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Inna Kosata

EXPENSES OF FUTURE PERIODS AS A SEPARATE ACCOUNTING CATEGORY – DIFFICULTIES OF APPLICATION

The object of research is the preparation of the procedure for the formation and write-off of the accounting category of expenses of future periods. The difficulty of this issue for practicing accountants is the lack of detailing of their composition, accounting and write-off in regulatory documents. In the national regulations (standards) of accounting (which are the main regulatory document on accounting), there is no definition of this category, as well as its components and the order of their attribution to the expenses of the current period. That is why the criteria for the recognition of expenses were defined, the period of their recognition was determined, and the reasons why some expenses cannot be classified as current expenses in accordance with NAR(S) (National accounting regulations (standards)) were analyzed. The difference between some components of expenses of future periods that are similar in name and expenses that are not included in current expenses according to NAR(S) was clarified. It is also clarified how those expenses of future periods should be reflected, which by all indications can be attributed to this category, however, according to the write-off period, they cannot be credited to account 39 «Expenses of future periods» and entered in the 2nd section of the Balance Sheet «Current assets». In addition, the presence of expenses of future periods as part of separate lines of financial statements according to IFRS (International Financial Reporting Standards) is disclosed. Various options for writing off the expenses of future periods and including them in the composition of the expenses of the current period were also considered. Depending on the time of receipt of income for which these expenses were incurred, it can be carried out in equal parts, proportionally or using other methods.

Keywords: expenses of future periods, accounting, accounting policy, current expenses, long-term expenses.

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1. Introduction

Since determining the financial results of the company's activity is one of the main tasks of accounting, timely and reliable accounting of income and expenses is a prerequisite for its correct calculation, which becomes especially important in the conditions of economic recession in the world economy. That is why the application in practice of all the conditions and signs of recognition of income and expenses provided for in NAR(S) (National accounting regulations (standards)) 16 «Expenses» and AR(S) 15 «Income» should be used with special care and conscientiousness.

It is known that in the activity of the enterprise there are certain types of income and expenses that are actually incurred in the current period, but in their essence belong to future periods. That is why in the accounting of Ukraine there are concepts of income and expenses of future periods, which require separate accounting and which are related to current income and expenses in a special way.

In international accounting practice, the expenses of future periods, also known as deferred expenses, are shown on the balance sheet as assets. Deferred expenses are recorded on the balance sheet in the section «Intangible assets» or

«Other long-term assets» and are amortized over the period during which they are expected to bring benefits. Amortization of deferred expenses reduces net income in the current period, but increases income in future periods [1–3].

In a fairly large number of enterprises, in particular, those that practice regular renewal of production, the influence of the expenses of future periods on the financial result of the enterprise's activity is so great that it can even lead to unprofitability and thereby inhibit its development.

Many Ukrainian scientists paid attention to problematic issues in the accounting of future periods. The main problematic issues considered in these works are given in Table 1.

Despite the availability of research in the scientific literature on the expenses of future periods, many accountants still often have difficulties with the display of these accounting objects, since the normative literature provides a rather concise definition of the order of their composition and accounting. That is why the aim of research is to formulate a procedure for determining the characteristics that would provide an opportunity for a more unambiguous classification of the expenses of future periods and the methodology of their write-off. Solving the above problems will enable accountants to more correctly reflect the

expenses of future periods as part of current expenses, accordingly, to reliably determine the financial result of the company's activities.

Table 1

Problems of accounting for expenses of future periods, which were considered by Ukrainian scientists

Source	The essence of the problem
[4]	Compares the composition of income of future periods in commercial and non-profit enterprises, considers the differences in their accounting
[5]	The article analyzes various approaches to the classification of income and expenses of future periods from the point of view of their documentary support and compliance with the National Accounting Standards of Ukraine
[6]	Generalization of existing approaches to the classification of expenses of future periods from the point of view of their accounting; study of documentation of transactions for the display and write-off of expenses of future periods with the aim of their further improvement
[7]	Considers the classification of expenses and income of future periods from the point of view of time into current and long-term according to the provided scheme

2. Materials and Methods

The following research methods and tools were used during the research:

- a comparative analysis of normative sources and scientific literature based on comparison with the aim of clarifying the problem;
- methods of systematization and grouping from the point of view of identifying ways to solve identified problems;
- methods of analysis and synthesis of conclusions based on information obtained from open sources.

3. Results and Discussion

According to *NAR(S)* 16 «Expenses» «expenses of the reporting period are recognized as either a decrease in assets or an increase in liabilities, which leads to a decrease in the company's equity capital (with the exception of a decrease in capital due to its withdrawal or distribution by owners), provided that these expenses can be reliably assessed». But it should be remembered that «expenses

are recognized as expenses of a certain period simultaneously with the recognition of the income for which they were incurred.

Expenses that cannot be directly related to the income of a certain period are reflected as part of the expenses of the reporting period in which they were incurred» [8].

Thus, the allocation of expenses and income of future periods into separate accounting objects is connected precisely with the need to correlate expenses and income with the period to which they belong.

In addition, item 9 of *NAR(S)* 16 provides for a separate list of operations that are not considered expenses (Fig. 1), in particular «preliminary (advance) payment of stocks, works, services». It should also be noted here that there are incomes in the economic activity of enterprises for which no expenses were incurred at the time of their receipt.

Here it is necessary to reveal in a certain way why some of the expenses listed above (in Fig. 1) are not included in the expenses related to *NAR(S)* 16.

Item 1. «Payments under commission agreements, agency agreements in favor of the principal, principal, etc.».

These payments are made for someone else's money, on behalf of other enterprises and, accordingly, do not meet the criteria for recognizing expenses at all.

Item 2. «Preliminary (advance) payment for stocks, works, services».

As for works and services, if they will be consumed during the same accounting period, then they simply belong to expenses. If they are related to non-current assets, they should be carried at their original expense.

As for stocks, they are also not deferred expenses, since goods and material values should arrive in the future.

Item 3. «Repayment of received loans».

Here there is a simultaneous decrease in assets (credit of account 31) and decrease in liabilities (debit of accounts 60 or 50). That is, it is also not an expense.

In Instruction No. 291 «On the application of the plan of accounts for the accounting of assets, capital, liabilities and economic operations of enterprises» a somewhat more detailed concept of expenses of future periods is related to Account 39. According to it, «Account 39 «Expenses of future periods» is intended to summarize information about expenses incurred in the reporting period, which are subject to attribution to expenses in future reporting periods» and a list of such expenses is provided (Fig. 2) [9].

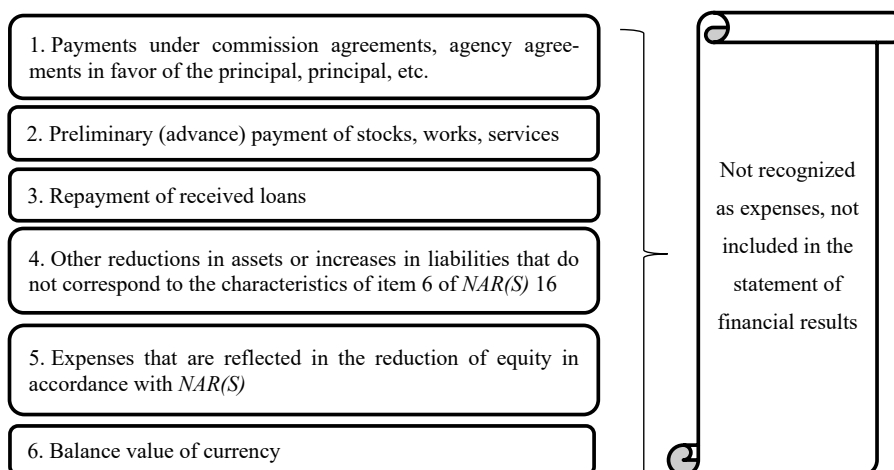


Fig. 1. Expenses that are not recognized as expenses according to *NAR(S)* 16 «Expenses» [8]

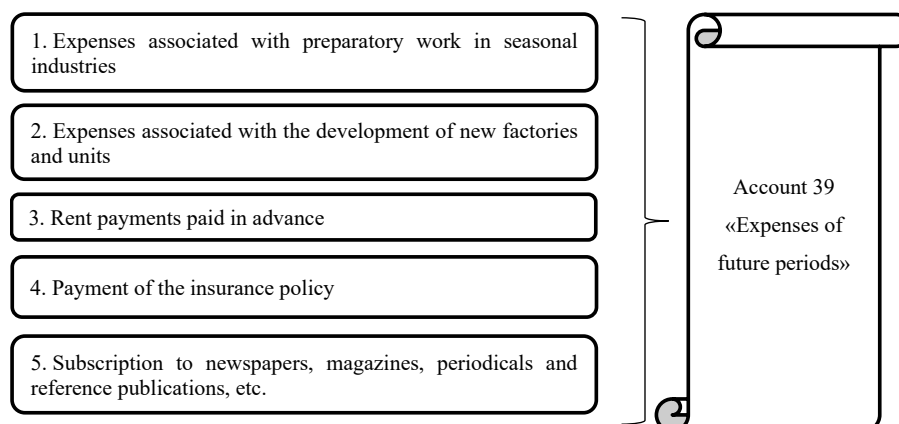


Fig. 2. List of expenses of future periods in accordance with Instruction 291 [9]

Thus, the range of expenses that can be attributed to the expenses of future periods is partially limited. Expenses must be incurred in the current period – that is, funds paid, stocks used, and so on. But the income for which these expenses were incurred will be received in future periods and therefore these expenses should be reflected in future periods. It seems that everything is clear. But several questions arise.

First, how to distinguish the subscription from the expenses of future periods, since the subscription, according to *NAR(S)*, is not an expense (even of future periods). Indeed, even in the list in Fig. 2 there are the words «subscription for newspapers, magazines...». So why are they classified as deferred expenses? The point, again, is a clear understanding of the income generation period for which these expenses were incurred. If to prepay for goods, materials, etc., it cannot clearly indicate when receive the revenues related to these expenses. And by prepaying for periodicals or rent, the company understands in advance that the income related to obtaining information from publications or operating fixed assets will be received in a certain, specific month.

The second question concerns the allocation of Account 39 «Expenses of future periods» to the 3rd class of accounts and according to the 2nd section of the balance sheet «Current assets». As is known in accordance with clause 1 of *NAR(S)* 1 «current assets – ... assets intended for sale or use during the operating cycle or within twelve months from the balance sheet date» [10]. Thus, it can be concluded that the expenses of future periods can be included only those that are possible to be attributed to expenses within twelve months. This criterion can be applied to most expenses, from the list of Instruction 291, except for «Expenses related to the development of new factories and units». It is quite difficult to relate these expenses to the income of a limited period, and even more so to the expenses of a calendar year.

Thus, it is logical to attribute these expenses to the expenses of future periods only if they can be associated with the income of the next year. If such an option is not possible, then such expenses should be accounted for as capital investments with their subsequent transfer to the composition of non-current assets (by analogy, for example, with Account 102 «Capital expenses for land improvement») and with their gradual depreciation.

At the same time, in connection with the fact that many enterprises are now switching to accounting under

IFRS (International Financial Reporting Standards), it is necessary to take into account the nature of the display of such expenses under International Financial Reporting Standards, which have sufficiently significant differences from *NAR(S)*. So, there are no separate definitions of the expenses of future periods in the IFRS, and some authors believe that such a concept is absent in the IFRS, since there is no separate line in the reporting with this name. But, if to consider the specific composition of expenses of future periods, then in IFRS they can be found included in some reporting lines. According to the taxonomy of financial statements under IFRS, the line «Trade and other non-current receivables» is included in «Notes – Subclassifications of assets, liabilities and equity», which includes the line «Non-current prepayments», which in turn includes «Non-current prepayments» rent payments». And the line «Trade and other current receivables» includes «Current prepayments» and «Current accrued income» [11].

Also, the accountant faces an equally important question regarding the write-off of expenses of future periods for current expenses: how long to write off, in what amounts, and so on. When it comes to paying for periodicals, insurance, rental payments, it is clear here what period was paid and what amount belongs to each month. And here the company should write off these expenses of future periods either monthly (which is quite convenient for the needs of management accounting from the point of view of expenses) or quarterly (this is rational from the point of view of preparing quarterly reports).

As for works in seasonal industries, the term of the season is also clear and the distribution can be carried out proportionally. The main problem arises when determining the procedure for writing off expenses associated with the development of new factories and units. Usually, they are the most controversial, since it is difficult to determine in advance the number of new products and the date of their release. That is why, in the case of impossibility of determining these indicators, the enterprise must state in the order on the accounting policy that such operations must be written off as expenses from the moment of the start of new production for some conditional period, which is provided for by this order.

The proposed procedures for solving the complexities of accounting for expenses of future periods may be interesting not only to practitioners in Ukraine, but also to accountants and theoreticians in Kazakhstan, Armenia, Georgia, Moldova, Kyrgyzstan, Tajikistan, since these

concepts are also used in the accounting of these countries, in contrast to accounting countries of Europe and America.

Further research of the announced problem should be conducted in the direction of synchronizing the classification of expenses and income of future periods, as well as the application of possible methods of writing them off according to expenses and income.

4. Conclusions

In the course of the research, a procedure was formed for assigning certain expenses to the expenses of future periods and their reflection in accounting.

First of all, in the Order «On accounting policy» of the enterprise (hereinafter the Order), it should be specified whether the enterprise should use the category of expenses of future periods in its accounting, or whether the chief accountant considers it necessary to reflect expenses of this content, for example, as part of subscriptions.

If the company does decide to use Account 39 «Expenses of future periods», then it is necessary to indicate specifically which expenses the company should attribute to these components of current assets and how those expenses, which by definition cannot be attributed to current assets, should be reflected, since the term of receipt of related income is longer than one year. It is possible to use an additional account from the 1st class of accounts (as an analogue of the 39th account in the composition of non-current assets) or add them to capital investments and then transfer them to the 10th account.

As for the write-off of expenses of future periods and their allocation to the composition of current expenses, the Order should provide write-off mechanisms for each individual case. It can be a uniform write-off in accordance with the moment of receipt of income or proportional depending on the amount of income, or another method chosen by the enterprise.

Thus, a detailed disclosure of the features of the classification of expenses of future periods, the mechanism of their accounting and write-off will provide an opportunity for accountants to unambiguously reflect these elements in accounting and avoid unnecessary errors and distortion of financial results.

Conflict of interest

The author declares that she has no conflict of interest in relation to this research, whether financial, personal, authorship or otherwise, that could affect the research and its results presented in this paper.

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Data availability

The manuscript has no associated data.

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