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**IMPACT OF INTRODUCTION OF IFRS IN RUSSIA
ON TOURISM INDUSTRY
CASE: AEROFLOT RUSSIAN AIRLINES
AND RUSSIAN RAILWAYS**

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<p>The purpose of writing this thesis is to analyse how the introduction of IFRS could affect Russian tourism industry. Globalization, increased cross-border capital flows and the growing number of foreign direct investments created the necessity of the common international language. The International Financial Reporting Standards were created to serve this need. Russian among number of other countries is in in a process of adopting IFRS, however, the changes which would be brought by adopting IFRS would have a long-term economic effect.</p> <p>The thesis is based on internet research about the theoretical differences between IFRS and Russian Accounting Standards (RAS) and the financial analyses of reports prepared under IFRS and RAS to find the potential effects of adaptation of IFRS in Russia. The research also covers the exiting barriers for tourism development in Russia and analyse the effect of introduction of IFRS on tourism industry in particular.</p> <p>The thesis was completed in august 2014 and resulted in: the research of existing differences between IFRS and RAS the research of existing barriers for the development of tourism industry in Russia the analysis of potential effect of introduction of IFRS on Russian economy in general the analysis of potential effect of introduction of IFRS on Russian tourism industry in particular</p>	
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List of Abbreviations

AICPA	American Institute of Certified Public Accountants
FASB	Financial Accounting Standards Board
FCSM	Federal Commission on Securities Market of Russia
Fed Law	Federal Law of the Russian Federation
GAAP	Generally Accepted Accounting Practices
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IATA	International Air Transport Association
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISAC	International Standards Accounting Committee
JSC	Open Joint Stock Company
Min Ag	Ministry of Agriculture of the Russian Federation
Min Fin	Ministry of Finance of the Russian Federation
RAS	Russian Accounting Standards
RUTI	Russian Union of Travel Industry
SEC	The United States Securities and Exchange Commission
SIC	Standing Interpretation Committee
UNWTO	The United Nations World Tourism Organisation
VTSIOM	All-Russian Centre for the Study of Public Opinion

1 INTRODUCTION

In the nearest future it is expected that all Russian groups will be forced to use International Financial Reporting Standards (IFRS) to prepare their consolidated financial statements whereas the statutory financial statements for individual companies will be prepared under Russian Accounting Standards (RAS) which will be based on IFRSs.

In the meantime, Russian companies are allowed to use IFRSs on a voluntary basis except companies from financial and insurance sector which are required to prepare their consolidated financial statement under IFRS requirements.

The main aim of this thesis is to consider a potential effect from transferring from Russian Accounting Standards to International Financial Reporting Standards based on a case of Aeroflot Russian Airlines and Russian Railways.

2 THEORETICAL BACKGROUND

2.1 Tourism

Tourism is “the temporary movement of people to destinations outside their normal places of work and residence, the activities undertaken during their stay in those destinations, and the facilities created to cater to their needs” (Mathieson & Wall 1982, 1). Sometimes it is difficult to distinguish between tourism and leisure. Leisure is defined as “relatively undertaken non-working activities” (Vale 2002, 3). Therefore, these two phenomena overlap as tourism can be seen as a form of leisure that takes place away from home (Vale 2002, 3). However, tourism also includes travelling for non-leisure purposes such as business and conference travel.

On the other hand, it is also difficult to distinguish between tourism and recreation. Recreation is defined as the activities undertaken during leisure time (McIntosh & Goeldner 1990, 10). . Outdoor recreation is even more closely related to tourism. For example, a boater who uses his or her boat for one day and who stays near his or her home may be considered a recreational boater; while a boater who travels on his or her boat overnight to a destination may be considered a tourist (Davies & Cahill 2000, 2).

Tourism is a complex industry which involves a wide range of businesses operating at different levels. Tourism is about obtaining experiences which involves a number of steps in the tourism industry chain: (Tourism Western Australia 2006, 3)

1. People need to be motivated to travel
2. People need to know what their holiday options are and what different destinations offer
3. Bookings need to be made for accommodation, travel, tours etc. and
4. Service providers (tour, transport and accommodation operators etc.) need to deliver their product.

Each party in the chain contributes to the overall holiday experience of the customer. They form part of a network of wholesalers, retailers, and providers of tourism products and services that together deliver a complete travel package. If one party fails to deliver, the total travel experience of the customer could be ruined and reflect badly on all the other service providers, even if they did nothing wrong. (Tourism Western Australia 2006, 3)

2.2 Financial Accounting

Accounting is the language of the business. Since the basic function of the language is to serve as a mean of communication, accounting also serves this purpose. The main purpose of accounting is to communicate the results of business operations to various stakeholders such as the proprietor, creditors, investors, Government and other agencies. Accounting helps to know about such things as (Garg, 5-6):

1. The source from which the cash was received and the purposes for which it was utilised
2. Whether the receipts are more than the payments or vice-versa
3. The balance of cash in hand or deficit, if any at the end of a period

When company records its transactions regularly, it is able to understand the nature of their receipts and payments. For example, company can find out the total amount spent by it during a period on different items and similarly can find out the sources of receipts. This information is especially important for business as it helps to understand (Garg, 7):

1. What the company owns
2. What the company owes
3. Whether the company has earned a profit or suffered a loss on account of running a business
4. What the financial position is

All this information is vital for future planning and development.

2.3 Components of Financial Statements

There are four components of the financial statements. Financial statements describe the profitability and value of a business. This chapter considers and describes these components.

2.3.1 Balance Sheet

Balance sheet shows what the company owns and what the company owes and these two amounts are always in balance. This document is a permanent statement—its numbers present an aggregate of the company's financial history from the day the company began up to the present. When reading a balance sheet, you

can find key information in the working capital, fixed assets and owners' (shareholders') equity (MaRS e- article).

2.3.2 Income Statement

This document shows how the company performed during its course of operations during a fixed period of time. Unlike the balance sheet, the income statement is a temporary statement. It accumulates information over a set period (usually monthly or quarterly) at the end of which its numbers are reset to zero in order to start tracking activity of the next period. Key elements of the income statement include revenue and expenses. Combined, these numbers yield the net income (or loss) (MaRS e- article).

2.3.3 Statement of Retained Earnings

The statement of retained earnings shows the changes in retained earnings over the course of the tracking period. It is a measure of the assets of your operation that have been generated through profitable activity, retained in your business and not paid out to shareholders as dividends. Stakeholders (such as investors or potential investors) in your company will be interested in reading this statement to better understand how their (potential) dividends compare to your reported profits. Generally, a large amount of retained earnings is regarded as a sign that the company has done well and is reinvesting its profits in itself. Keep in mind though, that a young company often faces reporting negative retained earnings as it takes time to build the business and become profitable (MaRS e- article).

2.3.4 Statement of Cash Flow

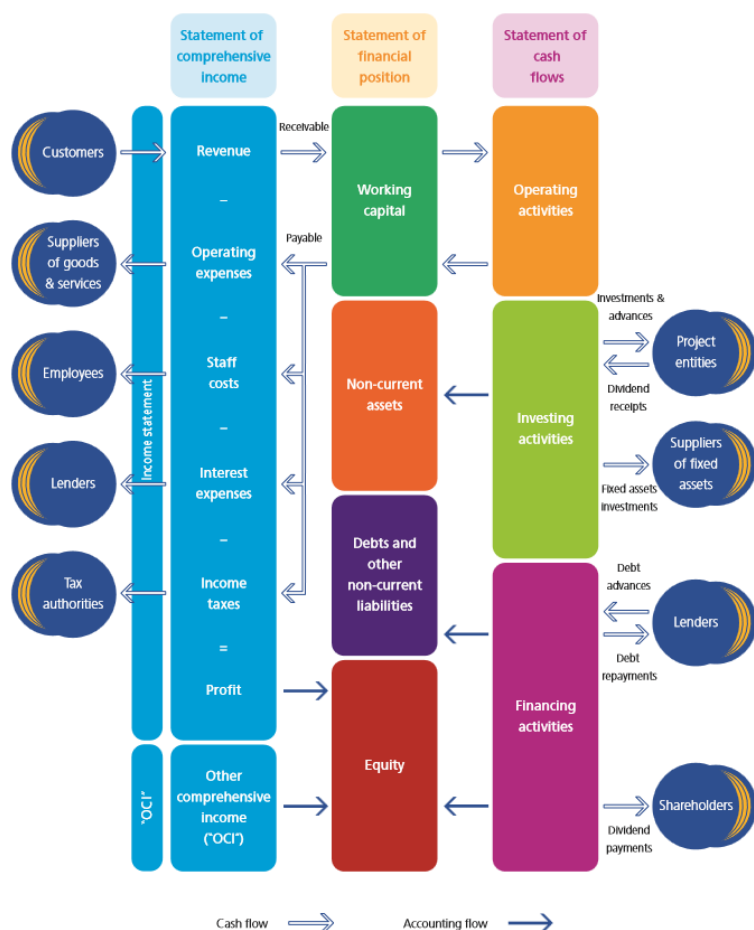
The statement of cash flow shows details about the cash that moved through the business during the tracking period—how it came in, and how it left. Money can come into the company through channels such as operating income, sale of assets or equity or by borrowing funds. Or it can leave, for example, through operating losses, purchase of assets, or paying off of loans or interest. The statement of cash flow does not contain new information in the financial statement—it is derived from what is provided on the balance sheet and income statement. This statement of cash flow informs investors and creditors about the solvency of your business (MaRS e- article).

2.3.5 Illustration of Financial Statements

The diagram below illustrates the relationships between the income statement, the balance sheet, the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders (interest expenses and debt repayment) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. Moreover, the Group also makes investments and advances to its project entities and receives dividend income from them in return.

Diagram 1 Connections between financial statements (CLP 2011, 2)



2.4 History of IFRS

International Standards Accounting Committee also known as ISAC was formed in 1973 to meet the need for standards that could be used by small nations to create their own accounting standards. In 2001 ISAC was supervised by International Accounting Standards Board (IASB). IASB located in London is a private sector standard setting authority for non-government and non-profit institutions. The board consists of fifteen members whose selection is based on their technical skills and background. The main financial source of IASB is fundraising activities which is also one of the IFRS challenge due to the fact that it is needed to be ensured that IASB has a stable source of funds in the future. The main purpose of IASB is to proclaim IFRS. The governance structure is very similar to the Financial Accounting Standards Board (FASB) in the United States.

In 2002, because of the globalization and growth of global market, the need of multinational companies for one standard of financial statements and the desire for one global financial reporting language, the Norwalk Agreement was issued the Agreement by FASB and IASB. The purpose of the agreement was to develop a single set of standards which would decrease costs and increase efficiency and therefore would provide better information for investors. The European Union demanded companies to prepare consolidated financial statements under IFRS requirements at the beginning of 2005.

Now IFRS consist of nine IFRS and forty one IAS and it is used by more than 12,000 companies in more than hundred countries in the world. These countries require or permit to use IFRS as the basic for financial statements. Moreover, in some countries local standards are based on IFRS. List of these countries includes Australia, New Zealand, Israel, Canada, and the European Union states.

There are several advantages and disadvantages of IFRS. Advantages include:

1. The use of one common global reporting language (Flynn 2008, 1).
2. It will allow for comparability over all financial markets, regardless of the country of origin (Flynn 2008, 1).
3. Investors will have better information for decision making (SEC 2008,8)
4. Companies will have more flexibility for applying accounting principles. IFRS is more principles based, whereas GAAP is more rules based. Transactions will be

required to be reported using substance over form criteria. More professional judgment will be exercised which will lead to better disclosure to support those judgments (Flynn 2008, 1).

5. There is the potential for reduced financial reporting complexity, especially for large, multinational companies that currently prepare many different sets of financial statements in many different forms (Flynn 2008, 1).
6. All levels of management, including the audit committee, will have to be more involved in financial reporting and aware of transactions (AICPA 2008).
7. In the end, companies should be more efficient and have the advantage of cost-savings (AICPA 2008).

While the list of disadvantages includes:

1. Small companies that have no dealings outside of the home country have no incentive to adopt IFRS unless mandated (Olson 2008, 17).
2. Small companies that have no dealings outside of the United States have no incentive to adopt IFRS unless mandated (Olson 2008, 17).
3. There is an extremely high price-tag – "...the SEC estimates the costs for issuers of transitioning to IFRS would be approximately \$32 million per company and relate to the first three years of filings on Form 10-K under IFRS. Total estimated costs for the approximately 110 issuers estimated to be eligible for early adoption would be approximately \$3.5 billion" (SEC 2008, 8).
4. Although it is unlikely, Commissioners have three years to change their minds. A definite decision will not be made until 2011. There is no incentive for early adoption due to the fact that it could be a colossal waste of time and resources. Also, companies would be required to have two sets of records, one GAAP, one IFRS, during this time just in case IFRS is not adopted (Johnson & McCann 2008, 2).
5. Many feel that during this financial crisis that the world is currently experiencing, a conversion of this magnitude is too much to ask of executives and management (IFRS 2008).
6. A minimum of two years of financial information prior to conversion would need to be maintained on two sets of books, both GAAP and IFRS, to meet the requirement of financial statements to contain three years of financial data (IFRS 2008).

2.5 History of Russian Accounting Standards

Russian Accounting Standards existed for more than 10 years. However, RAS have different concept rather than IFRS. RAS are focused on the taxation, which makes it very document driven, not on the investor relations.

There is a historical reason for this. During Soviet times there were no shareholders, financial lenders and profit-oriented managers and therefore the only institution, to pass the report to, was the state authorities.

There were three periods in development of RAS. The first stage was in 1998-2001. The main idea of this stage was to develop RAS on a basis of IAS requirements. Therefore, in 1999 all groups were allowed to prepare consolidated report under IAS norms instead of RAS.

On the second stage in 2001-2004 it was supposed to introduce IAS in Russia more actively. It was supposed to adjust more Russians accounting norms to IAS and listed open joint stock companies would prepare the consolidated financial statements directly in accordance with IAS from 2005. However, this plan was not fulfilled.

During the third stage from 2004 it was planned that IFRS would become obligatory for the preparation of the consolidated financial statements. In addition RAS based on IFRS should be obligatory for individual financial statements.

2.6 Company profile: Aeroflot

Aeroflot is a leader of Russian civil aviation. Established on February 9, 1923, Aeroflot is one of the oldest airlines in the world and one of the best recognized Russian brands. In 1989, Aeroflot became the first Russian airline to become a member of the International Air Transport Association (IATA). In 2006, Aeroflot became a full member of SkyTeam, the second largest airline alliance in the world. Through its wide network, SkyTeam members service flights to over 900 cities in 173 countries (Nuance 2013, 2).

As of winter 2012-2013, Aeroflot offers flights to 118 cities in 51 countries, including 31 airports in Russia. In 2011, the airline transported over 14.1 million passengers,

growing this number by 25.6% in a year. Including the subsidiaries acquired in 2011, the total number of Aeroflot Group passengers reached over 20 million.

Operationally, the passenger turnover exceeded 42 billion passenger-kilometers (+ 20.8% in a year). The seat occupancy rate grew to 77.5% (up 0.4 percentage points). The airline operates the largest Flight Management Centre in Eastern Europe, and the Aeroflot fleet, 123 airliners, is one of the most modern, young and quickly growing in Europe (Nuance 2013, 2).

The mission of Aeroflot is:

We help your dreams and plans come true – use your business trips effectively, relax during your holiday, meet friends and relatives and discover new cities and countries. We do our best to make sure you feel right at home on board — secure and comfortable.

The vision statement of Aeroflot is:

Aeroflot is commercially successful and an international class company. Our goal is to be among the five most popular airlines in Europe.

The values of the company are formulated as:

We care for those who fly. Today's aviation market offers a large selection of air lines to passengers. For that reason Aeroflot is highly appreciative of its passengers' loyalty. The culture of mutual respect is fundamental to our company's successful activity and the well-being of our employees as well as of their families.

2.7 Company profile: Russian Railways

Open Joint Stock Company (JSC) "Russian Railways" was founded on 18 September 2003 and the Company has been entrusted with the economic functions of the Russian Ministry of Railways.

In 2013, JSC "Russian Railways" is 100% state-owned natural monopoly. Total length of railways in operation is 85.2 thousand kilometres while the total length of electrified railways in operation is 43.3 thousand kilometres. JSC "Russian Railways" employs 935.7 thousand people all over the Russia and the company is the main commercial employer in Russia. Share of total passenger turnover in Russia is

30.5%, while the share of JSC “Russian Railways” of the total transported cargo turnover (excluded pipelines) is 85.4%.

Mission of Russian Railways is:

We seek to effectively develop a transportation business that is able to compete on the Russian and international markets, whilst respecting our responsibility as a national carrier and rail infrastructure owner.

3 BARRIERS FOR TOURISM DEVELOPMENT IN RUSSIA

This chapter will summarize the main barriers for tourism industry development in Russia.

3.1 Barriers for international tourism development in Russia

According United Nations World Tourism Organisation (UNWTO) rank list the Russian Federation is ranked 9 in top 10 countries by international tourism arrivals with 25.7 million visitors and annual change of 13.4% during 2011-2012 (UNWTO 2013, 6). Nevertheless, the Russian Federation is out of top 10 countries by international tourism receipts. More detailed information can be found in the table below.

Table 1 Top 10 Countries by International Tourism Arrivals (UNWTO 2013, 6)

International Tourist Arrivals					
Rank		Million		Change (%)	
		2011	2012	11/10	12/11
		1	France	81.6	83.0
2	United States	62.7	67.0	4.9	6.8
3	China	57.6	57.7	3.4	0.3
4	Spain	56.2	57.7	6.6	2.7
5	Italy	46.1	46.4	5.7	0.5
6	Turkey	34.7	35.7	10.5	3.0
7	Germany	28.4	30.4	5.5	7.3
8	United Kingdoms	29.3	29.3	3.6	-0.1
9	Russian Federation	22.7	25.7	11.9	13.4
10	Malaysia	24.7	25.0	0.6	1.3

However, according to Russian Union of Travel Industry (RUTI) there are some barriers for development of international tourism in Russia. The most critical barriers are transportation and visa regulations. As possible alternatives for solving these barriers RUTI proposes to expand the list of designated carriers under intergovernmental agreements, to pay more attention to the development of the

market of budget airlines, subsidies to expand the geography of seasonal traffic, abolish VAT on domestic passenger services, as well as to monitor the formation of fuel prices and ground handling services from the point of view of compliance with antitrust laws.

3.2 Barriers for domestic tourism development in Russia

However, there are also several barriers for development of domestic tourism in Russia. First of all, the absent of budget lodging facilities for mass tourists. It is especially important in Moscow and Moscow area where hotels have average occupation rate of 70-80%. Moreover, average price for overnight stay in 3-star hotel in Moscow exceeds 4000 roubles or 91 euro (exchange rate on 14.10.2013 is 43.7660 EUR/RUB). It can be explained by the long pay-back time, and therefore investors preferred to invest in construction companies as pay-back time is much shorter.

The research of All-Russian Centre for the Study of Public Opinion (VTSIOM) shows that the amount of tourist on Black Sea coast has not been growing during the last five years and stayed stable on seven percent of Russians. One of the reasons is high prices. For instance, the price for overnight stay in 3-star hotel in Sochi with 3 times meal is 4000 roubles or 91 euro. Therefore, the price for 10 days staying is 40,000 roubles 910 euro per capita. At the same time, price for staying in 4-star hotel in Thailand with "all inclusive" is around 20,000 or 455 euro for 10 days per capita.

Secondly, other reason is high prices for air transportation in domestic flights. Since domestic air transportation is a closed market for foreign companies and therefore there is no natural regulation of prices. Moreover, railways cannot always be an alternative for air transportation due to the size of the country. For instance, journey from Moscow to Irkutsk takes more than three days by train.

Thirdly, investors are not interested in investing in tourism industry due to the long pay-back time and existence of other more profitable alternatives.

Fourthly, the quality of service is low in Russia. There is a historical reason for it. During the planned economy, managers were not interested in increasing profitability and further development of the business. On the other hand, nowadays companies

are highly interested in developing business and one of the ways to achieve this objective is to increase the quality of services.

Moreover, other reasons of low service quality include the low compensation in the industry which leads to outflow of employees to other industries and absents of qualitative educational programmes.

Finally, other reason is poor marketing of tourism companies. Domestic tourism in Russia is considered as unprestigious. In many cases, this opinion exists due to the lack of information about recreational opportunities in Russia, existing proposals on the internal market.

4 DIFFERENCES BETWEEN IFRS AND RAS

Major differences between IFRS and RAS will be considered in this chapter.

4.1 General Differences between IFRS and RAS

General Differences between IFRS and RAS are summarized in the tables below.

Table 2 Forms and components of financial statements (KPGM 2004, 10-11)

IFRS (IAS 1, IAS 7)	RAS (RAS 4/99, Min Fin Order 34, Min Fin Order 67, Min Fin order 112)
Balance sheet, income statement, statement of changes in equity or statement of recognised income and expenses, statement of cash flow and notes including accounting policies must be presented.	No statement of recognised income and expenses is required. Moreover, in practice, sometimes consolidated financial statement does not include statement of cash flow.
IFRSs require minimum disclosures to be made in the financial statements, although they do not require prescriptive formats	Under RAS there are recommended formats for the financial statements.
Comparative information is required for the preceding period only; however, additional periods and information can be presented.	Two comparatives are required instead of the usual one.
Consolidated financial statement must be presented unless specific criteria are met	Consolidated financial statement must be presented unless specific criteria's are met. However, specific criteria are different
Parents entity's consolidated financial statement is not required but can be presented in addition	Parents entity financial statement must be presented
	Annual balance sheet must be presented 31 December.
	The financial statements must be presented in the local language (Russian)

Table 3 Statement of change in equity (KPGM 2004, 12-13)

IAS 1, IAS 8	RAS 4/99, Min Fin order 34, Min Fin Order 67, Min Fin Order 112
There is a choice between presenting statement of change in equity or statement of recognised income and expenses.	Statement of changes in equity must be presented as a part of the notes to the financial statement.
The statement of recognised income and expenses combines net profit or loss with other non-owner movements recognised directly in equity	Statement of recognised income and expense is not presented.
An item of income or expense may be recognised directly on equity only when a standard permit or require it	An item of income or expense may be recognised directly on equity only when a standard permit or require it. However, the items permitted and required are different.

Table 4 Statement of Cash Flow (KPGM 2004, 14-15)

IAS 7	RAS 4/99, Min Fin Order 67n
Cash flows are classified as operating, financial and investing activities	Cash flows are classified as operating, financial and investing activities. However, there is limited guidance on classification
Net cash flow from all three activities are totalled to show the change in cash and cash equivalents during the period and then to reconcile opening and closing cash and cash equivalents	Cash equivalents are not considered as part of cash and changes in cash equivalents are excluded from the total of net cash flow from all three activities.
Cash included short-term investment and sometimes overdrafts	Demand deposit is considered as investing activities and overdrafts are considered as financial activities.
Cash flow from operating activities may be presented by the direct or indirect method.	There is no concept of indirect method; therefore operational cash flows are illustrated by the direct method. However, in practice indirect method is used.

Foreign currency cash flows are translated at the exchange rate at the date of the cash flow or by using average when it is appropriate.	Foreign currency cash flows are translated at the year-end exchange rate.
All financial and investing cash flows should be reported gross, without applying offset.	There is no guidance on offsetting cash flows. In practice they are usually reported gross

Table 5 Basic of Accounting (KPGM 2004, 16-17)

IAS 1, IAS 21, IAS 29	Fed Law 129, Min Fin Order 34n, Min Fin Order 112, RAS 4/99, RAS 6/01, RAS 19/02
Financial statements are prepared on a modified historical cost basis.	Financial statements are prepared on a historical cost basis.
Financial statements must be adjusted to state all items in the measuring unit currency at the balance sheet date, when entity's currency is hyperinflationary	Only limited adjustments have been required for hyperinflation in Russia.

Table 6 Consolidating (KPGM 2004, 18-21)

IAS 87, SIC-12, IFRS 3	Civil Code, RAS 4/99, Min Fin Order 112
Consolidation is based on control that is the power to govern the financial operating policies of an entity so as to obtain benefits from activities.	Consolidation is based on control; however, control is evidenced by the legal power to control and or the actual ability to control in practice. Moreover, only legal entities can be subsidiaries.
The ability to control is considered separately from the exercise of that control	Control can be considered by de facto control without majority ownership.
Potential voting rights that presently exercisable or convertible are taken into account in assessing control	Potential voting rights are not taken into account in assessing control.
Special purpose entities are consolidated in many cases when benefits flow back to sponsor	SPEs that benefit a sponsor are generally not consolidated.
All subsidiaries controlled by a parent are	Subsidiaries are not consolidated if they are

consolidated even acquired exclusively with the intention of disposal, although may qualify as a group	acquired with the intention of disposing of them in the near future.
Uniform accounting policies must be used throughout the group.	Uniform accounting policies always must be used throughout the group. However, practice varies.
Minority interests are computed based on the carrying amounts on consolidation	Minority interests are computed based on the carrying amounts of the subsidiary
Loses in a subsidiary may create a debit balance on minority interest only if the minority has an obligation to fund losses.	A debit balance on minority interests may be created only after reserves attributable to the majority have been eliminated.

Table 7 Business Combinations (Reorganisation and acquisitions) (KPGM 2004, 22-25)

IFRS 3, IAS 38	Civil Code, Fed Law 14, Fed Law 39, Fed Law 129, Fed Law 129, Fed Law 208, RAS 4/99, RAS 19/02
All transactions within the scope of IFRS 3 must be accounted for as acquisition.	A method similar to uniting interests accounting is used to accounts for certain types of reorganisation.
The accounted acquirer may not be the legal acquirer in which case the transaction is accounted as a reverse acquisition.	There is no guidance for reverse acquisition.
The acquisition date is a date on which effective control is transferred to the acquirer.	The date of acquisition depends on form-driven criteria for determining the date that the investment qualifies for recognition.
When payment for a business combination is deferred, the amount payable is discounted to its present value.	When payment for a business combination is deferred, the amount payable is not discounted to its present value.
A liability for contingent consideration is recognised as soon as payment becomes probable and at the amount can be measured.	There are no specific requirements for contingent consideration.
The acquiree`s identifiable assets, liabilities	The acquiree`s assets and liabilities are measured

and contingent liabilities are measured at fair value at the date of acquisition	at the book value at the date of acquisition.
Non-current assets classified as held for sale are measured at fair value less costs to sell at the date of acquisition.	Non-current assets which are held for sale are measured at book value at the date of acquisition.
Goodwill is not amortised.	Goodwill is amortised on a straight-line basis over the shorter of 20 years and the life of the parent
Subject to limited exception, adjustments to goodwill must be made within 12 month of the acquisition.	Subsequent adjustments to goodwill are not made since the acquisition accounting is based on book value.
When the fair value of identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the acquirer must reassess the fair value and then recognise any remaining profit or loss immediately on acquisition.	Goodwill is calculated as a difference between the cost of acquisition and the nominal value on the acquired shares. Moreover, negative goodwill is credited to the income statement over the shorter of 20 years and the life of the parent.
There is no guidance on accounting for common control transactions.	Common control transactions are accounted for in accordance with the general rules for reorganisation and acquisition.

Table 8 Foreign exchange transactions (KPGM 2004, 26-29)

IAS 21, IAS 29	RAS 3/00, Min Fin Order 112
An entity measures its assets, liabilities, revenues and expenses in its functional currency, which is the currency that best reflects the economic substance of the underlying event and circumstances relevant to the entity.	There is no concept of functional currency and financial statements must be prepared in roubles.
An entity may present its financial statements in a currency other than its functional currency.	There is no concept of presentation currency and financial statements must be prepared in roubles
If the currency of a foreign operation is hyperinflationary, then current purchasing	There is no guidance for determining when the economy is hyperinflationary or whether to adjust

power adjustments to its financial statement are made prior to translation. The financial statements are translated at the closing rate at the end of the current period.	for hyperinflation.
When an investment in a foreign operation is disposed of, the cumulative exchange differences previously recognised directly to equity are transferred to profit or loss.	When an investment in a foreign subsidiary is disposed of, exchange difference previously recognised in additional capital sometimes is transferred to the income statement, although they may remain in equity.
A foreign currency transaction is measured at the spot rate on initial recognition. Any related forward contracts are measured at fair value and may qualify as hedging instruments.	While a foreign currency transaction is measured at the spot rate on initial recognition, generally any related forward contracts would not be recognised.
When financial reports are translated to a presentation currency other than the functional currency, the transaction procedures are the same as those for transaction foreign operations.	The financial statement can be presented only in roubles.

4.2 Specific Balance Sheet Items

More specific differences regarding balance sheet are considered in this chapter. All information is summarized in the tables below.

Table 9 General (KPGM 2004, 34-35)

IAS 1, IAS 32	RAS 4/99, Min Fin Order 34n, Min Fin Order 67n, Min Fin Order 94n
Generally an entity presents the balance sheet classified between current and non-current.	An entity must present balance sheet classified between current and non-current.
There is no prescribed format; however, IFRSs require certain items to be presented.	The balance sheet has a recommended format

A liability that is payable on demand because certain conditions are breached should be classified as current.	Long-term debt may be classified as non-current unit maturity even if it becomes payable on demand due to a breach of time
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Table 10 Property, Plant and Equipment (KPGM 2004, 36-39)

IAS 16, IFRIC 1	RAS 6/01, RAS 8/01, Min Fin Order 91n
Property, plant and equipment is recognised initially at cost	Fixed assets are recognised initially at cost, although, unlike to IFRSs, cost is based on the nominal price stated in the contract.
Cost includes the estimated cost of dismantling and removing the asset and restoring the site.	Costs of future dismantling and site restoration are not capitalised. In practice, liabilities reserves for such costs are built up over a period of time through the “reserve for impending expenses”
Changes to an existing decommissioning or restoration obligation generally must be added to or deducted from the cost of the related asset and depreciated prospectively over the assets remaining useful life.	Changes in the estimated costs of future dismantling and the site restoration are not capitalised. In practice, such costs would be taken into account in accruing future costs in the “reserve for impending future expenses”
An item of property plant and equipment is depreciated even if it is idle. Non-current assets that are held for sale are not depreciated.	Depreciation is suspended in certain cases when a fixed asset is idle or is being restored.
The useful life, residual value and method of depreciation must be reviewed at least at each balance sheet date. Estimated residual values reflect prices at the balance sheet date.	An asset`s useful life is usually reviewed only when the asset is enhanced or useful life is reduced. Moreover, there is no requirements to review the depreciation method and residual values are not taken into account in determining depreciation.
Subsequent expenditure is capitalised when it is probable that future economic benefits will flow to the entity, including when the costs are for replacing a component of the item.	Subsequent expenditure is capitalised only when it will give rise to future economic benefits in excess of the original assessed standard of performance of the asset.

Table 11 Intangible Assets and Goodwill (KPGM 2004, 40-43)

IFRS 3, IAS 38, SIC-32	Civil Code, RF Law 3517-1, RF Law 3520-1, RF Law 3523-1, RF Law 3526-1, RF Law 5351-1, RAS 14/00, RAS 17/02, Min Fin Order 94n, Min Fin Order 112
For an item to be recognised as an intangible asset it must have future economic benefit that it is probable will be realised and its cost must be reliably measurable.	There is a prescriptive list of items that must be recognised as intangible assets if relevant criteria are met.
The measurement of the cost of intangible asset depends on whether it has been acquired separately, acquired as part of business combination or was generated internally.	The cost of separately acquired intangible asset is based on the price which is stated in the contract. The cost of an intangible asset acquired in an acquisition is its previously carrying amount in the financial statements of the subsidiary.
Goodwill represents future economic benefits arising from assets that are not capable of being identified individually and recognised separately.	Goodwill is the difference between the cost of acquisition and the nominal value of the acquired shares.
Acquired goodwill and other intangible assets with indefinite lives are not amortised but must be tested for impairment at least annually.	Intangible assets including goodwill are amortised. Intangibles assets are not a subject to impairment testing.
Generally, the residual value of intangible asset is assumed to be zero.	The residual value of intangible asset is always assumed to be zero.
Subsequent expenditure of an intangible asset will be capitalised only rarely.	Subsequent expenditure of an intangible asset cannot be capitalised.
Intangible assets may be revaluated to fair price only if there is an active market.	Intangible assets cannot be revaluated.

Table 12 Investments in Associate and Joint Ventures (KPGM 2004, 46-49)

IAS 28, IAS 31, SIC-13	Civil Code, RAS 6/01, Min Fin Order 94n, Min Fin Order 112
The definition of an associate is based on the ability to exercise significant influence, which is the power to participate in the financial and operational policies of an entity.	The definition of an associate is based on the percentage of voting right held.
There is a rebuttable presumption of significant influence if an entity holds 20 to 50 percent of the voting rights of another entity.	There is no rebuttable presumption and an associate if any entity investments are greater than 20 percent.
Potential voting rights that are exercisable currently are taken into account assessing significant influence.	Potential voting rights are not taken into account in determining if an investee is an associate.
A joint venture is an entity, asset or operation that is subject to contractually established joint control.	RAS is based on "joint activities" rather than "joint control" and the closet equivalent of a jointly controlled entity under RAS is a partnership.
Jointly controlled entities may be accounted for either by proportionate consolidation or by using the equity method.	An ordinary partnership is accounted for as financial investment.
Entities excluded from proportional consolidation or equity accounting are treated as financial asset.	While associates excluded from "equity accounting" are treated as financial investment, the accounting for such investments is different from these under IFRSs.
When recognise its share of losses, an investor considers not only equity investment but also long-term interests that form part of the investor's net investment in the associate. Interests to be considered do not include trade receivables, trade payable or any long-term receivables for which adequate collateral exists.	When recognising its share of losses, an investor considers only equity investments.
No gains or losses are recognised when non-monetary assets are contributed to a joint	No gain or loss is recognised on the contribution of assets by the ventures to a joint activity.

venture in exchange for an interest in assets contributed by other joint ventures inventors when the exchange lacks commercial substance.	
Venture capital investors and similar entities may elect not to apply the equity method for investments in associate and joint ventures and instead account for these investments as financial instruments at a fair value through profit or loss.	There is no exemption from applying the equity method of accounting for venture capital investors and similar entities.

Table 13 Financial Investments (KPGM 2004, 50-53)

IAS 27, IAS 32, IAS 39	Fed Law 39, Fed Law 208, RAS 15/01, RAS 19/02, Min Fin Order 94n
All derivatives are recognised on the balance sheet and measured at fair value.	Generally, derivatives are not recognised on a balance sheet except to the extent of any consideration given or received.
All financial assets must be classified into “loans and receivables”, “held to maturity”, “fair value through profit or loss” or “available for sale” categories.	Financial investments are classified as marketable or non-marketable investments.
Loans and receivables and held to maturity financial assets are measured at amortised cost. All other financial assets are measured at fair value.	Only marketable investments are measured at market value. Other financial investments are measured at cost.
Changes in fair value of available for sale assets are recognised directly in equity.	Like IFRSs, changes in market value of marketable investments are measured at cost, although market value is based on formula that considers changes in market prices over a period of time and the volume of trading.
Financial liabilities, other than those held for trading purposes or designated as at fair value through profit or loss, are measured at	Financial liabilities are measured at amortised cost, although cost is amortised on straight-line basis not on an effective interest. Any discounts

amortised cost.	may be recognised directly in the income statement.
Any financial instruments which may be designated on initial recognition as one measured at fair value through profit or loss.	It is not possible to designate a financial investment or liability as one measured at fair value through income statement.
<p>Evaluating whether a transfer of a financial asset qualifies for derecognition requires considering</p> <ul style="list-style-type: none"> • Whether substantive risks and reward are transferred, then a financial asset is derecognised. • If some but not substantially all the risks and rewards are transferred, then asset is derecognised if control of the asset is transferred. • If control is not transferred, then the entity continues to recognise the transferred asset to the extent of its continuing involvement in the asset. 	A financial investment is derecognised only when legally disposed of.
Whenever there is objective evidence that a financial asset measured at amortised cost, or at a fair value with changes recognised in equity, may be impaired the amount of any impaired loss must be calculated and recognised in profit or loss.	There is no guidance on the measurement of impaired losses.
Derivatives embedded in host contracts must be accounted for as stand-alone derivatives. This does not apply when the host contract is measured at a fair value with changes in fair recognised in profit or loss or for embedded derivatives which are closely related to the host contract.	Embedded derivatives are not separated from the host contract.
Hedge accounting is permitted only when strict documentation and effectiveness	There is no guidance on hedge accounting.

testing requirements are met.	
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Table 14 Inventories (KPGM 2004, 54-55)

IAS 2	RAS 5/01, Min Fin Order 34n, Min Fin Order 94n, Min Fin Order 119n
Inventories are measured at the lower of cost and net realisable value.	Inventory, other than work in progress, is stated at the lower of cost and current market value, which is based on gross selling price.
The amount to recognise as an expense must be determined using the specific identification, FIFO (first in, first out) or weighted average method. The use of LIFO (last in, first out) is prohibited	The LIFO method is permitted determining the cost of inventories.
Other formulas such as the standard cost or retail method may be used when the results approximate actual cost.	Other formulas can be used, however, there is no clear guidance on applying the retail method.

Table 15 Equity (KPGM 2004, 60-61)

IAS 1, IAS 27, IAS 32, IAS 39	Civil Code, Fed Law 14, Fed Law 206, RAS 4/99, RAS 6/01, Min Fin Order 67n, Min Fin Order 112, FCSM Decree 03/30
Instruments are classified as equity or liability in accordance with their economic substance.	Instruments are classified as equity or liability in accordance with their legal form.
Incremental costs that are attributable directly to issuing or buying back own equity instruments are recognised directly in equity.	In practice the cost of issuing equity securities is expected.
Gains and losses on transactions in own equity instruments are reported directly in equity, not in profit or loss	Gains and losses on transaction in own equity shares are reported in income statement.
Generally dividends and other distributions to the holders of equity instruments are recognised directly in equity.	All dividends paid are recognised in equity with no exceptions.

Minority interests are classified within equity but separate from shareholders equity.	Minority interests are classified separately from equity and liabilities.
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Table 16 Provisions (Liability Reserves) (KPGM 2004, 62-63)

IAS 16, IAS 37, IFRIC 1	RAS 5/01, RAS 8/01, RAS 19/02, Min Fin Order 34n, Min Fin Order 49
A provision is recognised on the basis of a legal or constructive obligation if there is a probable outflow of resources and the amount can be estimated reliably.	Constructive obligations are not provided for.
A provision is discounted if the effect of discounting is material.	Liability reserves are not required to be discounted.
A provision for restructuring is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan.	There is no guidance on the recognition of a liability reserves for restructuring.
Provisions for repairs and maintenance or self-insurance are prohibited.	Liability reserves can be recognised for planned major repairs.
A provision is recognised for a contract which is onerous.	There is no guidance for recognition of a liability reserve for onerous contracts.

Table 17 Deferred Tax (KPGM 2004, 64-67)

IAS 12, SIC-21, SIC-25	RAS 18/02
Deferred tax liabilities and assets are recognised for the estimated future tax effects of temporary differences and tax loss carry-forward.	Deferred tax assets and liabilities are recognised for the estimated future tax effects of timing differences and tax loss carry-forward.
A temporary difference is the difference between the tax base of an asset or liability and its carrying amount in the financial statement.	A timing difference arises when an item of income or expense is included in the determination of accounting profit or loss in one reporting period but in taxable profit or loss in another report.
A deferred tax asset or liability is recognised	There are no exemptions from recognition a

<p>unless it arises from:</p> <ul style="list-style-type: none"> • The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit • The initial recognition of a goodwill • Post-acquisition adjustment of goodwill for which amortisation is not tax deductible 	<p>deferred tax liability or asset in respect of timing differences. However, because the timing differences approach is used, no deferred tax is recognised in respect of business combination and revaluation of fixed assets.</p>
<p>A deferred tax liability is recognised for post-acquisition adjustment of goodwill for which amortisation is tax deductible.</p>	<p>Post-acquisition adjustments of goodwill are not made and, therefore no deferred tax liability is recognised.</p>
<p>Deferred tax assets and liabilities are not recognised in respect of investments in subsidiaries, associates and joint ventures if certain conditions are met.</p>	<p>No deferred tax is recognised in respect of investments in subsidiaries, associates and partnership.</p>
<p>The measurement of deferred tax is based on the expected manner of settlement (liability) or recovery (asset)</p>	<p>There is no explicit requirement for the measurement of deferred tax is based on the expected manner of settlement or recovery.</p>
<p>Deferred tax arising from intra-group transaction is computed at the tax rate applicable to the purchase.</p>	<p>The tax effects on intra-group transaction are eliminated in full.</p>
<p>Deferred tax relating to items charged or credited directly to equity is itself charged or credited directly to equity.</p>	<p>All changes in deferred tax are recognised in the income statement.</p>
<p>Deferred tax is measured based on enacted or substantively enacted tax rates.</p>	<p>Deferred tax is calculated based on enacted tax rate.</p>

Table 18 Contingent Assets and Liabilities (Conditional Assets and Liabilities) (KPGM 2004, 68-69)

IAS 37, IFRS 3	RAS 8/01
Contingent liabilities are obligations that	Conditional liabilities include conditional events

generally are not recognised in the balance sheet due to uncertainties about either the probability of outflows of resources or about the amount of outflows, or possible obligations when the existence of an obligation is uncertain.	requiring a contingency based reserve.
Contingent assets are not recognised in the balance sheet unless their realisation is virtually certain. If their existence is probable, details are disclosed in the notes to the financial statements.	Conditional assets are not recognised in a balance sheet even when realisation is virtually certain.
Contingent liabilities assumed in business combinations are recognised if their fair value is reliably measurable.	Contingent liabilities assumed in an acquisition are not recognised.

4.3 Specific Income Statement Items

This chapter summarizes main differences between IFRS and RAS in income statement.

Table 19 General (KPGM 2004, 70-71)

IAS 1, IAS 8	RAS 1/98, RAS 9/99, RAS 10/99, RAS 18/02, Min Fin Order 67n, Min Fin Order 94n, Min Fin Order 112
An analysis of expenses is required, either by their nature or by function, on the face of the income statement or in the notes.	Expenses must be analysed by function on the face of the income statement. The income statement has a recommended format which is generally followed in practice.
Items of income and expenses are not offset unless required or permitted by another IFRS or when amounts relate to similar transactions or events that are not material.	Items of income or expense are not offset unless required or when the amounts relate to similar transactions or events are not material. However, the practical requirements may differ.

Table 20 Revenue (KPGM 2004, 72-75)

Framework, IAS 1, IAS 11, IAS 17, IAS 18, SIC-27, SIC-31	RAS 2/94, RAS 9/99
Revenue includes the total inflow of economic benefits received by an entity on its own account. In an agency relationship amounts collected on behalf of the principal are not recognised as revenue by the agent.	In agency relationships amounts collected on behalf of the principal are not recognised as revenue by the agent. However, an agency relationship is considered to exist only when there is a binding agreement to that effect.
Revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or managerial control in the goods.	The revenue from the sale of goods is recognised when the legal title passes.
Revenue from rendering of services and construction contracts is recognised in the period that the service is rendered.	Revenue from construction contracts may be recognised using the completed contract method. Revenue from service is recognised either in accordance with the terms of the contract (short-term service contracts) or in the same way as construction contracts (long-term contracts) and therefore may differ from IFRSs
Revenue recognition does not require cash consideration. However, when goods or services exchanged are similar in nature and value the transaction does not generate revenue.	When there is no cash exchanged in the transaction, revenue still can be recognised. However, revenue still can be recognised when the goods or services exchanged are similar in nature and value.
Revenue is measured at fair value of the consideration received.	Revenue generally is measured at the amount stated in the contract.
There is little guidance on multiple revenue recognition.	There is no guidance on multiple elements contained in a single contract and practice may differ from IFRSs

Table 21 Government Grants (KPGM 2004, 74-75)

IAS 20, IAS 41, SIC-10	Min Ag Order 75, RAS 13/00
Government grants relating to biological assets are recognised as income when they are unconditionally receivable.	There is no special treatment for governmental assistance that relates to biological assets; it is recognised the same way as other governmental assistance.
Other government grants are recognised as income so as to match the costs that they are intended to compensate.	Governmental assistance is recognised as income so as to match the costs that they are intended to compensate, like IFRSs
Government grants that relate to the acquisition of an asset may be recognised either as reduction in the cost of the asset or as deferred income that is amortised as the related asset is depreciated or amortised.	Governmental assistance cannot be offset against assets in the balance sheet.

Table 22 Employee Benefits (KPGM 2004, 76-78)

IAS 19	Fed Law 75, Fed Law 173, Fed Law 167
IFRSs specify accounting requirements for all types of employee benefits.	There is some guidance under RAS for certain kinds of employee benefits.
Liabilities for employee benefits are recognised on the basis of a legal or constructive obligation.	Liabilities for employee benefits are recognised based on legal obligation only, unless they related to discounting operations.
Liabilities and expenses for employee benefits are recognised in the period in which the service is rendered.	Generally liabilities for employee benefits are recognised only as they become due and payable.
A defined contribution plan is a post-employment benefit plan under which the employer pays fixed contribution into a separate entity and has no further obligation. All other post-employment plans are defined benefit plans.	No distinction is made between define benefit and defined contribution post-employments plans. All plans are treated as defined contribution plans (as defined in IFRS)
A liability is recognised for an employer`s	Defined benefit accounting is not relevant under

obligation under a defined benefit plan. The liability and expense are measured actuarially using the projected unit credit method.	RAS as a method similar to defined contribution accounting under IFRS always is used.
Actuarial gains and losses of defined benefit plans that exceed the “corridor” are required to be recognised over the average remaining working lives of employees in the plan. Faster recognition is allowed.	Generally expenses for long-term employee benefits are recognised as payments become due and payable.
Liabilities and expenses for vested past services costs under a defined benefit plan are recognised immediately.	Redundancy costs are recognised only as payments fall due unless such costs are incurred in connection with a discounting operation. For discounting operations, a liability reserve may be recognised but the timing and measurement of the provision may differ from IFRSs.

Table 23 Financial Income and Expense (KPGM 2004, 82-83)

IAS 18, IAS 23, IAS 39	RAS 15/01, Min Fin Order 94n
Interest income and expense is calculating using the effective interest rate method.	Interest income and expense is calculated on a straight-line basis and amortisation generally is based on contractual terms. Interest is not imputed.
Dividends on shares classified as liabilities are reported as financial expense and not a dividend distribution.	All dividends on instruments in the legal form of shares are reported as a dividend distribution.
Incremental transaction costs directly related to raising finance or acquiring a financial asset are included in the initial measurement of the instrument unless the instrument is categorised as a financial asset or liability at fair value through profit or loss.	Transaction costs related to raising finance generally are expensed as incurred.
Interest generally is expensed as incurred. Interest related to qualifying asset may be	Interest must be capitalised in certain circumstances including when payments are

capitalised if certain conditions are met.	made in advance. Also, assets for which interest is capitalised differ from those under UFRSs.
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Table 24 Shared-Based Payments (KPGM 2004, 80-81)

IFRS 2	Fed Law 208, Min Fin Order 94n
Goods or services received in share-based payment transaction should be measured at a fair value.	<p style="text-align: center;">There is no guidance on or disclosure requirements in respect of share-based payment transaction. Such transactions are extremely rare in Russia</p>
Goods should be recognised when they are obtained and services recognised over the period that they are received.	
Share-based payments to non-employees are measured based on the fair value of the goods and services received.	
Equity-settled grants to employees generally are measured based on the fair value of the instruments issued at the grant date.	
Equity-settled grant are not remeasured for subsequent changes in value.	
Estimates of the number of equity-settled instruments that vest are adjusted to the actual numbers that vest unless forfeitures are due to market-based conditions.	
Cash-settled transactions are remeasured at each balance sheet date and at the settlement date.	
For equity-settled transactions an entity recognises a corresponding increase in equity.	
For cash-settled transactions an entity recognises the liability incurred.	
Selling shares at a discount requires recognition of the discount as employee or	

other cost.	
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Table 25 Income Tax (KPGM 2004, 84-85)

IAS 12	RAS 18/02, Min Fin Letter 07-05-14/328
The total income tax expense recognised in profit or loss is the sum of current tax expense plus the change in deferred tax liability and assets during the period, net tax amortisation recognised directly in equity or arising from business combination that is acquisition.	The total tax expense is the sum of current tax expense plus all of the changes in deferred tax liabilities or assets during the period.
Current tax represents the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for a period.	Current tax represents only the amount of income tax payable of the taxable profit or loss for a period. Any taxes recoverable are recognised but cannot be included in current tax.
The measurement of current tax is based on rates that are enacted or substantively enacted at the balance sheet date.	The measurement of current tax is based on rates that are enacted.

Table 26 Unusual or Exceptional Items (KPGM 2004, 86-87)

IAS 1	Civil Code, RAS 4/99, RAS 9/99, RAS 10/99, Min Fin Order 67n
Significant items should be presented either in the notes or when necessary on the face of the income statement.	All material items (as defined) must be presented on the face of the income statement.
Presentation or disclosure of items of income and expense net of tax or characterized as “extraordinary item” in the income statement or notes is prohibited.	Certain items are presented as extraordinary items in the income statement. However, practice varies to whether presentation is gross or net tax.

5 COMPARISON OF FINANCIAL REPORTS OF AEROFLOT

Consolidated financial reports of Aeroflot and will be considered and compared in this chapter in order to analyse the effect of the differences on the company and the stakeholders.

5.1 Consolidated Income Statement

Consolidated income statement of Aeroflot Russian Airlines under IFRS and RAS will be considered and compared in this chapter.

Table 27 Consolidated Statements of Income (IFRS) of Aeroflot for the Years Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
Traffic revenue	5,758.6	3,340.3
Other revenue	825.1	682.3
Revenue	6,583.7	4,022.6
Operating costs	(5,008.8)	(2,996.7)
Staff costs	(1,004.6)	(650.8)
Depreciation and amortisation	(217.7)	(165.3)
Other income/(expenses), net	(63.1)	80.7
Operating costs	(6,294.3)	(3,732.2)
Operating profit	289.3	290.4
Finance income	134.6	329.3
Finance costs	(134.8)	(182.6)
Share of results of equity accounted investments	0.2	0.6
Profit before income tax	289.3	437.8
Income tax	(144.8)	(71.7)
Profit for the year	134.5	367.4

Table 28 Consolidated Statements of Income (RAS) of Aeroflot for the Years Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
Revenue	4,447.6	3,327.1

Sales costs	(3,563.8)	(2,721.5)
Gross profit	883.7	605.6
Operating costs	(577.6)	(390.9)
Administrative costs	(157.7)	(152.2)
Operating profit	148.3	62.4
Income from investments in other companies	4.7	2.8
Interests received	11.4	27.2
Interests paid	(25.1)	(22.3)
Other revenues	363.7	410.9
Other expenses	(293.3)	(141.9)
Profit before tax	209.8	339.2
Current income tax	(86.6)	(82.4)
Incl. permanent tax liabilities (asset)	(53.1)	(13.7)
Change in deferred tax liabilities	(10.2)	(2.4)
Change in deferred tax assets	1.9	0.8
Other tax payments	8.9	(3.3)
Net income (loss)	123.4	254.9

In 2011 revenue under IFRS was 4,022.67 million euros while under RAS revenue was 3,327.14 million euros. Therefore recognised revenue under IFRS was 20.9% more.

Income tax under IFRS was 71.72 million of euros while under RAS total tax paid was 87.40 million of euros. Thereby, taxes under IFRS were 17.9 % less.

Net income under IFRS was 367.49 million euros while under RAS the net income for 2011 was 254.90 million of euros. Therefore, under IFRS the net profit was 44.2% more.

In 2012 total revenue under IFRS was equal to 6,583.72 million of euros while total revenue under RAS was 4,447.66 million euros. Thereby, the total revenue under IFRS was 48% more than the one under RAS.

Income tax under IFRS was 144.89 million euros while under RAS total tax paid was 86.02 million euros. Thereby, taxes under IFRS were 2,366.6378 million Russian roubles or 68.4% more.

Net income under IFRS was 134.54 million of euros while under RAS the net income for 2012 was 123.48 million euros. Therefore, under IFRS the net profit was 9% more.

5.2 Consolidated Balance Sheet

Consolidated income statement of Aeroflot Russian Airlines under IFRS and RAS will be considered and compared in this chapter

Table 29 Consolidated Balance Sheets (IFRS) of Aeroflot for the Years Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	401.4	294.0
Short-term investments	3.8	15.7
Accounts receivable and prepayments	1,312.3	1,097.6
Aircraft lease deposit	6.5	2.1
Expendable spare parts and inventories	114.1	88.4
Assets of disposal group classified as held for sale	48.6	-
Total current assets	3,165.9	1497.8
Non-current assets		
Equity accounted investments	2.5	5.4
Long-term investments	161.9	143.0
Aircraft lease deposit	28.6	21.7
Deferred tax assets	77.4	104.7
Other non-current assets	218.7	154.0
Prepayments for aircraft	360.4	323.8
Property, plant and equipment	1,970.6	1,426.5
Derivative instruments	74.8	0.9

Intangible asset	87.9	75.0
Goodwill	182.6	190.8
Total non-current assets	3,165.9	2,493.3
TOTAL ASSETS	5,052.9	3,991.2
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	800.1	787.4
Unearned transportation revenue	406.8	277.8
Deferred revenue related to frequent flyer programme, current	9.6	6.0
Provisions	3.5	1.8
Short-term borrowings	376.9	282.8
Finance lease liabilities	199.5	151.6
Liabilities associated with assets of a disposal group classified as held for sale	20.6	-
Total current liabilities	1,817.0	1,507.7
Non-current liabilities		
Long-term borrowings	194.1	290.4
Finance lease liabilities	1,323.0	969.9
Provisions	2.4	3.0
Deferred tax liabilities	59.6	30.8
Deferred revenue related to frequent flyer programme, non-current	36.5	24.3
Derivative instruments	117.6	23.0
Other non-current liabilities	186.8	90.0
Total non-current liabilities	1,920.2	1,433.1
Equity		
Share capital	41.7	38.6
Treasure stocks	(104.7)	(98.5)
Accumulated gain on disposal of treasure shares	39.8	36.1
Investments revaluation reserve	(0.3)	(0.2)
Cumulative translation reserve	(135.59)	(205.0)

Hedge reserve	(5.5)	(5.0)
Share based payment reserve	13.7	8.0
Retained earnings	1,576.0	1,339.4
Equity attributed to shareholders of the Company	1,436.1	1,113.3
Non-controlling interest	(120.4)	(62.9)
Total equity	1,315.6	1,050.3
TOTAL LIABILITIES AND EQUITY	5,052.9	3,991.2

Table 30 Consolidated Balance Sheets (RAS) of Aeroflot for the Year Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
ASSETS		
Non-current assets		
Intangible asset	29.6	1.8
Results of research and development	1.3	0.2
Fixed assets	346.5	249.2
Investments	211.9	248.6
Deferred tax assets	4.9	2.9
Receivables with a maturity of more than 12 months after the balance sheet date	359.7	341.6
Other non-current assets	51.5	57.4
Total non-current assets	1,005.7	902.0
Current assets		
Inventories	76.4	56.2
Value added tax on acquired assets	33.3	17.5
Receivables	1,176.6	1,104.4
Investments	64.7	196.4
Cash and cash equivalents	327.0	88.6
Other current assets	4.9	2.9
Total current assets	1,683.6	1,467.7
TOTAL ASSETS	2,689.4	2,369.7

LIABILITIES AND EQUITY		
Equity		
Charter capital	27.7	27.2
Requiring common stocks	-	(7.0)
Capital surplus	17.6	19.4
Reserve capital	6.9	6.8
Undistributed profit	1,236.1	1,179.7
Total equity	1,288.4	1,226.1
Non-current liabilities		
Borrowed funds	52.0	294.0
Deferred tax liabilities	21.4	10.9
Other long-term liabilities	152.3	62.6
Total non-current liabilities	236.0	367.5
Current liabilities		
Borrowed funds	300.0	105.4
Payables	817.1	624.1
Deferred income	4.1	5.5
Estimated liabilities with a maturity of less than 12 months	43.5	40.9
Other liabilities	-	-
Total current liabilities	1,164.8	776.0
TOTAL LIABILITIES AND EQUITY	2,689.4	2,369.7

Changes in balance sheet do not affect shareholders directly. However, information from balance sheet is used by the investors while analysing the company.

First of all, investors use total debt to total assets ratio which shows how well company can deal with its long-term financial obligations and develop future assets. Under IFRS use total debt to total assets ratio was 0.74 in 2011 while under RAS it was 0.48.

Other ratio which is frequently used is current ratio. Under IFRS current ratio was 0.99 while under RAS it was 1.89

Nevertheless, since main objective of investors is to gain more profit, return on equity is important.

Under IFRS ROE was 0.35 while under RAS it was 0.21. However, ROE does not allocate the risk; therefore, it is more efficient to use Du Pont system.

Under IFRS profit margin ratio was 0.091 while under RAS it was 0.077. Total assets turnover was 1.01 under IFRS and 1.41 under RAS. Finally, equity multiplier was 3.80 under RAS and 1.93 under IFRS.

Therefore, under IFRS company seems to be riskier because total debt to total assets is higher. However, since ROE is higher under IFRS this risk would be compensated with higher payback.

Under IFRS total debt to total assets ratio of Aeroflot was 0.74 in 2012 while under RAS it was 0.52. Under IFRS current ratio was 1.74 while under RAS it was 1.45.

Under IFRS ROE was 0.10 while under RAS it was 0.10. However, ROE does not allocate the risk; therefore, it is more efficient to use Du Pont system.

Under IFRS profit margin ratio was 0.02 while under RAS it was 0.03. Total assets turnover was 1.30 under IFRS and 1.65 under RAS. Finally, equity multiplier was 3.84 under IFRS and 2.09 under RAS.

Therefore, under IFRS company seems to be riskier because total debt to total assets and current ration are higher. Moreover, since ROE is equal in both reports financial report under IFRS would be less attractive for the investors.

6 COMPARISON OF FINANCIAL REPORTS OF RUSSIAN RAILWAYS

Consolidated financial reports Russian Railways will be considered and compared in this chapter in order to analyse the effect of the differences on the company and the stakeholders.

6.1 Consolidated Income Statement

Consolidated income statement of Russian Railways under IFRS and RAS will be considered and compared in this chapter.

Table 31 Consolidated Statements of Income (IFRS) Of Russian Railways for the Years Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
Total revenue	38,508.0	36,281.5
Total expenses	(36,707.1)	(33,320.4)
Operating profit	3,219.0	4,459.2
Interest expenses	(256.0)	(256.1)
Interest income	214.2	165.6
Income before tax	3,071.2	6,575.8
Income tax	(1,278.2)	(1,547.4)
Deferred taxes	168.0	(622.1)
Total income tax	(1,110.2)	(2,169.5)
Net income	1,956.5	4,483.1

Table 32 Consolidated Statements of Income (RAS) Of Russian Railways for the Years Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
Revenue	34,150.3	31,564.2
Sales costs	(32,462.0)	(29,777.3)
Gross profit	1,688.3	1,786.8
Operating costs	(3.0)	(4.0)
Administrative costs	-	-
Operating profit	1,685.3	1,782.8
Income from investments in other	245.6	523.0

companies		
Interests received	141.6	86.2
Interests paid	(429.0)	(432.3)
Other revenues	7,477.9	7,119.7
Other expenses	(7,467.7)	(7,203.8)
Profit before tax	1,653.8	1,875.6
Current income tax	(1,012.0)	(1,202.7)
Incl. permanent tax liabilities (asset)	1,031.2	1,224.0
Change in deferred tax liabilities	(417.6)	(399.2)
Change in deferred tax assets	114.9	96.2
Income tax for prior periods	(3.1)	(11.5)
Unified tax on imputed income for prior periods	-	-
Expenses of penalty payments for social security and welfare	(-0.3)	(1.3)
Deferred tax liabilities written off to the profit and loss account	65.4	20.2
Deferred tax assets written off to the profit and loss account	(43.9)	(11.8)
Net income (loss)	352.7	412.1

In 2011 total revenue under IFRS was 36,281.54 million euros while under RAS it was 31,564.27 million euros. Total revenue under IFRS was 14.9% more.

Total tax paid under IFRS was 2,169.54 million Euros while under RAS 1,517.27 million Euros. Total tax paid under IFRS 43.9% more.

Net income for the period under IFRS was 4,481.22 million euros whereas under RAS it was 412.14 million euros. Therefore net income under IFRS was 987.3 % more.

In 2012 total revenue under IFRS was 38,508.08 million euros while under RAS it was 34,150.38 million euros. Total revenue under IFRS was 12.8% more.

Total tax paid under IFRS was 1,110.24 million euros while under RAS it was 1,295.87 million euros. Total tax paid under IFRS was 14.4% less.

Net income for the period under IFRS was 1,956.55 million euros whereas under RAS it was 352.75 million euros. Therefore net income under IFRS was 454.7% more.

6.2 Consolidated Balance Sheet

Table 33 Consolidated Balance Sheets (IFRS) Of Russian Railways for the Years Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
ASSETS		
Non-current assets		
Property, plant and equipment	73,585.3	63,944.2
Investment property	232.2	316.4
Goodwill	295.7	33.6
Intangible asset other than goodwill	1,547.7	610.1
Investments in associates	499.6	1,426.5
Other non-current financial assets	320.8	619.1
Deferred tax assets	118.9	125.1
Derivative financial assets	15.3	16.6
Other non-current assets	173.0	204.5
Total non-current assets	76,786.7	67,296.5
Current assets		
Inventories	2,782.4	2,722.1
Prepayments and other current assets	1,522.9	897.7
Income tax receivable	105.5	48.3
Receivables	1618.0	1,098.3
Obligatory reserve with Central bank of Russia	-	-
Securities at fair value through profit or loss	-	-
Other current financial assets	428.3	218.4
Derivative financial assets	14.1	108.1

Cash and cash equivalents	3,977.4	5,350.4
Assets of disposal group classified as held for sale	79.1	-
Total current assets	10,527.9	10,776.2
TOTAL ASSETS	87,314.6	78,072.7
EQUITY AND LIABILITIES		
Equity attributed to equity holders of the parent		
Share capital	47,192.7	43,774.5
Unrealised gain/(loss) on available for sale financial assets, net of tax	(7.3)	-
Revaluation reserve	211.7	(6.1)
Retained earnings/(accumulated deficit) and other reserves	7,001.5	6,353.9
Non-controlling interest	351.6	184.6
Total equity	54,750.2	50,306.9
Non-current liabilities		
Deferred tax liabilities	1,674.2	1,629.5
Long-term borrowings	9,341.9	6,039.0
Finance lease obligations, net of current portion	371.9	101.4
Employee benefit obligations	5,606.9	5,006.2
Banking customers accounts	-	-
Derivative financial liabilities	342.2	270.4
Other non-current liabilities	182.3	112.6
Total non-current liabilities	13,427.8	13,159.2
Current liabilities		
Trade and other payables	6,864.1	5,1
Advanced received for transportation	1,651.9	1,549.0
Banking customers accounts	-	-
Finance lease obligations, current portion	142.4	169.2
Income tax payable	105.9	436.0
Taxes and similar charges payable	924.1	779.7

Short-term borrowings	2,501.4	3,938.4
Derivative financial liabilities	62.5	57.0
Provisions and other current liabilities	2,792.2	2,515.8
Liabilities associated with assets of a disposal group classified as held for sale	-	-
Total current liabilities	15,044.8	14,606.5
TOTAL EQUITY AND LIABILITIES	87,314.6	78,072.7

Table 35 Consolidated Balance Sheets (RAS) Of Russian Railways for the Years Ended 31 December 2011 and 2012

All amounts in millions of euros	2012	2011
ASSETS		
Non-current assets		
Intangible asset	201.6	183.5
Results of research and development	5.7	49.5
Fixed assets	85,341.9	77,871.1
Bearing investments in tangible assets	3,819.7	3,262.4
Investments	10,186.73	9,747.1
Deferred tax assets	-	-
Other non-current assets	1,185.5	1,132.7
Total non-current assets	100,792.7	92,246.5
Current assets		
Inventories	1,928.7	1,874.3
Value added tax on acquired assets	201.6	160.0
Receivables	2,033.8	2,106.2
Investments	125.0	157.4
Cash and cash equivalents	2,838.5	4,429.7
Other current assets	349.5	347.8
Total current assets	7,477.3	9,075.6
TOTAL ASSETS	108,270.0	101,322.1
LIABILITIES AND EQUITY		
Equity		
Charter capital	45,671.93	43,774.5

Requiring common stocks	-	-
Revaluation of non-current assets	31,284.68	30,739.1
Capital surplus	2,174.53	658.4
Reserve capital	323.00	295.9
Undistributed profit	7,591.33	6,889.3
Total equity	87,045.45	82,356.9
Non-current liabilities		
Borrowed funds	8,987.00	6,449.4
Deferred tax liabilities	1,607.45	1,314.2
Estimated liabilities	-	-
Other long-term liabilities	84.18	-
Total non-current liabilities	10,694.38	7,763.6
Current liabilities		
Borrowed funds	1,504.18	2,956.9
Payables	7,808.23	7,335.8
Deferred income	177.80	150.5
Estimated liabilities	966.18	710.3
Other liabilities	73.88	48.1
Total current liabilities	10,503.25	11,201.7
TOTAL LIABILITIES AND EQUITY	108,270.08	101,322.1

Under IFRS total debt to total assets ratio was 0.36 in 2011 while under RAS it was 0.19. Under IFRS current ratio was 0.73 while under RAS it was 0.81.

Under IFRS ROE was 0.09 while under RAS it was 0.005. However, ROE does not allocate the risk; therefore, it is more efficient to use Du Pont system.

Under IFRS profit margin ratio was 0.166 while under RAS it was 0.013. Total assets turnover was 0.35 under IFRS and 0.31 under RAS. Finally, equity multiplier was 1.23 under RAS and 1.55 under IFRS.

Therefore, under IFRS company seems to be riskier because total debt to total assets is higher. However, since ROE is higher under IFRS this risk would be compensated with higher payback.

Under IFRS total debt to total assets ratio of Russian Railways was 0.33 in 2012 while under RAS it was 0.20. Under IFRS current ratio was 1.43 while under RAS it was 1.41.

Under IFRS ROE was 0.036 while under RAS it was 0.004. However, ROE does not allocate the risk; therefore, it is more efficient to use Du Pont system.

Under IFRS profit margin ratio was 0.05 while under RAS it was 0.01. Total assets turnover was 0.44 under IFRS and 0.32 under RAS. Finally, equity multiplier was 1.59 under IFRS and 1.24 under RAS.

Therefore, under IFRS company seems to be riskier because total debt to total assets and current ration are higher. However, since ROE is higher under IFRS this risk would be compensated with higher payback.

7 CONCLUSION

In conclusion, introduction of IFRS will have a huge impact on stakeholders. This impact is considered in this chapter.

First of all, the introduction of IFRS would have an impact on Russian government since it collects taxes from the company. During 2011-2012 under IFRS Aeroflot paid 216.6 million euros as taxes while under RAS Aeroflot paid 173.4 million euros.. Therefore, under IFRS Aeroflot paid 25% more.

During 2011-2012 Russian Railways paid 3,279.7 million euros as taxes, during the same period of time under RAS Russian Railways paid 2,813.1 million euros. Thereby, under IFRS Russian Railways paid 16.5 % more.

Therefore, the total amount of taxes received was greater under IFRS and due to this fact Russian government are highly interested in introduction of IFRS in Russia as they would collect more taxes.

Secondly, net income of Aeroflot was greater under IFRS both in 2011 and 2012. Likely to Aeroflot, Russian Railways also reported greater net income under IFRS in 2011 and 2012. Therefore, the shareholders may expect huger dividends if companies operate under IFRS instead of RAS. Especially, if take into consideration the fact that Russian government is willing to force companies to pay 30% of their net income as dividends. Thereby, shareholders are also highly interested in introduction of IFRSA in Russia. In addition, dividends received are also taxable; therefore government would collect even more taxes.

Moreover, since company has to pay more taxes and more dividends under IFRS rather than under RAS, while taxes and dividends are monetary expenses, it means that companies with weak cash flow positions may suffer from introduction of IFRS in Russia.

In addition, total debt to total assets ratio is higher in the financial reports prepared under IFRS which would mean for the investors that company is riskier. In contrast, return on equity is higher in the reports prepared under IFRS. Therefore, it would mean for the investors that higher risk would be compensated with higher dividends.

To sum up, introduction of IFRS would have a positive impact on shareholders and government and negative impact on some of the companies. However, since introduction of IFRS may attract more foreign investors in Russia, most likely, introduction of IFRS would have a positive impact for the society in general.

Therefore, the introduction of IFRS may help to solve some of the barriers for tourism development in Russia. As it was mentioned before, it may attract more foreign investors which will lead to increase of competition, increase of quality since international companies will bring their standards. Moreover, it will increase the quality of marketing as foreign companies will be highly interested in attracting more customers and will introduce new marketing campaign for their products.

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