

# **Statistics on Financial Statements of Non-financial Corporations Sector of the Russian Federation**

## **Methodological notes**

### **General provisions**

The “Non-financial corporations” sector comprises organisations that produce market goods or non-financial services, including the branches of non-resident corporations that are engaged in non-financial production in the Russian Federation, along with non-profit institutions that are market producers.<sup>1</sup> The definition of the non-financial corporations sector used for the compilation of statistics on the financial statements of non-financial corporations corresponds to the “Classification of institutional sectors of the economy” of the All-Russian Classification of Forms of Incorporation OK 028-2012 (approved by Order of the Federal Agency on Technical Regulation and Metrology (Rosstandart) No. 505-st, dated 16 October 2012).

Statistics on the financial statements of the non-financial corporations sector are published once a year broken down by sector according to the All-Russian Classification of Economic Activities (hereinafter, economic activities) and by type of enterprises: micro, small, and medium-sized enterprises, as well as commercial entities other than small or medium-sized enterprises. The type of enterprise is assigned on the basis of the Unified Register of Small and Medium-sized Enterprises.<sup>2</sup> The classification of enterprises by type of economic activity is performed in accordance with the data from the Statistical Business Register of the Russian Federation of the Federal State Statistics Service (hereinafter, the Statistical Register). According to the Regulations on the Statistical Register of the Federal

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<sup>1</sup> Market producers are institutional units selling their goods and services at economically significant prices, that is, at prices affecting the demand and supply of goods and services. Non-market producers classified as the general government sector or the sector of non-profit institutions serving households.

<sup>2</sup> The Unified Register of Small and Medium-sized Enterprises is maintained by the Federal Tax Service in accordance with Article 4.1 of the Federal Law No. 209-FZ, dated 24 July 2007, “On the Development of Small and Medium-sized Businesses in the Russian Federation”. In accordance with Part 6 of Article 10 of the Federal Law No. 408-FZ, dated 29 December 2015, “On Amending Certain Laws of the Russian Federation”, the Unified Register of Small and Medium-sized Enterprises has been maintained since 1 August 2016.

State Statistics Service (hereinafter, Rosstat), the Statistical Register provides the code of the main economic activity actually conducted by an enterprise over the surveyed period. The code is assigned to an enterprise according to the data from federal statistical surveys applying Rosstat's methodology for determining the primary economic activity (approved by Rosstat Order No. 744, dated 25 November 2016). Information on the financial statements of the enterprises is compiled broken down by the following types of economic activities:

- B – mining and quarrying;
- C – manufacturing;
- F – construction;
- G – wholesale and retail trade;
- H – transportation and storage;
- L – real estate activities;
- M – professional, scientific and technical;
- other economic activities.

Other economic activities include:

- A – agriculture, forestry, hunting, fishing and fish farming;
- D – electricity, gas and steam supply;
- E – water supply, sewerage, waste management, and remediation activities;
- I – accommodation and food service activities;
- J – information and communication;
- N – administration and support service activities;
- Q – human health and social work activities;
- R – arts, sports, entertainment, and recreation.

## **Key indicators of annual financial statements**

The source of information for the publication “Statistics on Financial Statements of Non-financial Corporations Sector of the Russian Federation” is the data of annual accounting (financial) statements (hereinafter, the AAS) collected by the Federal Tax Service of Russia (hereinafter, the FTS).<sup>3</sup>

AAS indicators are provided as aggregates. The list of balance sheet indicators is presented in Table 1.

Table 1. Balance sheet indicators

<b>Indicator</b>	<b>Item code</b>
Non-financial assets	Sum of items 1110, 1120, 1130, 1140, 1150, 1160, 1190, 1210
Long-term financial assets	1170
Short-term financial assets	Sum of items 1240, 1250
Deferred tax assets	1180
Accounts receivable	1230
Other assets	Sum of items 1220, 1260
Balance sheet. Assets	1600
Capital and reserves	1300
including: retained earnings (uncovered loss)	1370
Long-term borrowings	1410
Short-term borrowings	1510
Deferred tax liabilities	1420
Accounts payable	Sum of items 1450, 1520
Other liabilities	Sum of items 1430, 1530, 1530, 1540
Balance sheet. Liabilities	1700

<sup>3</sup> In accordance with amendments introduced by the Federal Law No. 444-FZ, dated 28 November 2018, “On Amending the Federal Law “On Accounting”, since 1 January 2020 Rosstat has ceased to exercise its authority to collect mandatory accounting (financial) statements, the functions of building and maintaining the state information resource of annual accounting (financial) statements have been assigned to the FTS.

Long-term debt (or long-term liabilities) is the sum of long-term borrowings, deferred tax liabilities, estimated liabilities, and other long-term liabilities (item 1400 “Total for section IV”). Short-term debt (or short-term liabilities) is the sum of short-term borrowings, accounts payable, deferred income, estimated liabilities, and other short-term liabilities (item 1500 “Total for section V”).

Liabilities consist of the sum of long- and short-term debt (the sum of item 1400 “Total for section IV” and item 1500 “Total for section V” of the balance sheet).

In the data, there may be discrepancies between the sums of balance sheet assets and liabilities and their components, which is due to the use of simplified reporting forms by organisations<sup>4</sup> as well as rounding of indicators in the reporting forms.

The list of the published indicators of the Profit and Loss Statement is presented in Table 2.

Table 2. Indicators of the Profit and Loss Statement

<b>Indicator</b>	<b>Item code</b>
Revenue	2110
Gross profit (loss)	2100
Interest payable	2330
Profit (loss) before taxation	2300
Net profit (loss)	2400

Revenue means funds received by organisations from the sale of goods and services.

Gross profit (loss) means revenue less the cost of sales.

The interest payable line contains information on other expenses in the form of accrued interest payable.

Profit (loss) before taxation is the sum of profit (loss) from sales, income from equity participation, interest receivable, other revenues, interest payable, and other expenditure.

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<sup>4</sup> In accordance with Clause 4 of Article 6 of Federal Law No. 402-FZ, dated 6 December 2011, “On Accounting”.

## Data preprocessing

Data undergo the following stages of control and processing:

- validation of AAS data for measurement errors;
- cross-checking AAS data using additional information sources (statements of issuers of emissive securities, federal statistical reporting forms P-3 “Information on Financial Condition of an Organisation” and P-6 “Information on Financial Investments and Liabilities”);
- reviewing AAS data for misstated items, including repeatedly overstated entries on the balance sheet;
- reviewing classification of organisations by type of economic activity in the Statistical Register.

## Financial soundness indicators

The procedure of data preprocessing before calculation of financial soundness indicators (hereinafter, FSIs) contains following stages:

1. FSIs are calculated for each organisation in the sub-sample as of the date under review in accordance with the calculation formula (see below).
2. As of the date under review, each sub-sample is analysed for atypical values using Tukey’s test. FSI values that satisfy the following inequalities are recognised as atypical:

$$FSI < FSI_{0.25} - 1,5 IQR$$

$$FSI > FSI_{0.75} + 1,5 IQR$$

where  $FSI_{0.25}$  is the 25th percentile,  $FSI_{0.75}$  is the 75th percentile,  $IQR$  is the interquartile range ( $FSI_{0.75} - FSI_{0.25}$ ).

Organisations with atypical FSI values are excluded from each sub-sample.

3. The total FSI for each sub-sample as of the date under review is calculated using the following formula:

$$\frac{\sum_{i=1}^n FSI_i * i. 1600_i}{\sum_{i=1}^n i. 1600_i}$$

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where  $i.1600_i$  is the balance sheet indicator “Balance sheet. Assets” for the  $i$ th organisation;  $n$  is the number of organisations in the sub-sample.

### **FSI calculation formulas:**

1. Cost of financing indicator. Calculation formula:

$$\frac{i.2330}{i.1410 + i.1510}$$

- item 1410 is the balance sheet indicator “Borrowings” (long-term borrowings);

- item 1510 is the balance sheet indicator “Borrowings” (short-term borrowings);

- item 2330 is the balance sheet indicator “Interest payable”.

The calculation excludes organisations for which the sum of items 1410 and 1510 equals zero or item 2330 equals zero.

2. Financial leverage ratio. Calculation formula:

$$\frac{i.1400 + i.1500}{i.1300}$$

- item 1300 is the balance sheet indicator “Total for section III” (equity);

- item 1400 is the balance sheet indicator “Total for section IV” (sum of long-term liabilities);

- item 1500 is the balance sheet indicator “Total for sector V” (sum of short-term liabilities).

The ratio shows the efficiency of the liability management.

The calculation excludes organisations for which item 1300 equals zero or the sum of items 1400 and 1500 equals zero.

3. The ratio of short-term debt to long-term debt. Calculation formula:

$$\frac{i.1500}{i.1400}$$

- item 1400 is the balance sheet indicator “Total for section IV” (sum of long-term liabilities);

- item 1500 is the balance sheet indicator “Total for section IV” (sum of short-term liabilities).

This ratio reveals the maturity structure of liabilities (short- and long-term ones).

The calculation excludes organisations for which item 1400 equals zero or item 1500 equals zero.

4. The ratio of financial assets to non-financial assets indicates the structure of corporate assets. Calculation formula:

$$\frac{i.1170+i.1180+i.1220+i.1230+i.1240+i.1250+i.1260}{i.1110+i.1120+i.1130+i.1140+i.1150+i.1160+i.1190+i.1210}$$

- item 1110 is the balance sheet indicator «Intangible assets»;

- item 1120 is the balance sheet indicator “Research and development products”;

- item 1130 is the balance sheet indicator “Intangible exploration assets”;

- item 1140 is the balance sheet indicator “Tangible exploration assets”;

- item 1150 is the balance sheet indicator “Fixed assets”;

- item 1160 is the balance sheet indicator “Income-bearing investment in tangible assets”;

- item 1170 is the balance sheet indicator “Financial investment”;

- item 1180 is the balance sheet indicator “Deferred tax assets”;

- item 1190 is the balance sheet indicator “Other non-current assets”;

- item 1210 is the balance sheet indicator “Inventories”;

- item 1220 is the balance sheet indicator “Value added tax on acquired assets”;

- item 1230 is the balance sheet indicator “Accounts receivable”;

- item 1240 is the balance sheet indicator “Financial investment (less cash equivalents)”;

- item 1250 is the balance sheet indicator “Cash and cash equivalents”;

- item 1260 is the balance sheet indicator “Other current assets”.

The calculation excludes organisations for which the sum of non-financial assets equals zero or that of financial assets equals zero.

5. The ratio of retained profit (uncovered loss) to equity (the performance ratio). Calculation formula:

$$\frac{i.1370}{i.1300}$$

- item 1300 is the balance sheet indicator “Total for sector III” (equity);
- item 1370 is the balance sheet indicator “Retained earnings (uncovered loss)”.

The calculation excludes organisations for which item 1300 equals zero or item 1370 equals zero.

6. The ratio of retained earnings (uncovered loss) to non-financial assets (the return ratio). Calculation formula:

$$\frac{i.1370}{i.1110+i.1120+i.1130+i.1140+i.1150+i.1160+i.1190+i.1210}$$

- item 1110 is the balance sheet indicator “Intangible assets”;
- item 1120 is the balance sheet indicator “Research and development products”;
- item 1130 is the balance sheet indicator “Intangible exploration assets”;
- item 1140 is the balance sheet indicator “Tangible exploration assets”;
- item 1150 is the balance sheet indicator “Fixed assets”;
- item 1160 is the balance sheet indicator “Income-bearing investment in tangible assets”;
- item 1190 is the balance sheet indicator “Other non-current assets”;
- item 1210 is the balance sheet indicator “Inventories”;
- item 1370 is the balance sheet indicator “Retained profit (uncovered loss)”.

The calculation excludes organisations for which the sum of non-financial assets equals zero or item 1370 equals zero.

7. Return on equity (ROE). Calculation formula:

$$\frac{i.2400}{i.1300} * 100$$

- item 1300 is the balance sheet indicator “Total for section III”;
- item 2400 is the balance sheet indicator “Net profit”.



Return on equity, a key performance indicator, measures a company's profitability relative to the amount of equity invested in the company.

The calculation excludes organisations for which item 1300 equals zero or item 2400 equals zero.

8. Return on assets (ROA). Calculation formula:

$$\frac{i.2400}{i.1600} * 100$$

- item 1600 is the balance sheet indicator "Balance sheet. Assets";

- item 2400 is the balance sheet indicator "Net profit".

It displays return on assets.

The calculation excludes organisations for which i. 1600 equals zero or i. 2400 equals zero.

9. Return on sales (ROS). Calculation formula:

$$\frac{i.2400}{i.2110} * 100$$

- item 2110 is the financial performance indicator "Revenue";

- item 2400 is the balance sheet indicator "Net profit".

The calculation excludes organisations for which item 2110 equals zero or item 2400 equals zero.

10. Liquidity ratio. Calculation formula:

$$\frac{i.1200}{i.1500}$$

- item 1200 is the balance sheet indicator "Total for section II";

- item 1500 is the balance sheet indicator "Total for section V".

It reflects the ability of an organisation to repay short-term borrowings using short-term assets.

The calculation excludes organisations for which item 1500 equals zero or item 1200 equals zero.

## Information sources

Table 2. Sources

<b>Reporting form</b>	<b>Frequency</b>
Reporting Form 0710001 “Balance Sheet”	Annually
Reporting Form 0710002 “Statement of Financial Performance”	Annually
Unified State Register of Legal Entities	Daily
Unified Register of Small and Medium-sized Enterprises	Daily
Rosstat’s Statistical Register of Business Entities	Monthly

## List of key documents

1. International Monetary Fund, Financial Soundness Indicators Compilation Guide, 2019, p.2, pp.135-142.
2. OECD, Understanding Financial Accounts, 2017, pp. 208-209.