



Creation of Provision for Doubtful Debts

Yuriy Ivanovich Sigidov^{1*}, Marina Aleksandrovna Korovina², Aleksander Ivanovich Trubilin³, Viktor Vilenovich Govdya⁴, Nadezhda Konstantinovna Vasilieva⁵

¹Kuban State Agrarian University, 13, Kalinina Street, Krasnodar 350044, Russia, ²Kuban State Agrarian University, 13, Kalinina Street, Krasnodar 350044, Russia, ³Kuban State Agrarian University, 13, Kalinina Street, Krasnodar 350044, Russia, ⁴Kuban State Agrarian University, 13, Kalinina Street, Krasnodar 350044, Russia, ⁵Kuban State Agrarian University, 13, Kalinina Street, Krasnodar 350044, Russia. *Email: yur.i.sigidov@mail.ru

ABSTRACT

The purpose of this study is to develop methods of creation of provision for doubtful debts. It was proposed to use two methods of provisioning for doubtful debts, both individually and in the aggregate. The first method is percentage of sales approach that is used in international standards. Its use requires to calculate the average percentage of doubtful debt by determining the average ratio of the outstanding accounts receivable to revenue volume over 3-5 years. This method is recommended for use to organizations with a large number of debtors with minor amounts of debts. The second method, developed by the authors, takes into account the timing of incurring of debt, the solvency of the debtor and the risk of non-repayment. It is advisable to apply for debtors with significant amounts of debt. Using the author's method, the provision for doubtful debts was calculated according to the data from the existing company "Elephant" LLC for 2015, which resulted in revealing the deviation in the amount of the provision from the actual data. The use of the proposed methods will improve the reliability of the accounting (financial) statements in terms of the reflection of the receivables and simplify the work of accountants in finding a method to create a provision for doubtful debts.

Keywords: Receivables, Doubtful Debt, Provision, Creation, Method

JEL Classifications: M40, M41, M49

1. INTRODUCTION

1.1. The Need to Create a Provision for Doubtful Debts

The reliability of assessment of balance sheet items is an important component of managerial decision-making. Currently, the receivables have a significant weight in many organizations and influence the structure of current assets.

The procedure of creation of provision for doubtful debts largely impacts the reliability of recording this balance sheet item. As pointed out by Gerasimenko (2012), provision for doubtful debts "... is a piggy bank for the money reserved for specific purposes, in this case – to compensate the business for the customers' written-off debts. In life, it is similar to saving money, for example, for vacation..." (Gerasimenko, 2012).

In accordance with IAS 36 "Impairment of Assets," the receivables should be tested for impairment and write-off of the amount of bad

debts, and the amount of the remaining debt must be adjusted for the amount of provision for doubtful debts. Provisions for assets are created if their fair value falls below the book value. Regarding the receivables, the provision should be accrued if the receipt of the amount less than the original debt is expected from the debtor (Russian Ministry of Finance, 2015).

Creation of provision for doubtful debts corresponds to the principle of prudence formulated in the accounting regulations "Accounting policies of an organization" (RAS 1/2008), according to which the policies should provide a greater willingness to recognize the expenses and liabilities in accounting than possible revenues and assets, avoiding the creation of hidden provisions (Russian Ministry of Finance, 2008). Nevertheless, the creation of provision should not be contrary to p.6.3.4 of the accounting concept in the market economy of Russia, according to which the formation of the information in the accounting records must adhere to prudence in judgment and estimates as to assets and income

are not overstated and liabilities and expenses are not understated, preventing the creation of hidden reserves (Methodological Council for Accounting..., 1997). Definitions of the doubtful and bad debt, the procedure of formation of provision for doubtful debts and its use are contained both in the Russian regulatory documents on accounting and tax bookkeeping and in international accounting standards.

1.2. Provision for Doubtful Debts under Russian Standards

Creation of provision for doubtful debts is mandatory in Russian accounting and is stipulated in p.70 of the Accounting and Reporting Regulations in the Russian Federation. Doubtful debt is understood as "...receivables of the organization, which are not paid or most likely will not be paid within the timeframe established by the contract, and are not secured by appropriate guarantees" (Russian Ministry of Finance, 1998). The concept of a bad debt is not legally defined, but the p.77 of the regulations describes it as receivables unreal to collect, including by reason of the expiry of the limitation period. The basis of creation of a doubtful debt is recognition of the debt as doubtful. The procedure of its formation should be developed by the organization independently and be secured in the accounting policy on the basis of the solvency of the debtor and assessment of the likelihood of repayment in whole or in part. The provision is determined separately for each doubtful debt.

The Russian tax bookkeeping covers the creation of provision in Article 266 Section 25 Part 2 of the Tax Code of the Russian Federation. It is a right of the taxpayer, not an obligation. Doubtful debt is "... any debt to the taxpayer, which arose in connection with the sale of goods, performance of works, provision of services, if this debt is not paid within the period specified by the contract and is not secured by collateral, surety, bank guarantee" (Tax Code of the Russian Federation, 2000). The bad debt is understood as the debt on which the limitation period has expired, as well as the debts for which the obligation has terminated due to the inability to execute it. The amount of provision is determined based on the results of the inventory, depending on the period of occurrence of debt as follows: When the period of occurrence of the debt is more than 90 days – 100% of debt arrears; - from 45 to 90 days – 50%. The maximum amount of the provision must not exceed 10% of revenues for the corresponding accounting (tax) period.

As our research demonstrated, large organizations, such as JSC "Gazprom Neft," JSC "Vympel – Communications," with their highly qualified accounting personnel, are able to develop specific Regulations for accounting provisions, which disclose methods of formation of valuation provisions, including provision for doubtful debts. After examining 50 accounting policies for 2014 of various organizations of small and medium business of Krasnodar and Krasnodar Krai, we have found that 16% of these organizations do not create any provision for doubtful debts, 38% only indicate the fact of creation of provision, 46% stipulate the procedure of creation of provision, of which 16% equals to the tax bookkeeping (Table 1).

A survey of chief accountants of these organizations has shown that the main priorities when creating provision for doubtful debts

Table 1: Results of the study of accounting policies for 2014 in terms of the formation of provision for doubtful debts

Indicator	Number of organizations	In % to the total number of organizations
Provision for doubtful debts is not secured	8	16
Only the fact of creation of provision for doubtful debts is indicated	19	38
It is indicated that the size of provision is established by a commission of experts in each specific case	5	10
Procedure of creation of provision for doubtful debts is equal to the procedure in the tax bookkeeping	8	16
Procedure of formation of provision for doubtful debts depends on the period of occurrence of debt (on average):	10	20
• Over 1 year – 100%		
• 241-365 (6) days – 90%		
• 181-240 days – 75%		
• 121-180 days – 50%		
• 91-120 days – 25%		
• 60-90 days – 10%		
Taking into account the information provided by the contract supervisor		
Total	50	100

include the convergence of accounting and tax bookkeeping and minimization of accounting costs.

In our opinion, provision for doubtful debts in tax bookkeeping does not reflect a realistic assessment of the probability of non-repayment on outstanding receivables, this method does not take into account the financial situation of the debtor. Formally, the organization does not violate anything by approving the tax methodology of creation of provision for doubtful debts in accounting policies. But in this case, the main purpose of creation of provision in accounting – increasing the reliability of the accounting (financial) reporting of receivables – is lost. Thus, the methodology of calculation of the provision for doubtful debts, in practice, is highly variable, which deprives the data of the accounting (financial) reporting of the necessary degree of reliability.

1.3. Creation of Provision for Impairment of Receivables under International Standards

Under international standards, the formation of provision for impairment of receivables is mandatory. Issues of its creation are addressed in IAS 39 "Financial Instruments: Recognition and Measurement" (Russian Ministry of Finance, 2015). It does not give a definition of doubtful debt, but provides signs that the debt is impaired: financial problems of the debtor, non-repayment or violation of the terms of payment under the contract, existence of concessions to the debtor, possibility of bankruptcy, etc. There are three ways to create provision, which the organization can use

either individually or in aggregate: method of percentage of net sales; method of creation of provision for specific debts; method of creation of provision by the overdue periods.

In case of using the method of percentage of net sales, the average percentage of doubtful debt is calculated, determined by dividing the outstanding receivables by the amount of revenue for a number of years. The amount of provision for impairment of receivables is determined by multiplying this percentage by the amount of the net proceeds from the sale in the reporting period.

In case of using the method of creation of provision for specific debts, the repeated analysis of the receivables from contractors is carried out. Provision for impairment is created for the receivables that will be doubtful. This method should be used when an organization has a small number of debtors.

In case of a large number of customers, the method of creating provision by the overdue periods is convenient. Its essence is as follows: (1) The debt claims are grouped by terms of payment: Bills for which the period of payment is not due yet; bills overdue 1-30 days, 31-60 days, 61-90 days, and bills overdue more than 90 days; (2) the total amount of receivables in each group of debt is multiplied by a certain percentage of the expected doubtful debts; (3) the total amount of the provision is found by summing up provisions for all groups. This approach is similar to the procedure of formation of provision for doubtful debts in the Russian tax bookkeeping, except that the amount of provision is calculated separately for each doubtful debt, not for a group of debts.

The second and third methods have become widely used: Provision is created for specific debtors, about whom it is known that the probability of recovery of their debt is low (the litigation on debt collection or bankruptcy proceedings are underway, there is information about a difficult financial situation), while provision for the remaining debtors is calculated by the overdue period (Engle and Hunton, 2001. p. 91-92; Johnson and Soenen, 2003. p. 364-369).

1.4. Disadvantages of Creation of Provision for Doubtful Debts

The disadvantage of the Russian accounting system is the lack of specific procedures for the formation of provision for doubtful debts. At present, the question is solved given the professional judgment of the accountant. But not everyone is able to do this: Sometimes they lack sufficient expertise, sometimes just lack time. In our opinion, it is necessary to develop various ways to create provision in the current legislation on accounting, depending on various criteria: The size of the debt, the period of occurrence of debts, the level of solvency of the debtor, etc. It would be much easier and more convenient for the accountant to choose the procedure of creation of provision from the methods proposed in legislation and secure it in their accounting policies. In addition, the development and approval at the legislative level of the methods of formation of provision for doubtful debts would only increase the reliability of the statements, which would affect the adoption of correct decisions by interested users.

This problem was solved by several authors (Kivva, 2011; Pechennikova and Arbatskaya, 2011; Makarova and Ryabova,

2007; Koshkina, 2011; Shishkoedova, 2012). Detailed description of the proposed methods, as well as their advantages and disadvantages have already been described in our previous articles (Korovina, 2016; Sigidov and Korovina, 2012). Therefore, we will not dwell on them in this paper. We should note that some of them are difficult to use, it is difficult to obtain the necessary information on some, while others are characterized with high labor intensity. Due to this, the solution to the issue on the creation of specific methods of formation of provision for doubtful debts is relevant and important.

Our proposed method is a generalization of both the international experience of provisioning for impairment of receivables and domestic developments to assess the solvency of debtors.

2. METHODS

2.1. Method of Percentage of Sales

We offer to use two methods of formation of provision for doubtful debts in the Russian accounting practice, both individually and in aggregate.

The first method is widely used in international accounting standards – A percentage of sales approach. When using it, it is necessary to determine the average percentage of doubtful debts, the value of which is calculated according to the results of a retrospective analysis and determination of the average ratio of outstanding accounts receivable to the volume of revenue over 3-5 years:

$$Av\%dd = \frac{\sum ar}{\sum r} \times 100\% \quad (1)$$

Where, $Av\%dd$ is average percentage of doubtful debts;
 $\sum ar$ is amount of the unpaid accounts receivable, rubles;
 $\sum r$ is amount of revenue, rubles.

Both revenue and the amount of bad debts must be taken including VAT, because the VAT was not paid back together with the amount of revenue. In addition, a letter from the Russian Ministry of Finance dated 03.08.2010 No. 03-03-06/1/517 includes an explanation for the inclusion of the VAT in the calculation of provision for doubtful debts for tax purposes (Russian Ministry of Finance, 2010).

The amount of provision for doubtful debts (P_{dd}) is determined by multiplying this percentage on the amount of sales revenue over the reporting period (R):

$$P_{dd} = R \times Av\%dd \quad (2)$$

Where,
 P_{dd} is provision for doubtful debts, rubles;
 R is sales revenue over the reporting period, rubles;
 $Av\%dd$ is average percentage of doubtful debts.

This method is useful if an organization has a large number of debtors with minor amounts of debts.

2.2. Cumulative Method

The second method takes into account the period of occurrence of the debt, the solvency of the debtor and the risk of non-repayment. The method is developed by the authors and is a generalization of the theory and practice of recognition of receivables as doubtful and formation of provision for doubtful debts. This method is useful for a formation of provision for doubtful debts for debtors with significant amounts of receivables.

This method is based on the following components:

1. Taking into consideration the period of occurrence of doubtful debts
2. Assessment of the debtor’s solvency.

2.2.1. Period of occurrence of receivables

As practice shows, the likelihood of doubtfulness of the debt repayment increases with the “aging” of receivables: The longer the overdue period, the greater the likelihood that the debt becomes uncollectible. Accordingly, the greater the overdue period, the greater should be the provision for doubtful debts.

In view of our study (Table 1), let’s define the following approximate deduction rates for provision for doubtful debts based on the period of occurrence of receivables (Table 2).

2.2.2. Assessment of the debtor’s solvency

In our opinion, the approaches to assessing the debtor’s solvency and the borrower’s creditworthiness are very similar. Therefore, we recommend using an already established methodology, proven in practice, for this purpose. Such methodology is the method of determining the creditworthiness of the borrower from the rules of providing loans to legal entities by Sberbank (Committee of Sberbank of the Russian Federation..., 1997).

With regard to the assessment of the client’s solvency, we shall replace the term creditworthiness of the borrower for the solvency of the debtor.

According to this method, the main performance indicators are the following:

- Absolute liquidity ratio;
- Critical liquidity ratio;
- Current liquidity ratio;
- Debt to equity ratio;
- Return on sales ratio.

Each ratio is assigned a limit depending on the category of the debtor.

1. First category – The solvency is not in doubt
2. Second category – The solvency requires a balanced approach
3. Third category – The solvency is associated with increased risk.

Depending on the actual values, the indicators are divided into categories (Table 3).

Each ratio is assigned a weight: $R_1 - 0.11$; $R_2 - 0.05$; $R_3 - 0.42$; $R_4 - 0.21$; $R_5 - 0.21$.

Table 2: Recommended percentage of deductions for provision for doubtful debts depending on the age of overdue receivables*

Age of overdue receivables, days	Percentage of deductions for provision for doubtful debts
1-60	0
61-90	10
91-120	25
121-180	50
181-240	75
240-365 (6)	90
over 1 year	100

*The amount of percentage of deductions for provision for doubtful debts is a recommended value. Each organization can establish their own terms based on their experience

Table 3: Categories of indicators of the debtor’s solvency assessment

Ratio	First category	Second category	Third category
Absolute liquidity ratio (r_1)	≥ 0.2	0.15-0.2	≤ 0.15
Critical liquidity ratio (r_2)	≥ 0.8	0.5-0.8	≤ 0.5
Current liquidity ratio (r_3)	≥ 2.0	1.0-2.0	≤ 1.0
Debt to equity ratio (r_4)			
Except for trade	≥ 1.0	0.7-1.0	≤ 0.7
For trade	≥ 0.6	0.4-0.6	≤ 0.4
Return on sales ratio (r_5)	≥ 0.15	≤ 0.15	Unprofitable

The formula for calculating the score (S) is as follows:

$$S = 0.11 \times Cr_1 + 0.05 \times Cr_2 + 0.42 \times Cr_3 + 0.21 \times Cr_4 + 0.21 \times Cr_5 \quad (3)$$

Where, S is the score;

- Cr_1 is a category including ratio r_1 ;
- Cr_2 is a category including ratio r_2 ;
- Cr_3 is a category including ratio r_3 ;
- Cr_4 is a category including ratio r_4 ;
- Cr_5 is a category including ratio r_5 .

Taking into account the category of the debtor, we suggest to adjust provision for doubtful debts calculated by the overdue period:

- Category 1 – The solvency is high, so it is not recommended to form the provision;
- Category 2 – The solvency is in doubt, so the amount of the calculated provision is not adjusted, the ratio of the debtor’s solvency is 1;
- Category 3 – The solvency is associated with increased risk, so the scale-up factor of 2.0 should be applied to the amount of provision.

Provision for doubtful debts calculated based on the period of occurrence of receivables is adjusted by the ratio of solvency of the doubtful debtor.

As it was already noted, debtors differ from each other both by the size of receivables and the nature of business. Therefore, these features must be taken into account at the formation of

provision for doubtful debts. Prudnikov proposed quite a complete classification of debtors (2000).

1. “Small debtors” (Group A) are debtors for whom there is no legitimate reason to initiate bankruptcy proceedings (legal entities with a debt of <300 thousand rubles, citizens with a debt of <10,000 rubles)
2. Debtors in the process of arbitration management, including bankruptcy (Group B). Assessment of the value of property is almost completely determined by the financial analysis of the company and the market value of its assets
3. “Dependent” debtors (Group C). This group of entities depends on the creditor – the seller of the receivables. They are mainly subsidiaries
4. “Standard” debtors (Group D) are economic entities with a constant turnover and operating business with debt of more than 300 thousand rubles for legal entities and more than 10 thousand rubles for individuals, for whom there is a legal basis to initiate bankruptcy proceedings
5. Debtors with zero turnover for more than 1 year (Group E). This group is closest to the Group B, and the repayment of such debt is most probable through arbitration
6. “New” debtors (Group F). There have been no repayment of debt for this group or no conclusion can be made on the interpolation of such return as an established trend.

We have proposed a method for forming provision for doubtful debts for each group of debtors according to this classification in Table 4.

We agree with the authors who advocate the formation of provision for doubtful debts not for each debtor but in common (Karpova, 2003; Lavrukhina, 2007; Gerasimenko, 2012). The organization does not know exactly to which of the debtors it will have to “write-off” the debts in the end. As pointed out by Gerasimenko (2012), provision is an “impersonal bag and cannot be tied to specific clients” (Gerasimenko, 2012). Therefore, it is recommended to make this adjustment in the regulations on accounting and reporting in the Russian Federation and fix the procedure for the formation of provision for doubtful debts in common throughout the doubtful receivables.

Table 4: Process of formation of provision for doubtful debts depending on the group of debtors

Group of debtors	Method of formation of provision for doubtful debts
“Small debtors” (Group A) Debtors in the process of arbitration management, including bankruptcy (Group B) “Dependent” debtors (Group C)	Average percentage of sales Cumulative method
“Standard” debtors (Group D) Debtors with zero turnover for more than 1 year (Group E) “New” debtors (Group F)	No need to create provision for doubtful debts Cumulative method Cumulative method Cumulative method without considering the risk of non-repayment, because it is impossible to carry out this analysis

Thus, the total amount of provision for doubtful debts will be found as the sum of provisions for “small” and “large” debtors.

3. RESULTS

The proposed technique has been introduced in the accounting practice of “Elephant” LLC. The core activity of the organization is wholesale of fuel oils and building materials. The company’s accounting policy for 2015 had a procedure of creation of provision for doubtful debts for both tax and accounting purposes in accordance with Article 266 of the Tax Code of the Russian Federation (Tax Code of the Russian Federation, 2000):

1. For the doubtful debt with the period of occurrence more than 90 calendar days – the full amount of receivables identified on the basis of the inventory is included in the amount of provision;
2. For the doubtful debt with the period of occurrence from 45 to 90 calendar days (inclusive) – 50% of the amount of receivables identified on the basis of the inventory is included in the amount of provision;
3. For the doubtful debt with the period of occurrence up to 45 days – is not included in the amount of provision.

The amount of the created provision for doubtful debts cannot exceed 10% of the revenue in the reporting period.

As of 31.12.2015, “Elephant” LLC had the doubtful overdue receivables in the amount of 2,248,866.44 rubles. Provision for doubtful debts both in the tax and accounting reporting was created on its basis (Table 5).

Let’s calculate provision for doubtful debts using our proposed method. First, we allocate “small” debt: For legal entities – up to 300 thousand rubles, for individuals – up to 10 thousand rubles... (Table 6).

Next, we define the average percentage of doubtful debts ($Av\%dd$) as measured by the average ratio of bad accounts receivable to revenue over 3 years (Table 7).

The amount of provision for doubtful debts for “small” debtors is determined by multiplying the percentage found by the amount of proceeds from sales for “small” debtors in the reporting period:

$$P_{dd} = R \times Av\%dd = 9,478,634 \text{ rubles} \times 2.65\%/100\% = 251,183.80 \text{ rubles.}$$

Next, we make an assessment of the remaining receivables. We will apply a cumulative method to the remaining receivables of four debtors (JSC TEK Mosenergo, “KUBAN–SKAN” LLC, NPO “Mostovik” LLC and “Sochiremkompleks” LLC). We will consider the receivables of each debtor separately (Table 8).

According to an analysis of solvency of doubtful debtors, JSC TEK Mosenergo, “KUBAN–SKAN” LLC and NPO “Mostovik” LLC belong to the second category of solvency, so the amount of provision calculated based on the outstanding period is not

Table 5: Calculation of provision for doubtful debts as of 31.12.2015 (according “Elephant” LLC data), rubles

Name of the debtor	Doubtful debts by the period of occurrence			Total debt
	Up to 45 days	45-90 days	Over 90 days	
PE Klovov V.Yu.		8720.34		8720.34
JSC TEK Mosenergo	347,643.67	348,657.95		696,301.62
JSC “Betonstroiservice”		67,098.43		67,098.43
“Dorogi Uga” LLC			76,625.68	76,625.68
“Importoil” LLC		86,329.44		86,329.44
“KUBAN-SKAN” LLC			359,345.30	359,345.30
“Latona” LLC			27,328.76	64,484.32
“NPO Mostovik” LLC			411,644.09	411,644.09
“Rimel” LLC		58,842.75		58,842.75
“Sochiremkompleks” LLC		360,442.29		360,442.29
“Spetsmorstroy” LLC		53,433.06		53,433.06
“Ugspetstrans” LLC		42,754.68		42,754.68
Total	347,643.67	1,026,278.94	874,943.83	2,248,866.44
Rate of deductions to provision for doubtful debts, %	0	50	100	x
Amount of provision for doubtful debts	0	513,139.47	874,943.83	1,388,083.30

Table 6: Debts of “small” debtors to “Elephant” LLC as of 31.12.2015, rubles

Name of the debtor	Amount of debt
PE Klovov V.Yu.	8,720.34
JSC “Betonstroiservice”	67,098.43
“Dorogi Uga” LLC	76,625.68
“IMPORTOIL” LLC	86,329.44
“Latona” LLC	27,328.76
“Rimel” LLC	58,842.75
“Spetsmorstroy” LLC	53,433.06
“Ugspetstrans” LLC	42,754.68
Total	421,133.14

Table 7: Determination of the average percentage of bad debts over 3 previous years

Year	Revenue by “small” debtors, rubles	Bad debts at year-end, rubles
2012	2,634,987	47,539
2013	5,789,540	142,860
2014	8,354,845	253,978
Total	16,779,372	444,377
Average % of doubtful debts	2.65	

adjusted for them. “Sochiremkompleks” LLC belongs to the first category of solvency, so provision for doubtful debts is not created for this debtor.

We will summarize the received provision for doubtful debts by “small” and “large” debtors: 251,153.80 + 726,256.28 = 977,410.08 rubles.

Let’s compare the actual data reflected in the balance sheet with estimated. This, the receivables excluding the provision for doubtful accounts as of 31.12.2015 totaled 8,379,240 rubles. The amount of provision for doubtful debts according to data from “Elephant” LLC is 1,388,083.30 rubles, estimated amount is 977,410.08 rubles (deviation is 410,673.22 rubles). Accounts receivable net of provision for doubtful debts according to data from “Elephant” LLC is 6,991,156.70 rubles, estimated amount is 7,401,829.92 rubles (deviation is 410,673.22 rubles).

The statement of financial results also has a discrepancy in “other expenses” item: According to data from “Elephant” LLC, it is 15,634,920 rubles, estimated amount is 15,224,246.78 rubles (deviation is 410,673.22 rubles).

Thus, the amount of provision for doubtful debts calculated in accordance with the author’s method appeared to be less than provision calculated according to data from “Elephant” LLC by more than 400 thousand rubles. This resulted in an inflated balance sheet total and overstated retained earnings – which leads to unreliable reflection of the accounting (financial) statements, which further leads to inefficient managerial decisions made on the basis of such statements.

4. DISCUSSION

Clear and balanced approach to the formation of provision for doubtful debts solves one of the most important problems of the balance sheet – the accuracy of its items, in particular the item “receivables.”

The scientific and methodical approach designed by the authors allows to expand the theoretical understanding of the formation of provision for doubtful debts and its impact on the reliability of the accounting (financial) statements.

The practical significance of the research results is associated with the possibility of use of the method developed by the authors in the accounting practices of commercial organizations. Achieved results can be used by the accounting services of economic subjects, as well as in teaching the disciplines of accounting, accounting (financial) statements in higher education institutions and in training and professional development of professional accountants.

The developed method is not exhaustive and, of course, is not without drawbacks. For example, the current unstable financial situation in Russia and in the world can affect the relevance of average percentage for doubtful debts: The situation in the current reporting period may be radically different from the one in the past

Table 8: Calculation of provision for doubtful debts of “Elephant” LLC using a cumulative method by “large” debtors as of 31.12.2015

Indicator	JSC TEK Mosenergo	“KUBAN–SKAN” LLC	“Sochiremkompleks” LLC	NPO “Mostovik” LLC
Calculation of provision for doubtful debts by outstanding period, rubles				
61-90 days - 10%	34,865.80	-	-	-
121-180 days - 50%	-	-	180,221.15	-
181-240 days - 75%	-	112,500	-	-
240-366 days - 90%	-	8410.77	-	370,479.68
Over 1 year - 100%	-	200,000	-	-
Total amount of provision by outstanding period	34,865.80	320,910.80	180,221.15	370,479.68
Analysis of the debtor’s solvency				
Absolute liquidity ratio (R_1)	0.01	0.17	0.34	0.16
Critical liquidity ratio (R_2)	0.68	0.75	1.25	44
Current liquidity ratio (R_3)	1.24	1.75	2.38	1.78
Debt to equity ratio (R_4)	0.04	0.87	0.88	0.58
Return on sales ratio (R_5)	0.09	0.17	0.28	0.08
Score (S)	$0.11*3+0.05*2+0.42*2+0.21*3+0.21*2=2.32$	$0.11*2+0.05*2+0.42*2+0.21*2+0.21*1=1.79$	$0.11*1+0.05*1+0.42*1+0.21*1+0.21*1=1.00$	$0.11*2+0.05*3+0.42*2+0.21*3+0.21*2=2.26$
Debtor’s solvency ratio	1.0	1.0	-	1.0
Total amount of provision with adjustment, rubles	34,865.80	320,910.80	0	370,479.68
Total amount of provision for doubtful debts, rubles				726,256.28

3-5 years. Assessment of the financial condition of the debtor may be time-consuming for an accountant of a small organization, who has to solve a great number of tasks in the daily activities anyway. In addition, there is a difference in the amount of provision in accounting and tax bookkeeping.

However, in the absence of legally established methods of forming provisions for doubtful debts, the specific methodology is developed by the authors, which can be wholly or partially used in the accounting of the commercial organization. It features a more detailed approach to each kind of outstanding receivables.

5. CONCLUSION

Thus, the authors in this paper carried out an analysis of both the current Russian legislation on accounting and tax bookkeeping regarding the formation of provision for doubtful debts and international accounting standards in terms of provision for impairment of receivables. It was concluded that there are no specific methods in accounting; provision in tax bookkeeping is created depending on the outstanding period and generally should not exceed 10% of the revenue in the reporting period; international standards offer three methods: Method of percentage of net sales; method of creating provisions for specific debts; method of creating provisions by overdue periods.

Analysis of accounting policies of 50 commercial organizations showed that the main priorities in creation of provision for doubtful debts include the convergence of accounting and tax bookkeeping and minimization of cost accounting. In our opinion, provision for doubtful debts in tax bookkeeping does not reflect the realistic

assessment of the probability of non-payment on outstanding receivables, this method does not take into account the financial situation of the debtor. The main purpose of the creation of provision for doubtful debts in accounting – to increase reliability of the accounting (financial) reporting of receivables – is lost.

The authors suggested to use two methods of formation of provision for doubtful debts in the Russian accounting practice, both individually and in aggregate. The first method is widely used in international accounting standards – a percentage of sales approach. When using it, it is necessary to determine the average percentage of doubtful debts, the value of which is calculated according to the results of a retrospective analysis and determination of the average ratio of outstanding accounts receivable to the volume of revenue over 3-5 years. This method is useful if an organization has a large number of debtors with minor amounts of debts. The second method is cumulative, taking into account the period of occurrence of the debt, the solvency of the debtor and the risk of non-repayment. This method is developed by the authors and is a generalization of the theory and practice of recognition of receivables as doubtful and formation of provision for doubtful debts. This method is useful for formation of provision for doubtful debts for debtors with significant amounts of receivables.

Using the author’s method, provision for doubtful debts based on the data from the existing company “Elephant” LLC for 2015 was calculated.

It should be noted that we only offer two options for calculating provision for doubtful debts. It is required to develop more methods in the future to give an economic entity an alternative of choosing the most suitable option for them.

REFERENCES

- Engle, T.J., Hunton, J.E. (2001), Confirmation of accounts receivable balances. *Journal of Accountancy*, 5, 91-92.
- Gerasimenko, A. (2012), *Finansovaya otchetnost dlya rukovoditeley i nachinayushchikh spetsialistov* [Financial Reporting for Managers and Young Professionals]. Moscow: Alpina Publishers. p434.
- Johnson, R., Soenen, L. (2003), Indicators of successful companies. *European Management Journal*, 3, 364-369.
- Karpova, V.V. (2003), *Otsenka kak element sistemy bukhgalterskogo ucheta* [Evaluation as Part of the Accounting System]. Ph.D. Thesis, Russian State Library.
- Kivva, Z.B. (2011), *Metodika formirovaniye rezerva po somnitelnym dolgam v bukhgalterskom uchete* [Methods of formation of doubtful debts provision in accounting]. *Chief Accountants Club*, 6, 10-15.
- Kontseptsiya bukhgalterskogo ucheta v rynochnoy ekonomike Rossii [The Concept of Accounting in the Russian Market Economy] of 29.12.1997. (1997). Methodological council for accounting at the Ministry of Finance of the Russian Federation, the Presidential Council of the Institute of Professional Accountants.
- Korovina, M.A. (2016), *Formirovaniye rezervov po somnitelnym dolgam. Informatsionnoye obespecheniye effektivnogo upravleniya deyatel'nostyu ekonomicheskikh subyektov* [Formation of Doubtful Debts Provision. Information Support for the Effective Management of Activities of Economic Entities]. In: *The Proceedings of the VIth International Scientific Conference, In Ufa, Russia*. p168-173.
- Koshkina, T.Y. (2011), *Rezerv somnitelnykh dolgov. Stroitelstvo: Bukhgalterskiy uchet i nalogooblozheniye* [Doubtful debts provision. Construction: Accounting and Taxation], 10, 18.
- Lavrukhnina, T.A. (2007), *Razvitiye stoimostnoy otsenki v bukhgalterskom uchete kommercheskikh organizatsiy* [Development of Valuation in Accounting of Commercial Organizations]. Ph. D. Thesis, Russian State Library.
- Makarova, L.G., Ryabova, E.V. (2007), *Sovershenstvovaniye sposobov formirovaniya otsenochnykh rezervov* [Improvement of Methods of formation of valuation provisions]. *Finance and Credit*, 19, 44-49.
- Mezhdunarodnyy standart finansovoy otchetnosti (IAS) 36 "Obetseniye aktivov" [International Accounting Standard (IAS) 36 "Impairment of Assets"] of 12.25.2015 No. 217n. (2015). Ministry of Finance Russian Federation.
- Mezhdunarodnyy standart finansovoy otchetnosti (IAS) 39 "Finansovyye instrumenty: Predstavleniye informatsii" [International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement"] of 12.25.2015 No. 217n. (2015). Ministry of Finance Russian Federation.
- O vklyucheni summ zadolzhennosti po NDS v sostav rezerva po somnitelnym dolgam v tselyakh naloga na pribyl organizatsiy [About inclusion of Outstanding Amounts on VAT in the Doubtful Debts Provision for the Purpose of Corporate Income Tax] of 03.08.2010. No. 03-03-06/1517.
- Ob utverzhdenii Polozheniy po bukhgalterskomu uchetu (vmeste s Polozheniyem po bukhgalterskomu uchetu "Uchetnaya politika organizatsii" (PBU 1/2008), Polozheniyem po bukhgalterskomu uchetu "Izmeneniye otsenochnykh znacheniy" (PBU 21/2008) [On Approval of the Regulations on Accounting (Together with the Regulations on Accounting "Accounting policy of the Organization" (RAS 1/2008), Regulations on Accounting "Change of the estimates" (RAS 21/2008)] of 06.10.2008. No. 106n. (2008). Ministry of Finance Russian Federation.
- Ob utverzhdenii Polozheniya po vedeniyu bukhgalterskogo ucheta i bukhgalterskoy otchetnosti v Rossiyskoy Federatsii [On Approval of the Regulations on Accounting and Financial Reporting in the Russian Federation] of 29.07.1998. No. 34n. (1998). Ministry of Finance Russian Federation.
- Pechennikova, G.G., Arbatskaya, T.G. (2011), *Otsenochnyye rezervy organizatsii: Teoreticheskiye i metodicheskiye aspekty* [Valuation Provisions of the Organization: Theoretical and Methodological Aspects]. Irkutsk: Publishing House BSUEL. p146.
- Prudnikov, V.I. (2000), *Otsenka stoimosti debitorskoy zadolzhennosti* [Valuation of receivables]. Available from: http://www.dom-khv.ucoz.ru/index/prudnikov_v_i_otsenka_debitorskoj_zadolzhennosti/0-209. [Last retrieved on 2016 Feb 15].
- Reglament predostavleniya kreditov yuridicheskim litsam Sberbankom Rossii i yego filialami [Rules of Providing Loans to Legal Entities by Sberbank of Russia and its Branches] of 08.12.1997. No. 285-r. (1997). Sberbank Committee on Loans and Investments.
- Shishkoedova, N.N. (2012), *Rezervy po somnitelnym dolgam: Bukhgalterskiy uchet* [Doubtful debts provision: Accounting]. *Food Industry: Accounting and Taxation*, 11, 42.
- Sigidov, Y.I., Korovina, M.A. (2012), *Otsenka debitorskoy zadolzhennosti v rossiyskom i mezhdunarodnom uchete* [Valuation of receivables in the Russian and international accounting]. *International Accounting*, 41(281), 2-9.
- Tax Code of the Russian Federation (Part Two): Federal'nyy zakon ot 5 avgusta (2000). No. 117-FZ [Federal Law dated August 5, (2000) No. 117-FZ] of 5.08.(2000) No. 117-FZ.