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**Global Challenges and Prospects of the Modern Economic
Development**

**REINTRODUCING THE CATEGORY OF EXTRAORDINARY
INCOME AND EXPENSES IN THE ACCOUNTING PRACTICE**

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Abstract

The article focuses on the issues of grouping and presentation of extraordinary income and expenses in accounting and management statements. The modern approach providing for recording of these account items solely as part of miscellaneous expenses results in blurring of the boundaries between different categories of income and expenses and fails to take into account the differentiation of causes of their occurrence. The article elaborates the necessity of improving the category of extraordinary income and expenses, further development of methods of their identification, measurement and presentation in statements of companies. The article aims to present theoretical basis and guidance to providing users of financial statements with information about extraordinary income and expenses, reflecting the response of a business entity to the impact of global social and economic factors. The author justifies the feasibility of establishing a separate category for extraordinary income and expenses, suggests criteria and conditions making it possible to put them into separate elements in accounting financial or/and internal management statements. The article identifies what information-related advantages for users of accounting information may be obtained if the accounting of extraordinary income and expenses is maintained as a separate category. It is shown that generating information about extraordinary income and expenses broadens the range of factors having an impact on the company's performance, which, in turn, provides for improved soundness of managerial decisions in the presence of a contingency.

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1. Introduction

Goal-based business activities of companies are exposed to a multitude of unexpected (uncommon) factors. This exposure leads to the generation of income and expenses different from those that are typically generated in the regular course of the company's business. The existing practice of international accounting identifies the mentioned category of income and expenses as "extraordinary income and expenses", hereinafter referred to as I^{cor} and E^{cor} . During the times of centralized, state-controlled economy, the category of extraordinary income and expenses had a very limited use in the official Russian accounting system. It was believed that its content is inconsistent with the very essence of planned economy. The central focus of Soviet planned economy suggested the minimal influence of unplanned, unpredictable factors. The formation of market relations in Russia has changed this point of view. Rapid growth of entrepreneurship and the emergence of a large number of previously unknown risks and factors resulted in the accounting practices unusual for a centralized economy.

Reforms of accounting in Russia and its harmonization with international accounting practices led to the extension of the scope of application of account items such as extraordinary income and expenses. I^{cor} and E^{cor} are considered to be a result of a contingency. The later are characterised by the rarity of their occurrence and impossibility to predict them; they are not connected with decision of the company's management in any way. Business events characteristic of the scope of the company's business are not considered to be contingencies. In the environment of developing Russian market economy, I^{cor} and E^{cor} categories are considered to be an integral component of highly risk activity of a business enterprise. Accounting regulations of early 2000s provided for presentation of this group of income and expenses as a separate element of accounting financial statements. However soon thereafter, the presentation of I^{cor} and E^{cor} as a separate element in official Russian accounting financial statements was discontinued. This decision of Russian policymakers in the field of accounting was due to the following to the provisions of international accounting standards establishing that a business enterprise should not to submit any revenue and expense items as extraordinary items in its accounting financial statements (International Financial Reporting Standard (IAS) 1, 2019). Corresponding changes regulating the recognition of income and expenditure were made in Russian standards. Hereafter I^{cor} and E^{cor} became to be considered as miscellaneous income and expenses. Their presentation as separated items in accounting financial statements was discontinued. As justification for it, specialists state that it is impossible to unambiguously separate I^{cor} and E^{cor} from income and expenses resulting from the regular course of business as well as from other expenses.

Obviously, I^{cor} and E^{cor} themselves have not disappear from the actual operations of Russian companies. They are still characteristic of areas with high risks of unexpected events (for example, agricultural and extractive industries). In other cases, presence of this category of income and expenses in the company could be considered as a sign of poor internal corporate governance. To minimize I^{cor} and E^{cor} , business entities should actively apply insurance instruments (external instruments) and reservation methods (internal instruments). In our opinion, the current approach providing reflecting of I^{cor} and E^{ext} solely as part of miscellaneous expenses results in diminishing the importance of this group of accounting items, blurring the boundaries between them and other groups of income and expenses. This approach fails to take in account the differentiation of causes of I^{cor} and E^{cor} generation, connected to some extent with the

company's business activity or absolutely indifferent to it. We believe it is appropriate to bring up the issue of reintroducing the category of extraordinary income and expenses, improvement of methods of their identification, measurement and presentation in companies' statements. This concern is brought to life by new conditions of business entities management when normal activity of the companies came to the threat of global scale caused by the global pandemic of the novel coronavirus disease (Vakhrushina, 2020).

A review of scientific literature of recent years on the subject matter of this research shows lack of researches dedicated solely to this topic. This situation can be explained by two causes: firstly, it is obligatory for an accountant to adhere to regulations explicitly instructing to recognize I^{cor} and E^{cor} as part of miscellaneous income and expenses; it has been again confirmed by official regulatory information during the spread of the novel coronavirus disease (Information No. PZ-14/2020, 2020); not yet significant time period for the response of business entities to the effects of the pandemic to manifest itself in the economy. This being said, high sensitivity and scales of these reactions, high probabilistic nature of income and expenses generating in conditions significantly deviating from the norm, having no equivalent in the past and characterized by global nature, should be taken into consideration.

2. Problem Statement

Dramatic complication of conditions for the companies' activities, negative results of their economic activities caused by spread of the novel coronavirus disease, make the problem of improving I^{cor} and E^{cor} accounting increasingly relevant. The mentioned income and expenses category starts to play an important role in the assessment of the pandemic effects on the economy of an individual business entity. Therewith, the high extent of mutual interference of negative results of activities of business entities should be taken into account. Specialists rightly note that the contemporary accounting practice underestimates the importance of provision of information about external factors influencing the company's operations (Unerman et al., 2018). Moreover, according to these specialists, the main challenge for reflection of such information in statements is the complexity of its quantitative assessment, as well as conceptual restrictions imposed by national accounting standards for the purpose of compliance with the principle of comparability. In our case, even with the existing possibility of valuation of I^{cor} and E^{cor} arising in the context of the novel coronavirus disease, there are some regulatory restrictions on the disclosure of this income and expenses category as a separate item. On the one hand, this approach is consistent with accounting conservatism in response to difficultly predictable events: companies facing more uncertainty and report with more conservatism (Hsieh et al., 2019). This approach is justified by authors who described it as appropriate for corporate managers and investor in order to make sound decisions. On the other hand, an external user of accounting financial statements of companies affected negatively by the pandemic expects to see the relevant information in the statements. Some authors note the unique ability of accounting statements to influence consciousness and behavior of people; accordingly, their indicators should be interpretable for its intended users (Bay, 2018). Lack of accounting information reflecting the company's response to highly negative social and economic conditions results in falling short of expectations of external users and reduces value of statements as an official information resource.

The aspects described above make it possible for us to speak about a problem of formation and reporting of I^{cor} and E^{cor} incurred due to the pandemic. Importance of this category of income and expenses

for the formation of high-quality accounting and information recourses comes into contradiction with the existing regulatory frameworks. Further development of I^{cor} and E^{cor} accounting with further disclosure of information about them in the company's statements becomes particularly relevant for the purpose of high-quality accounting and information support of managerial activity of the company in difficult economic environment.

3. Research Questions

The problems reviewed above suggest the necessity of solution of a number of methodological questions. At the same time, we consider the possibility of separating I^{cor} and E^{cor} from other categories of income and expenses as basic, elaborating them as atypical, dramatically influencing the company's activities. This assumes the presence of existing system of criteria and features. The solution to the presented problem should take into account the extraordinary business environment, but at the same time it should be based on the general methodological approaches of accounting science and not contradict with the generally accepted accounting principles.

The main issues in the context of the identified problems are the following:

- is it feasible to separate I^{cor} and E^{cor} emerging under the influence of global negative factors from other groups of income and expenses?

- according to what features and criteria R^{cor} and E^{cor} incurred due to the novel coronavirus disease can be separated in individual elements of accounting, financial and/or internal management statements?

- will external and internal users of accounting information benefit from any increased utility of accounting information in case of accounting and presentation of I^{cor} and E^{cor} as a separate group?

We are aware that the above list of issues does not cover all problems of extraordinary income and expenses caused by the spread of the novel coronavirus disease. At the same time, their statement and solution will provide for supplementing the existing methodological basis for the improvement of income and expenses accounting.

4. Purpose of the Study

The aim of this article is the development of theoretical and methodological provisions for providing users of financial statements with accounting information about extraordinary income and expenses, reflecting the degree of response of the business entity on the influence of global social and economic factors. In order achieve this objective and according to issues raised above in the study, the following aspects of research work were provided:

- to justify the feasibility to separate I^{cor} and E^{cor} emerging under influence of global negative factors from other groups of income and expenses;

- to propose principal criteria, features and conditions that enable the company to separate I^{cor} and E^{cor} into individual elements of accounting, financial and/or internal managerial statements;

- to determine information and analytical preferential advantages which will be provided to both external and internal users of the accounting information upon separated accounting of I^{cor} and E^{cor} .

Implementation of the specified aspects provide for the growth of utility of accounting statements for interested users. Generating information about extraordinary income and expenses broadens the range of factors having an impact on the company's performance, which, in turn, provides for improved soundness of managerial decisions in the presence of a contingency.

5. Research Methods

The theoretical basis of the article comprises studies of scientists in the field of accounting and financial statements, as well as the current legal and regulatory framework in the field accounting and reporting in Russia, as well as international financial reporting standards. The article was prepared using general scientific methods of research, such as scientific abstraction, generalization of data, systematization, grouping, comparison methods. The research tools used include tabular and graphical techniques for visualizing information. Suggestions for the grouping of I^{cor} and E^{cor} are based on use of comparison and rejection methods, principles of materiality and relevance of accounting information, as well as the method of differential expenses and income. The criteria for I^{cor} and E^{cor} grouping were developed using classification and structuring. Justification of extension of grouping signs is based on the admission of the multi-focal nature of item's reflection. Application of the listed methods and tools is aimed at achieving reasonableness of the article's conclusions.

6. Findings

Feasibility of separating I^{cor} and E^{cor} emerging due to the global pandemic, is explained by a critical change in the characteristics of activity of the overwhelming majority of participants of the business environment. A catastrophic violation of economic interests of business entities is observed with the disruption of the established proportion of income and expenses. In such conditions, the official regulations stipulating the reflection of I^{cor} and E^{cor} as merely "miscellaneous" does not meet the information interests of companies in the process of maintaining continuous operation. The same statement is also true for the information needs of public authorities that implement state support measures in relation to the most affected sectors of the national economy. I^{cor} and E^{cor} should not only accounted by "commingling" method as part of miscellaneous income and expenses. They should be identified, evaluated and set out into a separate element of the accounting financial statements.

An accounting event should be reflected in the accounting based on compliance with the principle of the prevalence of the economic content of this transaction over the legal form. Let us suppose that this principle is observed in relation to each accounting event. But in this case, adhering to the content of economic processes and logic of their interpretation, a similar approach should be followed with respect to collection of events forming the reporting elements. It is necessary to adhere to the principle of hierarchical order: the content of a reporting element should comply with its structural position in accounting and financial statements. An aggregate of accounting events characterizing the company's activity in conditions of a high probability of disruption of activity continuity should not be reflected in the same way as under normal operating conditions. The requirements of current regulations prescribing to reflect E^{cor} as part of miscellaneous expenses and expenses for usual activities emerging under the influence of the novel coronavirus disease (Table 1) should not be considered the best possible course.

Table 1. Grouping of expenses incurred due to the spread of the novel coronavirus disease according to official approach

Company expenses incurred due to the spread of the novel coronavirus disease	
A) Expenses for the provision of personnel safety according to labor protection regulations	B) Expenses connected with suspension of activities due to the epidemiological situation
↓	↓
- testing of personnel for the disease; - disinfection of operating and service rooms; - provision of communication with personnel with remote access; - payment for services for delivery of employees to the place of work and back during the period of quarantine restrictions - etc.	- salary of employees for the downtime in connection with public health requirements; - remuneration of labour during suspension of activities caused by the pandemic; - fines and payments due to claims for violation of legislation in the field of sanitary and epidemiological welfare of the population; - etc.
↓	↓
General business expenses	Miscellaneous expenses

Source: author based on (Information No. PZ-14/2020, 2020).

We think that the causes for expenses incurred, presented in Table 1, make it possible us to identify them as extraordinary. For expenses listed in (B) an analytical group E^{cor} can be formed as part of miscellaneous expenses. For expenses reflected in (A), the following grouping is advisable: the expenses for personnel safety and labor protection must be divided to ones the company made under normal operating conditions, and ones that were caused under conditions of the pandemic. Accordingly, the last group will be E^{cor} ; it should complement the E^{cor} analytical group within the category of miscellaneous expenses. We are aware that large-scale distribution of expenses for E^{cor} and all the rest for the purposes of forming accounting statements is limited by requirements of official regulations. However, for the purposes of internal management statements, we consider this separation to be obligatory. This approach provides for forming accounting and information resources to assess impact of global emergencies consequences, both for internal and external users.

Separation of I^{cor} and E^{cor} requires a number of grouping features that could be applied by a business entity for solution of this problem. These features should be used in the context of certain conditions of company functioning. Operation against the backdrop of the novel coronavirus disease have led to various impacts on corporate economy, which may demonstrate not only a deep crisis state but also a highly dynamic development. The later, as a rule, is typical of companies engaged in industries products and services that turned out to be highly demanded by public during the pandemic. Accordingly, approaches for separation of I^{cor} and E^{cor} and their evaluation for the companies will vary. For companies whose activity continuity is at risk, it becomes informationally important to divide expenses into ones incurred within normal activities and ones caused by the contingency associated with the pandemic (Figure 1). A management grouping can be adopted in relation to income: income calculated at the normal level, and income lost due to the contingency. In the later case, we deal with an estimated value. We consider it important to set apart a subgroup of I^{cor} such as the amount of subsidies, compensations and other types of state aid provided to affected companies as part of actually received income.

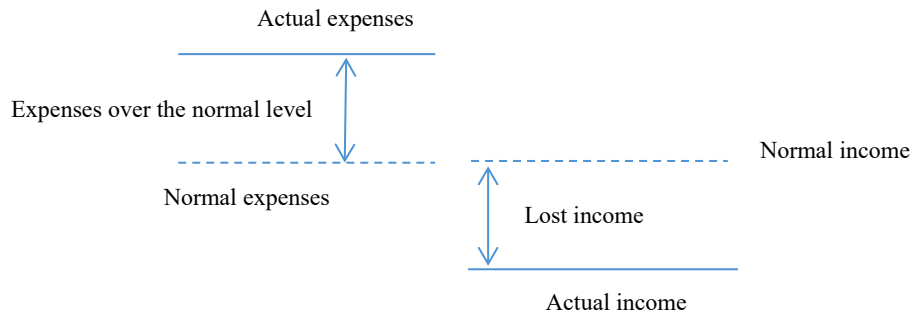


Figure 1. Grouping of income and expenses of companies demonstrating a critical deterioration in their performance in the presence of a contingency

Source: author.

If the pandemic situation turns out to be a factor of active development for the company, the following can be distinguished when analyzing I^{cor} and E^{cor} : the actual income and income calculated for the regular course of business; expenses calculated at the normal level and differential expenses called into being by the expansion of the company's activities (Figure 2).

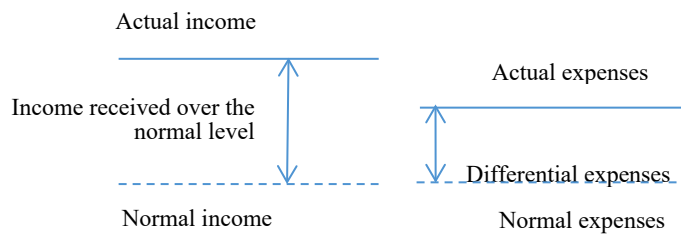


Figure 2. Grouping of income and expenses of companies demonstrating an improvement in their performance in the presence of a contingency

Source: author.

Managerial grouping of income and expenses can provide for as many criteria as necessary for a multifocal research of I^{cor} and E^{cor} as a result of impact of stress factors. Generation of I^{cor} and E^{cor} can be due to a number of causes, and it is possible to apply managerial grouping of these items ranked both by the source of their occurrence and by their amount. One of the criteria of E^{cor} grouping can be their grading based on the causes of occurrence: under the influence of direct state prohibitive measures (primary factor); under the influence of indirect incidental causes (secondary factor). This grouping is valuable for estimation of level of compensation potential of state support measures for the real economy sector. Systematization of expenses and income aimed at separation of R^{cor} and E^{cor} should be based on compliance of principles of relevance and importance of accounting information.

Multi-focal information about I^{cor} and E^{cor} provides informational advantages to both external and internal users of the accounting information and makes it possible to reduce uncertainty in the assessment of the situation. For the companies with a declining economy, the information about I^{cor} and E^{cor} would help to resolve compensation issues. For companies that find themselves in a situation of growth of income and

operations in the presence of a contingency, the most important managerial task is to map out a smooth retreat to the previous performance indicators after the end of the contingency period. Improving the accounting of I^{cor} and E^{cor} involves solution of the issue of the period during which income and expenses can be qualified as extraordinary. If the spread of the the novel coronavirus disease continues for a long time, we should talk about the transformation of extraordinary items of accounting supervision into traditional ones. This process is connected with adaptive properties of business entities as flexible social and economic systems.

7. Conclusion

The provisions of this study are aimed at improving accounting and presentation of extraordinary income and expenses in the reporting, reflecting the response of a business entity to the global social and economic factors. The necessity of reintroducing a category for I^{cor} and E^{cor} , as well as improving the methods of their identification, measurement and presentation in company statements, are due to the role of these items for assessing the consequences of the pandemic for economies of business entities. With that information capacity of the extraordinary income and expenses category is limited by effective statutory regulations (Keune et al., 2017).

The article justifies the feasibility of separating I^{cor} and E^{cor} from the broad category of miscellaneous income and expenses, suggests the criteria and conditions providing for putting them into separate group of items in accounting, financial or/and internal management statements. The author identifies data advantages which the users of accounting information will receive upon separate accounting of extraordinary income and expenses. The article shows that generation of information about extraordinary income and expenses broadens the range of factors that may influence the company's performance, as they should be accounted for by the company's managers. Multi-focal information about I^{cor} and E^{cor} provides informational advantages to both external and internal users of the accounting information and makes it possible to reduce uncertainty in the assessment of the situation. Correspondently, the suggested measures for reintroducing I^{cor} and E^{cor} category for the purpose of management will provide for increasing the soundness of managerial decisions made in the presence of a contingency.

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