CONCEPTUAL DIFFERENCES IN DETERMINATION OF PROVISIONS AND ACCOUNTING ESTIMATES IN FINANCIAL STATEMENTS OF UNDERTAKINGS IN THE NON-FINANCIAL SECTOR

Valentina Staneva
Todor Kableshkov University of Transport – Sofia, Republic of Bulgaria, valiastaneva@abv.bg

Abstract: As a result of the different changes in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets" the accounting is considered in theory and practice there is a need for clarification of the scope and operation of key concepts related to the topics examined. The purpose of the financial statements prepared by the entity is to present reliable and clear information about its property and financial condition. This information is used by a wide range of users to make certain economic decisions. It is necessary to recognize that uncertainty in the preparation of financial statements is an accompanying element of many events and processes, in particular in the determination of provisions and the application of accounting estimates in accounting practice.
The purpose of this report is to identify the principal differences and the points of intersection of two of the basic notions in accounting - the provision and application of accounting estimates. A transition from a valuation estimate is made through an accounting estimate to the provisioning condition that most often contains an approximate accounting estimate, with the best estimate of the costs necessary to cover the current obligation to the end of the relevant report is the period. The uncertainty regarding the amount to be recognized as a provision is treated in different ways depending on the circumstances. From the analysis carried out so stands the conclusion that the provisions should not be treated as accounting estimates, although their definition using estimates of approximation.
Keywords: provisions, accounting evaluation, accounting estimates, uncertainty, obligations.

One of the basic principles of accounting is the precautionary principle (also known as the principle of conservatism or prudence) , which requires that overvaluation and assets overruns or revenues be avoided, so that there is no underestimation and lowering of liabilities or costs. All liabilities that an entity has assumed and are known by the date of the financial statements which are disclosed and presented in the financial statements. There may be some uncertainty about when the obligations will become payable, as well as the exact amount of the costs associated with their repayment. In practice, these obligations are associated with provisions. Their distorted presentation would violate their fair presentation in the financial statements , which may mislead interested parties.
Modern development of accounting associated with the use of accounting estimates made on the basis of established classical accounting techniques, tools and methods for analysis, evaluation and control of various economic facts, events and processes used depending on the development of social economic relations. Conservatism in accounting explains difficulty in their practical interpretation, while at the same time the resistance to their application is most often explained by the additional burden on accountants.
The actuality of this study is defined by the fact that by clarifying the nature of provisions such as accounting concept, as well as their relationship with the entity used estimates and help to reveal the similarities and differences in comparative terms between the two concepts.
Following the most recent amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets , the term provision is defined as a obligation (liability) of indefinite duration or an amount deriving from past events that are expected to result in an outflow of enterprise resources, containing economic benefits. An important feature is that provisioning is the result of a binding event. It arises from a legal or constructive obligation for the entity, which results in a lack of a real alternative to settle the obligation. The legal obligation derives from a contract or law enforcement obligation while the constructive obligation always arises from the actions of the enterprise that can be summarized as a commercial practice for attracting customers by creating certain expectations from potential contractors to fulfill their responsibilities.
IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" regulates the recognition criteria and bases to assess the provisions and procedures for disclosure of information required in the notes to the financial statements to enable users to understand their nature, time allocation and amount due. In the case where certain provisions are dealt with by another standard, an entity should apply this relevant standard. An example of such provisions that are dealt with in other standards are:
- provision of **income taxes** according to IAS 12 "Income Taxes";

- provisioning at **leasing** under the terms of IAS 17 "Leasing"[356];
- provisioning in connection with **earnings per employee** by order of IAS 19 "Employee Benefits";
- provisioning at **insurance contracts** by order of IFRS 4 "Insurance Contracts".
- provisioning of a **conditional remuneration** of the acquirer in a business combination under the IFRS 3 "Business Combinations";
- provisioning of revenue from contracts with customers (see IFRS 15 Revenue from Contracts with Customers).

Provisions for **depreciation** , **impairment** and **doubtful receivables** are not treated as provisions, as they are, by their nature, recalculation of the carrying amounts of assets.

A key criterion for distinguishing between provisions and other liabilities (Such as trade payables and accrued expenses) is **the presence of uncertainty** regarding the timing of settlement and amount of future expenses that will settle the liability. Commercial obligation is an obligation to pay a received commodity or service within a business transaction. Accrued expenses are obligations to pay for goods or services that have not yet been paid, invoiced or formally agreed with the supplier. Accruals are often reported as part of trade and other payables, whereas **provisions are reported separately**.

A distinction should be made between provisions and contingent liabilities. Provisions are liabilities that are characterized by uncertainty regarding the timing of repayment and the amount of outstanding debt, although their repayment is likely to be provided by an outflow of economic benefits. Contingent liabilities are not recognized as liabilities because they are treated as potential liabilities for which the entity has not confirmed their assumption, and there are no criteria for accounting measurement and recognition.

To recognize a provision, the following three conditions (cumulative) must be present:
- the entity has a present obligation (legal or constructive) as a result of past events;
- the entity is likely to meet the obligation through an outflow of resources containing economic benefits;
- possibility to make a reliable estimate of the value of the obligation.

The third condition - to be able to make a reliable estimate of the value of the obligation is now to be able to determine the range of possible outcomes based on the estimate of the obligation that assessment is sufficiently reliable and valid in recognition of the provision. The amount of the recognized provision is the best estimate of the costs necessary to cover the current liability at the end of the reporting period.

Can the provision be uniquely defined as an accounting evaluation or an accounting estimate? From a theoretical point of view about the nature of the accounting evaluation has different author's opinions, most united around the idea of assimilation as its accounting method[357]**.** Other authors see it as a means of assessing the assets and liabilities[358], respectively for the expression of the accounts in a value measure - cash[359]. Third, it evaluates it as a process of establishing cash amounts by which the individual elements of the balance sheet - assets, liabilities and capital - will be recognized and recorded on the balance sheet[360]. In my opinion, **the accounting evaluation** can be defined as **"Means of calculating, measuring/metering and presenting accounting items in their accounting records by means of a value measure applicable to the compilation, collation and aggregation of accounting information from homogeneous or heterogeneous accounting entities in the financial statements of the enterprises"**. Depending on the nature of the information used in the valuation, the accounting evaluation can be subdivided into an accurate and approximate one. When using clear, unambiguous and undisputed information based on unambiguous real business facts, we are talking about an accurate accounting evaluation, which in practice is accepted to be referred to as an **"accounting assessment"**. The precise **nature of the information used** in preparing the assessment is **the main criterion** that allows the accounting estimate to differ from the accounting estimate. As an **auxiliary criterion** in determining the assessment as exact or approximate is the inability to apply approximations in calculating movements within the accounting item, i.e. there is no approximation when calculating specific values for keeping and closing accounts. On the other hand, when detecting and recording an account, there may be both the use of accurate information and the use of approximate information, which is the **criterion** to be defined as an approximate or accurate accounting estimate. The limited nature of use in the practice

[356] In IAS 17 Leases there are no specific requirements for treating operating leases when they become burdensome. In this case , IAS 37 Provisions, Contingent Liabilities and Contingent Assets applies to it.
[357] Totev T. and others, General Theory of Accounting, Varna, 1987, p. 175; Dinev M., General Theory of Accounting, Sofia, 2000, p. 139.
[358] Dushanov I., General Theory of Accounting, Sofia, 1998, p. 153.
[359] Petrov L., Fundamentals of Accounting, Sofia, 1998, p. 108.
[360] Bojkov V., Petrov L. and Iliev G., Accounting, Svishtov, 2004, p. 106.

of approximations in the accounting assessment explains the difficulties of theoretical research and subsequent practical application. However, in determining the provision, there are elements of both accurate valuation and approximate valuation. This does not determine the provision as an accounting estimate as it uses specific statistical and mathematical methods in accordance with the applicable IAS 37, using approximate estimates to determine a discount or other ancillary factor (e.g. market interest rate, inflation or predicted estimate).

The best estimate of the provisioned costs to be recognized as an accounting estimate (AE) should meet the following main features derived from the definition of AE[361]:

- the choice of a value measure to comply with the requirement that accounting items be commensurate and comparable;
- the initial value measure is subject to a subsequent change.
- by the specified value indicator to determine the carrying amounts of assets, liabilities or component and the equity of the enterprise;
- the accounting estimate is a subjective management decision;
- the time to take a management decision - before the beginning of the reporting period or at the time of recording/posting of an entity's asset, liability or component of equity;
- the expected economic benefit of the use of the business entity in the economic turnover;
- the existence of an economically reasonable hypothesis or probability based on available or new uncertain (approximate/hypothetical) information, experience or new interpretation of facts, phenomena and processes;
- objective of the accounting estimate - reliability of the financial statements.

On the basis of a comparative analysis between the two main accounting concepts - provisions and accounting estimates, the significant similarities and differences can be presented in tabular form (Table 1):

Table 1. Comparative characteristics of provisions and accounting estimates

Criteria for differentiation	Provision	Accounting estimates
Is it book value?	It is recognized as a book value of a separate liability subject to specific conditions.	It relates to the reliable determination of the carrying amount.
Nature of the accounting information used.	According to available specific information on how provisions are formed based on past experience or future expectations.	Uses estimates with approximation, hypotheses and probabilities.
Moment of the assessment.	In the event of certain market conditions associated with the failure to implement the commitments.	Initially at acquisition, as decided by the management of the entity.
Conditions for changing an existing assessment.	Changes in judgment of management or report of an independent expert in determining the necessary cash outflow of economic benefits to cover incurred but outstanding obligation.	Changes are made following a decision by the entity's management in accordance with the expected economic benefits.
Who prepares the evaluation?	Enterprise Management or Independent Expert Report.	Accountant and/or external expert.
Methods for determining the assessment.	Statistical method for expected value; Present value; Future events.	-
Reason for use.	To cover probable costs of outstanding trading relationships.	Search for economic benefit.

Based on this comparison, the following conclusions are highlighted:

[361] See the definition of "accounting estimate" in the article "Comprehensive aspects of applying accounting policy and accounting estimates in enterprises in the non-financial sector", part of the collective monograph "Accounting Policies, Accounting Standards, Financial Audit, Control Systems and Internal Control ", UNWE, Sofia, 2017, ISBN 978-954-644-974-0 , p. 253.

- the provision is an accounting assessment that can be derived using accurate evaluaton or estimates with approximation;
- the provision does not meet the criteria for accounting estimates, as:
  - it is a predetermined specific balance sheet liability amount due to an inability to meet a commitment that does not coincide with the timing of the accounting estimate (e.g. as in an entry of an asset);
  - the provision is determined using specific methods in accordance with IAS 37, while no prior statistical or mathematical methods are used in the accounting estimates;
  - provisions and accounting estimates have opposite economic substance driven demand economic benefit - with provisions are determined necessary outflow containing within itself economic benefits to cover an outstanding but outstanding liability while the accounting estimate is seeking to achieve greater economic benefits;
  - the provision is necessarily considered at the end of each reporting period, as a change may be made to adhere to the best estimate of the value of the obligation;
  - the provision may be derecognised or revised depending on the specific legal circumstances surrounding the settlement of the obligation. If we have an expired limitation period, the provision may be written off. However, when a court decision encompassing additional costs (most often interest on the obligation) is recorded, the proviso must be revised and increased and then reclassified into another type of liability - most often in required debt.

In conclusion, it should be noted that the use of provisions and their linking with the applicable accounting estimates remains a controversial and contradictory matter. An attempt was made to compare the two accounting concepts, taking into account the essential similarities and differences between them. On the basis of the analysis, it is concluded that provisions should not be treated as accounting estimates, although approximate estimates are used in their determination. There is a need to refine IAS 37 to overcome logical inconsistencies in their interpretation and practical application.

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