

APPLYING PROFESSIONAL JUDGMENT WHILE FORMING FINANCIAL STATEMENTS OF RUSSIAN OIL AND GAS SECTOR COMPANIES

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Abstract: The present study aimed at providing a deeper insight into the concept of ‘professional judgment’ since its definition is absent from the system of accounting standards, and into its principles defined by the Russian non-state accounting regulator ‘Accounting Methodological Center’. The widespread use of this concept is of practical interest for the business community. The goal was achieved by comparing and summarizing the opinions of experts – representatives of the largest Russian companies in the oil and gas sector, members of the sectoral committee of the Russian non-state accounting regulator (‘Accounting Methodological Center’ fund). As a result of the procedures performed, professional judgments were formulated on three issues: recognition and reflection of costs associated with further exploration of mineral resources after the commercial feasibility of mining in a particular subsoil plot was confirmed; qualification of an exploratory well in which an industrial flow of hydrocarbon raw material is obtained but the commercial viability of production is not yet confirmed; reflections of additional income tax in the financial statements from hydrocarbon production. The concept of ‘professional judgment’ formulated by the Russian non-state regulator will allow all companies in the oil and gas industry to present the above-mentioned expenses and assets in the financial statements, which will increase the accuracy and comparability of the statements.

Keywords: professional judgment, expert opinion, additional income tax, oil and gas production.

1. INTRODUCTION

In the modern world, most requirements established by accounting standards are applied based on professional judgment. Solving most issues of recognition, evaluation and classification of accounting objects depends on professional judgment, which, in turn, determines the content of the accounting (financial) statements. International Financial Reporting Standards (IFRS), which in the Russian Federation are the basis for developing federal accounting standards, make extensive use of the category of professional judgment.

Professional judgment as a basis for financial statements is enshrined in the Conceptual Framework for Financial Reporting, issued by IFRS in March 2018; applying professional judgment in individual financial reporting issues is provided in virtually every international standard. Professional judgment as a category of accounting is also indicated in the medium-term Concept of Accounting and Reporting in the Russian Federation (approved by Order No. 180 of the Ministry of Finance of Russia dated July 1, 2004). In particular, it points to the need to develop "skills of professional judgment in qualifying, cost measurement, classification and assessment of the significance (materiality) of the facts of economic life for the purposes of accounting, reporting and auditing" (Section 2.5 of the Concept). At the same time, the very concept of professional judgment, its application and documentation procedure in accounting are not considered in the Concept.

Despite the active practical application, the concept of professional judgment is not defined by accounting standards, whereas the need to define this basic concept is relevant both from a methodological and practical point of view, which is obvious to the professional accounting community united by membership in the non-state accounting regulator of the Russian Federation. Professional judgment implies, on the one hand, the opinion of experts in the field of accounting, and on the other hand, of experts in other fields of knowledge, not related to accounting. One of the tasks is to ensure that the knowledge and experience of experts from both fields are reasonably combined in professional judgment.

On the other hand, professional judgment compensates for gaps in accounting standards and therefore plays an important role in ensuring the reliability of the financial statements of all companies, in particular, oil and gas ones. Defining the concept of professional judgment will allow solving practical tasks that are extremely relevant for oil and gas enterprises and will allow answering questions that required professional judgments to increase the reliability of the financial statements of oil and gas companies in 2018, and will also arise in 2019 due to changes in the tax system of the Russian Federation for companies engaged in extraction of oil and gas condensate.

The scientific hypothesis is as follows – despite deep studies of the issues of financial reporting, there are special international standards for accounting costs associated with the search and evaluation of mineral reserves. More situations emerge in the practice of oil and gas companies that require the development of professional judgments. At the same time, companies belonging to this industry, due to their relative scarcity tend to develop a unified, industry-specific approach. Therefore, the scientific approach to the development of the hypothesis consisted in studying the opinions of experts – employees of Russian companies in the oil and gas industry who are members of the professional non-state association of methodologists in the field of accounting. The main findings are presented in the publications devoted to improving the reliability of financial reporting and its usefulness for making economic decisions [22, 23, 24, 25].

2. MATERIALS AND METHODS

The present study lists professional judgments (for use in the financial statements of companies in the oil and gas industry) which were obtained by comparing and grouping expert opinions. The high-quality results of the applied method are due to the expert judgments given by representatives of the largest Russian oil and gas companies, members of the Committee on the oil and gas industry of the largest Russian non-state accounting regulator Russian non-state accounting regulator ‘Accounting Methodological Center’ (hereinafter AMC). The members of the sectoral oil and gas committee AMC are such major Russian companies in the production of hydrocarbon raw materials as PJSC Rosneft, PJSC Surgutneftegaz, PJSC Lukoil, PJSC Tatneft, PJSC Gazprom Neft, JSC Zarubezhneft, and JSC NK Neftisa [1, 4, 5]. Considering that not more than ten companies belong to large oil and gas sector in Russia, the professional judgment of experts from seven companies in the industry is representative (70%). In addition, the first five companies for oil production have their representatives among the experts. The applied method of comparing the judgments of experts is confirmed by the provisions of the companies’ accounting policies indicating that the opinion expressed by the experts is not their personal but the company’s opinion. In other words, the opinion of a team of experts is behind the opinion of one expert. The applied method of comparing the expert judgments is also confirmed by explanations to the financial statements of the above-mentioned companies.

3. RESULTS

In accordance with the purpose and objectives of the study, the following results were obtained.

Section 1. Professional judgment – definition and principles

Professional judgment in accounting is a reasonable judgment (on the accounting issues) of a specialist who is authorized to make decisions based on the requirements of legislation, standards, special knowledge, experience, established practice, and developed in compliance with the principles of professional ethics. This concept is defined by the Recommendation of the AMC P-96/2018-RC 'Professional Judgment' (Appendix No. 1 to Protocol No. 5 of the Recommendations Committee Meeting No. 5, December 17, 2018). Professional judgment on accounting issues should be developed solely to meet the requirements for accounting (financial) statements established by Article 13 of the Federal Law 'On Accounting'. At the same time, in accounting it is not allowed to use professional judgment for other purposes, such as justifying inadequate accounting policies or justifying the deliberate target values of financial statements [6, 7, 8, 9]. For the reasonable formation of professional judgment, the following principles must be observed:

- **openness**, i.e. use of opinions of qualified specialists (experts) in the relevant field in case information is needed that relates to other areas of knowledge;

- **neutrality**, i.e. it should not influence the decisions of users of financial statements in order to achieve a predetermined result;

- **priority** of the content of the facts of economic life over the legal form of these facts [28];

- **documentation**, i.e. determining and applying the procedure for documenting professional judgment and argumentation that justifies it on:

- *issues of single application* (professional judgment on reflecting a separate fact of economic life in a particular business situation; it can be stated directly in the primary accounting document or in another document accompanying the primary one);

- *system issues, i.e. issues of repeated application* (professional judgment on issues not related to the specific circumstances of a particular business situation; it is included in the relevant organizational and administrative documentation on the accounting policies adopted by the organization (orders, orders, standards, etc.).

Section 2. Professional judgments on current issues of accounting in the oil and gas industry

Subsection 2.1. Professional judgment on recognizing and reflecting the costs associated with further exploration of mineral resources after the commercial feasibility of mining in a particular subsoil plot was confirmed.

Costs incurred after the commercial viability of production is confirmed should be accounted for in accordance with the standards for accounting of fixed assets or intangible assets. According to the asset accounting standard, an asset is accepted for accounting as a fixed asset if, among other necessary conditions for recognizing fixed assets, it is intended for use in manufacturing products for a period exceeding 12 months, and the facility is capa-

ble of bringing economic benefits (income) to the organization in the future. Similar requirements are imposed on objects accepted for accounting as objects of intangible assets, with the difference that the object should have no tangible form. When qualifying the costs of exploration drilling incurred after the commercial feasibility of production, one is to analyze the form and model of extracting economic benefits connected with the results of this exploration drilling. The final professional judgment is that the cost of drilling an exploratory well and its further development, in this case, should be qualified as a fixed asset rather than a prospecting asset, if the benefits of using this well are obtained by the organization in the process of directly operating the tangible asset. If the results of exploration drilling will be used as information necessary for the rapid estimation of reserves, for further drilling of wells, and for field development, then such costs should be recognized as intangible assets.

Subsection 2.2. Qualification of an exploratory well (where an industrial flow of hydrocarbon raw material is obtained) located on the subsoil section for which the commercial expediency of production is not yet confirmed.

Well qualification should be determined based on the 'ultimate goal of well drilling':

- if the well is transferred from one drilling target to another, the entire metric area covered during the reporting year, the elapsed time and all the other technical and economic indicators should be taken into account in the final drilling target;
- if the well is started by construction in previous years but completed by drilling or construction in the reporting year, the indicators from the beginning of construction or drilling are entirely given for the ultimate goal of drilling.

Consequently, if by decision of the management, this successful exploration well was first used as a production well, then its drilling goal is a production one. For it to be reflected in the accounting and financial statements, no uncertainties regarding the cost of drilling this well should emerge, which would lead to the need to recognize the search asset. Such costs should directly form the initial value of the asset. If the well, originally built as an exploration well, is subsequently used for production purposes (with the appropriate license), this fact in itself indicates that the final production goal (FPG) is confirmed for the subsoil site on which this well is situated.

To start production, it is necessary to create an appropriate infrastructure and take other steps that require costs; such costs are based on the relevant decisions of the organization management. If management decides to implement these costs, this confirms the positive assessment of the probability that the economic benefits from the extraction of mineral resources will exceed the costs incurred. At the same time, achieving industrial production volumes confirms both the technical feasibility of mining and the availability of resources necessary for mining. Consequently, if industrial production begins in a separate section of the field, the FPG should be considered confirmed for this section even if for the field as a whole it is not yet been officially confirmed. Thus, the conclusion is that the management decision to initially use an exploration well as a production well represents a simplified confirmation of the FPG, after which the accounting standard for exploratory assets ceases to apply to this object and the accounting standard for fixed assets begins to take effect.

A distinctive feature of the new Russian tax (effective from January 1, 2019) – additional income tax from the sale of oil and gas condensate (hereinafter AIT) from the income tax and its analogues, is that it does not replace the income tax and is not an additional amount or income tax rate. When calculating income tax, it is counted as an expense like any other such as water tax, land tax, mineral extraction tax (MET). The AIT base does not meet the definition of IAS 12 for Taxable profit: taxable profit may differ from accounting profit

due to different periods of recognition of certain actual incomes or expenses (temporary differences) or due to their non-recognition (permanent differences).

Professional judgment is that the tax on additional income should be recognized in the accounting and financial reporting in the reporting period when facts of economic life causing the emergence of the object of taxation take place. AIT should be recognized among expenses on ordinary activities as other taxes on the natural resources use (in the Russian Federation water tax, land tax, mineral extraction tax is levied) and be reflected in the statement of financial results when forming the 'Profit before tax' indicator. In the statement of financial results, AIT is an independent item of expenditure on ordinary activities or is included in the enlarged item of these expenditures, taking into account its materiality and the approaches adopted in the reporting company for structuring report items. The company should apply common approaches to presenting AIT and MET in the statement of financial results.

The tax on additional income on economic content is more similar to the expense, which, like the Russian mineral extraction tax, should be included in the cost of the corresponding volumes of oil produced, from which it is calculated (and also in the value of the corresponding reserves). The present study reveals that, since AIT is taken as an expense for the purpose of taxation of profits, it is reflected in the statement of financial results as a separate item (in case of materiality) as part of expenses for ordinary activities, participating in the formation of the financial result before taxation.

4. DISCUSSION

Section 1. Professional judgment – definition and principles

Oil business is one of the most profitable – many individuals and companies are investing in shares of oil and gas companies including the Russian ones. Investors are the main users of financial statements, therefore, they should understand that the formation of financial statements is only partly regulated by international and national accounting and reporting standards, to a greater or lesser extent relevant for IFRS. Otherwise, in accounting and reporting, specialists have to be guided by professional judgment. Therefore, the non-state accounting regulator of the Russian Federation attempted to define the concept of 'professional judgment of an accountant' and regulate the procedure for its use and documentation in accounting. Currently, the development of professional judgment is required when making decisions on at least the following accounting issues:

- a) recognition (write-off) of an accounting object;
- b) evaluation of an accounting object;
- c) classification of an accounting object;
- d) identification of the content of the fact of economic life;
- e) choice of accounting method among the established standards;
- f) development of the accounting method absent from the standards;
- g) admissibility of deviations from the general procedure to form accounting policies;

- h) verification of (non)-compliance with the standards for determining the method of accounting in specific circumstances;
- i) confirmation of the presence/absence of a link between the costs incurred and the receipt of the asset;
- j) assessment of the relevance of the information generated in the accounting records;
- k) determining the appropriate level of detail in the accounting report points;
- l) determining the appropriate level of disclosure;
- m) assessment of the reliability of sources of information about the facts of economic life;
- n) selection of evaluation methods;
- o) admissibility of using conditional calculated values instead of actual ones based on the requirement of rationality;
- p) assessment of the probability of (non)-occurrence of future events;
- q) assessment of the likely quantitative parameters of future events;
- r) response to external factors affecting the reporting organization, directly or indirectly [26].

Professional judgments on both one-time and multiple-use issues may relate to *issues disclosed in financial statements*, i.e. issues that need to be addressed to the user of financial statements in order to understand the information presented in the statements [27]. Such professional judgments are included in the financial statements as part of the relevant explanations of significant elements of accounting policies [10, 11, 12]. Professional judgment can be developed at the level of:

- a specific industry – a professional community of experts with knowledge of the specifics in a particular industry;
- a specific company – professional experts with knowledge of the specifics of the activities and practical experience in a particular company.

Section 2. Professional judgments on current issues of accounting in the oil and gas industry

In 2018, the experts of the oil and gas industry of the Russian Federation formulated their professional judgment on a variety of questions by issuing them with industry recommendations:

1. Reflecting in the financial statements the costs associated with further exploration of mineral resources after the commercial feasibility of mining in a particular subsoil plot was confirmed (Recommendation P-95/2018-OK Neftisa ‘Exploration after FPG confirmation’) was adopted by the Industry Committee ‘Neftegaz’ of AMC, December 11, 2018);

2. Qualifying in the financial statements an exploration well where an industrial flow of hydrocarbon raw materials is received and which is located in the subsoil section for which the commercial expediency of production is not yet confirmed (Recommendation P-98/2018-OK Neftegaz 'Production before FPG confirmation' adopted by the Industry Committee 'Neftegaz' (December 11, 2018);

3. Reflecting in the financial statements the AIT on the extraction of hydrocarbon raw materials levied in the Russian Federation on January 1, 2019 (Recommendation P-94/2018-OK Neftegaz 'Additional Income Tax' adopted by the Industry Committee 'Neftegaz' on December 11, 2018).

Having decided on the concept of professional judgment, it was necessary to form professional judgments on three issues relevant to the oil and gas industry.

Subsection 2.1. Professional judgment on recognizing and reflecting the costs associated with further exploration of mineral resources after the commercial feasibility of mining in a particular subsoil plot was confirmed.

The problem of reflecting in the financial statements the costs associated with further exploration of minerals after the commercial feasibility of mining (CFM) in a particular subsoil was confirmed is that after such confirmation, according to the standard the decision to retrain the search asset to another asset or to a certain type of expenses; the standard does not allow any other alternative. However, in practice, not everything happens so clearly: an exploration well is drilled in the subsoil area with confirmed commercial expediency of production in order to clarify and/or transfer reserves from one category to another [18, 19].

The exploratory well fulfilled its purpose: reserves are refined (there is an increase in reserves) and/or part of the reserves are transferred from one category to another (there is an increase in the category of reserves). Later, such exploratory well can be used as a production well (if it has received a commercial flow of oil) or not (if it has not received a commercial flow of oil). With no clear guidance in the accounting standard for exploration assets for the drilling costs of such well, professional judgment is required.

A professional judgment about accounting and reporting is that the costs of exploratory drilling and its further development (incurred on a site with a recognized commercial expediency of production) form in accounting the initial value of fixed assets and (or) intangible assets depending on use of results. If an exploration well is subsequently used as a production well (injection, absorption, observation, etc.), it is recognized as a fixed asset. If the results of exploration drilling are used as information to organize subsequent production, such information is recognized as an intangible asset. If there are no grounds for recognizing both fixed and intangible assets (if the results of exploratory drilling cannot be used in any way), the costs of such drilling are expensed in the current period. The argument for a developed professional judgment is that the results of exploratory drilling of wells in subsoil areas with a confirmed FPG are usually used in the process of operational reserves calculation, in developing drilling projects, and in the future field development. The exploration well may also be used in the production process as part of the production fund.

The accounting standard for the development of natural resources is applied to exploration expenditures which are carried out until a probability is established and documented for the subsoil plot (for the assessment of mineral deposits and mineral exploration) that the economic benefits of mining will exceed the costs incurred (subject to the technical feasibility of mining) and if the organization has the resource needed for mining (called commercial viability). The standard points out that it does not apply to the costs of exploration work performed on a subsoil plot for which the commercial feasibility of mining was already established.

Subsection 2.2. Qualification of an exploratory well (where an industrial flow of hydrocarbon raw material is obtained) located on the subsoil section for which the commercial expediency of production is not yet confirmed.

The problem of reflecting (in the financial statements) the well created by experts as an exploration one and due to independent circumstances having become mining, was up to this point qualified in accounting as a search asset with no formal grounds for being retrained into a production asset, since FPG in accordance with the standard was not yet documented. While the standard does not take this situation into account, it is, however, very likely. In the subsoil area with unconfirmed commercial expediency, the organization received an industrial inflow of hydrocarbon raw materials (hereinafter HRM) for individual prospecting, assessment and exploration wells (hereinafter exploration wells). As a result, the organization got an opportunity to begin the industrial use of these wells and the construction of related infrastructure. With no clear guidance in the accounting standard for exploration assets of exploration wells with an industrial inflow of HRM, professional judgment is required. The professional judgment is that such exploration well (if the management of the organization have plans to start production before making a decision on the industrial development of the subsoil area as a whole) is called an exploitable production well.

The industrial inflow of HRM confirms the ability of the well to bring economic benefits (income) to the organization in the future, that is, confirms the fulfillment of the recognition criterion for an item of fixed assets established by the standards for the accounting of fixed assets. If the organization's management decides to use the production well for a period exceeding 12 months, such well will be retrained from exploratory tangible assets to fixed assets. At the same time, the re-qualification of the exploited production well is carried out independently of the documentary confirmation of the FPG in the subsoil area as a whole, which corresponds to the principle of priority of economic content over the legal form [13, 14].

The argument for the elaborated professional judgment is that the accounting standard for the costs of developing natural resources is applied by organizations that incur search costs – the costs incurred up to the moment when in relation to the subsoil area (on which the search, the assessment of mineral deposits and mineral exploration are carried out) the probability that the economic benefits from the extraction of minerals will exceed the incurred costs (subject to the technical feasibility of mining and if the organization has the resources necessary for the extraction of minerals) is established and documented.

According to the standard, an organization derecognizes the search assets in relation to a certain subsoil area while confirming the commercial viability of production. At the same time, the standard does not define what a subsoil plot is, in respect of which the FPG should be confirmed, as well as the list of documents that are the basis for its confirmation. In practice, FPG is confirmed for large subsoil areas in respect of which the organization makes decisions on the development or termination of work within the framework of its investment process. The smallest unit of FPG confirmation is, as a rule, a field or group of fields. This is because:

- the process of FPG confirmation is time consuming and costly;
- the consumer of information about the nature and prospects of the subsoil use is, first of all, the state, for the purposes of nationwide planning.

For the organization's management and for other users of financial statements, the character of using smaller areas is of interest, but the rationality requirement for accounting does not allow the management to create a package of documents that is usually required to

confirm the FPG for an individual well and even for a certain group of wells in the subsoil. To confirm the FPG in smaller areas, for example, limited to the drainage zone of a separate well, for accounting purposes it is enough for the management to decide upon using an exploration well for production purposes. Such simplified procedure for FPG confirmation meets the requirements of users of the financial statements of the organization and the requirement of rationality.

Subsection 2.3. Reflecting AIT from the extraction of hydrocarbons in the financial statements of Russian companies

The problem of reflection in the financial statements lies in the fact that since January 1, 2019 (in accordance with the Federal Law of the Russian Federation of 19.07.2018 N 199-FL) a new chapter of the Tax Code of the Russian Federation (hereinafter TC RF) 25.4 'Additional tax income from hydrocarbon production' came into effect. The object of taxation is additional income from the extraction of hydrocarbons, which is calculated as the difference between the estimated revenue from the sale of hydrocarbons and actual expenses for the extraction of these raw materials. The procedure for determining the estimated revenue from the sale of hydrocarbons is determined by Article 333.46 of the TC RF, and the actual costs of hydrocarbon production are determined by Article 333.47 of the TC RF. AIT was introduced to increase the efficiency of mining operations taxation and, to a certain extent, should economically replace the mineral extraction tax (MET). Tax reform for oil companies implies a partial replacement of MET with a new AIT.

The AIT regime implies a reduction in the total value of taxes depending on gross indicators, that is, the MET and export customs duty on oil, and the imposition of AIT from hydrocarbon production; its value depends on the estimated cash flow from development activities for a separate section of the subsoil, taking into account oil prices prevailing on world markets, and in fact incurred and paid capital and operating costs for its production. AIT takes into account the economics of developing hydrocarbon deposits for the entire investment period, depending on the profitability of a particular subsoil area separately. These changes will allow redistributing the fiscal load and transferring its main part to the later stages of field development, that is, after the field reaches its design capacity, which will create favorable conditions for the introduction of low-margin hydrocarbon deposits into the development, including hard-to-recover reserves [2, 3, 15, 16, 17, 20, 21].

In accordance with budget legislation, AIT is credited only to the federal budget. Depending on the results of AIT implementation during the pilot projects, the possibilities of its adjustment and of application perimeter expansion will be considered. AIT rate is 50%.

The transition to this system is voluntary. A list of pilots AIT projects in Western Siberia was compiled from 35 license areas developed by Rosneft, LUKOIL, Gazprom Neft, Surgutneftegaz and independent oil companies. The AIT payer organization should determine the approaches to AIT accounting. In particular, it needs to resolve issues such as its recognition, classification, presentation in the statement of financial results, the applicability of standards governing similar issues, the ratio of accounting policies in respect of AIT to the accounting for income tax, MET and other taxes.

In the regulatory documents governing the procedure for accounting and reporting in the Russian Federation, there are no provisions for the AIT accounting procedure and its reflection in the accounting (financial) statements. With regard to AIT presentation in reporting, the main issue is to choose one of the two options:

- AIT presentation as an expense that forms the 'pre-tax profit' indicator;
- AIT presentation along with indicators of income tax after profit before tax as an article forming the net profit.

When forming professional judgment, the following documents are used sequentially:

- a) IFRS;
- b) the provisions of Russian federal and (or) industry accounting standards for similar and (or) related issues;
- c) recommendations in the field of accounting.

The AMC Fund appealed to the International Financial Report Interpretation Committee (IFRIC) for an explanation of how AIT is reflected in IFRS financial statements (all the Russian companies paying AIT form IFRS reports), but IFRIC declined to make recommendations on this issue. Thus, the normative regulation of reflecting AIT in the financial statements is absent both in IFRS and in Russian accounting. Therefore, the development of professional judgment is necessary. In case of a negative difference between the proceeds and expenses accepted for the calculation of the tax, this difference is to be recorded for tax purposes in the following periods. This difference will form a deferred tax asset, accounted for in the same way as for the deferred tax asset on income tax in respect of loss carried forward.

The argument for the developed professional judgment is that the AIT is a hybrid tax, which, on the one hand, was introduced as a better way to calculate the tax burden on hydrocarbon production instead of the MET. On the other hand, the tax base is a certain estimated difference between income and expenses. Due to the hybrid nature of the AIT, it possesses certain features of the income tax and at the same time has many distinguishing characteristics. The main similarity here is that the object of taxation is income minus expenses. Based on this, the AIT should be taken into account in the same manner as the income tax.

According to the AMC Fund experts, in international practice there is a similar tax – Australian Petroleum Resource Rent Tax, which in GAAP Australia provides for the application of the same accounting treatment as for income tax. Such taxes in the oil industry are treated as taxes on profits, and, as a rule, are reduced to an AIT rate for oil companies. The AIT database includes ‘estimated revenue’ and a significant portion of ‘estimated expenses’. The tax base imitates some estimated net amount of income and expenses for a particular subsoil plot. Estimated revenues and expenses are determined based on the actual production of hydrocarbons, and not on the volume of hydrocarbons sales.

In the AIT, the differences arise from the fact that the nature of these certain calculated amounts cannot be described in terms of IAS 12. All the expenses that cannot be directly tied to the license area (hereinafter LA), are distributed according to a certain method, i.e. are also calculated. If a taxpayer company has several LAs, then, as a rule, it does not have expenses that can be attributed to a particular LA on the principle of direct expenses.

The AIT is similar to the MET since in the calculation of income and part of the expenses that are included in the tax base, data from actual production is used. The AIT is a modified version of the MET; this is a tax that is levied on every ton of oil and gas condensate produced. The difference boils down to a more complex tax calculation for this extraction. Despite the AIT introduction, the rules for calculating the income tax have not changed, with the exception of the emergence of a new type of expenses adopted for the purposes of profit taxation, instead of part of the MET.

The AIT is economically interconnected with the MET and export duty, being to a certain extent their substitute. For pilot LAs, the amount of MET is reduced, which means that one taxpayer company will have LAs with the regular MET and with a reduced MET, as well as the AIT. IAS 12 defines ‘accounting profit’ and ‘taxable profit’ where the former is the profit before tax. The AIT is not subject to the entire profit of the economic unity but to the local financial result limited to certain income and expenses. The AIT applies to individual

pilot LAs, i.e. to some parts of the activities of a legal entity. The base of AIT is not the taxable profit of the taxpayer company.

The only similarity between the procedure for the AIT and income tax is the possibility (provided for by the TC RF) of carrying the loss forward to future periods. In relation to this loss, a deferred tax asset can be recognized in accordance with IAS 12. If the AIT is excluded from operating profit, it turns out that companies with LA have better efficiency with the AIT than companies without it simply because they do not include this expense in the calculation - and for comparability, users will have to add the AIT back to the operating profit. For analytical purposes, when comparing the pre-tax profitability of a LA, both the MET and the AIT should be included in the cost of production. LAs may differ in profitability due to differences between the MET and the AIT but not due to the fact that one of these elements is simply excluded from the cost.

5. CONCLUSION

Summarizing the results of the work of experts of the Russian non-state accounting regulator, the notion of professional judgment in accounting was formulated, which is a reasonable judgment on accounting issues by a specialist empowered to make decisions based on the requirements of legislation, standards, expertise, experience, established practice; such judgement is developed in compliance with the principles of professional ethics. Solving this issue of the methodology and conceptual framework of accounting allowed us to proceed to the solution of practical problems faced by Russian oil and gas enterprises in the previous year.

These practical issues were discussed by the expert community – representatives of the methodological services of the largest Russian companies in the oil and gas sector, who identified common approaches to accounting. The practical application of common professional judgment for the formation of financial statements will serve as a guarantee of clarity, reliability and comparability. In particular, when qualifying exploration drilling costs incurred after the commercial feasibility of mining in a certain subsoil area was proven, the form and model of extracting the economic benefits associated with using the results of this exploration drilling will affect the accounting procedure. In other words, the cost of drilling an exploratory well and its further development will be qualified as items of fixed assets if the benefits of using the well are obtained in the process of direct exploitation of the material asset – the well. If the results of exploratory drilling will be used to a greater extent as information necessary for the rapid estimation of reserves, further drilling of wells, field development, etc., costs should be recognized as part of intangible assets. In the case of industrial production in a separate section of the field, the commercial feasibility of production should be considered confirmed for this site, even if the commercial feasibility of production for the field as a whole (consisting of many subsoil plots) is not yet officially confirmed.

The very existence of a management solution to initially use an exploration well as a production well is a confirmation of the commercial feasibility of production in accordance with accounting standards, after which the accounting standard of exploratory assets ceases to apply in relation to this object and the main asset accounting standard begins its operation. Professional judgment was also made on the reflection of the new Russian tax (created specifically for companies producing oil and gas condensate) in the accounting and reporting – a tax on additional income. The accrual of this tax will be reflected in the statement of comprehensive income as part of the cost of the corresponding volumes of oil produced, from which it is calculated. If the extracted oil is not fully sold, the tax on unrealized oil volumes will be included in the balance of reserves. In case of materiality of the amount of tax on additional tax, it should be reflected in the statement of comprehensive income as a separate

item and participate in the formation of the financial result before tax. The above-stated professional judgments will allow achieving uniform reflection of such operations in the accounting of different companies of the same industry, and thus achieving greater comparability of their indicators, as well as avoiding intentional distortions of financial reporting indicators.

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