity, but not embodied in cash or accounts receivable.

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Methodology about how to include such information in the financial statements of the company refers to IFRS (IAS) 1.

IFRS (IAS) 1, as US GAAP, also uses the concept of comprehensive income, that is, the financial result, which is the difference between all revenues and expenses for the period. Accordingly, comprehensive income of the organization includes realized and unrealized gains. This approach, of course, is the result of the triumph of the American school of accounting in the development of IFRS.

IFRS (IAS) 1 requires all changes in equity arising from transactions with owners as such (that is, with the participation of the owners) that are reported separately from capital changes without owners. Companies are not allowed to submit articles about comprehensive income (that is, changes in equity without owners) in the statement of changes in equity. This requirement stems from the need to aggregate data with similar characteristics and separating items with different characteristics.

IFRS (IAS) 1 requires that information about the dividends recognized as distributions to owners of the company, as well as the corresponding figures per share be disclosed only in the statement of changes in equity or in the notes to the accounts. The presentation of this information in the statement of comprehensive income is not allowed because the changes of capital with the participation of the owners should be reported separately from capital changes without owners.

In accordance with paragraph 82 of IFRS (IAS) 1 report on the total comprehensive income should contain at least the following:

Revenue;

Finance costs;

Share of the profit or loss of associates and joint ventures accounted for using the equity method;

Tax expense;

A single amount comprising the total of: the post-tax profit or loss of discontinued operations and the post-tax gain or loss

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recognized on the measurement of fair value less costs to sell or the disposal of the assets or disposal group(s) constituting the discontinued operation;

Profit or loss;

Each component of other comprehensive income classified by nature (excluding amounts in the next article);

The share of the other comprehensive income of associates and joint ventures accounted for using the equity method;

Total comprehensive income.

Revenue and related expenses on ordinary activities are recorded as gross figures, and other income - as a net value (net of related expenses), as well as losses (net of related income).

Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, as well as the potential for gain or loss. This analysis is provided in one of two forms. The first form of analysis is the 'nature of the expense' method. An entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary.

The second form of analysis is the 'function of expense' or 'cost of sales' method and classifies expenses according to their function as part of the cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgment. The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level

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of sales or the production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the presentation that is reliable and more relevant. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used.

It should be noted that the grouping of the cost of the 'function of expense' is well-known for Belarusian accountants in connection with the practice of drawing up the annual financial statements for the last few years when calculating: net revenue, cost of goods sold, gross profit, other income, cost of sales, administrative expenses, and other expenses.

The expense information is to be disclosed in the financial statements according to US GAAP.

The above principles of recognition and measurement of costs in US GAAP find their application in reporting. The most common types of expenses are:

The cost of goods (works, services);

Selling, general and administrative costs (eg, office expenses, for fuel, for advertising, etc.);

Expense on other activities not related to the main;

Expenses that are rare or unusual in character;

Losses related to the impairment of goodwill of the organization.

They are reflected separately in the income from continuing operations in accordance with FAS 142, which prohibited the amortization of goodwill and requires its annual impairment testing;

Costs associated with the reorganization and other operations on a substantial change in the organization's business;

The income tax;

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Financial result (loss) from discontinued operations (FAS 144);

Extraordinary expenses (losses) are arising from events that are unusual. In the financial and business activities of the organization they occur infrequently, such as natural disasters.

Thus, rather unusual and quite unaccustomed for the Belarusian accountant alleged that:

Asset - is prepaid expense;

Accounts payable - is the firm's income;

Receivables - it damages the company, part of which is permanent and cannot be covered in the normal operation of the enterprise;

The balance sheet statement of the company - is a reflection of the result of the dynamics of its income and expenditure;

Profit for the period - is part of the last portion of future revenues and expenses, and so on. They are just trying to reveal the contents of the financial position of the company in the category "income" and "expenses."

Understanding the meaning given in the definition of standards for producers of income and expenses of the company, subject to inherent limitations, accountants are able to maximize the development and use of accounting information formed in the concept of IFRS and US GAAP.

Reporting of capital. Statement of changes in equity should reflect the dynamics of the equity articles (part of articles the reporting entity chooses itself). The factors of this trend is defined as the comprehensive profit of the reporting period (divided by capital attributable to owners of the parent and minority interests), the retroactive application of accounting policies in accordance with IFRS (IAS) 8, and the amounts of transactions with owners, as such, with the division of the deposits and withdrawal.

In the Statement of changes in equity or the notes to the company must disclose the amount of dividends recognized as a distribution to owners, and the earnins per share.

In accordance with IFRS (IAS) 1 in the statement of financial position under "equity" is reflected separately:

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1. Issued capital and reserves related to the owners of the parent;

2. Minority interest in equity of subsidiaries on the balance sheet date.

Obviously, this requirement applies only to the consolidated financial statements. In their separate statements the company-investor does not reflect the assets and liabilities of subsidiaries, so as part of its capital there is no minority interest. In cases where the reporting organization produces hybrid financial instruments (such as bonds convertible into shares), it is necessary following the IFRS (IAS) 32 "Financial instruments: presentation in the financial statements" and IFRS 2 "Share-based Payment" to allocate the liability component of the total cost of the instrument, to determine the remainder of the element of capital and accordingly reflect the instrument in the balance sheet.

In the balance sheet the components of capital are grouped according to their economic substance –identified as articles of nominal (share) capital, share premium, revaluation reserves, retained earnings and reserves formed out of it, etc.

Joint stock companies are required, in the notes to the balance sheet, to give a detailed description of capital reserves, as well as the shares of each class, in particular, on the following:

1. The number of shares authorized, issued, fully paid and paid in part;

2. Nominal value of the shares issued or declared;

3. Number of shares outstanding at the beginning and end of the reporting period;

3. Specific rights and restrictions applicable to the holders of the shares;

4. The number of shares repurchased by the organization or its subsidiaries, as well as reserved for the execution of stock options or obligations on other similar agreements.

Changing the size and composition of the equity for the reporting period is disclosed in the statement of changes in equity. Factors are determined by the dynamics such as:

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Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interest;

For each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8;

For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from: profit or loss; other comprehensive income; and transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control. An entity shall present, either in the statement of changes in equity or in the notes, the amounts of dividends recognised as distributions to owners during the period, and the related amount of dividends per share. The components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings. Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

In Belarus, the statement of changes in equity (Instruction № 111) for the year reflected some of the changes of capital items (previously reviewed), namely, the share capital, the unpaid capital, treasury stock, capital reserves, capital surplus, retained earnings, net income, total equity.

The reasons for changes in individual equity items in the report are: adjustments due to changes in accounting policy, adjustment in connection with the correction of accounting

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errors; and increase equity (from net profit, revaluation of long-term assets; issuing additional shares, increasing the nominal value of shares of additional contributing participants); and less capital (losses; revaluation of long-term assets; the losses from other operations that are not included in net income; reduction of the nominal value of shares buyback; dividends, reorganization); and changes of reserve capital, changes in additional capital.

The notes, compiled by joint stock companies, shall disclose the following information:

the number of shares issued by the corporation, and fully paid;

the number of shares issued by joint stock company, unpaid or partially paid;

nominal value of the shares of the Company, its subsidiaries and affiliates;

number of shares outstanding at the end of the previous year and accounting period.

Undoubtedly, the composition of the information included in the statement of changes in equity is much narrower compared to the composition of the information in a similar IFRS and US GAAP statements. It is possible that the information in the statements is sufficient for Belarusian consumers within Belarus, but such information would not be enough for a foreign investor.

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In the beginning was the Word,
And the Word was with God,
And the Word was God.
And the word was the law.
John 1:1

5. Legal aspects of capital and profit of the organization

The main purpose of the existence of any business entity is making a profit and the distribution of profits among the parties (owners) (Article 46 of the Civil Code of Belarus). The enterprise is the property complex used for business purposes as an object of rights under Article 132 of the Civil Code of Belarus. A corporation may be organized for the purpose of making a profit, or it may be not-for profit (Jerry J. Weygandt, Paul D. Kimmel, Donald E. Kieso, 2012, p.538).

The enterprise as a property complex includes all types of property intended for its activities, including land, buildings, equipment, inventory, raw materials, products, claims, liabilities, and rights in signs, personalized company, its products, work and services (trade name, trademarks, service marks), and other exclusive rights (article 132 of the Civil Code of Belarus).

Thus, the commercial organization is a proprietary system designed to earn profits. But such a property complex, above all, has the property of legal isolation. Under Article 44 of the Civil Code of Belarus, a legal entity is an organization that has some assets in the property, economic or operational management. In the USA the corporation is an entity separate and distinct from its owners (Jerry J. Weygandt, Paul D. Kimmel, Donald E. Kieso, 2012, p.538).

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So, the property of a legal entity owned by a legal entity to Property Act (right of property, the right of business, etc.). Consequently, except for unitary and other legal forms of enterprises, the owner has only contractual rights to the property company. Namely, he has the right to demand and receive dividends and the right to claim the property in cases established by law. For example, it is case of liquidation or exit from the party's founding organization such as LLC, SLC.

The ownership of the property that was transferred to the equity of the new organization does not belong to the owner. The owner turns to one of the creditors of a new organization after he transfers the assets to equity. In addition, other lenders: the state for taxes, the staff in terms of wages, suppliers and contractors, have the right to demand the assets of the company.

Thus, from a legal point of view, any company is a balance of assets and property rights to the assets.

Because of such balance, from a financial point of view, any enterprise is a pyramid scheme. The company exists only for such a time as it has enough assets to pay debts. And because not all creditors are placing their rights to the companys' property at the same time.

There is no doubt that lenders' enterprises differ regarding the specifics of the claim. Thus, creditors, suppliers are protected to ensure timely receipt of the assets of the enterprise to pay off existing obligations. Creditor-owners are more interested in not getting attached assets back.

More precisely, the owners are interested in dividends. So, the owners contribute the property-investment in the organization. And instead they get a new type of asset. This type of asset is the operations of obligation and other rights related to the receipt of income in the form of dividends. Incomes (profits) are due to the increment value of such property and, therefore, to the increase of the amount of debt before owners receive anything from own businesses.

Such rights are issued shares or constituent documents of the organization.

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Increasing the amount of debt for the owners for the period (what we previously called capital) and is defined as income (profit).

The owner is interested in increasing the enterprise debt value to him and the return of some amounts of debt in the form of dividends (the transferred property does not belong to him.) Thus, when creating a company, the owner gets a mechanism to increase the value of the assets of the enterprise, which increases the right to claim the property.

Investments that bring new value in the form of income (profit) to organizations, as embodied in the las, represent the capital for the owner.

The capital for the owner is the amount of property claims(rights) on assets of the company. In corporations, such rights are issued in the form of shares.

Profit is the increment value of property rights of the founders of the entity during the reporting period. The profit is not the money, it is the property owner's rights.

Net assets of the organization is a total value of the property rights of the participants in the organization under its liquidation, or total liabilities of the organization in liquidation.

Retained profit is the incremental cost of the property rights of the parties during the reporting period, subject to the satisfaction of the dividend under the law of the founding documents of the organization. On the other hand, retained earnings is the increment of the organization commitment to be paid in the form of dividends in accordance with the laws and the founding documents of the organization. For example, in the form of the payment of dividends is based on the decision of the participants meeting.

The loss is the sum that reduces the property rights of the parties that will be returned to them in accordance with applicable law and the constituent documents for liquidation of the organization.

Losses for the period indicate that the owner has not only earned nothing on invested capital, the owner is also in debt

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to creditors of the corporation. (In the best case for his money kept staff of corporation).

I agree that only assets of the organization can be earmarked for any purpose, namely: money, materials, fixed assets, etc. But how you can earmark for any purposes for the specific debts of the organization? How can the entity, for example, spend the accounts payable to suppliers and contractors if they are not money for buying something? Undoubtedly, this is nonsense. After all, only assets the organization in the amount of debt the founder can be directed to pay the debt of the entity.

Therefore the source of a new assets of the organization is its existing assets. That is, the organization changes money for goods, and goods for money. The debt owners exchange on the new assets is nonsense. You can only exchange the amount of assets in the amount of the net profit to the new property, not the profit itself. The profit can not be the source of the property, because it is not an asset.

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No one remembers the former generations,
And even those yet to come
Will not be remembered
By those who follow them

Ecclesiastes 1:11

Conclusion

There is no doubt that the economic life defines the economic mind. But one can not deny a certain inverse relationship even in Belarus. However, the fact of the economic life of this country is as follows. Despite the fact that so far we have not established the nature of profit, capital, assets, liabilities and other economic categories, they are widely used in economic practice.

We do not know what profit is in Belsrus, however we calculate it; we do not know what capital is, but still we calculate it as well. But there is the most interesting. As it turns out, changes to the regulatory acts of accounting does not have the desired effect either on the economic consciousness, nor the economic existence of the Belarusian society.

The theory of accounting profits in Belarus is a collection of slogans from the political economy of the time, when the Soviet Union was building the world's communist system. Moreover, in the composition of these slogans were included certain provisions of IFRS at the level of definitions related to the concept of comprehensive income. Namely, we have been borrowed definitions of income, expenses and equity. Moreover, the equity term has been translated and used as a term for capital. Accounting profit for 1992-2011 was considered as the difference between income and expenses.

The income statement for 2012 has a component for comprehensive income, the essence of which, up to now, is unknown to most accountants. Comprehensive income in Belarus is not associated with any national concepts of capital

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and capital maintenance concepts. Concepts of capital and capital maintenance concepts according to US GAAP and IFRS Belarusian accountants are virtually unknown.

Modification of the theoretical concepts of profit has been reduced to borrowing the term of income from IFRS, but not the content of these terms.

This approach is an indication that without proper theoretical justification the simple implantation of terms of other concepts of profit leads only to the misuse of borrowed definitions.

Only beginning with reports for 2012 the term of comprehensive income was introduced, which is calculated, of course, a bit differently than in developed countries according with US GAAP and IFRS. Absence of any information about the nature of this indicator also, in my opinion, will lead to Belarusian specifics when computing this indicator. Such an approach would make a misperception about comprehensive income by an investor.

Definition of capital in Belarus coincides with the definition of equity in US GAAP and IFRS. However, the lack of a capital theory and the capital maintenance concepts in the country (even borrowed from other accounting concepts) does not allow the use of the concept of profit under US GAAP and IFRS.

Values of capital and comprehensive income in Belarus are not comparable with those in the US GAAP and IFRS. It is related to the different composition of costs for the calculation of net income, and a number of provisions from US GAAP and IFRS that are not use in Belarus accounting for the valuation of assets and liabilities.

In particular, it is a limited application of fair value in Belarus; it is not carried out an impairment test on the assets under IFRS, etc. As a result, comprehensive income amounts will be distorted and not always in favor of the investor. It has taken four (4) national programs for the transition to IFRS in Belarus in 1992-2012, but none of them have been implemented.

According to the latest program (1998), since 2008 the corporations had to prepare their financial statements under

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IFRS. The main problem, in our opinion, is that, after the transition to IFRS and application of standards for hyperinflation it will remain no any profitable enterprise in the country. (IFRS (IAS) 29 «Financial reporting in hyperinflationary economies» is used in Belarus since January 1, 2011; the decision was acceptable «Big Four» international auditing companies in December 2011. In accordance with IFRS 29 tthe Belarusian economy is hyperinflation economy, and it causes recalculation of comparable data with the fall of the purchasing power of the Belarusian ruble in 2010-2011. The vast majority of Belarusian banks showed a net loss under the application of IFRS (IAS) 29. Thus, the total net loss of two of the largest Belarusian banks - Belarusbank and Belagroprombank exceeded $ 7 trillion of rubles, or $ 850 million in 2011(http://www.belaruspartisan.org/economic/212645/).

References

IFRS (IAS) 29 "Financial reporting in hyperinflationary economies" http://www.ifrs.org/DPOC/ifrss/Pages/IAS-29.aspx

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