

About Valuation of Receivables of Non-Profit Organizations Managing Housing Stock in the Transition to IFRS

O G Zhitlukhina¹, M A Iashchuk¹

¹Far Eastern Federal University, 8 Sukhanova St., Vladivostok 690090, Russia

E-mail: pravodelova.ma@dvmfu.ru

Abstract. The main source of financing for non-profit organizations managing housing stock is the maintenance fees of apartment owners, calculated in proportion to their share in the right of common ownership of this property. Therefore it is important for such organizations to control the receivables of apartment owners, as the risk of potential problems related to debt recovery and cash flow uniformity increases as the delay increases. We presume that voluntary establishment and independence of such non-profit organizations implies a much greater openness and increases the requirements for volume and quality of their reporting information. The article considers the possibility of applying IFRS developed for the commercial sector in the accounting practice of non-profit organizations, taking into account adjustments due to the peculiarities of non-profit activities. We've applied the discount method in terms of IFRS 9 and IFRS 13 to the valuation of receivables for housing and communal services, which allows for the formation of reliable reporting indicators for subsequent evaluation and correct management decisions. The paper concludes with proposed determination the expediency of switching to cession contracts providing assignment of the right to recover overdue receivables of the apartment owners, taking into account the temporary cost of money in constructing both

1. Introduction

Modernization of the housing stock structure, which began in the early 1990s as a result of the emergence of private ownership of housing through its privatization, led to the redistribution of the boundaries of responsibility for the maintenance and operation of housing stock from State and municipal authorities and services directly to apartment building co-owners association. Thus the resulting right of ownership obliged the owner to bear the costs of maintaining his own condominium apartment, as well as to participate in the costs of maintaining common property in apartment building in proportion to his share in the right of common ownership of this property by paying maintenance fees [1]. At the same time, the desire of citizens to control the process of managing the operation of housing stock, to improve the quality of the provided housing and communal services and the desire to independently solve the issues of ownership, use and disposal of common property of apartment building, contributed to the development of the principles of self-government and emergence of non-profit organizations (NPOs) managing housing stock, namely homeowners' associations, housing cooperatives and condominiums [2]. This, in turn, led to the need for financial reporting, taking into account the requirements of the IFRS. However due to the insufficiently defined organizational structure of NPOs, there are difficulties in their implementation.

This paper consists of five chapters. After this introduction we discuss the literature and pose our hypotheses in Chapter 2 and present our research design in Chapter 3. Chapter 4 conducts an empirical analysis and discusses results. Chapter 5 presents the conclusions and suggestions.

2. Literature review and hypotheses development

As is well known, two IFRS systems exist in world practice: for the public sector (IFRS PS) and for the commercial sector (IFRS). At the same time, the application one of them depends on the purpose of the economic entity in carrying out financial and economic activities. Thus, IFRS PS standards are intended for application by all public sector organizations, and IFRS standards are intended for application in the preparation of general-purpose financial statements and other financial statements of all commercial organizations [3]. With regard to NPOs managing housing stock, it is difficult to identify them in the public sector because of the lack of an ambiguous definition of the definition. Thus, the IFRS does not identify this concept, but only lists the institutional units related to it, such as: national public administration, regional public administration, local authorities and their subdivisions, which, in our opinion, are more correctly classified as constituent elements of the “public sector”.

On the basis of economic content, authors [3; 4; 5] consider that public sector as consisting of three subsectors: State, voluntary-public and mixed. In turn, IFRS PS are oriented, according to the foreword to them, only to representatives of the state subsector, and therefore, cannot be applied by NPOs managing housing stock. Also, NPOs managing housing stock cannot be attributed to the commercial sector because of their different targeting, which does not place profit at the core of its activities. However, it is worth noting that they perform a number of functions of a commercial nature, namely: enter into settlement relations with counterparties, form active debts and obligations, reflect and control related cash flows, organize debt claims, etc. Since the factors influencing the selection of IFRS for the NPOs under consideration are the nature of their activities and the economic benefits provided, as well as the sources of financial security, they can therefore apply IFRS in their accounting practice by adjusting standards to reflect professional judgment. It is worth noting that the standards developed for the commercial sector indicate the possibility of using all their provisions of NPOs taking into account the adjustments necessary due to the peculiarities of non-profit activities [6]. Guerreiro has a theory that IFRS adoption leads to confusion to the extent that some accountants do not even know if the standards are mandatory or voluntary. At the entity level, legitimacy can also be a main factor in IFRS adoption decisions, as firms align their accounting practices with those of their constituents [7]. Albu et al. and Guerreiro et al. contend that the adoption of standards can result in practice variation among organizations within a country, because of actors' perceptions of legitimacy, practical challenges, inability to meet users' needs, and the standards' flexibility [8; 9]. We presume that the possibility of applying IFRS for NPOs managing housing stock has special practical significance, as the reporting information of NPOs is interesting to a large number of users, which increases the requirements for its volume and quality. Scott names the overall purpose of financial reports is to provide decision useful information [10]. Gjesdal shows that financial reports must be adapted with the purposes of accounting information mind [11]. Information is decision useful if the information can help accounting users to make better and more informed decisions. So, we expect that IFRS adoption by non-profit organizations will increase the effectiveness of accounting information and benefit information users' decision making.

3. Research design and method

The financial and economic activity of NPOs managing the housing stock is aimed at improving the quality of services provided to apartment owners to manage the operation of the housing stock in the conditions of the minimum spent funds [12]. For the normal functioning of NPOs managing housing stock and the timely implementation of settlements, in our view, the completeness and timeliness of payment for the maintenance and repair of housing by owners of apartment and, as a result, the absence or small amount of overdue receivables of the population for the payment of services provided are particular importance. Since this payment is the main source of financing for the

activities of such NPOs, it is therefore important for them to control receivables, as the delay of receivables increases, probability of their repayment decreases, which indicates the existence of potential problems related to debt repayment and cash flows [13; 14]. Thus one of the elements of cash flow analysis is the adjustment of net profit by the difference between the revenue received and the change in receivables [15].

As is known, the income of NPOs managing housing stock within the statutory activity consists of earmarked income, which is not identified in the accounting aspect as their financial result (profit or loss), formed at the end of the reporting period. Therefore, the account “Retained profit (Uncovered loss)” is not used in accounting, but the account “Earmarked financing” is used, which is the resulting account [16]. The place of net profit or net loss in non-profit organizations is traditionally occupied by the indicators of surplus or cash deficit during the period under review [13], which means that for such NPOs it is advisable to adjust the total amount of income reflected in the report on earmarked financing by the difference between earmarked financing (receivable) and the change in receivables (table 1).

Table 1. Real increase in funds of NPOs for the reporting period, RUB’000.

Accounting definition	At the beginning of reporting period	At the end of reporting period	Declining	Correction
account receivables, incl.:	1199	1006	-193	
bad debt (limitation period > 3 years)	820	627	-193	
earmarked financing		8650		
non-operating revenue		50		
total funds		8700		8893

As can be seen from the table 1, reduction of overdue receivables by 193,000 rubles is included in the calculation of real cash growth and should be reflected in the line “total funds” in the amount of 8893,000 rubles.

When analyzing receivables and its impact on indicators of surplus or cash deficit, accounting methods such as calculating, evaluating, accounting reports and methods of analysis such as reduction its cost taking into account the temporary cost of money (discounting) are used.

4. Empirical analysis and results

Considering accounting of receivables it is important to note that in domestic registration practice (Russian Accounting Standards - RAS) its assessment is determined by initial cost (on contractual for date of recognition in account), and according to IFRS fair value (assessment based on market data, but not the assessment specific to the organization) [17]. In theoretical terms, fair value equals the present value of future cash flows where cash flows and risk parameters are based on expectations of market participants [18]. This assessment allows for the presentation of accounting facilities in terms of price values for possible exchange in existing or hypothetical markets [19]. Considering the fact that receivables belong to not observed data therefore to determine its expediently fair value proceeding from professional judgment of which [17] allows to form data on receivables assessment on the discounted cost and on the applied ways of discounting. At the same time it would be desirable to identify a method of application of a way of discounting to receivables assessment in aspect of IFRS 9 where receivables are considered as financial assets as a part of financial instruments and has to be classified according to the purpose of the business model directed to keeping of assets for receiving the money provided by the contract at the amortized [20]. Unfortunately, national standards

do not contain this concept and the requirement for its calculation, but it is widely applied to the valuation of financial assets, including receivables.

The basis for calculating the amortized cost, as shown above, is the discounting method. A special feature of this is the application of the effective interest rate method in its determination, which means the method of calculating amortized value of financial assets and financial liabilities and the distribution of interest income or expenditure for the relevant period (table 2).

Table 2. Discount of account receivables (AR) according to IFRS 9 and RAS, RUB'000.

Reporting date	RAS		IFRS 9			
	Value of AR	Value of AR	Lost income at effective rate	Payment during the period	Allowance for incomplete repayment of AR	Book value of AR without allowance as at 31 December
as at 01.01.17	886	841	-17	66	158,4	792
as at 01.01.18	820	792	-16	193	122,95	615
as at 01.01.19	627	615	-12	627	0	0

Although accounting for the impact of money's time value on financial indicators increases the comparability of financial statements, it presents more opportunities for investment and management analysis, increasing their accuracy, which allows to form reliable reporting indicators for subsequent evaluation and making correct management decisions, but in case the impact of money's time value is insignificant (28,000 rubles on 31.12.2017 and 12,000 rubles on 31.12.2018 according to table 2), discounting usually is not carried out.

Given the high risk of non-return (full or partial) of receivables within the limitation period (3 years), as well as the difficulty of determining the level of risk of such non-return, in our opinion, for NPOs with significant overdue receivables of owners of apartment for maintenance and repair of housing, it is advisable to switch to cession contracts providing for assignment of the right to collect overdue debts of citizens, which will ensure reduction of the risk of late payment of receivables (table 3).

Table 3. Calculation of actual loss according to cession of AR, RUB' 000.

Value of assignable AR	Onerousness of cession (20%)	Received AR	Amortization of AR (table 2)	Actual loss from cession
886	177	709	40	137

As can be seen from the table 3, NPOs, having assigned the right to claim receivables, will receive funds in the amount of 709,000 rubles. Despite the losses incurred in the amount of 137,000 rubles, the amount received has a greater real value than the amount equal to it that will appear in the future, as well as the conclusion of the contract of cession eliminates the risk of non-receipt of the estimated amount, and therefore increases the solvency of NPOs managing housing stock.

5. Conclusions

In our opinion, interest of non-profit organizations in building financial statements according to the principles laid down in IFRS is due to the need to form objective information on the financial condition of the organization, the results achieved and the forecast of its financial prospects. Thus, in the context of transition to IFRS, it is possible to form reporting indicators based on the application of

modern methods of their evaluation for NPOs managing housing stock. This is particularly important, as the system of full financial reporting is the basis for the effective management of the organization. In addition, accounting for the time value of money improves the accuracy of financial reporting and provides more opportunities for management analysis of NPOs.

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