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## Legal and Economic Components of Modern Accounting Transformation

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**Abstract:**

*Complex transformational process characteristics of modern accounting have significantly influenced its three components; the economic, mathematical and legal aspect of modern accounting. Currently the predominant role belongs to the first one, but in the conditions of the digital economy development it is the mathematical one. It should be noted that the importance of commercial secrets prevent the transition to the information flows transparency while significant decrease of the legal accounting aspect can lead to certain quality deterioration of the accounting information. The main idea of this article is not only to discover the negative aspects connected with the weakening of legal accounting aspects, but also to show possible options of modern legal issues and implementations into the accounting practice.*

*One of the main theoretical and methodological problems in this area is the intensive expansion of the multivariate accounting, based on professional judgment, which decreases the accounting procedures' regulatory role. The authors consider necessary to propose a harmonious and balanced system of informational enrichment of public institutions' activity of all the ties between the taxation process and its accounting support.*

*As a result of this research, the authors came to the conclusion to structure formal and informal institutions that could influence the organization of accounting at a particular economic level moving from the advisory options of the accounting policy to the elements of discrete financial and business law based on the development of internal standards of economic entities.*

**Keywords:** *Legal accounting aspect, quality deterioration of the accounting information, professional judgment, relevance.*

**JEL Classification Codes:** *K20, M40, M41, M49.*

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## 1. Introduction

Improvement of accounting and information support of economic processes in the conditions of the digital economy formation mostly depends on whether it is possible to balance the most important components of these processes. Accounting is the major information source for an objective and exact description of the most important business processes. In this connection, new theoretical and methodological difficulties appear due to internal structural changes of the accounting science.

The aim of this article is a critical analysis and explanation of the ways to increase the legal reliability of accounting data in the part of the primary and final formation of accounting information products. To achieve the main goal and its solution and to identify scientific problems, it is required first, to perform a critical analysis of the modern application of legal aspects to the theory and practice of accounting and second, to identify the features of the legal concept perception of the accounting in modern conditions. Third, to consider opportunities, perspectives and problems of the regulatory and legal accounting system use and to vanish mistaken inefficient or incorrect forms of information business support.

## 2. Theoretical, Empirical, and Methodological Grounds of the Research

Currently, there is a large number of different explanations concerning legal and economic aspects in modern accounting. The explanation is applied in both the static part and in the part of the dynamic balance interpretation. The legal mantle of a static balance part supposes the priority of a particular right; the property, obligation or administration. The double entry allows a reflection of all these three legal relations. If the owner changes, it is the proprietary right, when the ownership right changes, an obligation law appears while the change of responsibility leads to the necessity to use an administrative law. Despite the real need to follow this procedure in the accounting practice, it is often compulsory to join these concepts. This is carried out on the basis of inventory and general ledger accounts, which allows to estimate legal relations between owners, agents and correspondents (Vovchenko *et al.*, 2017; Jindrichovska and Kubickova, 2016; Nechaev and Antipina, 2016).

Actually, it is considered that the legal mantle of accounting refers to accounting procedures carried out throughout the organization, which tie them primarily with financial and tax accounting. Fluctuations of legal aspects in the two accounting types (financial and tax) gives an idea of unclear borders, and in some cases, even the absence of accounting necessity as a separate scientific direction, replacing it with various business information data. However, more profound research of the legal mantle and its various structural components leads to the idea of retaining legal aspects, even in the types of accounting are oriented at domestic consumption.

At every stage of accounting work there is a contact with legal issues. The registration of economic facts determines their documentation. The same primary

documents can be used in the form of evidence based on various accounting types (for example, material demands, orders, acts, inventories, etc.). Evidence based on accounting documents are the administrative and the accounting documents. It is considered that the greatest evidence should be possessed by the so-called monetary documents related to cash, banking and settlement transactions.

Patrimonial accounting supposes the necessity of revaluation, since the purchasing ability of accounting units alter the exchange rates while non-monetary facts are reflected at its original cost. The significance of the legal mantle of monetary documents is traditionally confirmed by the obligatory signature of the chief accountant. Sokolov (2000) mentioned that the legal relationship is created by the owner (director) of the organization, not by the chief accountant. It logically follows from the priority of economic expediency (economic mantle) over the expediency of economic operations' reflection and such part of the document as the signature.

The prevalence enhance of the economic mantle of accounting over the legal one is quite visible. Such placement has greatly increased recently. It is proved by the definition which is currently used: *“Any document is a material carrier with information fixed in any form as a text, sound recording, image and (or) their combination, all of which have the requisites for its identification and aimed at time and space transmission to be used publicly and stored”* (The federal law N 77-FZ. 2016). In this connotation the most important quality is not specified as evidence, but in the translation from Latin documentum is sample, evidence or proof. It was exactly the meaning in which it was perceived by the entire generations of accountants. Regarding this, Kutter (2002) explains that *“primary accounting document is a written issue done in alliance with the established procedure on the accomplished fact of economic life, which grants a legal force. The document which is fulfilled correctly should be recorded in accounting and therefore it becomes an incentive for the start of accounting information”*. But even the *“washing away”* of legal aspects from the general theoretical meaning of the accounting document does not decrease its evidential power, and its main proof is the consideration of any financial and economic negotiations and complications in the courts.

It should be referred to Art. 67 Civil procedural code of RF where it has the body of rules for court estimation concerning their relevance, admissibility, reliability for each proof separately, and also reliability of every proof. Moreover, in accordance with Part 2 of Art. 71 of Civil procedural code of RF written evidence must be presented in the original form or properly fulfilled. As mentioned above, frequently presented evidence documents must have a mutual connection. This mutual connection is guaranteed by the accounting, including the principle of duality, expressed through a double entry system.

In the semantic content a double entry can be legal, economic or philosophical. Without any special details it should be noted that the double entry objectively follows from the dialectical law of the struggle of opposite entity and supposes the

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reflection of economic life twice. Such notion as “*proper registration*” also requires clarification, as well as “*degree of authority*” responsible for accounting evidence. There is a significant difference between financial and tax accounting on one hand and management and strategic on the other. In the first case, regulatory and legal regulation is carried out within all four regulation levels. Besides, regulation sources for the first three levels are the bodies of legislative and executive power.

For managing and strategic accounting types, aimed at domestic users, the main and sometimes the only regulator is the so-called, the fourth management personnel of the organization level. At this level there are the documents regulating the accounting policy of the organization including accounting policies in terms of managing accounting. The name of the documents, their place, role, composition features and interaction, the order of its development and the approval, all these aspects are determined by the organization’s chief. Hereby an important observation should be mentioned; accounting documents and reports can be used as fundamental data for financial and tax calculations, although legislative and other normative materials connected with taxation processes do not contain points regulating accounting procedures. Thus, priority is given to tax legislation, accounting information support should be adjusted to it.

According to the theoretical basis, it means that tax institutions (such as banks, investment companies etc.) can run without using accounting data for their information provision, replacing them with the others. The emergence and the functioning of tax accounting on a relatively independent basis can be given as an example.

However, such an approach is far from being ideal for a number of reasons. First, it will be based on the methodological and classical accounting principles. Second, it is not ideal to solve any related tasks poorly reflected. Third, there is a certain increase in costs to obtain this information. Fourth, publicity is significantly decreased. If modern financial accounting is adapted to the requirements of various economic institutions, which is fairly simple, then the advantage of such approach is on the surface, as the publicity is a unique advantage among other information types. The publicity is the aspect allowing to consider accounting in close connection with the interests of property, law and taxation. There is a change of the platform that was the basis for accounting development for a long time, at the moment when an institutional type replaces its socio-neutral predominant technological form.

The last point leads to the emergence of such an institutional unity as an accounting one. According to Pankov (2013) this institute is a complex entity of formal and informal rules and norms determining the socially recognized framework of the accounting process, level of its mentality, as well as the institutional conditions to create and monitor the implementation of these rules and regulations. In fact, the legislator doesn’t classify the organization’s accounting policy as normative and legal documents, because the set of local regulatory documents that regulate

accounting procedures, happen to be more substantial than the order to validate the accounting policy. Additionally, the domestic standards of an economic entity may have its internal corporate hierarchy which assumes different legal forces. Each organization obtains its own legal opportunities to issue certain normative acts in the accounting sphere, it allows to include these organizations in the list of full-fledged representatives of accounting work regulation, but within the limits of the allocated competences. Naturally, normative legal acts received within the framework of economic entities are at the bottom of the legal hierarchy after Federal laws and Federal and industry standards while they require obligatory confirmation in the corresponding sectors of the accounting policy, or in the standards of economic entities.

Despite the high level of financial accounting publicity of reporting data, confirmed by legal acts, it remains a semi-closed information type. The issue is about the scale of commercial secrets used. It should be noted, that the basis of commercial secrets is information allowing its owner to carry out large-scaled sales directly connected with profits and (or) costs reduction, its place and role maintenance in the market of goods, work or service, as well as any other type of commercial benefit.

Since 1990 law-making about commercial secrecy has spanned the majority of European and Asian territories and the US. In Russia trade secrecy is regulated rather severely, it is proved by a number of legislative acts, which supposes organization's fulfillment of some requirements regarding the regime of commercial secrecy. The main incentive is the necessity to protect the economic interests of the economic units in the conditions of market competition, especially if it is unfair. Therefore, before bringing into action commercial secrecy tools, it is necessary to understand the specific targets of the competitors, since the absence of "*cruel intentions*" can lead to additional organizational and financial complications for business entities. Actually, unscrupulous competitors try to get information about the financial situation of the organization, its future development forecasts, specific aspects of prospective and existing contracts, agreements, technological and technical product specifications, marketing work details, price strategy, security system, etc.

In order to make this information a part of the commercial secret, it is essential to conduct huge work aimed at the determination which information should be classified as trade secret, the relevant personnel categories, the documenting procedure, selecting the list of employees responsible for observing trade secrets, etc. The usage of commercial secret tools leads to a certain ambiguity in the part of financial reporting formation. On one hand, its significant part is public, on the other hand owners and managers are scared to present to the public real financial situation, and thus protecting it by the trade secrets law. It is a very important issue if the initially presented financial report is trustworthy, or perhaps all included indicators are not important and needed as a kind of a fake to various public and state institutions. The appear of such an impression that the powerful owner is, in fact,

the only one who possesses reliable information about his business efficiency. It is the owner (or any other manager) who organizes and determines its relevance, with the help of assessing past, present and future events, predict the possibility of obtaining promising cash flows for his business. Another question is if such an approach to the formation of accounting information, is acceptable by a huge mass of stakeholders surrounding this business. After all, each of them pursues his own interests, which can be surely in contradiction with the interests of another business unit.

### 3. Results

The key principle of the modern accounting is its relevance, the core of relevance is the ability to predict, more or less accurately, it is not even the question of profit (financial result), but the volume of cash flows. This actualizes the usage of fair cost, as well as professional judgment. Such accounting orientation runs the concept of sustainable development and leads to a misbalance of the state interests, entrepreneurs, banks and social groups, as is the English - American accounting model, where the priority of the entrepreneurs and shareholders interests is more than twice as high as in Russia or Japan, and one and a half times higher than in Germany, it is considered the standard of balance between different types of interests (Tkach *et al.*, 2008). In this respect, there is a considerable predominance of the influence of the English - American approach to the notion of accounting, the attempt to adapt IFRS to GAAP standards.

The unclear borders of regulatory and legal aspects of accounting regulation brought serious disagreements among accounting theorists. One group of the scientists is supporting offers and actions connected with the deep penetration of the opportunities of enterprises due to the accounting policy, and the other group tends to divide the opinion about accounting functioning in the form of an independent socio-economic institution in its multi-variant character, as it is mentioned by (Legenchuk, 2016). The problem of multi-variant character can be studied from two positions. One perspective is the following; the possibility of its appearance is associated with a significant weakness of the legal mantle, especially in the first and second levels of legal regulation, without strict methodological frameworks to maintain accounting procedures and the role of professional judgment and freedom of choice is significantly high. On the other hand, legal relations in accounting sphere can be considered as a certain response or consequence from the accounting community to the challenges of economic issues, as well as changed demands of accounting information users (Kolvakh, 2010). In authors' opinion, the second position is more correct, since both financial and tax law types should be theoretically correspond to the background features of economic development. Although the legal norms related to the economic life are not always corresponding to each other, that could cause some significant complications.

### 4. Conclusions

As a result of this research, the authors have concluded that more complex accounting models require structuring, it means the separation of formal and informal institutions that affects accounting process at each level (Vakhrushina, 2015). Actually, such a structure fits the institutional nature of the accounting business and its legal component. The accounting policy can be theoretically attributed to the recommendations in the accounting sphere, but its legal status can be received by the organization itself, following some certain aspects. This allows to perform a number of functions within the accounting policy framework as follows:

- ✓ to fill in the legislative gaps of the federal and industry accounting standards;
- ✓ to use the best practices of conducting accounting procedures;
- ✓ to improve normative legal documentation, which is not included in the accounting;
- ✓ to protect the regulatory legal system of accounting from the introduction of mistaken, ineffective or incorrect forms of information business support organization, as the accounting is its most complete and logical part.

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