

tools to everyone, not just the affluent, Betterment has made financial planning more accessible and inclusive.

The world of finance is undergoing a significant transformation with the emergence of FinTech companies like Chime, Ripple, and Betterment. These entities have taken up the mantle of driving a financial revolution that promises inclusivity and accessibility for all. By revolutionizing the traditional banking system and pushing boundaries, these companies are paving the way for a future where anyone can access financial services effortlessly. Their unwavering commitment to innovation and disruption is setting the stage for a future where banking is more inclusive, global, and accessible. The impact of FinTech on the financial landscape cannot be understated, and it is poised to deliver a more inclusive financial future for all.

PROBLEMATIC MATTERS RELATED TO PROVISIONS ACCOUNTING FOR DOUBTFUL DEBTS

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Receivables can arise in an economic entity activity due to various reasons depending on the nature of its contractual relations with counterparts. The size of receivables is influenced by both external factors, such as the general state of the economy, the level of inflation, the structure, dynamics, capacity and degree of market saturation, etc. and internal factors, i.e. the level of professionalism in managing the receivables, including the keeping of accounting records and organization of internal control. The need to be aware of the risks the entity may face and to estimate the eventual losses generated by past or current events has imposed the creation of provisions – an accounting instrument that, in fact, helps keeping track of doubtful receivables in terms of their maturity date or value.

In the Republic of Moldova, the main accounting rules to set up provisions for doubtful debts are generally governed by the National Accounting Standard (NAS) “Receivables and financial investments” [1] and by the General Chart of Accounts [2]. IFRS 9 “Financial instruments” [3] is usually applied in the international practice.

According to the national accounting regulations, provisions for doubtful debts (hereinafter referred to as provisions) are established only for the settlement of trade receivables. According to the NAS “Receivables and financial investments”, receivables are considered as compromised in cases where the limitation period laid down by the legislation in force has expired or the buyer (customer) finds himself in an unfavourable financial situation [1 point 36].

Each entity sets up and measures the provisions independently, reflecting them in its accounting policies.

The problems of accounting and taxation of provisions are tackled in a series of works developed by domestic and foreign scientists and practitioners [4;5;6;7]. The

mentioned authors tend to investigate only some matters related to accounting and taxation of provisions. They neither identify improvements nor propose concrete solutions to the existing problems through the lens of international requirements and practices. Moreover, the NAS and Tax Code amendments and addenda on accounting and taxation of provisions have not been taken into account. Therefore, there are problematic matters that require further investigation, such as:

- recognition and measurement of provisions depending on the entity work specificity and its informational and decisional needs;
- documentary confirmation of doubtful receivables that can be settled against provisions;
- reflecting the provision formation, use and settlement operations in the accounts;
- identification of information on provisions to be disclosed in financial statements;
- assessment of fiscal consequences related to the formation, use, settlement and cancellation of provisions.

This study has been carried out through a systemic approach based on the dialectical method with its basic elements: analysis, synthesis, deduction, as well as on methods inherent to economic subjects: observation, selection, grouping, comparison, etc.

The recognition of provisions means defining the period in which they can be reflected in accounting and financial statements. According to the NAS “Receivables and financial investments”, provisions are recognized as soon as goods are sold or services are delivered in line with the terms laid down in the accounting policies (monthly, quarterly, annually) [1, point 40]. We agree that this way of provisions recognition is justified from the methodological point of view, as it ensures compliance with the basic principles of accounting as well as with the veracity of indicators comprised by financial statements.

The measurement involves calculating the size of provisions to be used for settling the doubtful receivables. The risks and uncertainties related to receivables shall be taken into account while calculating the amount of provisions, as well as the conclusions drawn by independent experts, the opinion expressed by the entity Management, the entity experience in this area and future events (if any) that may influence the amount of provisions. Various methods are applied in the national and international practice to this end, the main ones being presented in the table below [1;3].

The creation of provisions must be completed with an accounting note, and their use – with the following documents: an inventory list of receivables and liabilities; the minutes taken by the Inventory Committee; the information memos; the relevant court’s or bailiff’s act (decision, conclusion or another document stipulated by the legislation in force) according to which the collection of receivables is not possible; the written order (disposition) of the entity Manager. The mentioned documents must contain the mandatory elements referred to in the Law on Accounting and Financial Reporting [8, art. 11 par. (7)].

Table 1. Provisions measurement methods

Provisions calculation object	Description	Comments
Method 1: Each receivable, depending on the absolute size of doubtful receivables	It envisages a solvency analysis of each debtor and their possibility to fulfil the financial liabilities in full or in part.	The method ensures an accurate estimation of provision amounts.
Method 2: Groups of receivables depending on their expired payment deadline	It foresees grouping the receivables according to their due payment term. The share of doubtful receivables is established for each group, taking into consideration the state of receivables during the past years and the probability of their collection. Provisions are calculated as the product of the share of doubtful receivables multiplied by the amount of receivables from the respective group.	The method takes into account the maturity of receivables (for example, 1–3 months, 3–9 months, 9–12 months, etc.). If the entity applies Method 1 and/or 2 to set up the provisions, the unused balance of previously created provisions shall be taken into account. Thus, according to point 44 of NAS “Receivables and financial investments”, the provisions calculated for “each receivable” and for “groups of receivables” shall be adjusted against the difference between the size of calculated provisions and their unused balance according to the accounting data.
Method 3: All receivables, based on the net sales volume during the reporting period and the share of losses pertaining to doubtful receivables	It requires calculations based on the volume of net sales during the current reporting period and the share of losses related to doubtful receivables during the previous periods. The amount of provisions is calculated as the product of the share of losses related to doubtful receivables multiplied by the volume of net sales.	The volume of net sales includes the proceeds derived from the goods sold on credit terms (with subsequent payment) adjusted against the value of returned goods and/or the amount of price reductions related to sales. The share of losses incurred due to doubtful receivables is calculated as the ratio between the effective amount of losses incurred during the previous reporting periods (for example, over a 3-5-year period) and the volume of net sales during the same period. The unused balance of provisions is not taken into account.

The information comprised by primary documents related to the creation, use and cancellation of provisions is to be generalized in the accounts. The creation of provisions is accounted for as an increase in the distribution expenses and provisions [1, point 40]. We believe this approach is neither sufficiently reasoned nor matches the international practices in full. The experience of some countries, Romania, for example, shows that provisions can be set up for other types of receivables, such as those related to advances granted, settlements with staff, proceeds derived from the use of entity assets by third parties, etc. It is worth mentioning that in such situations the provisions can be set up against other operating expenses with detailed information displayed in provisions subaccounts.

If the size of provisions used to settle the doubtful receivables is lower than the sum of the latter, the difference must be settled against current expenses. The provisions can be cancelled through the settlement against current proceeds in case of switching from the method of provisions to the direct method of accounting for doubtful receivables.

The information regarding the provisions is reflected in the financial statements as follows:

- in the balance sheet – as an adjustment of trade receivables in the amount of unused provisions balance;
- in the profit and loss statement – as current/ordinary expenses and proceeds in the amount of established and cancelled provisions;
- in the explanatory note – as detailed information regarding the amount of established, used and cancelled provisions.

In terms of taxation of provisions, two main problems arise, namely the recognition of provisions as deductions for tax purposes and the adjustment of tax liabilities on VAT related to doubtful receivables settled against the provisions.

According to the Tax Code, the established provisions are not recognized as deductions for tax purposes [9, art. 31 par. (2)]. At the same time, it is allowed to deduct the provisions used for the settlement of doubtful receivables if they meet the recognition criteria laid down in the tax legislation [9, art. 31 par. (1)]. We consider that the practical use of tax rules to deduct the provisions used for settling the doubtful receivables is cumbersome; quite often, it is not doable at all due to rigorous fiscal requirements towards the documentary confirmation of those receivables, a fact that ultimately has a negative impact on the financial situation of entities.

The way of applying VAT related to the settled doubtful receivables depends on whether these receivables are recognized or not as deductions for tax purposes. In accordance with the tax rules, if the whole amount of receivable or part of it is considered doubtful, the entity has the right to adjust the amount of VAT calculated starting from the tax period in which the doubtful receivable occurred. The amount of VAT to be adjusted is similar to the amount of VAT calculated for the delivery corresponding to the amount of settled doubtful receivables [9, art. 116 par. (1)].

Conclusions. Most domestic entities settle their doubtful receivables directly without setting up any provisions. This settlement method is neither substantiated methodologically and nor ensures compliance with the basic accounting principles and accurate calculation of financial statement indicators.

In the international practice, the provisions regarding doubtful debts are considered as a depreciation of receivables value. Upon measuring the provisions, IFRS 9 does not require using specific approaches for the measurement of the expected credit losses, but emphasizes that an entity must measure the expected credit losses in a way that reflects [3]:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and

- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

It would be advisable for the Moldovan entities to combine national and international approaches, in particular, to use up-to-date information for provision measurement.

The rules regarding the taxation of provisions referred to in the national tax legislation are cumbersome and hard to apply in practice. In our opinion, it is reasonable to use the experience of countries where the established provisions are deductible for tax purposes. Such an approach would ensure accurate information to be used for devising both financial statements and tax returns. The tax legislation allows VAT adjustment only in the amount of doubtful receivables recognized as deductions upon calculating the taxable income. We consider that the amount of VAT should be adjusted based on the overall value of settled doubtful receivables, because the tax liabilities were calculated based on the size of those receivables.

The practical implementation of recommendations aimed at improving the accounting and taxation of provisions will ensure truthful, transparent and comparable financial information, as well as accurate calculation of taxable income.

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