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IN THE DEVELOPMENT OF BUSINESS
SOCIAL RESPONSIBILITY**

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ACCOUNTING OF THE USE OF PROFITS FOR FINANCING SOCIAL PROJECTS

Tough competition, high dynamism and uncertainty of modern markets pose new challenges to business. At the same time, the formation of a strategy for sustainable development, focused on the economic well-being of companies and their owners while solving socially significant social and environmental problems, becomes one of the main competitive advantages. According to the 2019 Global RepTrak rating, the most important drivers of corporate reputation today are: quality of products and services (21.5%), management (15.0%) and social responsibility (14.4%) [1]. Therefore, leading companies are increasingly becoming participants in various social initiatives.

Support for socially responsible projects requires significant financial costs and is initiated by the owners of capital (business). The latter require reliable information support to make management decisions on such investments, which is formed in accounting.

The use of profits for responsible financing is a separate direction of profit distribution (among the participants determined by the general meeting), and the mandatory priority direction of profit use is to replenish reserve funds, if at the time of distribution they are not formed in the minimum amount specified by law or internal corporate documents. At the moment, we are talking about a legitimate required reserve. For example, under Ukrainian law for joint stock companies, it must be at least 15% of the authorized capital. On the other hand, the right of joint-stock companies to form other types of reserves is enshrined in law, which determines the expediency of their delimitation on separate sub-accounts to the «Reserve funds» account, in particular «Required reserve» and «Statutory reserves».

A common feature of these reserves is their purpose – to limit the impact of adverse events, including socially irresponsible activities, and a distinctive feature is the nature of the formation. If the former is formed on a relatively stable basis, the statutory reserves are temporary, they are eliminated as soon as the objective causes of the likely adverse effects cease to exist. More detailed elaboration of reserves in the chart of accounts is superfluous, as it is determined individually for each entity depending on the form of ownership, accountability, adopted internal corporate standards, etc.

The procedure for accounting for required reserves, in contrast to the statutory ones, has long been tested by domestic companies and does not raise questions. The formation of statutory reserves for socially responsible projects is associated with the creation and replenishment of special funds (from the Latin *fundus* – basis). This procedure in Ukraine is regulated for certain state and municipal enterprises and is voluntary for other business entities.

The lack of unity in scientific and practical circles on the essence of funds as units of account gives rise to permanent professional discussions. If one accounting school classifies funds as an element of equity (while recognizing the objective differences between them: capital is a stock of resources transferred by owners and not related to internal processes, while funds are sources of internal origin), the other – believes such a step is a recurrence of socialist stock accounting [2, p. 25]. We are far from all-or-nothing mentality, because more important in this case is the predominance of the essence (ie the purpose and method of use of accumulated capital) over the formal nomination.

The use of profits at the discretion of shareholders is their undisputed right as owners of capital, so in modern conditions, we consider the creation of a fund to finance corporate social responsibility projects a matter of time. In accounting, the direction of profit on development projects is reflected on the debit of the comparable account «Profit used in the reporting period» in correspondence with the credit of the additional account «Development Fund» (as part of additional capital). Accordingly, its use is reflected in

the debit of the latter in correspondence with the credit of another additional regulatory account «Use of the Development Fund». That is, the accounting of such a fund is organized similarly to retained profits and raises a number of comments.

First, it is a clear illustration of the «mixing» of concepts: the elements of additional capital are formed exclusively from external sources (for this reason, in 2013, the results of revaluations were removed from its composition, reflecting the adjustment of capital preservation), while profit is an internal source of formation of appropriate reserves, separated on the «Reserve funds» account. Therefore, the created funds, which are essentially a profit reserve, should be accounted for on the sub-account «Statutory reserves» while maintaining the recommended specification (legitimate and statutory reserves). Second, the typical correspondence of fund accounts [3] is not correct, as it does not ensure consistency between the accounting of sources and areas of use of such funds.

Consider the conditional economic situation. The rate of deduction of profits to the special fund is 50%. According to the company's financial statements for the last three years, the amounts of deductions amounted to: 600,000, 650,000 and 75,000 monetary units, ie 2 million monetary units cumulatively. Existing correspondence will reduce the balance of retained profits by this amount, instead it will «settle» as part of additional capital, regardless of whether such funds are used by the company. Therefore, in order to ensure proper matching of sources and directions of use of the social initiative funds, we recommend to provide a mechanism for closing the regulatory account «Use of the Development Fund», for which it is advisable to adapt the American practice of reverse the addition of these amounts to retained profits in subsequent reporting periods, when the goals for which part of the profits were reserved were achieved.

Thus, the suggested algorithm for reflecting business transactions on responsible financing in accounting accounts by the method of double entry includes:

1) deduction of part of the profit to replenish the fund of social projects (on the credit of the account «Statutory reserves», opened to the synthetic account «Reserve funds»);

2) simultaneous reduction of the profit available for distribution among business owners (on the debit of the account «Profit undistributed»);

3) taking into account the costs of a social project financed by the enterprise:

– for projects related to assets (construction or improvement of environmental facilities, social infrastructure), – on the debit of the account «Capital investments» in correspondence with the credit of resource accounts (assets and liabilities);

– for projects not related to assets (psychological support of employees, improvement of working conditions, assistance to temporarily displaced persons, etc.), – on the debit of the account «Other operating expenses» in correspondence with the credit of the above resource accounts;

4) simultaneous use of the fund of social projects (by debiting the account «Statutory reserves»);

5) joining the reserved amounts in respect of which the planned goals have been achieved to retained profits in the following reporting periods (on the credit of the account «Retained profits»).

For asset-related social projects, an entity's accounting policy may provide for an alternative to the gradual addition of reserve funds at the same time as charging of depreciation of fixed assets acquired or manufactured under such a project. If we separate ourselves from the impact of taxation, the actual changes in the balance sheet will be limited to a decrease in equity due to reduced economic benefits on retained assets, without affecting profit (due to the simultaneous recognition of costs and profits in the amount of accrued depreciation).

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