ASSESSMENT OF NET ASSETS IN THE PUBLIC SECTOR BASED ON IPSAS

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ABSTRACT
The problems of accounting for net assets, reporting on it and the procedure for its formation are among the most controversial in accounting taking into account the specifics of the economic and legal entity of the public sector. The purpose of the study is to justify the rules for recording net assets of public sector entities in the accounting. Methods of research are the following: comparison, synthesis, analysis, logical approach, system approach. The article examines the legal aspects and specifics of the recognition of assets of public sector entities in accordance with IPSAS. An alternative valuation of assets that are subject to return to the right holder (state controller) in the liquidation of a public sector entity, is proposed.

Keywords: international accounting standard, public sector, net asset

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INTRODUCTION

The concept of the effectiveness of the public sector, which is the basis for reforming public administration, has methodological and organizational problems. Such problems include the absence in the scientific literature and practice of the generally accepted concept of economic efficiency in the public sector of the economy. Also, there are no criteria for determining the economic efficiency and the system of its indicators. Methodological approaches and principles for determining economic efficiency in the public and commercial segment should be the same. In our opinion, this approach is untenable because of fundamental differences in the principles and objectives of the functioning of the non-profit sector, its deep economic and social specifics. This approach requires additional research in the field of accounting and reporting.

The most important indicator of economic efficiency is the indicator of net assets. It is necessary to consider the achievement of maximum social effect and optimization of budget resources and economic performance as the key objectives of the evaluation of a non-profit organization. The category “net assets” acquires special significance, since it allows to consider the investment process with the public sector and provide an estimate of the increase in the total value of a non-profit enterprise. It is possible to use the indicator for the growth of retained earnings for the paid activity of a non-profit organization.

In conditions of risk and uncertainty, there is a need for continuous management of economic processes in the public sector. Changes in the financial and management accounting of recent decades have led to a shift in emphasis from cost management and financial flows to the management of economic processes (financial position, risks, enterprise reserve system, reorganization processes, value added) based on the use of accounting engineering tools (monitoring, financial, hedged or other derivative reports). The indicator of net assets in tandem with net liabilities is one of the most important indicators for assessing the economic processes, efficiency and sustainable development of a non-profit enterprise. However, this indicator is difficult to determine for the entities that are not oriented to receiving income or meeting the needs of the population for services as the results of investment development. Therefore, many proven models and methods of accounting for net assets can not be directly accepted for use in this area. This situation determines the discrepancy between the urgent need for the application of the scientific and methodical apparatus in the field of information and analytical support of management and evaluation of efficiency using the indicator of net assets. It also affects the significant improvement in the quality of financial information and the formation of adequate information support for control and management processes for a
broad audience, improving the decision-making process for allocating resources, increasing transparency and increasing the accountability of decision-makers (Bellanca & Vandernoot, 2014). The application of these standards allows improving budgetary control and supervision, as well as creating communicative tools for establishing dialogue and synchronizing the work of state institutions of different countries. (European Commission, 2012b, European Commission, 2012a). IPSAS has actually become an international benchmark for assessing accounting practices in the public sector around the world. For these reasons, IPSAS deserves attention by both policy makers in accounting and scientists (KPMG, 2013). To date, the development of national accounting and reporting standards is based on this group of international standards, which are actively developing and are applying worldwide. This situation gives rise to the problem related to the need to develop new and adapt existing national and international models and tools for accounting for net assets in the non-profit sphere and construct effective methods based on it.

METHOD

The following methods are used in the study: logical-system methods, synthesis, analysis and analogy, comparative analysis. The purpose of the analysis was to identify the differences between IPSAS and public sector standards published by the Ministry of Finance of Russia. The goal was also to systematically review draft standards and draft resolutions based on published information and opinions, surveys of the Ministry of Finance and stakeholders (public sector managers, accounting and government officials). Polls were conducted in the form of a questionnaire. The opinions of respondents on the need for IPSAS in the Russian Federation were of interest. We evaluated the respondents' loyalty to the prospects of using IPSAS as the basis of IPSAS. The possibilities of synthesizing accounting instruments based on IPSAS and the organization of state and public control, including on the basis of the “Electronic Budget” technology, were explored. The synthesis method was used in grouping the positive and negative consequences of IPSAS implementation as the basis of Russian accounting standards in the public sector. The analysis was based on the examination of publications and documentary materials emanating from the main regulatory bodies (relating to reporting, regulations, these conferences and discussions).
3. DISCUSSION

3.1. Influence of theoretical and legal features of the functioning of public sector entities on the interpretation of the category “Net asset”.

The subjects of the public sector have distinctive features that predetermine the specifics of the composition and disclosure of information about the objects of accounting. According to the definition of IAS 22, “Disclosures in the Financial Statements of the Public Administration Sector”, non-profit organizations are legal entities or organizations of a different form that are established for the purpose of producing or distributing goods and services, but these organizations do not generate financial benefits for controlling entities. [2]. Thus, the distinctive feature is the complete absence or restriction of ownership of property and other resources that are at the disposal of a non-profit institution, which are public property and controlled by the subjects of state power.

Distinctive features of non-profit institutions should be considered:
- lack of generation of economic benefits as the main objective of the activity;
- the prevalence of the non-market way of organizing activities;
- production, distribution and consumption of public goods;
- the lack of / restriction of the ownership of property and other resources at the disposal of a non-profit institution, which are public property and controlled by the subjects of state power;
- providing an economic balance between the supply and demand of public goods through government mechanisms (social institutions, infrastructure and resources);
- the possibility, within the permissible limits, to carry out activities aimed at extracting additional economic benefits while preserving the purposeful functions of distributing public goods and achieving the state's objectives to meet social needs.

Table 1 summarizes the main distinguishing characteristics of non-profit institutions and determines the impact on recognition, accounting for net assets / capital of such institutions.
Table 1. Impact of the specifics of non-profit institutions on the recognition and accounting of net assets

<table>
<thead>
<tr>
<th>Features</th>
<th>Specifics of recognition and accounting of the categories &quot;Capital / Net Assets&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>- the lack of generation of economic benefits as the main objective of the activity;</td>
<td>Excludes the possibility of using the term &quot;Capital&quot; as a financial assessment of the investment of resources in the operational and financial cycle in order to extract economic benefits.</td>
</tr>
<tr>
<td>- the prevalence of the non-market way of organizing activities;</td>
<td>There is no traditional mechanism for the commercial organization to create and accumulate profit, there is no &quot;accumulation&quot; of net assets in time.</td>
</tr>
<tr>
<td>- providing an economic balance between the supply and demand of public goods through government mechanisms (social institutions, infrastructure and resources);</td>
<td></td>
</tr>
<tr>
<td>- the lack of / restriction of the ownership of property and other resources at the disposal of a non-profit institution, which are public property and controlled by the subjects of state power;</td>
<td>Excludes recognition of assets and capital under the terms of control over economic benefits / utility opportunities.</td>
</tr>
<tr>
<td>- possibility in the permissible limits to carry out activities aimed at extracting additional economic benefits while preserving the target functions of distributing public goods and achieving the goals of the state in meeting public needs.</td>
<td>Generates a traditional commercial model of resource movement, introduces the concept of &quot;capital&quot;, &quot;income&quot;, &quot;profit&quot;, thereby predetermining the mixed nature of the category of net assets (contained as a component of a non-commercial nature, as a financial assessment of the resource transferred from the subject of control (state) and own assets, recognized under the terms of control of future economic benefits and profit generation).</td>
</tr>
</tbody>
</table>
The complex of peculiarities of treatment of net assets of a non-commercial institution considered in the table is used ambiguously in the methodology of national and international financial reporting standards.

The following groups of documents form the basis for applying the principles of international standards and accounting:
- for commercial organizations - International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) developed by the IASB;
- for the public sector of the International Public Sector Accounting Standard (IPSAS). Developed by the International Financial Reporting Standards Board (IPSASB) under the International Federation of Accountants (IFAC).

Both groups of standards use the principle of the predominance of economic content before the legal form when determining subjects and spheres of application. This makes it possible to qualify an economic entity for the possibility of applying IPSAS on the basis of the purpose of the enterprise's activities, functions carried out in the economic and social environment, regardless of the legal form of ownership and the structure of investments by the state. Consequently, the recognition of assets and sources of financing in the IFRS paradigm is based solely on the criteria for using them to achieve the main objectives of the enterprise.

Pursuant to paragraph 17 of IPSAS 1 “Presentation of Financial Statements”, the statement of financial position should, at a minimum, disclose information about the amount of net assets / equity. According to paragraph 95 of the IPSAS, organizations without share capital disclose net assets / equity in the statement of financial position or in the Notes, separately highlighting:
- contributed capital, which is the total amount of contributions of owners, net of payments in favor of owners as of the reporting date;
- accumulated surplus or deficit;
- reserves, including a description of the nature and purpose of each reserve in assets / equity; and
- a share of the minority [2].

Considering the net assets of a non-profit institution, it is necessary to take into account the specific functioning of these enterprises. Net assets of a non-profit enterprise should be understood as the difference between the assets and liabilities of the organization. However, we should note the heterogeneity of this category in terms of its economic and legal content. The proposed composition of the articles does not reflect the specific nature of the activities of the non-profit organization, and thus, this grouping implemented in the concept of
international accounting standards does not allow analyzing and presenting reliable and relevant information about net assets to users in full.

4.2. **The problem of recognizing the assets and assets of a public sector entity controlled by the state.**

Particular attention should be paid to the highlighted peculiarity of "absence / limitation of ownership of property and other resources that are at the disposal of a non-profit institution that are public property and owned by public authorities. In connection with this limitation, there is a problem in applying IPSAS for recognition as assets and its inclusion in the net assets of the public sector entity's assets, as well as the sources of its receipt. There is a problem of recognizing such property as part of assets, the share of its participation in the value of the company's net assets, as well as the procedure for reflecting settlements with the founders as sources of financing as the capital of the organization or other type of liabilities of the balance sheet. In the legal and scientific literature there are various approaches to solving this problem. However, in accordance with IPSAS and the reform of accounting on the basis laid down in these standards principles, these issues remain unresolved and are of a discussion nature.

4.3 **Grouping of assets of a public sector entity on the basis of the sign “State assets control”**

When grouping the property and the sources of its formation, it is necessary to distinguish among property categories:

- the property of the founder - the bearer of the property right and other types of property to which the recovery can not be made upon liquidation of the legal entity;
- property created and controlled by a non-profit organization at the expense of its own and attracted private sources, which can be levied upon liquidation of a legal entity.

The following grouping of assets is proposed for subsequent recognition as part of assets (share in net assets) (table 2).
### Table 2. Grouping of assets of a public sector entity on the basis of the sign “State assets control”

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Sub-asset</th>
<th>Terms of asset return to the state controller</th>
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<tbody>
<tr>
<td>The property of the founder-bearer of the owner's right and other similar types of property</td>
<td>Fixed for the subjects of the public sector on the right</td>
<td>The requirement to return to the founder or other owner in case of liquidation / termination</td>
</tr>
<tr>
<td>Particular valuable property, reflected on the conditions of separate accounting. It is considered unnecessary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property created and controlled by a non-profit organization at the expense of its own and attracted private sources, which can not be levied upon liquidation of a legal entity and other</td>
<td>Other property in state ownership, which is on the condition of independent regulation</td>
<td>A recovery may be made for liabilities when liquidating a legal entity.</td>
</tr>
<tr>
<td>Property acquired at the expense of income from economic activities benefiting from activities received free of charge from third parties and other similar types of property located</td>
<td></td>
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</tr>
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</table>

The most relevant is a set of problems arising in the formation of financial statements and the assessment of the net assets of a non-profit organization:

- conditions and criteria for recognition as assets of the specified aggregate of properties on the basis of IPSAS approaches, including the concept of control, risks and benefits;
- conditions and criteria for recognizing settlements with owners and subjects of property control and income from it as part of the balance sheet (Capital, Obligation);
- accounting for the said types of property when calculating the net assets of a non-commercial autonomous institution from the point of view of satisfying various groups of users' interests (solvency, liquidity, investment attractiveness, sustainable development, etc.);
- criteria for recognition of income and accumulated financial result.
According to IPSAS, a subject of the general government control over assets can be when an entity can use the asset to obtain future economic benefits or useful potential in the process of achieving its objectives and can exclude or otherwise regulate access of other entities to economic benefits or useful potential [2]. The useful potential included in the assets is ability to be used independently or jointly with other assets to provide state (municipal) services (paid services, performance of work, production) and/or perform state (municipal) and other functions in accordance with the objectives of the entity, while not providing the inflow of cash to the subject (cash equivalents) [2]. Asset generated benefits can not be estimated in monetary terms, but it has a social or other useful potential for the society, which is very typical for non-profit organizations and the principles of their functioning on a non-market basis.

According to paragraph 7 (IPSAS) 23 “Revenues from non-exchange transactions (taxes and transfers)” control of an asset arises when an organization can use an asset or otherwise derive benefits from it, pursuing its objectives, and may also close to regulate access to this benefit for other persons. The specified criterion for ensuring the control of the institution over economic benefits is strictly observed. The totality of properties listed in Table 2 can be recognized as assets of a non-profit organization in accordance with IPSAS. At the same time, ownership of the transferred property should be neglected in accordance with the principle of priority of economic content before the legal form. The property in full composition reflects in the asset of the balance sheet / statement of financial position.

4.4. Problems of recognition of the value of assets subject to return to the right holder (state controller) in the event of liquidation of a public sector entity. Estimation of net assets

The problem of conditions and criteria for recognizing settlements with owners and subjects of property control as part of the balance sheet (Capital, Obligation) remains unsolved.

The distinction of sources of financing in the passive of the statement of financial position and their qualification as capital or revenue is fixed in IPSAS 23 “Revenues from non-exchange transactions”. It is necessary to allocate contributions of the owner when forming the net assets of the institution or obtaining valuables on the terms of non-exchange transactions (without providing approximately equal value in exchange).

The owner's contribution under IPSAS 1 implies future economic benefits (including the possibility of useful use) received from external parties that do not result in an organization's liabilities and form a share in the net assets / capital of the organization that:
- gives the right to payments distributed by the organization, as follows: 1) future economic benefits or the possibility of useful use during its existence at the discretion of the owners or their representatives, and 2) any excess of assets over liabilities in case of liquidation of an organization
- can be sold, exchanged, transferred or redeemed.

Considering the compliance of the organization allocated in the structure of the property to the specified definitions, it is necessary to highlight the property assigned to the institution, acquired at the expense of the funds allocated by the bearer of the property right.

There is a contradiction between the economic and legal content of this indicator and the definition of the contribution of the owner, which forms the capital / net assets of the institution. As the requirement to distribute any excess of assets over liabilities in the event of liquidation of an organization is not fully satisfied.

The analysis of IPSAS 1 and IPSAS 23 shows that IPSAS does not contain detailed instructions on how to reflect the specifics of calculation of payments by owners of state property.

The definition of "contribution of the owner" contradicts the economic and legal content of the category of settlements with the founders of a non-profit institution, since the need to return property during liquidation is not taken into account. According to IPSAS, the contributed capital in the public sector can be confirmed by the transfer of resources between the parties. Issue of equity instruments in the transfer of resources is not a prerequisite for the conformity of the transfer to the determination of contributions of owners. The transfer of resources resulting in a share in the net assets / capital of the organization is allocated from the transfer of other resources when it can be confirmed by the following:

- the official confirmation of the parties to the transaction on the transfer of resources (or the type of such transfer) as an integral part of the net assets / equity, prior to the implementation of the deposit or during its implementation. For example, when a new organization is created, the budget office of the finance department can perceive the initial transfer of resources to the organization as a share in net assets / capital, rather than as a means to meet current needs.
- an official agreement regarding the transfer of resources that creates or increases an already existing share in the net assets / capital of the organization that can be sold, transferred or redeemed.

Some authors believe that the calculations with the founders in initial assessment represent the current long-term debt of the company based on the approach that the institution must return
the received property upon liquidation. As criteria for the recognition of the current obligation, the authors cite such arguments as the occurrence of an event in the past (transfer of property) and the probable outflow of economic benefits in the future (upon the liquidation of an organization).

We believe that each of the approaches has advantages and disadvantages, but these approaches do not completely solve the problem of preparing information on the owner's investments in the part of the assigned property and the enterprise created in the process of functioning, as well as recognition in the reporting.

Net assets of a non-profit institution are formed as an increase in the economic benefits received in the course of an activity, the result of a change in the value of assets. However, there is controversial issue of recognizing directly the amount of the owner's investments that, at the time of liquidation of the organization and other cases provided for by law, can be withdrawn without the consent of the institution.

4.5 Estimation of net assets based on the adjustment of the value of assets to be returned to the right holder (state controller) in the event of liquidation of a public sector entity

The composition and size of net assets is essential information for users of external reporting of a non-profit organization. A non-profit organization submits public statements based on the principles of IPSAS, primarily to provide users with information about the financial situation to ensure control and to attract alternative sources of funding. Investment attractiveness is very relevant for such institutions, due to the additional capabilities of such organizations to provide paid services and carry out projects and works for third parties on a commercial basis. The amount of net assets under this approach characterizes the financial security, the sustainability of development and the investment component of the activities of a non-profit institution.

At the same time, the company's net assets traditionally serve as a tool for assessing solvency and providing resources in terms of the distribution possibility among creditors in case of liquidation of an enterprise, as well as in its current activities. In this case, the principle of conservatism requires a prudent approach to recognize directly in the capital sources of the formation of assets of the enterprise, as well as the inclusion of assets in the composition of net assets, taking into account the possibility of their implementation and use to pay off counterparties. Although the transfer of resources can be formalized by a confirmation or an official agreement, the organization determines the nature of such transfers on the basis of their economic content, and not only their legal form.
To achieve these goals of providing users of financial statements with relevant and reliable information, the current approach of IPSAS is not able to provide a universal methodology for the formation of net assets of a non-profit organization.

5. RESULTS AND CONCLUSIONS

5.1. Methodology of recognition and qualification of assets, subject to return to the right holder (state controller) in the event of liquidation of a public sector entity

Assets subject to return to the right holder (state controller) in the liquidation of a public sector entity can be perceived as the initial transfer of resources to the organization as a share of net assets / capital. However, based on the definition of the owner's contribution to IPSAS 1 “Presentation of financial statements” in the event of settlements with the founder for these types of property, the requirement to distribute any excess of assets over liabilities in case of liquidation of an organization is not fulfilled. As already noted, this property can be seized and will not increase assets in case of liquidation of the organization. We believe that it is not advisable to qualify such investments of founders under the item “Owner's contribution” of the statement of financial position, and does not meet the requirements of IPSAS.

The transferred property during the whole useful life and physical ability to participate in the operational and financial cycle of the organization can be completely exhausted during the activity of the institution. Loss, damage, loss of assets of its physical and moral characteristics due to use does not entail an obligation to repay the original value of the property to the owner or to provide property similar in its characteristics. Return of an asset to the right holder (state controller) in the event of liquidation of a public sector entity involves the return of a physical object, rather than a value equivalent. Thus, the requirements of the mandatory value equivalent of the investments of the founder, subject to return at the time of liquidation, equal to the value of the initial gross proceeds do not arise. The transfer of such an asset is a sign of non-exchange transaction. In this way:

- property is assigned to a non-profit organization for the implementation of its statutory activities (extraction of economic benefits or the possibility of useful use) with the priority goal of full use during the whole useful life / physical existence period;
- property is subject to refund in case of liquidation of the organization as a physical object (right) at the date of liquidation, and not as its value equivalent;
- property is subject to return in that condition and with those physical and moral characteristics in which it is on the liquidation date of the organization.

There are two features of property recovery in liquidation:
the property is not returned in full (only that which exists physically on the liquidation date);
- the property is returned in the light of moral and physical deterioration, spoilage and partial loss of properties;
- the property is returned after an indefinite time, which affects its value measurement.

The requirement of IPSAS to reflect the value of such property at fair value. The fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In our opinion, it is necessary to use the assessment recommended by IPSAS, since it most accurately reflects the value of the property as the founder's investments in the organization's activities, ensures proper control of the objectivity of the estimates and allows a more reliable estimate of the value of net assets. Fair value represents an alternative assessment of state investments in the creation of an institution as a mechanism for realizing the function of distribution and redistribution of public goods, which is the "effect" of such investments. Thus, when assessing gross revenues in terms of fixed assets, the possible approach of market valuation should be guided.

5.2. Alternative valuation of assets subject to return to the right holder (state controller) in the event of liquidation of a public sector entity

Based on the above analysis, it can be concluded that the asset to be returned to the right holder (state controller) in the liquidation of a public sector entity corresponds to two sources of formation. The property, as of the date of the investment, is the gross inflow of economic benefits in their fair valuation and reflects the investment of the owner of state property that realizes its goals through a non-profit institution. At the same time, it is impossible to ignore the fact of the preemptive right to seize such property upon liquidation of the organization in physical volume and condition as of the liquidation date of the institution.

The preferential right of liquidation, of course, gives rise to the current obligation of the institution, since the following requirements are simultaneously fulfilled:
- the occurrence in the past of a binding event (the transfer of property), the existence of such an event does not depend on the future actions of the institution (the obligation can stop from the disposal of the property, which is possible only with the consent of the founder itself), the repayment of the obligation can be compulsorily under the law.
- potential outflow of economic benefits.

However, as noted above, the obligation arises only in respect of a physical object in the amount and condition of depreciation on the liquidation date. The amount of accumulated
depreciation and the residual value of such an object, in our opinion, does not reflect a reliable valuation of the property. Since depreciation is primarily a tool for comparing the income and expenses of an organization and the resulting residual value does not allow to give a reliable estimate of the asset at the current date.

In terms of its economic content, the property object assigned to the institution at the time of repayment represents a potential investment of the owner in alternative projects. From this point of view, the value of the return of property is a recoverable amount. The most accurate estimate, in our opinion, is the liquidation value of the asset. According to paragraph 13 of IPSAS 17 “Fixed Assets”, the residual value is the estimated amount that the entity would currently receive from the disposal of the asset after deducting the expected costs of disposal, as if the asset had already reached the age and condition expected at the end of its useful life. Thus, the author of the study proposes to recognize the obligation on the preferential right to seize property assigned to the state non-commercial institution by the owner in the amount of the liquidation value of these assets and to exclude the specified amount from the net assets of the organization. The scheme for calculating the liquidation value is as follows:

- the adjusted (revalued) cost of the asset;
- the amount of current costs associated with liquidation (costs of preserving assets prior to their sale, management costs, etc.)
- the value of all liabilities associated with liquidation.

At the same time, in the passive of the statement of financial position, it is necessary to display gross receipts of economic benefits in the amount of the fair value of property assigned to the state non-profit institution by the owner, which will entail an increase in net assets.

In our opinion, when calculating net assets from gross receipts of economic benefits in a fair valuation on the date of receipt, it is necessary to exclude the amount of liabilities calculated based on the liquidation value of assets subject to withdrawal on the liquidation date. Thus, the excess of the value of gross revenues from the founder over the amount of obligations will amount to the share of net assets that belong to the institution and are realized in the course of activities throughout its existence.

Also, it is proposed to exclude the excess of liabilities over the initial book value of assets in the part of the property assigned to the institution. In this case, the author of the study recommends the use of the smallest of the two evaluations when assessing the obligation:

- the liquidation value of property expected to be seized;
- the book value of property expected to be seized, recognized at the time of the owner's investment.

This is due to the principle of interaction between the property owner and the state non-profit institution, according to which the investments sent by the owner of state property do not have the objective of extracting economic benefits from the use of the transferred property, or by other means of extracting additional economic benefits. Thus, the owner can not return economic benefits more than they were invested in the formation and functioning of a non-profit institution in accordance with the non-market principle of interaction.

According to the recommended methodology, at the time of formation or subsequent investing, the founder reflects both gross receipts of economic benefits / possible useful use directly in the increase in net assets of the organization (section “Net assets / Capital” in accordance with IPSAS 1 or “Other liabilities” under the federal accounting standard in sector of public administration "Presentation of financial statements"). On the subsequent reporting date, the preparation of financial statements is recommended to reclassify the above economic category into the liability, thereby ensuring that the value of property subject to withdrawal is excluded from the net assets. Thus, an adequate assessment and reflection of the following information will be provided:

- obligations to the founder on property for which there is a preferential right of withdrawal during liquidation in the most reliable (liquidation) assessment, reflecting the actual characteristics of the object at the date of withdrawal;
- the share of gross revenues from the founder, which forms the net assets of the institution and “working” in the organization.

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