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Transformation of Value and Income Indicators and Their Accounting and Analytical Support

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Abstract:

Purpose: *The objective of the article is to identify and evaluate transformational changes related to the degree of usefulness of effective financial indicators formed on the accounting basis. These indicators are extremely important for choosing the most effective investment and economic policy of the stakeholders.*
Structure/Methodology/Approach: *To improve the quality and the value of accounting information, as well as to manage the profits and the value of business entities, the following has been revealed: first, the impact of static and dynamic concept of accounting; second, capabilities and limitations of integration of various accounting models and procedures; third, recommendations allowing adoption of accounting tools to the procedures of increasing standardization in financial statements.*
Findings: *In order to reveal the impact of modern accounting procedures on the system of financial and economic performance indicators, a system of accounting procedures and indicators has been proposed.*
Practical Implications: *The results of this study can be implemented into management practice to improve efficiency of property management for business units.*
Originality/Value: *The core value of the study is to shift emphasis onto the aggregation of accounting and analytical tools for evaluation of property and inclusion of information reliability parameters into the system of financial and economic forecasting of business development.*

Keywords: *Cost, capital, accounting, profit, income.*

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1. Introduction

The continuous integration of IFRS standards into international accounting practices leads to a significant shift of accounting procedures towards a static perception of financial and economic processes and events, accompanied by a gradual reorientation of the importance of the most significant performance indicators from income-based to accession-based. The objective of this paper is to analyze and to prove the best ways to harmonize accounting tools, providing a mixture of various accounting procedures, including those, which reflect the special aspects of the stock market functioning, integrated reporting indicators, as well as static and dynamic concepts of accounting.

In order to achieve our goal and solve the mentioned scientific problems, firstly, we carried out a theoretical critical evaluation of the accounting estimate of the most important economic categories; secondly, we proved the possibility of integrating the categories of income and capital into the system of modern accounting coordinates; thirdly, we proved that the transition to fair value cannot be considered a positive trend in improving the functional quality of accounting. However, further differentiation of accounting components will be a great contributor to achieving it.

2. Theoretical, Informational, Empirical and Methodological Issues

Today, quite significant transformational procedures, concerning not only digitalization of accounting, but also the changing role of certain major categories of financial and economic business valuation, take place. This requires a reorientation of economic entities' activities from income-based indicators to accession-based indicators with a great penetration of transactional methods and engineering techniques.

Differences in the essence of accounting procedures lead to significant differences in the evaluation. The static approach and the accounting tools used in it are known to simplify determination of the property (assets) value in a more accurate way, whereas the dynamic approach is more fact-based in determining financial results. The accounting scientific view has not still given (and is unlikely to do it in the near future) an answer about the right choice of a particular priority. Much depends on national accounting specifics and the goals set by the current business community.

At the same time, we do not take the problem of business units' transition to the principles of sustainable development, since this procedure would greatly complicate the system of calculated and presented reporting indicators and forms. This will require practical implementation of the so-called integrated reporting which implies a dramatic change in the priorities of the operations results and where high-quality indicators of the social and environmental fields are put at the first place (The international IR framework, 2013). It means that the basic principles and concepts

under formation of integrated reporting are tied to changes in the target orientation of companies and organizations functioning when the main task is not to maximize income, but to create the values that would allow rational using of all types of capital, including natural and human, in the long term.

Income determination from the accounting point of view is an extremely difficult task, and whatever the income amount is, it can only partially reflect the financial efficiency of business processes (Brandt, Kishore, Santa-Clara and Venkatachalam, 2008; Arvanitis *et al.,* 2017). However, the accession indicator has a lot of problematic aspects and moments, too. Some authors consider the accession indicator as the main criterion for determining the effectiveness of any institutional unit, including not only commercial, but also state, municipal, and cooperative, and even accounting principles have been unified for this purpose (Tkach and Shumejko, 2008, p. 49). This approach has been actively adopted in the public sector in terms of the first global accounting reform since the 90's based on the IFRS and IPSAS standards. In Russia, more than 10 federal accounting standards were created for state institutions on the basis of IPSAS. In fairness, it should be noted that initial results of the practical adoption of this reform give rather negative results, than positive ones (L'vova, 2014; Jindrichovska and Nubickova, 2016).

Consideration of accession indicators from the accounting point of view led to an increase in the importance of assessing the institutional unit as a whole, as well as by its components. The list of the most significant aspects of property, as well as objects of assets accounting, various estimated values of capital, etc., is increasing abruptly. According to Prof. J. Richard, a comprehensive understanding of the essence of the property (actuarial, static, liquid, contributed, fiscal, etc.) is another argument in favor of the development of accounting multivariance. Global accounting practice has developed numerous approaches to the definition of net assets, capital (including equity capital), as well as various adjustments of assets and liabilities.

Considering the value of business units as a property complex, it is necessary to take into account the principles, the direction, and the results of evaluation. The first group of principles is closely linked to the owner's economic ideas, with utility and substitutability being the main aspects. It is utility (with its 2 types: current prognosis and projection), that is now considered the most important principle of accounting. The second group of principles is based on operational aspects with the focus on endowment, added productivity, marginal utility, and equilibrium. The influence of the principles of the market environment is reflected in the accounting of supply and demand, competition, changes, compliance, etc.

The key directions of evaluation are: a) the value of a created company, with an extensive use of a projecting balance sheet and other forms of reporting; b) valuation of a functioning business unit, reflecting various aspects of company development; c) valuation of a reorganized company, considering all the possible consequences of

its liquidation; d) valuation of a company under reorganization upon termination of the going concern assumption.

On the other hand, property complexes in the course of their functioning are subject to various transformational procedures that form various relations in ownership. The main categories of property accounting are legal entities, companies as a form of property complex with different valuations (market, fair, cadastral), and procedures related to government regulation of valuation activities. However, the variety of valuation forms of the property complex, which in most cases underlie the valuation of property, is not always useful for objective evaluation. In particular, shareholder value, which changes almost daily, does not cover a number of entities (state, cooperative, small) and therefore poorly corresponds to market and fair values.

Cadastral valuation is mainly static and unchanged. When using data from a balance sheet, it is necessary to consider that the indicators are calculated within the framework of balance sheet valuation, which is historical in essence and thus does not always correspond to reality. Theoretically, market and fair values can be considered the most appropriate forms. At the same time, fair value includes all arbitrary reserves, as well as receivables and payables, showing capital value of future payments. If we continue deepening into accounting and cost aspects, we can state with confidence that the number of capital-related scientific and methodological problems is no less than income-related problems.

For a long time, there has been a close connection between these two categories, and each theory of capital is associated with the theory of income. The existing differences about the capital category are mainly related to physical and value concepts. The greatest problem arises when these concepts are implemented in models. On the one hand, in the category of capital it is necessary to find the best ways for integrating production with the theory of value. On the other hand, it may be necessary to integrate capital and time into equilibrium models. Modern views on capital are similar to the views of researchers who separated capital from matter and represented it as an abstract category, a special economic ability to perform (Tkach and Kol'vakh, 2014). Joint-stock companies on the way to maximize their income consider the process of its achievement through the sale and purchase of companies and businesses. In the process of business acquisition, there are two possible priorities.

According to the first priority, one purchases capital, according to another, preference is given to net assets. When it comes to purchasing capital, shareholders and investors are interested in the profitability of a business, and the higher it is, the higher the cost of the business unit will be, provided the other aspects are equal. In the second case, we are talking not so much about the level of actual profitability, as about the so-called potential capability of generating income. What really matters is not how much a company is earning now, but its long-term ability to generate

income in the long term. There appears a tendency to shift accounting procedures from the methods of complete record-keeping to the method of accounting statements preparation, since financial markets have a particular interest in the auditors-confirmed reports, not the ledger accounts. Therefore, it is not surprising that auditors started using both inductive and deductive methods of collecting evidence, called by a modern audit theorist R. Montgomery the audit trail. The audit trail means utilizing various audit procedures. If we are talking about the inductive method, it means traditional accounting procedures, starting from registering business operations and ending with preparation of statements.

The deductive method involves audit of performance reporting followed by ledger accounts and primary documents. In this case, auditors should focus on the so-called materiality level and abstract from less significant accounting indicators (Sokolov and Terent'eva, 2009). Apparently, IFRS are unlikely to ensure the neutrality of interests of various user groups, since the evolution of these standards and, in particular, organizational aspects indicate a shift towards the priority of financial institutions and groups.

Financial institutions are mainly interested not in the amount of income or financial and economic activities of a company, but in its stock value(Chan, Jegadeesh and Lakonishok, 1996). A dramatic growth in the role and significance of capital in the market and a dynamic change in the value of assets, partly via the liquidity factor, reinforce the interconnection between the value of these assets and the stock value. Inflationary processes also increase interest in evaluation of the constituent parts of assets, partly via the fair price, which also leads to an increase in the stock value (Bernard and Thomas, 1989). In this case, we see a shift away from the positive dynamic interpretation of accounting, which implies a close interconnection between the stock value and the level of profitability of a business unit. In determining the latter, the owner or top management were interested in the process of gaining income depending on capital investments, which is a microeconomics classic, and the accounting was clearly focused on the business operations and preparing reports on their basis (Druker and Makar'yaello, 2010).

Now, the stock value has become increasingly dependent not on the actual income, but on the potential income driven by the assets. Therefore, one should not be surprised with the changes in the conceptual basis, when the principle of relevance comes to the leading position with its two most important options: predictive and confirming values. Financial reporting requirements are increasingly shifting towards projecting data based on parameters and evaluations of various market information. There is also a tendency to strengthen the focus on liquidity procedures since reorganization of business units is becoming more frequent. As a result, assets should be considered not just as a set of certain property types, but as the property that either brings income or is capable of generating it. If the property component is not capable of this, financial market players say it should be attributed to losses. However, by focusing on the static concept of accounting IFRS, supporters almost

removed income from the balance sheet, since in terms of this concept any increment of capital is considered an income. At the same time, by far not every increment of capital could be called income in terms of the dynamic concept; a classic example of it is property obtained as a gift.

The procedure of reflecting accounting records in the system of primary documentation is undergoing a serious transformation. Moreover, even the need for such records is considered questionable. This is explained by the fact (repeatedly mentioned by Prof. Y.V. Sokolov) that business units obtain their obligations before accounting services receive relevant documentation. Moreover, the expectation of documentary confirmation of business operation items implies a deliberate distortion of financial health of the unit. On the other hand, such a delay in documentary reflection weakens the legal mantle of accounting. However, financial institutions are focused on operations with securities and fluctuations in capital value, and they are primarily interested in the economic side of the accounting reflection of potentially profitable assets. In this regard, they need a realistic evaluation of the latter. When calculating financial results, discounted costs that take possible inflation and fair value into account, become almost mandatory instead of fixed costs.

3. Results

The transition to fair prices is unlikely to reduce the risk of executive decision-making because the refusal of the documentary reflection of business operation items and a rigorous desire of accountants to reflect assets at fair prices can lead to extensive use of arbitrary prices in practice. This can have an adverse effect on a specific accounting function by opening the window of opportunity for various thefts and frauds. In essence, this leads to a reduction of the goals and functions of accounting which, according to the IFRS ideas, should be limited to providing information to potential investors, such as financial institutions and the financial oligarchy. The source of such information should be not theoretical ideas and accounting traditions of a particular country, but various probabilistic assumptions and predictions. From our point of view, the emergence and rather wide dissemination of strategic accounting, contributing to the implementation of the IFRS objectives, should be considered in this vein (Belousov, 2018).

In strategic accounting, the priority of accounting objectives aimed at maximizing market value of a business unit is most apparent since the main goal of shareholders is to increase market value of the property, the main goal of a state is to collect taxes, for suppliers it is reliability of their business partners, and for banks it is solvency strengthening. This is due to the fact that owners of joint-stock companies do not make profit directly, but only have dividends paid from it. Moreover, most companies transfer only a part (if any) of their income to dividends. Eventually, shareholders are interested not so much in increasing their dividends, but rather in

the growth of shareholder income, which includes not only dividends, but also the growth of the market value of shares. In addition, a share price is a major part of the income, which means that shareholders are interested in the growth of the market value of their companies. The link between property indicators and additional share issue can reflect balance-sheet value and forecasting value of a company.

Nowadays, strategic accounting solves a large variety of tasks, reflecting a wide range of objects by means of various tools. Despite the existence of several definitions of strategic accounting (according to Prof. V.I. Tkach, there are 7 of them), they all agree on the main thing: it provides the basis for various estimates and assessments for strategic management, as well as financial and economic decisions of business units (Tkach and Shumejko, 2008, pp. 31-32). The key difference between strategic accounting and management accounting is that the strategic one is focused on the long-term period and is based on a variety of decisions, considering external environment, while the management one solves internal economic problems of the company. That is why the value of a company is of fundamental importance for strategic accounting, while for management accounting the most important are legal entities represented in the form of a property complex and characterized by market, fair, and cadastral value, as well as government control of valuation activities.

4. Conclusion

We believe that modern accounting modeling of the key performance indicators of business units should be based on the multivariate management decisions, significantly reducing zones of financial risks. In our opinion, a financial risk zone should be determined by comparing the strategic value of a company with its actual value, taking into account the state of the system, which could be active, passive, and neutral. The latter arises from the perception of accounting as a complex integrated system consisting of various components. This allows identifying the main competitive forces, ensuring neutralization of their impact within the framework of functioning business units, reflecting the strengths and weaknesses, the possibility of external threats appearance, etc.

In addition, we find it necessary to consider the value of a company hand-in-hand with a concept of property. In economic terms, property is a form of economic aggregate, obtained as a result of a comparison of the value of all the assets of a business unit and the value of the obligations of its subject to business partners and the state.

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