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Accounting Treatment of a Russian Subsidiary: Possible Issues and Improvement Areas

Case Company X

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ABSTRAKT

Författare	Anastasiia Finagina
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Denna avhandling fokuserar på att identifiera problem och förbättringsområden inom leverantörsskuldprocessen i ett finskt bolag X och dess ryska dotterbolag.

Den teoretiska referensramen presenterar en litteratursöversikt av ämnen internationella och ryska redovisningspraxis. De viktigaste skillnaderna mellan de internationella redovisningsstandarderna och de ryska redovisningsstandarderna diskuterades. Eftersom avhandlingens uppdragsgivare utnyttjar en Shared Service Center (SSC) modell för sin redovisning, ges en översikt av detta begrepp med betoning på det finansiella Shared Services.

Den kvalitativa forskningsmetoden användes för att samla in empirisk data. Intervjuer med revisorer från uppdragsgivarens SSC och från dotterbolaget i Ryssland genomfördes. Forskningsresultaten visade att skillnaderna i redovisningsstandarderna i två länder orsakar utmaningar för SSC:s revisorer. Utmaningar i fakturahanteringen som, oklara metoder i rysk redovisning och missförstånd av uppdragsgivarens globala redovisningsprinciper undersöktes. Även om kommunikationen mellan avdelningarna bedömdes som tillfredsställande, visade det sig att redovisarna är intresserade av att ha fler möten och utbildningar eftersom vissa aspekter av processen upplevs som oklara.

Rekommendationerna för bolaget X: s redovisningsavdelning har utvecklats baserat på forskningsresultaten. Det föreslogs att hålla utbildningar för både ryska och SSC revisorer och att ordna ett personligt möte antingen på kontoret vid det ryska företaget eller på SSC kontoret i Finland. Rekommendationerna övervägdes av uppdragsgivarens ledning; Ryska revisor besökte SSC i november 2016 och en utbildning blev planerad till januari 2017.

ABSTRACT

Author	Anastasiia Finagina
Title	Accounting Treatment of a Russian Subsidiary: Possible Issues and Improvement Areas
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This thesis focused on identifying the issues and improvement areas of the accounts payable process of a Finnish company X and its Russian subsidiary.

The theoretical framework presented a literature review on the topics of international and Russian accounting practices. The key differences between International Financial Reporting Standards and Russian Accounting Standards were discussed. As the case company of this thesis utilizes a model of a Shared Service Center (SSC) for its financial accounting, an overview of this concept was given with an emphasis on the financial Shared Services.

The qualitative research method was employed to collect the empirical data. Interviews with the accountants from the company X's SSC and the subsidiary in Russia were conducted. The research findings proved that the differences in the accounting standards of the two countries cause difficulties for the SSC accountants. Such issues in the purchase invoice handling process as unclear practices of Russian accounting and misunderstanding of global accounting policies of X Corporation were investigated. Though the communication between the departments was rated as satisfactory, it was revealed that the accountants would be interested to have more meetings and trainings as some aspects of the process were found obscure.

The recommendations for the company X's accounts payable department were developed based on the research findings. It was suggested to hold trainings for both Russian and SSC accountants and organize a personal meeting either at the office of the Russian company or at the SSC in Finland. The recommendations were considered by the management of the company X's SSC; the Russian accountant visited the SSC office in November 2016 and the first training was scheduled for January 2017.

Keywords	IFRS, RAS, accounting, accounts payable, Shared Service Center
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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
AP	Accounts Payable
CEO	Chief Executive Officer
EDI	Electronic Data Interchange
EU	European Union
EUR	Euro
G20	Group of Twenty
GAAP	Generally Accepted Accounting Principles
HR	Human Resources
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commission of markets
IT	Information Technology
MEUR	Millions of Euro
NASDAQ	National Association of Securities Dealers Automated Quotation
RAS	Russian Accounting Standards

SIC	Standing Interpretations Committee
SLA	Service Level Agreement
SSC	Shared Service Center
US	United States
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax

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1 INTRODUCTION

The aim of this chapter is to introduce the reader to the study background and research objectives and questions. A brief overview of the research method and limitations that were applied in this thesis is also provided, followed by the description of the thesis structure.

1.1 Background of the study

It is undeniable that globalization has a major effect on the business world. The reduction of trade barriers between countries has resulted in the boom of large multinational corporations. An example of such corporation is X Group, which is a global leader in marine and energy industries.

X Corporation owns or controls more than 70 companies in different parts of the world; these companies are known as subsidiaries of company X while X Corporation is called parent company. To achieve harmonization of the global financial accounting processes, company X established a Shared Service Center where the accounting services of subsidiaries such as accounts payable, payment handling, and period end closing were transferred.

The choice of the topic of this research was based on the author's working experience at the company X's Shared Service Center. After being responsible for booking invoices for Russian subsidiary of company X for eighteen months, the author found certain issues that could be improved in order to make the purchase invoice handling process more rationalized and time-efficient. It was decided to conduct a research where the problematic issues would be identified, analyzed and the possible solutions would be presented. The topic was approved by the manager of the Accounts Payable department of company X and by the general manager of the Shared Service Center. Since the finance-related issues covered in this thesis represent a rather sensitive matter, the name of the case company as well as the names of the interviewed employees will not be disclosed.

This study is conducted primarily for the use of the company X. In addition, this thesis might be useful for European accountants who come across with the differences between international and Russian accounting standards.

1.2 Aims and research questions

The practical issues that arise when a Finnish company handles accounting for a Russian subsidiary are the crux of this research.

This thesis seeks to find answers to the following research questions:

- What issues can occur when Finnish company X handles accounts payable for its Russian subsidiary?
- What are the reasons behind these issues?
- In what ways can these issues be solved?

To provide a sufficient answer to the above questions, the study aims to analyze the accounting practices that are applied in Finland and in Russia and the model of accounting treatment of the case company's subsidiary. The research also intends to uncover the opinions and attitudes of the company X's accountants regarding the issues in the purchase invoice handling process between the company X's Shared Service Center and the Russian subsidiary.

1.3 Research method and limitations

The qualitative research method was chosen to answer the research questions. The data was collected by conduction of two personal semi-structured interviews with the accountants who are responsible for accounts payable of company X. The choice of method, data collection process, and the reliability and validity of the research will be explained in detail further in this thesis.

There are certain limitations that are applied in this thesis. The first limitation is related to the scope of the research. Since the study explores the specific accounting procedure of one particular company, the research findings might not necessarily be applied to other companies. The second limitation refers to the availability of the

literature on the topic of Russian accounting. The research is conducted in western Finland where the access to the books on the Russian accounting is limited, thus, mostly online publications on the topic and articles found in academic databases are reviewed in section 2.3. At last, the limitations also apply to the research findings retrieved from the interviews. As the interviewees express their subjective opinion, the cultural bias should be taken into consideration when interpreting the results. The influence of culture is not discussed in this thesis, and it can be a subject for further research.

1.4 Thesis structure

This thesis is divided into six sections or chapters. In the first section, the background of the study is introduced, and the objectives of the thesis, research method, and applied limitations are stated.

Chapters 2 and 3 present the theoretical framework of this research. The international accounting standards followed by the case company as well as national accounting standards which are applied by its Russian subsidiary are overviewed in chapter 2. Chapter 3 is dedicated to the concept of a Shared Service Center.

The empirical framework which is based on the case company X is presented in chapter 4. It gives the information about the case company, its Russian subsidiary, and the work of its SSC, thoroughly describes the research methodology, and analyzes the interview answers. The research findings and recommendations for the case company are discussed in chapter 5.

The study is concluded with chapter 6 where the main ideas of this thesis project are summarized and suggestions for further research are provided.

2 STANDARD ACCOUNTING PRACTICES

This chapter will explain the need of accounting standards and the reasons behind their variations in different countries. As the empirical study of this thesis is based on analysis of financial accounting practices of a Finnish company and its Russian subsidiary, a theoretical review of accounting standards of the two countries will be presented. A closer look will be taken at the development of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), which have been adopted in the EU and, subsequently, in Finland. A review of Russian Accounting Standards (RAS) will then be presented, followed by the key differences between IFRS and RAS. Finally, the factors that hinder Russia from adopting IFRS will be shortly discussed.

2.1 The need of accounting standards

Accounting standards are defined by Choi & Meek (2011, 51) as “the regulations or rules (often including laws and statutes) that govern the preparation of financial statements”. One of the main ideas behind the development of first accounting standards in the beginning of the 20th century was to impose uniformity on financial reporting. Uniform accounting standards ensure that companies’ financial reporting is done in a reliable, comparable, relevant and transparent way. The financial information which conforms to the above mentioned characteristics is valuable for the external users (investors, creditors, governmental bodies) and can be used for making business decisions. (Bird 1984, 39-53; Gresham 2016)

As stated by Walton, Haller & Raffournier (2003, 3), accounting is “a ‘social construct’ which will consequently reflect the society in which it has been developed”. Throughout the centuries countries all over the globe have been developing their own accounting standards under the influence of national culture, legal and political systems. **Figure 1** shows that differences in country-specific environment lead to different objectives of financial reporting, which in turn explain different accounting principles. For example, in Russia, where tax accounting historically plays an important role, primary users of financial reporting include tax authorities, while in

most European countries financial reporting is done mainly for the use of shareholders, prospective investors and creditors. As a result, the accounting standards vary significantly between Russia and the EU, as will be explained in detail in subchapter 2.4.

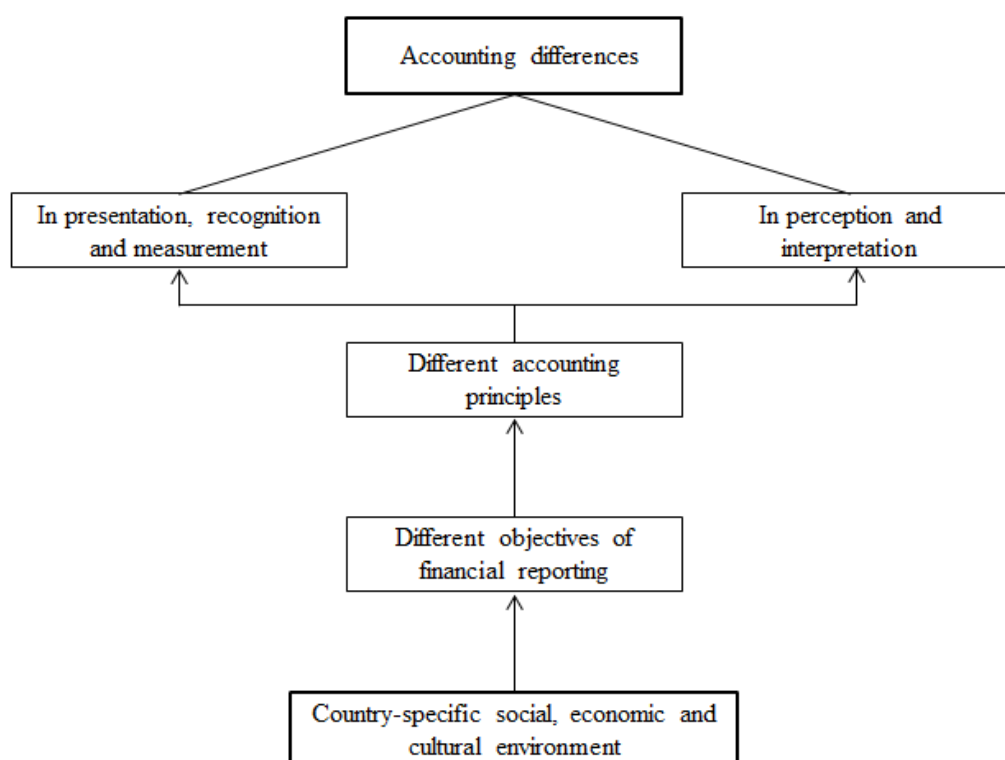


Figure 2. Reasons for the international accounting problem. (Walton et al 2003, 2)

Due to overall economic integration, having an own set of standards in each country has become inconvenient and disadvantageous. The number of multinational companies has been rapidly increasing, and different national accounting systems caused “inefficiencies, missed opportunities and distortions of economic behavior” (Walton et al 2003, 1). In order to communicate effectively across borders, interpret foreign financial information correctly and make right business decisions, stakeholders, investors, creditors and managers should speak same economic language. Thus, the International Financial Reporting Standards (IFRS) were created to satisfy the need of a common “language” and to facilitate international trade.

2.2 International Financial Reporting Standards

In recent years IFRS have received worldwide recognition as an effective system of preparation of reliable financial statements. As of 1 January 2016, 147 countries have either required or permitted using IFRS, or at least considered it as an option. In some countries (e.g. Vietnam, USA) national accounting standards still play the key role, and the adoption of IFRS in full does not seem likely to happen. However, the main idea of convergence with IFRS is supported by most of the countries worldwide.

2.2.1 The history of IFRS

The development of standards in international accounting is illustrated in **Figure 2**. It is generally accepted that the idea of creating international accounting standards was first expressed by a Dutch auditor Jacob Kraayenhof during the annual meeting of American Institute of Certified Public Accountants (AICPA) in 1959 (Flesher 2010, 6). Later in 1973 the International Accounting Standards Committee (IASC) formed by representatives of nine countries was established in London. Its goal was to harmonize the accounting principles worldwide by issuing International Accounting Standards (IAS). In total 41 IAS together with a Framework for the Preparation and Presentation of Financial Statements were created during the period from 1973 until 2001. (Choi & Meek 2011, 253-261)

In 2001 IASC was restructured and a new standard setting body named International Accounting Standards Board (IASB) appeared. It was also stated that in addition to existing IAS, new standards would be issued under the name of International Financial Reporting Standards. IASB's authority grew with the increasing number of countries that took IAS/IFRS as the basis for preparing the financial statements. Two major events played a key role in the development of the IASB. (Choi & Meek 2011, 253-261)

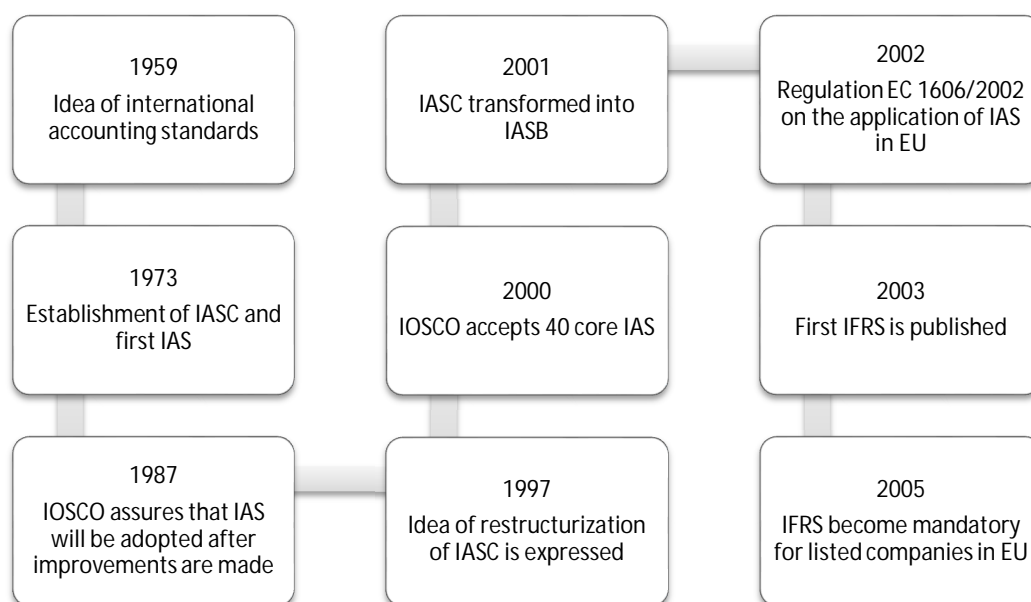


Figure 3. Key events in the development of international accounting standards. (Choi & Meek 2011)

Firstly, in May 2000, International Organization of Securities Commission of markets (IOSCO) adopted IAS as the framework for the preparation of financial statements for companies involved in cross-border listings and securities trading. Secondly, in 2002, the European Union passed a law requiring all European companies whose securities are publicly traded to start presenting their financial statements in accordance with IFRS starting from 1 January 2005. (Choi 2011 & Meek, 253-261; Zeff 2012; ICAEW 2016)

Nowadays IASB continues being the main standard setting body in the area of international accounting. It is an independent organization that cooperates with various private parties such as accounting and auditing firms, national standard setting bodies, investors and other stakeholders. Currently IASB comprises fourteen members who are responsible for preparing and issuing of IFRS as well as approving its interpretations. The idea of application of IFRS is supported by major international organizations including G20, World Bank, and International Monetary Fund. (IFRS 2016)

2.2.2 Overview of accounting standards under IFRS

IFRS are issued annually by IASB and are published in a form of three books which are called blue, red, and green. The blue book of year 2016 comprises the standards that are effective as of 1 January 2016. The red book consists of all standards that are issued by 1 January 2016 and, additionally, those that will be enforced later than 1 January; it does not contain standards that were replaced or excluded. Finally, the green book, also known as “A Guide through IFRS”, contains full texts of standards that are effective as of 1 July 2016 or later as well as supplementary annotations and clarifications provided by IASB. As IFRS are revised yearly, each company that follows IFRS should observe the new edition of IFRS books. (ICAEW 2016)

The standards that are commonly referred to as IFRS as of 1st January 2016 are listed in **Appendix 1**; some of the standards that are to be superseded in the nearest future are not included in the list. The standards are accompanied by the Preface, which states the IASB’s goals and strategy and provides general information on IFRS and their scope, as well as the Conceptual Framework of IFRS (adopted in 2010). The Framework determines the theoretical basis for the standards development and is used as a guideline for the standard setters. It also describes the objectives of the financial reporting and specifies the reporting entities as well as the users of the financial reports and the informational needs of these users. In addition, it defines the components of the financial statements (e.g. assets, liabilities), their recognition and measurement. The fundamental qualitative characteristics of the financial reporting (relevance and faithful representation) together with the enhancing characteristics (comparability, verifiability, timeliness and understandability) are also expounded in the Framework. (IFRS 2012)

IFRS are often divided in two parts – standards and interpretations. The first part includes the following:

IFRS

There are sixteen standards that have been issued by IASB under the name of International Financial Reporting Standards since the restructuring in 2001. Two of

them – IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* – have not become effective yet and will be enforced in 2018 and 2019 respectively, though early application of them is permitted.

IAS

First International Accounting Standards were adopted by IASC soon after its foundation in 1973. Since then many of IAS have been revised, replaced with IFRS standard or even withdrawn entirely. There are twenty-five standards under the name of IAS that are applicable today.

The contents of each of IFRS/IAS standard are illustrated in **Figure 3**.

IFRS/IAS standard	Introduction (not required)
	Objective
	Scope
	Main body
	Disclosure
	Effective date
	Appendices
	Basis for conclusions
	Implementation guidance (not required)

Figure 4. The contents of IFRS/IAS standard. (IFRS 2013)

Some standards start with the introduction where the main reasons for issuing the standard and the changes from the previous version are discussed. Then objective and scope of the standard are briefly summarized. The main body reveals the standard itself; it is divided into short numbered paragraphs which explain all features and provisions. It is followed by disclosure requirements and the effective date of the standard. In case of IAS, the definitions used in the text of the standard are listed prior to the standard, while in IFRS the defined terms are included in the appendices. The text of the standard is ended by the approval of the Board of IFRS and basis for conclusions, where the discussion among the standard setters is presented.

Finally, the implementation guidance and illustrative examples are included in accompanying documents for some standards. (IFRS 2012)

The second part of the IFRS book presents interpretations of above mentioned standards that are ratified by IASB and includes the following:

IFRIC

The IFRIC abbreviation stands for International Financial Reporting Interpretations Committee. The Committee colligates fourteen members with different national and professional backgrounds who are responsible for reviewing the accounting issues arising from the application of IFRS and developing the interpretations of the standards. Currently there are thirteen valid IFRIC interpretations that are approved by IASB. (IFRS 2016)

SIC

Standing Interpretations Committee (SIC) is a predecessor to IFRIC that has been restructured in 2001 along with IASC. Five of its interpretations are still applicable. (IFRS 2016)

The interpretations have the same value as the standards, meaning that companies applying IFRS should be familiar with the IFRIC and SIC interpretations as well.

This subchapter provided an overview of the accounting standards that were imposed in Finland in 2005 as a member of EU. The next section of this thesis will present the accounting standards of Russia, which is one of the countries that have not fully adopted IFRS yet but follow the tendency of convergence with international standards.

2.3 Russian Accounting Standards

During the Soviet times accounting in Russia was fully controlled by the state. The accountants were exempt from exercising professional judgements or any decision-making as their job was only about preparing financial data “for statistical purposes

of the government and tax authorities” (Combs, Samy & Myachina 2013). However, in 1980s-90s, the transition from command to a market economy took place, which had a major effect on the accounting system. Since that time all accounting regulations established in Russia have shown a tendency towards harmonization with IFRS; this process will be discussed further in subchapter 2.3.1. (Combs et al 2013)

Russian Accounting Standards (RAS), sometimes referred to as Russian Accounting Principles (RAP), Russian Statutory Accounting (RSA) or Russian Generally Accepted Accounting Principles (Russian GAAP), comprise all laws and regulations that govern accounting in Russian Federation (KPMG 2005). **Table 1** presents four levels of the current system of accounting regulation in Russia in hierarchical order.

Table 1. The legislative framework of Russian accounting regulation. (Krylova 2003, 349)

Level	Legislative power	Documents	Responsible bodies
Level I	Compulsory laws	Civil Code, Federal Laws, Government acts, President’s decrees	State Duma, Government of Russia, President of Russia
Level II	Compulsory accounting standards	Russian Accounting Standards	Ministry of Finance, Central Bank
Level III	Optional methodological instructions	Chart of Accounts; methodological instructions, guidelines, manuals, interpretations, official letters	Ministry of Finance, other ministries and agencies, professional and business associations
Level IV	Optional guiding documents of an enterprise	Working documents on accounting policy and procedures of an enterprise	Enterprises

The main law of the first level is the Federal law of Russian Federation № 402-FZ which was signed by the President of Russia and enforced on 1 January 2013. It is applied to all businesses operating in Russia and outlines the objectives and principles of financial accounting and reporting as well as the responsibilities of an accountant. (Krylova 2003, 349-351; MinFin 2016)

The main responsible body of the second level is Ministry of Finance (MinFin). It issues accounting standards, decrees, orders, and development plans regarding financial accounting of all business entities except for the banks, which are governed by the Central Bank (Krylova 2003, 349-351).

Documents under Level III are recommendations, guidelines, official letters, and interpretations of documents of the above levels (Krylova 2003, 349-351). One of the important documents here is the Chart of Accounts approved by Ministry of Finance in its decree №94H from 31 October 2000 with amendments made in 2003, 2006, and 2010 (MinFin 2016).

Finally, the lowest level of regulation includes companies' own accounting manuals and policies, which are optional to have. (Krylova 2003, 349-351)

Many researchers highlight the role of tax authorities and tax accounting in Russia (Krylova 2003; Goncharov & Zimmermann 2005; Charron & Young 2014; Purina 2015). Although it does not belong to the legislative framework of accounting regulation, Tax Code continues being a handbook of Russian accountants and stands along with RAS. Purina (2015) defines the aim of tax accounting as “to describe business process in such way that income tax base (or, respectively, other taxes and assimilated debts and liabilities of the firm) can be properly evaluated”. Due to extreme complexity of the Russian tax system, each company has to record each transaction in both tax and financial accounting, which sometimes can be quite different. This has to do with a different approach on income and cost recognition, e.g. different methods of calculating depreciation, interest payments, and dividends. While financial accounting should reflect real values and numbers, tax accounting implies

recording of maximum allowed amount of costs or, if the cost is not a subject to tax deduction, nothing is recorded (Purina 2015). In addition, Russian companies are obliged to store the originals of documents such as VAT invoices, agreements, bills of lading, goods acceptance protocols and reconciliation acts as those can be requested by tax authorities during regular inspections (Schneider Group 2016).

A complete list of 24 Russian Accounting Standards can be found on the official website of the Ministry of Finance (available only in Russian language). The translation of the standard names is included in **Appendix 2**. RAS establish the principles, rules, and procedures that should be followed when handling accounting of business organizations and preparing and presenting financial statements. RAS are mandatory and are approved by the Ministry of Finance of Russian Federation. The structure of any of the RAS standards normally includes general provisions of the standard, definitions, the main body, explanations, disclosures in the financial statements, and the effective date. (MinFin 2016)

Although the introduction of RAS was closely related to the tendency towards convergence with IFRS, these sets of standards are not exactly the same and in some aspects of accounting promote totally different approaches. The next subchapters will present the history of IFRS application in Russia and the main differences that exist between the two sets of standards.

2.3.1 IFRS application in Russia

The accounting reform in Russia was started shortly after the USSR collapse in 1991 and there were several macroeconomical factors explaining that. First of all, the new Russian government was in desperate need of financial aid. International Monetary Fund was ready to provide it if an accounting reform was started. Secondly, it was claimed that a change towards IAS would help in building trust among foreign investors and, subsequently, increase the inflow of foreign capital. Finally, Russian economy had to be integrated into the global system of economic relations; it became evident that the use of international standards would enhance the connection with the main trading partners. (Kharakoz 2014) The history of IFRS application in Russia is illustrated in **Figure 4**.

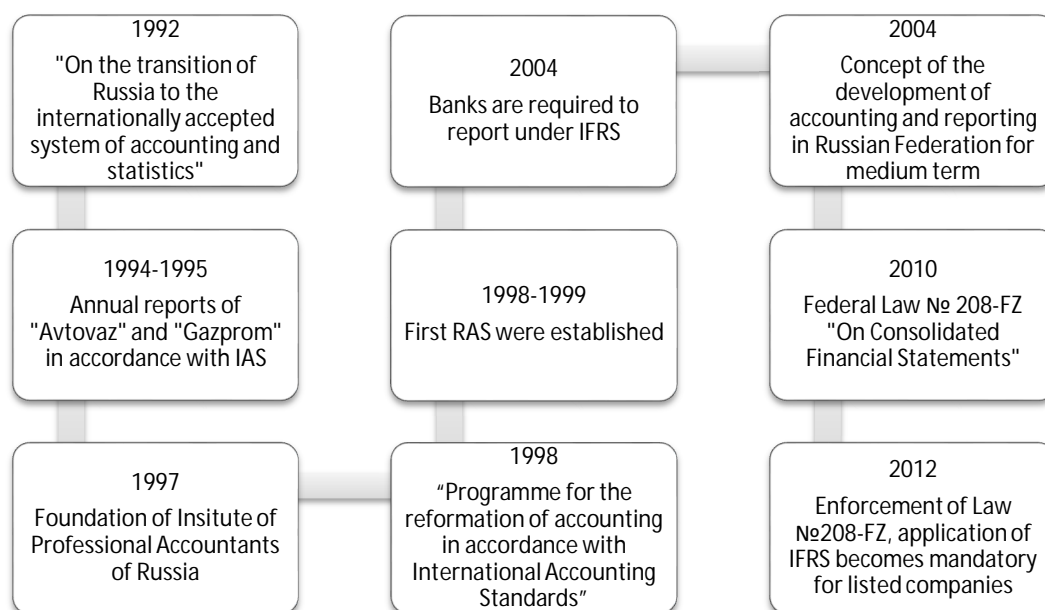


Figure 5. The history of IFRS application in Russia. (Preobragenskaya & McGee 2004; Reshetov 2008; Combs et al 2013; Kharakoz 2014)

In 1992 a decree "On the transition of Russia to the internationally accepted system of accounting and statistics" was issued and the accounting reform was started. The first companies that prepared their annual financial reports in accordance with IAS were the biggest Russian car manufacturer "Avtovaz" and oil and gas corporation "Gazprom" (1994 and 1995 respectively). (Reshetov 2008)

The release of "Programme for the reformation of accounting in accordance with International Accounting Standards" in 1998 was aimed at creating a system of accounting and reporting standards which would provide useful information to the users and ensuring consistency of accounting reform in Russia with the main tendencies of harmonization of standards on the international level. Though several standards were established during 1998-1999, the initial plan to have the whole system reformed by 2000 was not accomplished. (Preobragenskaya & McGee 2004; Combs et al 2013)

A major breakthrough towards the IFRS happened only in 2004 when Central Bank required all credit institutions to prepare their financial statements in according with

IFRS. The same year the “Concept of the development of accounting and reporting in Russian Federation for medium term” was issued. The Concept expressed the need in the development of the legal framework and infrastructure that would support the implementation of IFRS. However, first practical step towards the convergence with IFRS occurred only in 2010 with entry into force of the Federal Law №208-FZ “On Consolidated Financial Statements”. This law states the general requirements for the preparation, presentation, and publication of the consolidated financial statements of business entities in accordance with IFRS. It is applied to credit institutions, insurance companies, and other organizations whose securities are publicly traded. The financial statements have to be prepared in accordance with IFRS starting from 2012. The exception was made for companies which for own reasons had been reporting under US GAAP – such companies had to start applying IFRS in 2015. In addition, the Law requires that the annual financial reports should be audited. (EY 2013; Kharakoz 2014)

In practice, there are two ways of how IFRS can be applied in Russian business organizations:

- Transformation method: the financial accounting is handled based on RAS and then adjustments are made in order to prepare financial statements in accordance with IFRS.
- Parallel accounting: the financial accounting is done under both RAS and IFRS in parallel using different software.

Both methods require high professional knowledge of both systems of standards. While the transformation method is used in medium-sized enterprises as it is cheaper to implement, parallel accounting is used mostly by bigger companies as it requires substantial financial investments and high-skilled personnel. (Shishova 2013; Muhina & Tebenkova 2015)

Despite the existence of various factors that impede the complete transition to IFRS in Russia (see subchapter 2.5), the scope of application of international standards is constantly expanding. The Ministry of Economic Development of Russian Federation declares that by 2018 all small and medium enterprises, which are defined by

Federal Law N 209-FZ as companies whose turnover does not exceed two billion Russian rubles, and the total number of employees is below 250, will implement IFRS. (Shuktueva 2016)

2.4 Key differences between IFRS and RAS

The comparison of RAS and IFRS presents a difficult topic for many researchers as both sets of standards are changed on a yearly basis (Preobragenskaya & McGee 2004). This subchapter will only focus on those differences between RAS and IFRS that are relevant to the Accounts Payable department of the case company and appear to be the most problematic when handling accounting for Russian subsidiary. These problems mainly arise from the differences in three aspects: (1) views on substance over form principle, (2) an accrual basis of accounting, and (3) criteria for recognition of the elements of the financial statements.

2.4.1 Substance over form principle

One of the central principles that IFRS are based on is the so-called “substance over form” principle. In Glossary of IFRS it is defined as “the principle that transactions and other events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form” (IASB 2004, 2197). In practice it means that transactions should be recorded when they have a real influence on the state of the business from the economic point of view. For example, it can happen that an enterprise has transferred the legal ownership of an asset to another company, but according to the contract it continues to receive revenue from that asset. In such a case the sale transaction should not be recorded since it does not present the real matter from the economic perspective. (IASB 2004, 30)

Substance over form principle as such has been recently excluded from the Conceptual Framework of IFRS. In comments to the new IFRS edition, IASB elucidates that it has been proven to be a part of faithful representation principle and does not need to be mentioned separately. (IFRS 2016)

In Russia, substance over form principle is established by Ministry of Finance in its decree №106H (MinFin 2016). However, in practice, legal form is always prioritized meaning that transactions are recorded when necessary documents are supplied and not when an actual transfer of money took place (KPMG 2005). As explained earlier in this Chapter, having all necessary documentation is highly important for an accountant in Russia since this is the ultimate condition of transaction booking. (Schneider Group 2016)

Many differences between IFRS and RAS can be explained by different view on application of substance over form principle. For instance, when it comes to financial lease transactions, RAS has a totally different approach from IFRS. According to IAS 17 *Leases*, same accounting procedures apply to financial lease as to the acquisition of an asset, meaning that it should be included in the balance sheet of lessee and depreciated. That provision goes in line with the substance over form principle since economic essence is prioritized. On the contrary, Federal law of Russian Federation № 164-FZ states that the parties (lessor and lessee) should have a special clause in the lease contract that sets who should include the asset in the balance sheet. In this case, form over substance principle prevails as the economic essence of the transaction yields to what is stated in the contract. (IFRS 2012, MinFin 2016)

Hereby it can be concluded that while being fundamental in IFRS, substance over form principle, though being formally recognized, does not always apply in Russia.

2.4.2 Accrual basis of accounting

The accrual method of handling accounting is described in the Conceptual Framework of IFRS as follows: “the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate” (IASB 2004). Furthermore, IAS 1 *Presentation of Financial Statements* requires that all financial statements, except for the cash flow statement, should be prepared by the accrual basis of accounting. (IASB 2004)

Although the term “accrual basis” is not mentioned directly in any of the legal documents of Russian financial accounting, the similar principle is presented in RAS 1/2008 *Accounting policies of the organization*: The events of the economic activity of the organization should relate to the accounting period in which they took place, irrespective of the actual time of receipt of payment relating to these events (the assumption of time definiteness of the events of economic activity). (MinFin 2016) In practice, however, the transactions are often recorded in the period when the necessary documentation was received. The reason for it is the provisions of the Tax Code (Clause 252 of the Tax Code), which require a company to have all necessary documentation in order to record a transaction, otherwise costs cannot be recognized by the tax authority and consequently they cannot be a subject of tax deductions. For example, a company purchased the goods in the beginning of April, the actual payment took place in the end of April, but the documentation from the supplier was received only in the beginning of May. In such case, Russian accountants prefer to follow the rules of the Tax Code and record the transaction in May to eliminate the tax risks, though it contradicts the accrual basis of accounting. (Schneider Group 2016)

Thus, close connection of financial and tax accounting in Russia is emphasized again. This connection appears to be one of the main differences between Russian and international accounting practices.

2.4.3 Recognition of the elements of the financial statements

The elements of the financial statements, namely assets, liabilities, equity, income, and expenses, can be included in a company’s financial statements only if they meet certain criteria. Those criteria are different in IFRS and RAS, especially for the elements of income statement (income and expenses). Due to research limitations, only the most significant differences that exist in criteria of recognition of these elements are presented in **Table 2**.

Table 2. Recognition of elements of the income statement in IFRS and RAS
(IASB 2004, MinFin 2016)

Element of the financial statement	IFRS	RAS
Income	Risks and rewards of ownership should be transferred to the customer (Conceptual Framework; IAS 18, which will be superseded by IFRS 15 in 2018)	Property rights should be transferred to the customer (RAS 9/99)
Expenses	Expenses that influence the economic state of a business can be recognized even if they are not supported with documents (Conceptual Framework)	Expenses must be documented in order to be recognized (RAS 10/99)

As it can be seen from the table, in IFRS recognition of expenses and revenues has economic character, while in RAS the major role play documentation and formality.

2.5 The issues preventing Russia from adoption of IFRS

In spite of the fact that IFRS are used by numerous Russian companies, there are several factors that prevent Russia from adopting IFRS in full. In their research papers, Borker (2012), Combs et al (2013), Mukhina & Tebenikova (2015) and Duvanskaya & Sverchkova (2016) describe several factors or issues that have significant influence on adoption of international standards in Russia. Those issues can be categorized as follows:

Cultural issues

It is hard to underestimate the influence of Soviet Union legacy on the development of Russian business culture. Based on Geert Hofstede's national cultural dimensions theory, Combs et al (2013) suggest that high power distance, uncertainty avoidance and collectivism play an important role in formation of certain tendencies

in Russian accounting such as conservatism, secrecy, uniformity and statutory control. These tendencies contradict financial reporting transparency and relative flexibility promoted by IFRS.

Another factor which can be related to cultural issues is the language. Duvanskaya & Sverchkova (2016) argue that official translation of IFRS in Russian language is vague and found to be difficult to understand by Russian-speaking users.

Political issues

The complexity of legislation and tax accounting system as well as weak law enforcement are also seen as hurdles that hinder the convergence of IFRS and RAS. Since Russian financial accounting is closely related to tax accounting, improvements have to be made for both. Borker (2012) notes that the absence of single authorized standard setting body is also hampering the convergence process. There are both governmental (Ministry of Finance, Central Bank) and non-governmental (Institute of Professional Accountants and Auditors of Russia, National Organization for Financial Accounting and Reporting Standards) organizations involved that are deemed to be suitable for this role. Nevertheless, none of the above mentioned organizations has yet become fully responsible for the process.

Economic issues

Russia cannot be named a developed country mostly because of the instability of Russian economy. The transition to IFRS on a country level implies considerable financial investments from the government, and that can be identified as the main reason why this process is progressing rather slowly. (Borker 2012; Mukhina & Tebenikova 2015)

Similar situation occurs on a company's level. Many small and medium enterprises are not ready to invest in transition to IFRS as it requires installation of advanced software, training of personnel, and in some cases hiring consulting firms. (Mukhina & Tebenikova 2015)

This chapter provided the overview of the accounting standards that are applied by Finnish and Russian companies. Although Russian accounting is on its way towards convergence with international accounting standards, there are still many differences between IFRS and RAS; the differences that are relevant to the empirical study of this thesis were analyzed.

3 ACCOUNTING TREATMENT OF A SUBSIDIARY COMPANY: SHARED SERVICE CENTER CONCEPT

As the case company of this thesis project accounts for its subsidiary via Shared Service Center (SSC), it is important to familiarize the reader with the basic theories regarding the latter. This chapter will focus on the concept of SSC and the financial functions of SSC in particular. Note that in this chapter, concepts of “business service” and “business function” are used interchangeably. They are not exactly the same but the differences are minor and will be neglected in this study.

3.1 Concept of Shared Service Center

The model of SSC became popular in 1990s and since then various types of SSCs have been established including IT, HR, and financial SSCs. Ulrich (1995) defines Shared Services as “the combining or consolidating of services within a corporation”. The process of transferring business functions to an SSC is schematically illustrated in **Figure 5**.

The transfer of services to an SSC is in fact similar to outsourcing when certain functions of an organization are transferred to a third-party service provider. However, in case with SSC, the service provider is a member of the organization and it is controlled by the organization itself. The work of an SSC as a service provider is based on an agreement with internal customer, also known as Service Level Agreement (SLA), which “specifies the level of service that must be delivered by employees and the service unit as a whole” (Bergeron 2003, 173). SLA should also contain provisions on the responsibilities of the parties (SSC and customer) as well as the pricing conditions. The billing for SSC’s service can be done monthly, yearly or quarterly, and the pricing is usually based on a per hour or per transaction rate (Bergeron 2003, 207).

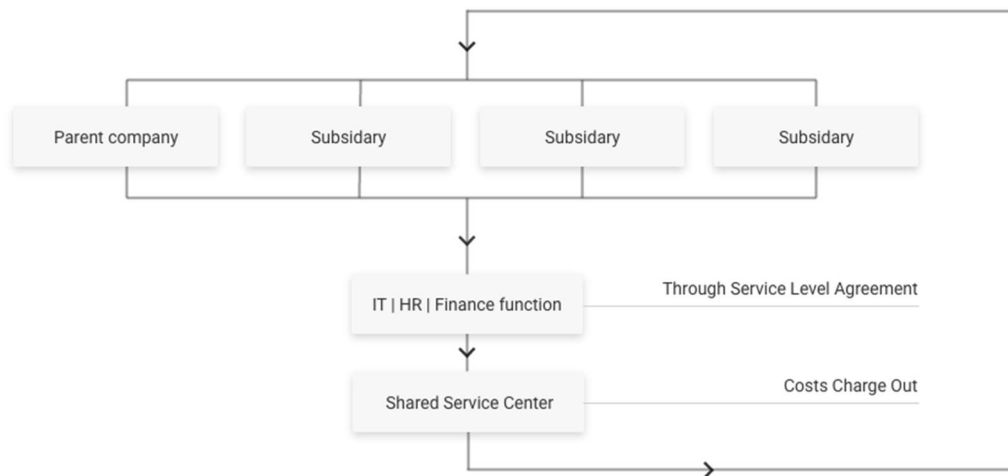


Figure 6. The Concept of Shared Service Center. (Ulrich 1995; Bergeron 2003)

There are only three subsidiaries in the Figure 5, but in practice, the number of companies that transfer services to an SSC varies and can reach several hundred; those companies become internal customers of an SSC. While some SSCs combine different kinds of services, for instance, IT and finance, majority of SSCs are concentrating on a single service.

In the research paper “Characteristics of shared service centers”, Schulz & Brenner (2010) analyze the existing definitions of SSC and outline seven characteristics that are used in the academic literature when describing the concept of SSC. First of all, SSC is an organizational unit where processes are concentrated (1). The consolidation of processes within a group of companies allows to avoid double work. The SSC mostly provides support services for non-core, transaction-oriented processes such as accounting or IT (2). These processes are usually similar in different subsidiaries and they can be easily automated if needed. While the main goal behind the implementation of SSC for many companies is cost reduction (3), the focus of an SSC is on satisfying the service needs of its internal customers (4). In order to maintain the competitive advantage, SSCs “align themselves with external competitors” by using external market analysis and benchmarking (5). The last im-

portant characteristics of the concept are independence of an SSC as an organizational unit (6) and its operation alike a “normal” business model, where the main focus is on selling the service that satisfies customer’s needs (7).

Apart from cost reduction, SSC allows companies to increase efficiency and improve the relationship with internal customers. The establishment of an SSC is a strategical decision and at a long-term prospective cost savings might reach 25-30%. (PwC 2008; Schulz & Brenner 2010)

3.2 Financial Shared Service Center

A financial SSC (FSSC), which primarily manages the accounting in the organization, is one of the typical examples of SSCs. The financial processes that can be transferred to an FSSC are depicted in **Table 3**.

Table 1. Service offerings at the FSSC. (Cacciaguidi-Fahy, Currie & Fahy 2002, 27)

Financial Shared Service Center			
General ledger accounting	Consolidation	Accounts receivable	Inventory
Inter company accounting	Accounts payable	Invoicing and billing	Cash management
Statutory accounting	Travel expenses	Fixed assets	Treasury
Payroll	Tax accounting	Management reporting	Records retention

The study conducted by Cacciaguidi-Fahy et al in 2002 for the Association of Chartered Certified Accountants discovered that the majority of surveyed companies name accounts payable function as the most applicable to be managed by an FSSC. The next most common services offered by FSSCs include general ledger accounting, cash management, and inventory/fixed assets accounting. For big international corporations, it is also common to use FSSC for intercompany accounting, also known as accounting for intragroup transactions.

Nowadays the establishment of FSSC within an organization is tightly linked to the implementation of a modern IT system. For the needs of large companies, Enterprise Resource Planning (ERP) systems were created. ERP system helps in managing end-to-end business processes within an organization by providing effective, flexible and service-oriented software. Many international corporations deploy ERPs in their FSSC operations to ensure fast and highest-quality communication between subsidiaries in different countries. (Giacomelli 2008; Magal & Word 2012)

The basic concepts regarding SSC and FSSC were discussed in this chapter. The quality of service, cost savings, and customer-oriented approach are among the main advantages that establishment of SSC brings to an organization.

4 EMPIRICAL RESEARCH

This chapter is dedicated to the empirical study of this thesis project. Subchapter 4.1 will familiarize the reader with the case company and its Russian subsidiary. Next, the case company's Shared Service Center will be described in subchapter 4.2 with the focus on its accounts payable (AP) department. Then research methodology will be explained in subchapter 4.4, followed by the presentation of the research findings (subchapters 4.5 and 4.6).

4.1 About the case company

A long history of company X started in 1834 when the first sawmill was established in a small Finnish village. Nowadays X Corporation is a widely known company with subsidiaries in more than 70 countries all over the world. It is a business-to-business company with three main sectors: Marine solutions, Energy solutions, and Services. (Company X 2015)

Marine solutions provide shipyards and ship owners with everything from a single product (engines, power systems, propulsions and more) to complete lifecycle support. The engines of company X are known for high efficiency, innovative design, and environmental sustainability. In 2015 the new engine of company X was listed in Guinness World Records book as the most efficient 4-stroke diesel engine. (Company X 2015)

Energy solutions is another area of company X's business and it involves construction of oil and gas power plants. Company X has built over 4700 power plants in 170 countries so far and new projects are announced almost every month. With a strong focus on sustainable development, company X is seeking for new energy efficient and flexible solutions. (Company X 2015)

The Services sector is a supportive one for above mentioned businesses of company X. About 11,000 professionals in 160 locations are maintaining power plants and ship installations throughout their lifecycle. (Company X 2015)

Company X is showing a stable performance despite the overall economic downturn within marine and energy industries. In 2015 net sales reached 5029 MEUR (5% growth) with profit before taxes of 553 MEUR. Company X currently employs almost 18800 people. The headquarters are located in Helsinki, while the biggest production sites are in Vaasa, Finland and Trieste, Italy. Every year the general meeting of shareholders elects the members of Board of Directors, which will be responsible for the management of the company. Board of Directors then appoints a President and CEO of the company. The vision of company X is to be “customers’ most valued business partner”. (Company X 2015)

As Company X is a listed company with shares traded on NASDAQ Helsinki stock exchange, it is obliged to comply with IFRS when doing financial reporting. Since 01.01.2005 company X in Finland prepares its financial statements in accordance with IFRS, and in January 2008 the standards were implemented globally. ERP system called SAP is utilized by company X in its daily operations. (Company X Accounting Manual 2016)

4.1.1 Company X in Russia

In 1981 company X started operating in Russia by opening its first office in Moscow. Ten years later another office was established in one of the biggest Russian harbors, the city of Vladivostok, which is now serving customers in Far Eastern region. In addition, in 2009 a modern service center was opened in Murmansk, Northern Russia. In same year, Russian company X signed SLA with SSC in Vaasa. Today the head office is located in Saint Petersburg, where all three business sectors of company X are presented. The subsidiary currently employs 133 people, and most of them are working in the Services sector. (Company X Intranet, 2016)

The AP department of company X in Russia is located in Saint Petersburg as well. There is only one person who is responsible for the communication with the accountants from Finland regarding the purchase invoice handling process; the interview with this accountant is presented further as a part of the current empirical research.

4.2 Shared Service Center of company X

The decision on the establishment of an SSC for company X was made on 17 February 2004. The main reasons for this decision were (1) the need in harmonization and optimization of global processes, (2) standardization of service offerings of all X companies, (3) generating cost savings, and (4) the need in faster and more cost efficient financial reporting. The initial plan was to have several SSCs in different geographical regions, and during the period from 2004 and 2008 four SSCs were opened in USA, India, Finland, and China. However, it was later proved to be more effective to concentrate the services of most subsidiaries (also referred to as local companies) in one SSC, and the SSCs in USA and India were shut down. Now two offices of SSC of company X exist - one in Vaasa, Finland, which serves most of the X companies, and one in Shanghai, China, which only focuses on subsidiaries in China, Hong Kong, and Taiwan. The mission of company X's SSC is "to ensure operational excellence by providing innovative, high quality and cost efficient globally optimized services through highly skilled and motivated personnel". (Company X Intranet, 2016)

With the help of SAP ERP software, the SSC in Vaasa provides the following financial services: Accounts payable, intragroup accounting and intercompany billing, travel expenses, payments, indirect purchasing, accounts receivable, period end closing, and fixed assets accounting. Each process has a corresponding team with its own manager; some processes have several teams. Totally 95 people are working at SSC in Vaasa, excluding part-time employees and trainees. (Company X Intranet, 2016)

The SSC pays special attention to the customer relationship management. Customer forums are organized twice per year and customer satisfaction survey is conducted yearly. SLAs with local companies are renewed every year as prices and invoicing principles change.

4.3 Accounts payable function of Shared Service Center of Company X

According to Helmkamp, Imdieke & Smith (1983, 348-351), accounts payable (AP) are “amounts owed to creditors for the purchase of merchandise, supplies, and services in the normal course of business”.

The teams within AP department of SSC are formed according to geographical regions and are namely Team Europe, Team Scandinavia and Team Asia, Africa and Americas. As of 31 December 2015, there are 94 local companies X from 74 countries that have transferred their accounts payable function to SSC in Vaasa, and this number is growing yearly. The team in focus is Team Europe which is responsible for handling accounts payable functions of local companies X in all European countries except for companies in Scandinavia. The team is divided into subteams, one of which is booking invoices for Dutch, Swiss and Russian subsidiaries. An interview with the accountant from this subteam is presented further in this chapter.

The responsibilities of the accountants of the AP team include the following:

- Checking that purchase invoices are in accordance with the legal requirements (e.g. if invoice address and customer VAT number are stated)
- Booking of purchase invoices to correct general ledger accounts with correct data (invoice reference, date, amount, VAT code, payment terms, etc.) against corresponding purchase orders and items
- Providing assistance to local companies regarding the cost approval and the process in general
- Answering to questions from local companies and vendors
- Ensuring that after approval invoices will successfully go for payment correspondingly to the due dates

According to the SLA, the AP accountant has two working days for processing of the invoice from the moment it was received by SSC.

The purchase invoice handling, as a part of purchase-to-pay process, is depicted in **Figure 6**, though some variations may apply depending on the agreements with the local company.

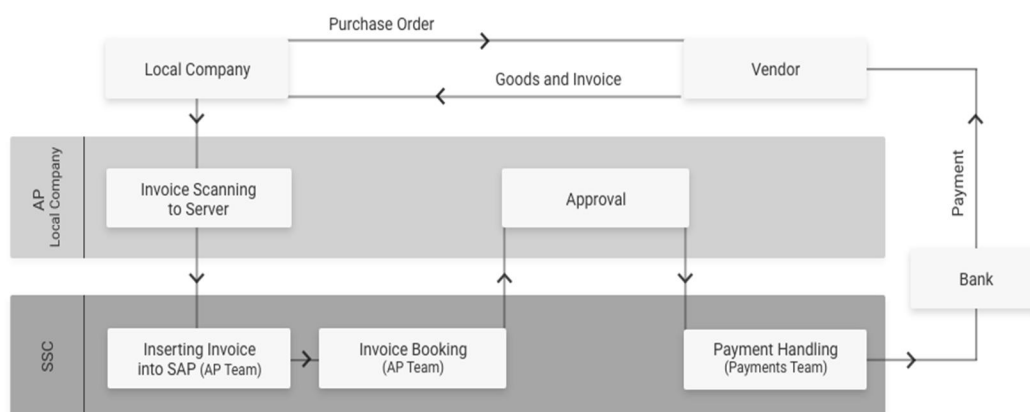


Figure 7. The purchase invoice handling process.

Whenever a subsidiary of company X (local company) has a request for goods or services, it contacts the supplier (vendor); depending on the nature of goods/service, purchase order might or might not be issued. In turn, the vendor offers his goods or services for a certain price, quality and quantity and, if local company agrees with it, invoice is issued by the vendor and the goods are sent.

The invoice is sent either by regular post, e-mail or through Electronic Data Interchange (EDI), which allows business partners to exchange documents electronically between internal systems (EDI Basics 2016). For most subsidiaries, invoices are sent directly to SSC where there is a scanning team responsible for scanning them into SAP. However, in case with Russian subsidiary, the way of working is different due to the requirements of Russian legislation to store originals of the documents at the office of the company. The vendor sends an invoice to the Russian office instead, where it is scanned to a server and then taken from there by SSC AP accountants, who insert it into SAP.

Then invoice is booked against a purchase order (if one exists) or to correct general ledger account. The booking is sent for approval to a local company via SAP, and

there responsible person should check the correctness of booking and approve the invoiced costs. After it is done, the invoice is posted and picked up by the payment team of SSC, which includes it into the payment proposal and processes it further for payment. The final step includes checking of the payment proposal by an AP accountant from the local company and payment to the vendor.

The issues that arise during the purchase invoice handling process between SSC and the local company in Russia are discussed in the empirical study of this thesis.

4.4 Research methodology

Saunders, Lewis & Thornhill (2016, 726) define research as “the systematic collection and interpretation of information with a clear purpose, to find things out”. The research process starts with identifying the research problem. In this thesis, the research problem is expressed in a form of three main research questions that were presented in the introduction section. The present study has an exploratory nature meaning that it asks open rather than closed questions starting with “What?” and “How?” for the aim of getting an idea about the research topic (Saunders et al 2016, 174).

4.4.1 The choice of method

The choice of the appropriate research method has a crucial impact on the research findings. The qualitative research method is applied in the empirical study of this thesis as it suits the nature of the research, and allows to explore the meanings, attitudes and opinions of the study participants. (Saunders et al 2016)

To answer the research questions, primary qualitative data was collected by conducting interviews with the accountants from the company X’s Shared Service Center and the Russian subsidiary. The non-standardized semi-structured design of the interviews was chosen since in this way the main topics were predefined, but could be expanded by new questions arising during the interview. Moreover, such interview design did not interrupt the natural flow of the conversation. The selection of

the interviewees did not pose any challenge since there are only two full-time accountants who are involved in the booking of purchase invoices for Russian company X.

4.4.2 Data collection

The data collection process, starting from creation of interview questionnaires and ending with analysis of the interview data, is illustrated in **Figure 7**.

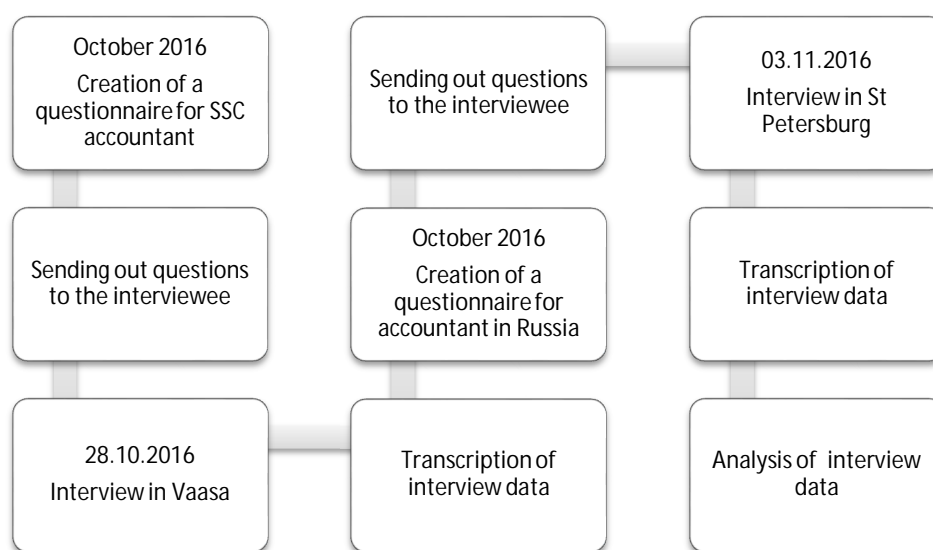


Figure 8. Data collection process.

The interviews were based on the questionnaires (see **Appendices 3 and 4**) that had been created specifically for each interviewee and sent out to them in advance. The interview with SSC accountant was conducted first. The questionnaire for this interview contains six questions. The answers of the interviewee helped in creating the questionnaire for the interview with the Russian accountant. The questions to the Russian accountant are categorized into four groups according to the topic that they relate to. The third group of questions is based on the answers of the SSC accountant. Some of questions asked during the interview were excluded from this thesis due to their confidentiality.

The interview with the SSC accountant was conducted on 28 October 2016 during a personal meeting at SSC premises in Vaasa, Finland. The interview was held in

English. The interviewee has been working in AP Team Europe for about seven years and now she is responsible for booking purchase invoices for the Dutch, Swiss and Russian subsidiaries of company X. The main goals of this interview were (1) to identify the problems that arise in daily bookkeeping of invoices for Russian subsidiary of company X, (2) to explore the view of the interviewee on the reasons for these problems, and (3) to find out the SSC accountant's opinion on how the process can be improved. The interviewee did not give a permission for recording the interview, so notes were made and transcribed later.

The interview with the accountant of the Russian subsidiary of company X was held personally at subsidiary's headquarters in St Petersburg, Russia on 3 November 2016. Though the interview questions in English were sent to the accountant in advance, it was agreed to have the interview in Russian language as it is the mother tongue of both the interviewer and the interviewee. A personal interview had been preferred to Skype interview due to the willingness of the interviewee to meet the interviewer and the ability of the interviewer to travel to St Petersburg. The objectives of this interview were (1) to discover the opinion of the Russian accountant on the convergence of RAS and IFRS, (2) to get the accountant's feedback on the work of SSC, (3) to receive explanations regarding the problems in daily bookkeeping that were identified by the SSC accountant, and (4) to find out the Russian accountant's view on how the process can be improved. The interviewee agreed to record the interview, so that it would be easier for the interviewer to transcribe the interview findings.

4.5 Interview with the SSC accountant

Overall communication between SSC and the local company in Russia was rated as satisfactory, though it was noted that in comparison with other European companies, the Russian subsidiary has more urgent requests and issues that have to be solved as soon as possible. In such urgent cases, Russian accountants can sometimes be too "pushy" in their requests. The interviewee also pointed out that high personnel rotation in the local company creates difficulties and misunderstandings. She mentioned that during the last two years, there were four changes in the position

of AP accountant in the Russian office of company X. The interviewee complained that every time when a new person comes, he/she has to be trained, and usually it is done by SSC through Skype or email conversations. The interviewee suggested that the training for newcomers should be organized at the local company instead.

When answering the question about the knowledge level of local AP department in Russia, the interviewee expressed the opinion that accountants in Russia are familiar with the global policies of X Corporation, but lack knowledge about the work of SSC itself. She said: “They think that everything is automated here, but actually some of their urgent requests require a lot of manual work from our side, that is why we cannot do it in a second”.

The answer to the question about the training provided to SSC was quite surprising. The interviewee explained that during the last seven years that she has been booking Russian invoices, there was no substantial training organized by the local company at all. The pieces of information that she has gathered were coming from emails or Skype messages, or the experience. She also stated that no major meetings, neither personal nor online, had been held during last couple of years.

Since the interviewee has been booking not only Russian invoices, but also documents for other European companies, she could compare the daily bookkeeping process of these companies and list the differences that create extra work or in some way unclear for SSC AP team. The following problems/differences that occur in day-to-day bookkeeping of invoices for company X in Russia were identified:

- The meaning of different documents that are sent for booking is unclear: not only invoices are booked, but also VAT invoices, acts, contracts, packing lists, delivery notes, insurance policies, etc.
- Payment terms are not stated on the invoice, thus, the SSC accountant does not know when the invoice should get paid
- Many prepayments are sent for booking every day; prepayments are rarely booked for European companies

- Unclear claim process: Credit notes are not issued by Russian vendors, instead SSC is asked to delete the invoice and this is a totally different approach from the European practice
- The correct exchange rate has to be asked every time for each invoice issued in EUR or USD; there are conditional currencies – RUE and RUD – and the usage of them is unclear
- Scanning of documents: There can be many pages scanned as one file and quite often the order is wrong
- Many corrections due to mistakes mainly made by Russian accountants

There were also other issues that were mentioned by the interviewee; however, they will not be discussed in this thesis due to their confidentiality.

The interviewee supposed that the main reason for the above mentioned problems is the lack of training on both sides and, as a result, lack of knowledge. “We do things without knowing why”, she said.

As for the last question regarding the process improvement, the answer was predictable – more training is needed. SSC AP Team needs more information about Russian legal requirements and procedures, while local team seems to lack training about purchase invoice handling process at SSC and responsibilities of SSC accountants.

4.6 Interview with the Russian subsidiary accountant

Group 1. Questions about IFRS in Russia: the convergence of RAS and IFRS, future of IFRS and factors preventing Russia from adopting IFRS are discussed.

Prior to the interview, the interviewee informed of inability to provide comments regarding IFRS, thus, some of these questions were answered not by the AP accountant, but by the chief accountant of company X in Russia.

The chief accountant noted that convergence of RAS and IFRS does not affect the daily work of Russian accountants that much; contrariwise, yearly changes of Russian legislation make the accountant’s job more complicated and the paperwork is

increasing year to year. The Russian subsidiary is obliged to prepare its financial statements in accordance with both RAS and IFRS separately and, in addition, prepare a different statement for tax authority. The interim and annual reporting under IFRS is done by subsidiary X as it follows the rules of X Corporation. The Chart of Accounts of the parent company is used in daily bookkeeping. The preparation of reports in accordance with RAS is done by transforming the statements under IFRS; subsidiary X does not implement parallel bookkeeping. The transformation is done manually since SAP does not support such a function.

The significance of tax accounting and tax authorities was named as the main factor that hampers the convergence of IFRS and RAS. “The government wants to have every aspect of the business under control”, the interviewee argued. The increasing taxation is also a part of the statutory control over businesses.

The chief accountant argued that the Federal Law “On consolidated statements” did not affect the subsidiary X in Russia directly since the company has been preparing the financial statements under IFRS already. It was also highlighted that Russian company X does not have any subsidiaries itself, so there is no consolidation that is done in Russia; the consolidated statements of X Corporation are only prepared by the parent company in Finland.

The interviewee found it difficult to answer the question about the practical differences between Russian and Finnish accounting; she admitted to lack knowledge about European way of handling financial accounting and accounts payable process in particular. However, she shared her impression about different approach to accounting in general: “In foreign companies, it feels that financial accounting is tightly connected to management accounting; it is based on the decision making and exercising of expert opinion and professional knowledge. Meanwhile, in Russia accounting is based on indisputable rules established in RAS and the Tax Code.”

The interviewee agreed with the opinion that tax accounting plays a highly important role in Russia. She told the interviewer that the tax inspection can unexpectedly come to the office and start checking papers that are up to three years old, meaning that the original of every single invoice should be stored in the office.

“Fines are huge, so everything should be booked very carefully”, she added. In addition to quarterly tax reports, AP accountant is also responsible for so-called purchase register that should be sent to the tax office every quarter as well. In Russian accounting, the purchase register is a book which accounts for all VAT-invoices and is needed for VAT refund procedure. Unfortunately, SAP does not have such a module that would allow automatic compilation of a purchase register, so it is done manually by the accountant and takes a lot of time.

The interviewee doubted the possibility of complete adoption of IFRS in Russia in the future; she also noted that convergence process is progressing slowly. She affirmed that a lot has to be changed in Russian legislation and tax system to make it possible.

Group 2. Questions about SSC of company X: the effectiveness of communication with SSC, its advantages and disadvantages are discussed.

When it comes to the opinion of the interviewee about the work of SSC, the answer was predictable. The main advantage of working with SSC is that it saves time for the local accountant. In addition, SSC accountants are always ready to help and know how to solve problematic issues. However, since SSC accountants have not studied Russian financial accounting and have never worked in the Russian business environment, it is sometimes hard for them to understand certain things and help with some requests.

The communication with SSC via email and Skype for Business was estimated as good and effective. The only misunderstandings arise from the lack of knowledge of Russian accounting, and again, the need for training was expressed.

Poor knowledge of SSC AP team was named as one of the reasons behind problems in daily bookkeeping. In addition, the interviewee stated that some of the problems arise from the shortcomings of SAP software. “SAP is not adapted to Russian accounting”, the accountant claimed. Moreover, the Russian office lacks SAP experts who would solve the technical problems. Such problems can be only resolved with the help of external specialists, however, it is rather expensive and time-consuming.

The imperfection of SAP is one of the topical issues on the agenda of Russian company X.

The accountant stated that there were trainings available in company X's intranet, but due to lack of time, she has not checked them all and more training is needed, especially regarding IFRS.

Group 3. Questions related to daily bookkeeping of Russian invoices – this set of questions was based on the answer of SSC accountant to question Q4. The questions are grouped per issue/problem that they relate to.

The accountant informed that overall accounting principles of subsidiary X are in line with the global policies of X Corporation. However, she admitted that some of her requests contradicted what is stated in the Accounting Manual of X Corporation. “That is true, sometimes Russian legislation forces us to act in a different way from what is prescribed by the rules of company X. Unfortunately, nothing can be done here – we have to follow our national legislation first”, she said. The biggest deviations arise from different rules regarding booking of Intragroup invoices. This topic is still under investigation from both local company and Intragroup Team of SSC.

Documents for booking

The interviewee explained the meaning of different documents that are sent for booking to SSC AP team as follows:

- VAT-invoice is needed for VAT refunds; it is provided to tax authority and certifies that cost should be recognized. However, small companies or private entrepreneurs do not issue VAT-invoices since they use the simplified system of taxation. That is why sometimes SSC does not receive VAT-invoices, but only delivery notes or acts, that should still be booked in the same way as invoices.
- In Russian accounting, invoice is a document stating the vendor's postal address, payment information and sum to be paid. It is only needed for payment, but it does not serve as proof to the tax authority that VAT on these

costs should be refunded. “This document is not so important for Russian accounting system; the only important information it has is the bank details of the payee”, the interviewee explained.

- A delivery note is issued by a vendor when goods are delivered. It should be booked in the same way as an invoice, as it proves that the goods were actually purchased and received. When a delivery note is sent to SSC separately (without VAT-invoice or invoice attached), it means that the vendor uses a simplified taxation system.
- An act has the same meaning as a delivery note, but it is issued by service vendors. It is a proof that a service was provided.
- Contracts: Apart from the importance from the legal point of view, contracts specify payment terms. When company X in Russia receives an invoice, the accountant checks the contract to find out when this invoice should be paid. Therefore, the contracts (normally on paper) are stored close to the accountant’s working place.
- Insurance policies in Russian accounting practice are basically contracts with insurance companies and should be treated in the same way as ordinary contracts.

The interviewee also mentioned another type of document that has been introduced recently by Federal Tax Service as a part of the programme towards convergence with IFRS. Its name can be directly translated as “universal transfer document” or “unified transfer act”, and it combines the functions of a VAT-invoice and a delivery note (for goods) or an act (for service). The introduction of this document was aimed at reducing paperwork, however, the interviewee argued that it has not brought any positive changes so far. Since the old system with separate VAT-invoice and act/delivery note is still permitted, many vendors think that the new document is unnecessary. The interviewee could only name a few vendors which implement the new system with universal transfer document.

While in the Western accounting practice only an invoice is used as the main document for accounts payable bookkeeping, in Russia all above mentioned types of documents are important. Later in this chapter the word “invoice” will be used for

all these documents as all of them are booked as invoices in SAP. It should be also mentioned that opposite to the European practice, such documents as VAT-invoices, invoices, delivery notes and acts have uniform layouts that are used by all Russian vendors.

Another significant difference between Russian and European accounting is payment terms – they are not found on Russian invoices. “There is no such rule in RAS that payment terms should be on the invoice; some vendors unclude it, but there are not that many of them since it is not obligatory”, the interviewee explained. As it was mentioned above, payment terms are stated in the contract. The interviewee agreed that it is not a very convenient way of working and suggested that it would be easier if the agreement on payment terms with each vendor was transferred to SAP. That would simplify the work of both accountants (local AP and SSC AP) as well as the payment team.

The interviewee stated that there is no practice in Russia to issue credit notes for incorrect invoices. If the local accountant notices that vendor has sent an incorrect invoice (e.g. incorrect invoice date, invoice address, customer VAT number, amount), she contacts the vendor directly and asks for a revised invoice. In cases where wrong invoices were paid by mistake, the vendor is contacted and asked for return of the money. “We write a special letter or just call and ask the money back”, the interviewee explained. Sometimes the “corrective VAT-invoice” might be issued, but that happens rarely and mostly depends on the vendor as there are no specific rules regarding credit notes in RAS.

Prepayments

One of the problems that was identified by the SSC accountant was the numerous requests for booking of prepayments (down payments, advance payments), and most of them were for little amounts. Prepayments are booked differently from ordinary invoices and their processing takes more time. The interviewee explained that such payment terms are preferable for most Russian vendors: “Many companies in Russia have problems with liquidity. Of course, they prefer to be paid forward and we have to accept such way of working”. However, the interviewee also

noted a positive tendency towards changing from advance payments to payments upon the delivery. She presumed that there will be fewer requests for prepayments sent from Russian side in the future.

Currency issues

The interviewee explained that the exchange rate is taken from the date of the delivery of the goods or the date when the acceptance certificate of the service was issued; such rules are stated in RAS.

RUE and RUD are fictional currencies that are only used in SAP; the usage of them was unclear for the SSC accountant. The interviewee clarified that according to RAS, Russian tax residents can do deals with other Russian tax residents in any currency, however, the payment should be made in Russian rubles (RUB). “It often happens that the sum of the contract is in dollars or euro, but the payment is made in rubles with the exchange rate of the date of payment; in this case the invoice in SAP is booked in RUE or RUD”, the interviewee explained. The transactions with non-residents are different: the payment does not have to be made in rubles, thus, invoices are booked in EUR or USD.

Other issues

The wrong scanning of the invoices may seem to be a minor problem at first. However, if the time that SSC accountants spend on correcting mistakes made due to the wrong order of scanned images could be measured, the result would surely show that this topic becomes one of the main issues that should be improved. The interviewee commented that lack of time is the main reason why scanning mistakes happen. Besides that, poor instructions were provided to employees in Vladivostok and Murmansk branches, who sometimes scan invoices for SSC as well. This issue can be improved and a meeting among all people involved in scanning of invoices should be held.

The other types of mistakes are in most cases accidental and can be called human errors. However, the interviewee agreed that some mistakes are made due to lack of knowledge of local purchasers, coordinators and controllers.

Group 4. Questions about the process improvement and development areas.

The interviewee stated that the main issue that should be improved is the knowledge base of both SSC and Russian accountants. SSC AP team needs to get familiarized with the special aspects of Russian legislation and RAS, while the accountant in Russia is interested in knowing more about IFRS, the work of SAP, and global accounting policies of company X. The interviewee agreed that trainings and personal meetings with SSC accountants would be beneficial for the process improvement. Another area for improvement mentioned by the interviewee is the adaptation of SAP functions to the needs of Russian AP department.

The interviewee suggested that some tasks that are done now in the Russian office can be transferred to SSC accountants in the future. For instance, booking of accruals or checking payment proposals can be done by SSC as these tasks are easy to learn and do not require contacting vendors directly.

5 DISCUSSION AND RECOMMENDATIONS FOR THE CASE COMPANY

This chapter will discuss the research findings and provide recommendations for the case company regarding the improvement of the purchase invoice handling process. The qualitative data gathered in the interviews was used for answering the research questions; the answers are presented below.

What issues can occur when Finnish company X handles accounts payable for its Russian subsidiary?

Seven practical issues were named by the SSC accountant during the interview. Such issues as (1) unclear meaning of different documents that are sent for booking, (2) the number of prepayments that are sent daily, (3) unclear reclamation process, (4) unclear determination of exchange rate and the usage of conditional currencies can be combined into one group of “unclear practices of Russian accounting”. The SSC accountant admitted that she is not aware of RAS and the accounting practices in Russia and that explains why she named the above mentioned topics as “issues”. For the Russian accountant, these topics do not seem problematic as that is how accounting has been always handled in Russia. The importance of delivery notes and acts of acceptance for booking is as obvious for Russian accountants as the importance of the invoice for the European accountants. These different approaches to accounts payable result in the issues above. The clarifications provided by the Russian accountant have been given to SSC accountant after the author came back from Russia. Though some questions still exist, the “unclear practices of Russian accounting” became a little more understandable now.

The second group of issues includes the (5) mistakes made by the Russian accountant and (6) wrong scanning of invoices. It would be incorrect to say that the SSC does not make any mistakes in bookkeeping at all; however, those mistakes are mostly made due to unawareness of the RAS and the requirements of Russian Tax Code. As for the Russian accountant, the mistakes are made when wrong documents

are sent for booking or wrong booking instructions are given to the SSC; these mistakes follow from unawareness of IFRS standards and global accounting policies of X Corporation. The SSC accountant named “mistakes” as an issue since it is SSC AP team who is responsible for correction of these mistakes. It is understandable that if corrections are many, it takes a lot of time and can be quite stressful, especially close to the month/quarter/year end.

Another issue discovered in the interviews is (7) the absence of payment terms on the Russian invoices. Both accountants noted that it creates extra work and even delays in payment since it is hard to know what the payment terms are if they are not stated on the invoice.

What are the reasons behind these issues?

The reasons that cause the difficulties in the daily work of the accountants can be divided into two groups: ones that are out of control of the case company and ones that the case company carries full responsibility for.

The differences between the IFRS that are applied in Finland and RAS applied in Russia are significant and affect the accounts payable process directly. The findings supported the theoretical view that stated the application of “form over substance” rather than “substance over form” principle in Russian accounting. The domination of formality explains the importance of various documents that are sent to SSC for booking. The interview also revealed that the accrual basis of accounting is sometimes neglected by the Russian AP department as in some cases it contradicts the requirements of the Tax Code. Moreover, a huge influence of the tax accounting on the process was confirmed by the Russian interviewee. The importance of tax accounting on the bookkeeping of Russian invoices is not quite understood by the SSC accountants, as financial and tax accounting are separated in the European practice. The above mentioned issues, however, cannot be changed or improved by the employees, as they exist on a state level.

The reasons behind the arising issues that actually depend on the company X and its employees are mostly related to the lack of training that results in the lack of

knowledge. The lack of knowledge of each other's practices was mentioned several times by both interviewees. It happens quite often in large enterprises that one department is not aware of the responsibilities of other divisions and normally it does not create any noticeable challenges. In this case, however, unawareness slows down the process and creates misunderstandings. Another reason revealed by the SSC accountant is a high rotation of the personnel in the subsidiary. The work under pressure and a big list of responsibilities together with irregular schedule are conceivably the main factors explaining the personnel leaving. These factors are related to the nature of work and cannot be affected, but the lack of training of new employees is what creates difficulties (many corrections follow from that), and it is something that can be improved.

In what ways can these issues be solved?

The answer to this question is aimed at providing recommendations for the case company.

Undoubtedly, the main recommendation for the case company is to hold trainings for both AP departments. Various trainings happen regularly at X Corporation, so the accountants are not new to the composing of training materials and participating in training sessions. The Russian AP accountant could prepare materials that would cover the main aspects of RAS and the requirements of the Tax Code, while SSC could talk about the global policies of company X that are based on IFRS and the work of SSC itself. In spite of the lack of time that both accountants are experiencing, the author believes that with the help of management team of both AP departments the training will be eventually organized.

One of the first actions that were advised to the company X was to organize a meeting of both accountants. As expressed by the accountants themselves, it would be beneficial to organize a personal meeting if possible. It can be supposed that a personal meeting can be more effective in this case. The accountants have never met before and a personal meeting can have a positive influence on their collaboration

and attitudes. Personally, the author found the visit to the Russian subsidiary's office very useful, and meeting the Russian colleague was a very pleasant and valuable experience indeed.

Online meeting using Skype software can be organized as well whenever a problematic situation occurs. During a Skype conversation, the issues and solutions can be shown and explained better than via an email conversation, and it will speed up the process.

Training should be also held for employees of the Russian subsidiary's offices in Murmansk and Vladivostok as their unawareness of SSC's procedures is the reason for wrong scanning of invoices and wrong documents that are sent for booking.

As mentioned earlier, the new comers in Russian AP department should be well-trained, and it is the responsibility of the local company. For the Russian company, which is experiencing high rotation of personnel, it is recommended to prepare clear and detailed job instructions (e.g. slide show presentations) on how to communicate with SSC, what responsibilities SSC has, and what can and cannot be done by SSC accountants. These instructions can be stored on company X's intranet so that they can be easily accessed. It is also possible to compile a file that would gather all kinds of mistakes that were made and the ways on how to correct them. This measure will ensure that the new employee learns quickly by going through the materials and will not make the same mistakes as have been made by previous accountant (or at least will know how to correct them).

One more recommendation is related to the absence of payment terms stated on Russian invoices. The author suggests that agreements with vendors regarding payment terms can be inserted into SAP. This would save time for the Russian accountant as s/he would not have to check payment terms from the contract for each invoice anymore. It would also ensure that payment is made on time as SAP allows following up the invoices that are due soon.

Finally, the author suggests that the company X in Russia should have training with an IT consultant regarding the functionality of SAP. It might be so that some processes that are done now manually can be done via SAP instead. For instance, according to the support specialist of the SSC, the compilation of tax reports can be done in SAP, so it might be possible to do it for the Russian subsidiary as well.

Hereby, it can be concluded that many of the existing difficulties that SSC and Russian company X are experiencing daily can be solved if more effort is put on that. The summary of the research findings is presented in **Appendix 5**. The recommendations for the company X were shown to both Russian and SSC AP departments.

6 CONCLUSION

This chapter will first summarize the ideas presented in this research project and provide insights into the practical influences of this thesis on the accounts payable process of company X. Then, reliability and validity of the research will be discussed. The final subchapter is dedicated to the suggestions for further research.

6.1 Summary

The aims of this thesis included the analysis of the international and Russian sets of standards in financial accounting. The key differences between IFRS and RAS such as different views on substance over form principle, the accrual basis of accounting, and the recognition of the elements of the financial statements were explored. The empirical study proved that these differences exist in practice as well. The thesis also studied the SSC concept and the case company's SSC in particular. To conduct the empirical research in an appropriate and logical way, it was necessary to understand the SSC's responsibilities and processes. The study revealed that the accountants of Russian company X are not familiar with the SSC structure and the scope of work. Finally, opinions and attitudes of the company X's accountants were gathered and analyzed. Based on the analysis of the qualitative data, the recommendations for the case company were developed.

The connection between the image of the company and the smoothness of its accounts payable process might not be evident at first. Yet that connection exists: If a company pays its invoices on time, the vendors are satisfied and think of a company as of a good customer. Additionally, timely processing of the invoices affects the financial reporting. To prepare reliable, accurate and relevant financial statements, the bookings should be made correctly and on time. Thus, it is very important for the Russian subsidiary to bring improvements to the accounts payable process that is handled by the SSC.

The recommendations described in chapter 5 of this thesis were provided to the company X's AP accountants and managers and soon after that the first actions

were undertaken. The Russian accountant felt very positive about the idea of a personal meeting and asked the manager of SSC Team Europe if she could come to visit the SSC office. The idea was approved by the management of the SSC, and the Russian AP accountant together with the travel expenses accountant came to Vaasa on 21 November 2016. Though the visit lasted only one day, most of the issues presented in the thesis were discussed. The feedback after the meeting was collected from the AP manager and the Russian AP accountant.

The AP manager shared the opinion that the meeting was very useful. He believes that the visitors from Russian company gained a lot of new knowledge about SSC processes and requirements. In addition, the responsibilities of the SSC were discussed and clarified. However, the manager thinks that more time for such meeting would bring even better results. He admits that he could not answer all of the questions that Russian visitors had prepared for him, but he provided the links to contact people so that the accountants could address their questions to the experts. He noted that Russians accountants were eager to learn and had very positive attitude overall. The Russian accountant said that the visit was “very nice and useful”. She also wished that more meetings to be held next year when the year closing is over. The training for the SSC AP Team regarding the RAS and the special aspects of Russian accounting was scheduled for January 2017.

6.2 Reliability and validity of the research

One of the definitions of validity given by Saunders et al (2016) is “the extent to which research findings are really about what they profess to be about”. Since the findings of this research provided answers to the research questions, it seems safe to name this empirical study valid.

Blaxter, Hughes & Tight (2010, 245) suggest that reliability of the research can be determined by answering the following question: If the research on the essentially same topic in the same setting had been carried out by another researcher, would the findings have been the same? The positive answer to this question proves the reliability of the study. Since qualitative research analyzes opinions and attitudes that tend to change, sometimes it is hard to say whether its findings are reliable.

During the empirical study of this thesis the interviewer established good collaboration with the interviewees. Though such a sensitive topic as relationships between a parent company and a subsidiary was discussed, both accountants felt enthusiastic about the interview and were eager to provide truthful and frank answers. The research findings could be affected by the chronological order in which the interviews were done. The interview with the SSC accountant was done first, and it served as a basis for the second interview. However, the author assumes that the thesis topic would have been analyzed in a similar way even if the order had been different, so overall the research findings can be named reliable.

6.3 Suggestions for further research

As mentioned in the introduction section, a study on the cultural aspects that affect the accounting practices in Russia and Finland, particularly in relation to the daily work of accountants in X Corporation, can be conducted in the future. For the case company, it is recommended to study the issues that arise when handling accounts payable of the subsidiaries from other countries that follow national accounting standards and do not implement IFRS.

Moreover, after several months or a year it would be valuable to study if the recommendations provided to the case company and the actions that were undertaken after had an actual impact on the process improvement. The feedback from the accountants can be gathered again in a form of interviews, or a meeting with the involvement from the management side can be organized.

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APPENDICES

Appendix 1: International Financial Reporting Standards. (IFRS 2016)

IFRS	IAS	IFRIC	SIC
Preface	IAS 1 <i>Presentation of Financial Statements</i>	IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	SIC 7 <i>Introduction of the Euro</i>
Framework	IAS 2 <i>Inventories</i>	IFRIC 2 <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	SIC 10 <i>Government Assistance—No Specific Relation to Operating Activities</i>
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	IAS 7 <i>Statement of Cash Flow</i>	IFRIC 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	SIC 25 <i>Income Taxes—Changes in the Tax Status of an Entity or its Shareholders</i>
IFRS 2 <i>Share-based Payment</i>	IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	IFRIC 6 <i>Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment</i>	SIC 29 <i>Disclosure—Service Concession Arrangements</i>
IFRS 3 <i>Business Combinations</i>	IAS 10 <i>Events after the Reporting Period</i>	IFRIC 7 <i>Applying the Restatement Approach under IAS 29</i>	SIC 32 <i>Intangible Assets—Website Costs</i>
IFRS 4 <i>Insurance Contracts</i>	IAS 12 <i>Income Taxes</i>	IFRIC 10 <i>Interim Financial Reporting and Impairment</i>	
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	IAS 16 <i>Property, Plant and Equipment</i>	IFRIC 12 <i>Service Concession Arrangements</i>	
IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>	IAS 19 <i>Employee Benefits</i>	IFRIC 14 <i>IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	
IFRS 7 <i>Financial Instruments: Disclosures</i>	IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>	
IFRS 8 <i>Operating Segments</i>	IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>	
IFRS 9 <i>Financial Instruments</i>	IAS 23 <i>Borrowing Costs</i>	IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	

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IFRS 10 <i>Consolidated Financial Statements</i>	IAS 24 <i>Related Party Disclosure</i>	IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	
IFRS 11 <i>Joint Arrangements</i>	IAS 26 <i>Accounting and Reporting by Retirement Benefit Plans</i>	IFRIC 21 <i>Levies</i>	
IFRS 12 <i>Disclosure of Interest in Other Entities</i>	IAS 27 <i>Separate Financial Statements</i>		
IFRS 13 <i>Fair Value Measurement</i>	IAS 28 <i>Investments in Associates and Joint Ventures</i>		
IFRS 14 <i>Regulatory Deferral Accounts</i>	IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>		
IFRS 15 <i>Revenue from Contracts with Customers</i>	IAS 32 <i>Financial Instruments: Presentation</i>		
IFRS 16 <i>Leases</i>	IAS 33 <i>Earnings per Share</i>		
	IAS 34 <i>Interim Financial Reporting</i>		
	IAS 36 <i>Impairment of Assets</i>		
	IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>		
	IAS 38 <i>Intangible Assets</i>		
	IAS 39 <i>Financial Instruments: Recognition and Measurement</i>		
	IAS 40 <i>Investment Property</i>		
	IAS 41 <i>Agriculture</i>		

Appendix 2: Russian Accounting Standards. (Krylova 2003, 348-365; Preobrazhenskaya & McGee 2004)

RAS 1/2008	Accounting policies of the organization
RAS 2/2008	Construction contracts
RAS 3/2006	Accounting for assets and liabilities valued in foreign currency
RAS 4/99	Accounting statements of the organization
RAS 5/01	Accounting for inventories
RAS 6/01	Property, plant and equipment accounting
RAS 7/98	Events after balance sheet date
RAS 8/2010	Provisions, contingent liabilities and contingent assets
RAS 9/99	Revenues of organization
RAS 10/99	Expenses of organization
RAS 11/2008	Information on affiliated parties
RAS 12/2010	Segment information
RAS 13/2000	Accounting of government subsidies
RAS 14/2007	Intangible assets
RAS 15/2008	Accounting of expenses on loans and credits
RAS 16/02	Information on discontinued operations
RAS 17/02	Accounting of spending on research and development
RAS 18/02	Accounting of income tax
RAS 19/02	Accounting of financial investments
RAS 20/03	Information on participation in joint arrangements
RAS 21/2008	Changes estimates
RAS 22/2010	Correction of errors in accounting and reporting
RAS 23/2011	Statement of cash flows
RAS 24/2011	Accounting of the spending on the development of natural resources

Appendix 3: Interview questions for Accounts Payable accountant in Shared Service Center of company X.

- 1) How would you rate the effectiveness of the communication between SSC and local company in Russia?
- 2) What is your opinion regarding the knowledge of local AP team in Russia?
 - o do you feel that the global way of working of X Corporation is known and understood?
- 3) Do you think that SSC has been provided with enough training regarding booking of Russian invoices?
- 4) Could you please identify the problems that arise in day-to-day bookkeeping of Russian invoices?
- 5) What is your opinion on the reasons behind these problems?
- 6) What is your opinion on how the process can be improved?

Appendix 4: Interview questions for Accounts Payable accountant in Russian subsidiary of company X.

Group 1. International Financial Reporting Standards (IFRS) in Russia

- 1) What do you think about the general tendency in Russian accounting towards the harmonization with IFRS?
 - o Do you think that application of IFRS is beneficial for company X's subsidiary in Russia?
- 2) Based on your experience, which are the most important factors that prevent Russia from adopting IFRS?
- 3) In what way the accountant's job in Russia has changed since 2011 when a law "On consolidated statements" had been established?
- 4) What topics in Russian accounting have the biggest differences from European accounting (particularly in Finland)?
- 5) What is your opinion on the role of tax accounting in Russia?
 - o Do you record each transaction in both financial and tax accounting?
- 6) How do you prepare your financial statements? in accordance with both IFRS and RAS?
- 7) What is your opinion about complete adoption of IFRS in the future?

Group 2. Shared Service Center (SSC)

- 1) In your opinion, what are the advantages and disadvantages of outsourcing accounts payable functions to SSC?
- 2) How would you rate the effectiveness of the communication between SSC and your department?
- 3) What is your opinion regarding SSC's knowledge and capabilities?
 - o do you feel that SSC lacks knowledge regarding Russian accounting?
 - o if yes, do you think that it is the reason behind problems in day-to-day bookkeeping?
- 4) Do you think that SSC has provided enough training for your department regarding invoice handling in SAP (approval/release)?

Group 3. Problems in day-to-day bookkeeping

- 1) Are X Corporation global policies and directives in line with Russian legal requirements?
 - If no, what are the biggest deviations causing challenges in daily work?
- 2) Could you please provide comments regarding the following problems that were identified by SSC:

Documents for booking

- 1) What is the difference between booking of VAT invoice and booking of invoice?
- 2) For most European countries, SSC AP team receives only invoices from local company; in case with RU12, team has received various types of documents for booking. Could you please explain the importance of each of the following from the accounting point of view?
 - Acts;
 - Delivery notes/packing lists;
 - Contracts;
 - Insurance policies;
- 3) Why payment terms are never mentioned on the invoice?
- 4) How is the reclamation process handled? Why credit note is not issued by vendor if invoice is wrong?

Prepayments

- 1) The SSC AP team receives quite many prepayments every day. What is the reason behind such way of working?

Currency

- 1) How exchange rate is determined? The exchange rate deviations can sometimes be up to 30-40%.
- 2) Could you please explain the reason for having conditional unit currencies – RUE and RUD?

Other issues

- 1) Why is the order of the scanned documents often wrong? Can it be improved?
- 2) What is the reason behind the increasing number of corrections that SSC accountants have to make?

Group 4 Process improvement

- 1) What is your opinion on how the process can be improved?
- 2) In your opinion, which tasks can be transferred to AP team in SSC in addition to purchase invoice handling?

Appendix 5: The summary of the research findings.

#	Issue	Reason	Solution
1	Unclear meaning of different documents	Lack of knowledge of SSC accountants	Training should be provided by Russian AP
2	Big number of prepayments	Way of working in Russia	Cannot be solved within AP; purchasing should work on better terms with vendors
3	Unclear reclamation process	Lack of knowledge of SSC accountants	Training should be provided by Russian AP
4	Determination of exchange rate and conditional currencies	Lack of knowledge of SSC accountants	Training should be provided by Russian AP
5	Mistakes made by Russian AP	Lack of knowledge of Russian AP, human errors	Training should be provided by SSC AP; training about SAP should be organized in Russia
6	Wrong scanning of invoices	Lack of knowledge, human errors	Training should be provided by Russian AP to local purchases and controllers involved in scanning
7	Absence of payment terms	Way of working in Russia	Payment terms per vendor should be inserted in SAP