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# DEVELOPMENT OF ACCOUNTING PROCEDURES AND REPORTING IN THE PROCESS OF ECONOMY GLOBALIZATION

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### *Abstract*

The relevance of this article is due to the fact that the common development features of accounting activities consist in functionality, formalization, professional independence and responsibility of accountants, historical continuity of the accounting methodology. Each of these features has its own components. Imposition of modern methodology on them enable combining the development of accounting into single process. The international economy integration, the intensive development of international financial and investment market necessitates the international financial reporting standards (IFRS) creation, the study of historical processes for development of accounting activities and its interpretation in paradigms. As result of economy globalization, most states of the world are involved in the process of worldwide harmonization of economic, accounting, statistical and financial standards. The issue of modernization of accounting processes and financial reporting, or rather, approximation of their content and methods to the codes that are used in international practice, has become an acute issue. The solution of these issues is impossible without taking into account the historical aspects of the development of accounting procedures and reporting. The article is devoted to the study of the accounting methodology evolution at all its stages and in various ethnic accounting systems.

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**Keywords:** Accounting activities, economy globalization, standardization and harmonization.



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## 1. Introduction

The economy globalization plays a large role in the life of modern society, significantly affecting the economies of even those countries that are considered largely self-sufficient. In this regard, the economy globalization is naturally subject to numerous debates, becoming the subject of scientific papers and discussions.

The essence of economy globalization, manifestations, consequences and its impact on the economy, accounting activities in Russia and in other countries are treated ambiguously, since that process is rather contradictory and complex.

The reasons for economy globalization are the results of scientific and technological progress in the field of communications and transport, modern telecommunication systems, as well as innovative technologies.

Foreign experience in production activities and trade liberalization have been adopted under information integration conditions, which has made the world trade more open and free (Khakhonova et al., 2019; Babaev & Petrov, 2020).

The decisive role in the world economy belongs to transnational corporations (TNC), which are called upon to ensure the global connection of its main components in the course of implementing their world economic strategies.

In the foreseeable future, the economy globalization still plays the key and determining role in the world economy.

As result of globalization processes, most states of the world are involved in the process of worldwide harmonization of standards: economic, accounting, statistical, financial and others.

## 2. Problem Statement

The content of evolution at all its stages and in all ethnic accounting systems is the recording of business transactions, and its components are informational identification of accounting items, consolidation of information in documents (Malkova, 2008; Voronchenko, 2018). Registration of transactions was a way of informational description, and totality of registered facts was the foundation to build the control and monitoring systems (Malkova, 1995). Therefore, data recording expressed as economic component, whose mechanism enable to obtain the body of knowledge about economic activity by managerial features.

The accounting's economic function was interconnected with the monitoring one, which denoted the responsibility of individuals for economic resources.

Generally, the accounting functionality has formed as the accounting purpose. It manifested itself in coexistence and interaction of two functions - economic and monitoring.

The priority of economic function over the monitoring one and evolutionary conservatism of accounting methodology has more practical significance than scientific (Nechitailo et al., 2014; Petrov, 2019).

The modern restructuring of the Russian economy has introduced new accounting items, but without prior preparation of methodology for their accounting and monitoring (Polkovsky, 2018; Pyatov, 2011).

The conservatism action is manifested in modern constancy principle of the company's accounting policies. The conservatism's recognition of methodology as its objective feature has a positive meaning for the accountants themselves. Their professionalism means knowing and owning of methodology stereotypes.

The methodology stereotypes found concrete expression in ethnically separate accounting systems, each of which is combination of historically formed elements (Sokolov & Sokolov, 2009; Tkachuk, 2018).

If the ancient Egyptian accounting record forms were evolutionarily preserved, the modern current accounting methodology would probably be somewhat different.

The genesis of international accounting systems basically has Anglo-Saxon, and later American accounting stereotypes. If their adaptation is carried out in the form of artificial and accelerated borrowing, then sharp change in Russian stereotypes may have only adverse effect on the domestic accounting model (Tkachuk, 2018).

The limits of accounting procedure determine the primary accounting and the initial composition of accounting items.

The modern accounting procedure is not able to cover all processes occurring even in the local economy. Its contour, closed by the chart of accounts and double entry, represents a certain obstacle to assessment and accounting of the variety of transactions. Ultimately, the uncertainty is associated with the methodology evolutionary conservatism and the stability of accounting stereotypes. The accounting stability is a great advantage, saving from momentary market conditions. But it also inhibits the action of extroverted principle, which means new methodological solutions and other ways of formalization.

With appearance of the new methodology, uncertainty is overcome, which means the action of extroverted principle.

Along with financial accounting, the management accounting functions as an open system (Elliott & Elliott, 2007; Garrison & Noreen, 2003). It does not end with the balance sheet, and double entry in it is one of the ways, along with which other extensive tools are used, which compensates shortcomings of the closed accounting system of financial accounting (Godfrey et al., 2010).

The stable formalization of accounting under the prevalence of total state control was directly related to the purposeful activities of administrative authorities to establish uniform standards for the accounting methodology. The evolution of professional responsibility experiences returns to the regulatory option, which has always occurred against the backdrop of increased bureaucratic trends or direct repetition of centralized control and monitoring.

Malkova (2008), based on historical research, identified the common signs of development of accounting methodology, consisting in functionality, formalization, professional independence and accountability of accountants. Each of these features has its own components. Imposition of a modern methodology on them enable combining the development of accounting into single historical process and interpret it in paradigms.

### **3. Research Questions**

The study of the development of accounting procedures in the process of integrating the Russian economy into the global economic system inevitably leads to the following questions:

1. How has the relationship between the economic and control accounting functions developed historically?
2. What is the impact of the historical aspects of the development of accounting procedures and reporting on the modern accounting methodology?
3. How to adapt the international accounting systems to the new accounting facilities of the modern Russian economy?

#### **4. Purpose of the Study**

In this paper we study the stereotypes of accounting methodology, the development of the relationship of financial and management accounting in the context of the economy globalization, and ways to solve the problem of accounting uniformity based on two approaches: standardization and globalization.

#### **5. Research Methods**

Documents analysis by the accounting methodology revealed two leading stereotypes that occurred in all ethnic accounting systems. They were the accounting record method in the current accounts and the accounting procedure. Methodological stereotypes were created independently and in isolation by different ethnic cultures (Malkova, 1995).

The initial basis for historical formation of methodology stereotypes was purposeful grouping of accounting items by analytical features. The idea of oral accounting methodology before the Paleolithic has a heuristic nature (Malkova, 1995). Probably, it consisted in perception of item qualitative differences and development of calculations for specific analytical accounting items.

With some certainty, one can make a judgment about the Paleolithic accounting methodology as the grouping of accounting items by their kinds. Moreover, the grouping probably corresponded to the location of accounting items at the time of counting, which meant inventory. The inventory was register with list of accounting items. It performed simultaneously the functions of the primary, current and reporting document.

Registration of balance changes was possible with each inventory. Therefore, the inventory record was discrete, respectively to discreteness of inventories. The current accounting of changes in accounting items in the documents was absent, since their recording method was unknown. As a result, the recording was carried out only by remained changes. Thus, the methodology of primitive accounting consisted of symbolic discrete inventory record grouped by type of accounting items (Malkova, 2008).

The method of discrete description of business transaction results in form of their balances had limited methodological capabilities. It was replaced by the method of income and expense records as continuous description of changes in accounting items as early as II millennium BC. The change did not mean displacement of one record stereotype with another, but their symbiosis in combining of income and expense inventory accounts into one income and expense account and, accordingly, in one accounting register. Discrete accounting has never been disappeared. It is used at the present time, revealing itself both in asset inventories and in the balance sheet forming methods (set of balances at fixed date) (Malkova, 1995).

Ancient Eastern income and expense accounts were of systemic nature, as they were built into the accounting procedure - they were filled out on the basis of primary accounting and were completed by consolidation in the reports.

Other were ancient Greek and Hellenistic accounts. They were not current. Chronological inventory of transactions by day was conducted in ephemeris, and the accounts were compiled by sampling from it. (Malkova, 1995) The accounts as per the recording method in them were income-expense, but generally very different, since there was no strict data form. Therefore, they were not systemic. Accounts were collected from daily primary records and grouped according to any given features. But at any features, they remained income-expense, like the ancient East. The contract account was also recorded into income-expense property accounts. Money circulation, financial settlements and banking have faced intractable problem of account settlements by property material accounting tools (Malkova, 1995)

The development of monetary circulation and banking in ancient Greece marked a turning point in the account settlement evolution. Settlements began to be accounted for in the current settlement contract accounts. As receivables and payables, they for the first time became independent accounting items in the equivalent (single) monetary dimension (Sokolov & Sokolov, 2009)

The primary documents contained a deposit order in the bank, then they were registered in ephemeris by transaction due dates. Current accounting was carried out using income-expense account according to the stereotype of selective income-expense account, but in a new terminology. It is characteristic that crediting to the account and debiting from it could not be indicated by any term at all but determined by grammatical circulation. The lack of terms for the new accounting items was explicit.

Currently, Hellenistic documents allow to add details into the accounting methodology evolution. The selection of turnovers and balances in personalized customer accounts was preceded by stage of their systematization, and at the same time, it was carried out analytical account settlement. The biggest drawback of Hellenistic contract accounting methodology was the discrete nature of receiving personalized customer selective accounts, although the accounting information for maintaining their accounts was currently available in bank ephemeris. However, it was chosen more laborious and less rational option. The ancient Greek methodology stereotype also functioned. But even with such a decision, the selective account was copy of the client's cash turnover, as extract from it.

The ancient Roman accounting methodology was basically Greek, but adapted to the requirements of Roman lawyers, who represented and formulated private law and public interests. Contract accounts began to be maintained in the current order and in separate register - the book of accounts. Extracts from it, that is, from the turnover of customer accounts, therefore had systematic (non-selective) basis, understood as continuous sequential processing of accounting information. Parallels to them, income and expense property accounts were also systematically kept for asset accounting and bank turnovers, which meant the simultaneous use of two methods of accounting recording on income and expense accounts and contract accounts (Polkovsky, 2018).

The Roman banking methodology did not cover all accounting items, but those that comprised the contents of banking. It was highly specialized. But historically it did not disappear, just as the economy in Italy did not disappear, and with the development of money circulation and the market in it (which was in itself complex historical and evolutionary process), it began to acquire the universalization features. The

functionality of evolutionarily completed methodology was manifested in the final displacement of property account form by settlement form, the terminology of income and expense accounting by the terminology of the contract account. Generally, transition to universal settlement accounts of the contract account took place over 1.5 thousand years (Malkova, 2008).

As a result, all accounting records gradually became settlement accounts with the appropriate terminology (Shichrov, 2016). Modern accounting uses the terminology and method of settlement contract accounts. But the income-expense record stereotype did not disappear, although it was absorbed by the calculated one. In the current composition of accounts, some of them are property, others are settlement. The categories of debit and credit are not equivalent to the categories of income and expense, as the calculations are not identical for the property movement (Sokolov & Sokolov, 2009).

Thus, the methodology mechanism in the accounting procedure stereotypes and the account recording methods had functionality, as it provided the receipt of accounting information in its formalized form and with functional content.

## **6. Findings**

On global scale, the most obvious positive aspects of economy globalization include: strengthening of international competition, stimulating of development and diffusion of new technologies, economy in production scale (Shichrov, 2016).

In the long run, this can lead to cost reduction and, consequently, lower prices. Moreover, in the globalization process can serve as the basis for solving the universal problems of mankind, primarily environmental ones, through the consolidation of resources, the pooling of opportunities and efforts of the entire world community (Solozhentsev, 2019).

The negative aspects include: uneven assistance to underdeveloped countries (due to the fact that lenders are looking for the most favourable conditions), the pursuit of profit (meeting human needs is inferior to the wealth accumulation in the list of market development priorities), the emergence of financial crises caused by the loss of stability of global financial markets (Dussel Peters, 2016).

The essential features of economy globalization generally contribute to improving the world economy efficiency, as well as the social and economic progress of mankind. But on the other hand, the forms of manifestation of these characteristics often discriminate against the interests of wide layers of population throughout the world and even entire countries that are not part of the circle of developed states. Based on the consideration of globalization process negative aspects, it becomes clear that all positive aspects do not provide sufficient reasons to predict its endless progressive development and eternal continuation (Dengov et al., 2016).

The economy globalization in the future can be either inhibited or reversed. The slowdown in growth and global trade, the disintegration processes in Europe, the emergence of new payment systems, currency wars, the West economic position weakening, and the reduction of trade ties (primarily with Russia) confirm the fact of possible de-globalization trends.

As for the foreseeable period, the economy globalization still plays the key and determining role in the world economy.

Many countries now use international standards as the basis for national accounting legislation, but in each of them the IFRS application has its own unique specifics due to differences in terminology, scope, classification and timing of their adoption and entry into force. Completely and without adjustments, IFRS is not always applied (Babaev & Petrov, 2020).

In solving the problem of accounting uniformity, two approaches are used: standardization and harmonization. Harmonization consists in the gradual convergence of accounting methodologies in different countries. Moreover, in each country national accounting standards may exist, but their provisions do not contradict the accounting standards of other countries.

Standardization is development of set of standards for financial accounting and reporting applicable to different business situations. The Russia has taken the hybrid path, that is, part of the IFRS in our country is fully used to make up for those moments that our regulation misses, and part of regulatory and legal regulation is being revised in accordance with national accounting, but moving closer to international standards.

Over the past few years, the relationship between national accounting and IFRS has significantly strengthened.

Currently, more than 30 countries apply IFRS as national accounting standards.

The benefits of IFRS over national accounting standards are:

- the best experience gained by accountants from different countries apply when developing IFRS;
- draft standards pass through the stages of public discussion during development;
- IFRS are not “connected” with the peculiarities of accounting regulation in individual countries;
- used IFRS ensures comparability of reporting between companies in different countries, and is also condition for accessibility of reporting information to foreign users;
- the costs of companies for preparation of consolidated (consolidated) statements are significantly reduced under applied IFRS.

Characterizing IFRS, it should be borne in mind that their application cannot be partial, that is, reporting must comply with the requirements of each standard. If the standards are not fully applied, this means that the reporting does not comply with IFRS.

## **7. Conclusion**

As result of globalization and development of international market relations, the issue of modernization of accounting processes and financial reporting, or rather, approximation of their content and methods to the codes that are used in international practice, has become an acute issue.

International economic integration, intensive development of international financial and investment market led to coordination of accounting standards, minimizing national differences in reporting, ensuring comparability and reliability of information for making management decisions.

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