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METHODS OF VALUATION OF ITEMS OF FINANCIAL REPORTING OF UKRAINIAN ENTERPRISES: UNIFICATION OF NATIONAL AND INTERNATIONAL STANDARDS

Yuliia Klius[1], Oleh Zamai[2]

Abstract. *The purpose* of the paper is to unify the methods of valuation of items of financial reporting of Ukrainian enterprises on the basis of national and international standards. *Methodology*. The theoretical aspects of the study are based on international accounting and financial reporting standards, as well as national accounting regulations (standards). The applied aspects consist in specifying the methods of valuation of certain objects of accounting (assets, liabilities, income, expenses) and their reflection in the financial statements. *The results of the paper* made it possible to determine the conditions for the implementation of international accounting and financial reporting standards in Ukraine. It was shown that their implementation began in 2007 and was completed in 2012 by public joint stock companies due to the requirements for placement of securities on stock markets. The impact on the implementation of international accounting and financial reporting standards by Ukrainian enterprises in connection with the signing by Ukraine of the Association Agreement with the European Union was determined. The characteristics of the Anglo-American and continental accounting models, their regulatory standards, existing differences between US GAAP and IFRS/IAS, work on their harmonization with a view to creating an international accounting model were presented. The methods of valuation of items of financial reporting were systematized: historical cost, present value, net selling price, fair value or amount of expected compensation. Their advantages, disadvantages and scope of application were determined. The cost approach to the valuation of financial reporting items and the prospects for its use were examined in more detail. It was shown that enterprise value is characterized by indicators reflected in balance sheet, off-balance sheet and financial statements. The information model for determining the value of an enterprise on the basis of financial statements was proposed. The methods of value determination depending on the organizational and legal form of an enterprise were differentiated. The sources of formation of its market and fundamental value have been clarified. The informational capacity of the items of the financial statements of an enterprise was estimated. *The practical implications* include the creation of an information model for determining the value of the company according to financial reporting, the substantiation of recommendations for regrouping its items for the needs of management accounting, and the creation of additional reporting forms – a value statement and a value-added statement. *Value/originality.* The methodological recommendations for the harmonization of the systems of financial and management accounting of added value were substantiated in terms of: recognition of income generated by fully depreciated assets; capitalization of financial costs; use of 8-class accounts; off-balance sheet accounting to reflect non-financial information about capital and integrated added value of a company; simplification of the tax system by introducing a single value added tax, which will absorb income tax and lead to further harmonization of financial and tax accounting.

Key words: unification, methods, evaluation, financial reporting, item, Ukrainian enterprises, international standards.

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[1] Volodymyr Dahl East Ukrainian National University, Kyiv, Ukraine *(corresponding author)*
E-mail: klius@snu.edu.ua
ORCID: https://orcid.org/0000-0002-1841-2578
[2] Volodymyr Dahl East Ukrainian National University, Kyiv, Ukraine
E-mail: zamayoo@gmail.com
ORCID: https://orcid.org/0000-0003-1244-6846

1. Introduction

The globalization of the world economy is accompanied by an increasing role of information flows, harmonization of conditions for functioning of national economic systems, unification of accounting rules and formation of financial statements. Traditional accounting and financial statements provide limited information on the value parameters of an enterprise as an integral business, limited to data on its economic resources and financial results. The accounting and information system of an enterprise is dominated by historical estimates, which is acceptable to a certain extent for the performance of activities, but does not meet the requirements of financial and investment activities, which are oriented to market indicators. At the same time, the key drivers of value (capital – human, intellectual, organizational, customer, etc.) are beyond the traditional accounting system, for which the value of the enterprise is an external category. Accounting and financial statements of a company provide users with information about the balance value of assets and capital, which may be significantly different from the market value of a company, either increasing or decreasing it.

When it comes to the value chain, the main disadvantage of financial reporting is its focus on traditional indicators of financial results, rather than providing information on the value of the business. (Holov, 2015) The disadvantages of the formal application of accounting principles and methods in accordance with national and international standards in terms of ensuring the transparency of information on the value, eliminate creative accounting and reporting focused on the implementation of certain groups of users. The mechanisms for ensuring such possibilities are professional judgments and assumptions of company officials, which are subjective in nature, but are based on objective value factors.

The basis of profit as a basic concept of accounting is the method of accrual accounting, the matching of revenues and expenses, the periodicity of their recognition. Therefore, there are opportunities to influence the accounting estimates of financial results by regulating them or equalizing profits based on the appropriate distribution and redistribution of revenues and expenses among reporting periods. An important component of a company's value is its value added. It is the subject of taxation, not financial accounting, and is reflected in the value added tax return. It is also the object of statistical accounting at the macroeconomic level in the system of national accounts. Value added reflects a real increase in value for shareholders, and its creation and distribution is the subject of corporate social responsibility reporting. This is due not only to the economic but also to the social significance of value added, since it characterizes the contribution of owners and stakeholders (employees, creditors, government, etc.) to the financial results of a company. The basis for the distribution of value added among stakeholders (employees, government, owners, creditors) is capital and labor.

Due to the emergence of a new information function of accounting, the purpose of the study is to develop recommendations for unification of methods of valuation of items of financial reporting of Ukrainian enterprises on the basis of national and international standards.

2. Conditions for the implementation of international standards of accounting and financial reporting in Ukraine

The implementation of international accounting standards in Ukraine began in 2007 in connection with the approval of the Strategy for the Implementation of International Financial Reporting Standards in Ukraine by the Order of the Cabinet of Ministers of Ukraine (Cabinet of Ministers of Ukraine, 2007). For public joint-stock companies, it should be completed by 2012, since in order to place securities on the stock exchange, they must prepare and publish financial statements in accordance with *IFRS/IAS*.

The signing of the EU-Ukraine Association Agreement by Ukraine gave another impetus to the introduction of international standards of accounting and financial reporting by Ukrainian companies (European Union, European Atomic Energy Community, 2014). Chapter 13 of this agreement regulates issues of corporate governance, accounting and auditing. Measures for approximation to EU accounting and auditing legislation are listed in Annex XXXV. Ukraine undertook to implement Regulation (EU) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the introduction of international accounting standards within 2 years from the date of entry into force of the

EU Agreement, and Directive No. 2006/43/EU of the European Parliament and of the Council of 17 May 2006 on the statutory audit of annual accounts and consolidated accounts, amending Council Directives No. 78/660/EEU and No. 83/349/EEU and repealing Council Directive No. 84/253/EEU within 3 years.

The most common models are Anglo-American and continental, which are based, respectively, on generally accepted accounting principles of the United States (*US GAAP – Generally Accepted Accounting Principles*), international accounting standards (*IAS – International Accounting Standards*) and international financial reporting standards.

Despite the existing differences between *US GAAP* and *IFRS/IAS*, efforts have long been made to harmonize them in order to create an international accounting model. Comparing these models from the perspective of cost-oriented management, it should be noted that the concept of fair value has become more widespread within *US GAAP*.

3. Methods of valuing financial reporting items, their advantages, disadvantages and scope of application

In accordance with paragraph 118 (IAS 1) of Presentation of Financial Statements (International Accounting Standard Board (2012)), the following estimates may be used to present items in the financial statements: historical cost, present value, net selling price, fair value, or the amount of expected compensation. An entity may use one of these methods or a combination of them. The primary consideration in selecting a method for measuring financial reporting items is the purpose and needs of the user. Because the estimates made can have a significant effect on the interpretation of the financial statements and the results of analysis, information about them should be disclosed in the notes to the financial statements.

The advantages of using historical estimates include Reliability and objectivity due to the existence of primary documents confirming the initial value of assets, according to which a business transaction is documented and reflected in accounting at the time of its implementation; real, rather than calculated, reflection of a change in the value of the company's resources in accounting; Determination of production costs on the basis of the actual costs of the enterprise, i.e., according to their initial valuation; ensuring the calculation of the financial result on the basis of the comparison of income with corresponding costs; generation and disclosure of information on real cash flows; relative simplicity; compliance with the concept of continuity of activity in the absence of plans for sale (liquidation). Disadvantages of using historical estimates include: the artificial nature of overvaluation of assets due to their subjectivity based on assumptions and value judgments; price difference of assets from their accounting valuation in case of sale; the need to reflect inflation gain (loss) in the value of assets when market conditions change; isolation from market estimates of the value of an enterprise; low relevance for making management decisions.

The value of an enterprise is a monetary estimate of all components of its assets and capital, or the price that a competent potential buyer is willing to pay for its integral property complex, as for a separate business unit, as a result of a commercial agreement voluntarily concluded with an independent seller in the real market. The value of a business entity is an indicator of its economic potential, and the dynamics of changes in value signal the state of corporate management and its quality. (Atamas P. Y., Atamas O. P., 2015). The indicator of enterprise value can be considered as a static category (determined by financial and economic parameters and results) and a dynamic category (determined by expectations of prospects of financial and economic development). As a complex characteristic, the enterprise value includes financial indicators (the most important are income from sales, profit, profitability) and non-financial indicators (capitals – human, intellectual, environmental, social, etc.). The value of the enterprise value estimate is determined by the following factors: the isolation of owners from management; a significant amount of accounting and non-accounting non-financial information that needs to be replaced by a comprehensive indicator; the delegation of management authority and influence over financial results to top management and employees; providing capital owners with clear and understandable guidelines regarding the investment attractiveness of the company and its ability to create value for current and future owners; establishing price benchmarks for possible transactions for the sale and purchase of the company on a free competitive basis; creating a system of financial and managerial accounting of value indicators, including those for information and analytical accounting of value management.

4. Cost approach to valuation of financial reporting items and prospects for its use

The value of a company is characterized by the indicators reflected in the balance sheet, off-balance sheet and financial statements. The specified system of indicators makes it possible to identify the factors that create or destroy value. Determining its magnitude, each group of internal and external users of financial reporting has its own goal and priorities for the growth of value added, therefore, it focuses on certain factors (Koriahin, 2013). Quantification of value is a complex process and requires an appropriate information model (Table 1).

The main source of information on a company's assets is the balance sheet, but it needs to be adjusted because, on the one hand, the balance sheet reflects tangible and intangible assets at

Table 1

Information model for determining enterprise value based on financial reporting data

No. of form	Reporting form	Information capacity	Merits	Drawbacks
1	2	3	4	5
1	Balance Sheet (Statement of financial position)	Value of a company's assets, liabilities and equity	Discloses the residual value of tangible assets and part of intangible assets covered by the provisions of NP(S)A 8 "Intangible Assets".	It does not take into account a number of important intangible factors: organizational culture, company reputation, human resources, employee loyalty and skills, innovation of activity, brand, synergy effect, etc.
2	Statement of Financial Results (total income)	Revenues, expenses, financial results (total income)	Ability to use the capitalized value of income	Existence of restrictions represented by constant revenues or constant rate of their change. The need to determine typical income taking into account the characteristics of the enterprise, its development prospects, industry specifics and a number of other economic factors. The dependence of the valuation result on the chosen capitalization rate.
3	Cash Flow Statement	The value of incoming and outgoing cash flows by type of activity	The ability to use *cash flow* discounting to determine the value of a business	The need to justify the discount rate and the types of activities (operating, investing, and financing) whose net cash flows are considered.
4	Statement of changes in equity	Changes in the value and sources of formation of the company's own capital	Ability to calculate net value based on equity, its comparison with the value of net assets	The need to calculate gross value based on total capital according to the balance sheet (statement of financial position).
5	Notes to annual financial reporting	Ensures detail and validity of financial statement items, discloses methods of their calculation and estimation	Provide additional information for calculating the value	Auxiliary in nature
6	Appendix to the notes to the annual financial reporting "Segment Information"	Revenues, expenses, financial results, assets and liabilities of reporting segments	Provide additional information to structure the value of a business for specific types of deals	Auxiliary in nature

Source: author's own calculations

a residual value, which may be higher or lower than the market value, and, on the other hand, it does not reflect the value of assets that do not meet the criteria for recognition in the balance sheet. The procedure for taking into account the factors of increase (decrease) in the value of the enterprise is determined by NP(S)A 28 "Decrease in the usefulness of assets" by determining the benefits of restoring the usefulness and the losses of decreasing utility. The risk of loss of enterprise value due to non-payment of receivables is taken into account by creating a provision for doubtful debts in accordance with NP(S)A 10 "Receivables", using one of the following methods: taking into account the absolute amount of doubtful debts or the coefficient of doubtful debts.

The methods for determining the value of a company depend on its organizational and legal form. For joint-stock companies, indicators of domestic and foreign stock exchanges play an important role. Therefore, indicators of public financial statements of companies whose securities are listed on stock exchanges should reliably reflect information about the market value. (Mysaka, Derun, 2018), which is the basis of their investment attractiveness and creditworthiness. An important element of the value-oriented management of companies is the fundamental analysis of their publicly traded securities and the calculation of their intrinsic value. It is based not only on current market conditions and the financial position of the company, but also on the long-term prospects of its operations. In contrast to intrinsic value, which takes into account fundamental value factors, a market price is based primarily on the subjective current assessment of securities by active market participants. The logic of investment decisions is based on the following patterns: if the estimated intrinsic value is higher than the current market value, the security is attractive for investment due to the growth of expected benefits, and vice versa. The volatility of stock price forecasts is determined, among other things, by the discrepancy between balance sheet estimates and market estimates of enterprise value. Therefore, in order for securities to be listed, the issuing company must disclose its financial statements. Depending on the geographical location of the stock trading platform, accounting model requirements may be imposed.

5. Assessing the informational value of an entity's financial statement line items

Balance sheet indicators are used to assess the value of the company according to the real estate approach, which includes three main methods: the value of the assets in use (cost); the calculation of net assets; the liquidation value. These methods are static, unlike the dynamic ones, which are based on the data of Form 2 and Form 3. The statement of financial results (total income) and the statement of cash flows provide the necessary information to assess the value by the income method, reflecting the ability of the assets to generate income (determined by the accrual method) and cash flows. The disadvantages of these methods are: firstly, the need to make certain assumptions about the nature of the distribution of income and cash flows, their composition, rate of change, etc.; secondly, the dependence of the valuation result on the chosen capitalization rate, discount rate, etc. The equity valuation is also static, it offers the possibility to determine the net value, while the gross value calculation requires the use of balance sheet data (balance sheet). The notes to the financial statements and the segment information annex to the notes to the financial statements provide additional information for the calculation of value, but are of an auxiliary nature. Form 6 is most relevant for large companies that operate in various fields and have a geographically extensive branch network, and the elements of the economic and geographical structure are independent objects of sales and other transactions.

In accordance with NP(S)A 8 "Operating Segments", the valuation of assets in the financial statements must be consistent with the objectives of management and determined by the person responsible for making operating decisions. It may differ from the methods used to measure a particular asset in other forms of reporting. For example, according to international standards, the same asset may be reported in the balance sheet, in the notes to the financial statements, and in the notes to the segments at a higher (market) value, at historical cost, or at a discounted (current) cost. The real estate method is the most regulated of the above-mentioned valuation methods based on financial statements. According to the Law of Ukraine "On Valuation of Property, Property Rights and

Professional Valuation Activities in Ukraine", the property valuation certificate is a document that provides information on the value of property on the basis of the performed valuation procedures. (Verkhovna Rada of Ukraine, 2001)

In order to obtain estimates of the value of the enterprise, it is necessary to adjust the items of the financial statements: non-operating assets should be excluded from the value of fixed assets and intangible assets, "quasi-owned" items should be included in equity, created reserves should be adjusted, costs of research, development, marketing, operational leasing should be capitalized, and emergency one-time revenues and expenses should be excluded. (Lahovska, 2012) Fixed assets and intangible assets should be revalued if their residual value differs significantly from their market value, otherwise indexation is acceptable.

In order to use the real estate method to value a company, the company's balance sheet must be reduced by the amount of non-operating assets and liabilities, as well as related income and expenses. The main items of non-operating assets are excess cash, marketable securities, and real estate not used for business activities. It is also necessary to revalue inventories, capitalize assets received under operating lease, adjust the amounts of unused created reserves. In the process of applying the real estate method, the Real Estate Valuation Statement should be used. The requirements for its content, preparation and verification are determined by the regulations (national standards) approved by the Cabinet of Ministers of Ukraine. The sections of the content of the Statement of Real Estate Valuation should disclose the performed procedures and the application of the regulatory framework. Real estate appraisal may be performed by state authorities, local governments, business entities having the right to perform appraisal activities.

As part of the preparation for the application of the income method of accounting, it is necessary to exclude unusual, non-recurring, one-time, emergency income and expenses from the profit and loss statement in order to avoid distortion of the achieved results. It is also necessary to capitalize the costs of research and development, marketing, education and training, implementation of social programs and improvement of business processes, as well as to adjust the amount of income taxes. The Annex to the Notes to the Annual Financial Statements "Segment Information" in accordance with NP(S)A 29 "Financial Statements for Segments" is formed for individual business segments: economic, geographical and production, geographical and sales. The availability of details of segment reporting provides a detailed description of the performing activities of an enterprise and allows forecasting its indicators, making assumptions about the forecast balance sheet, statement of financial results and statement of cash flows. The system of segment accounting and reporting is the basis for building a financial model of an enterprise and serves as an important source of information for assessing the value of the enterprise. (Ihnatenko, 2012)

Thus, the basis of the variety of approaches to the formation of value added reporting are the traditional concepts of accounting, the data of which are subject to regrouping for the needs of management accounting and for the preparation of additional forms of reporting – the value statement, the value added statement.

In order to harmonize the systems of financial and management accounting of value added, it is advisable to take the following measures:

– to recognize the value generated by fully depreciated assets as added value. To do this, it is necessary to restore the usefulness of the asset based on its new book (residual) value determined from its revised period of operation;

– to abandon the capitalization of financial expenses in the distribution of added value, by which is meant the inclusion of financial expenses in the cost of a qualifying asset in accordance with NP(S)BU 31 "Financial Expenses";

– to use the 8-class accounts to summarize the information on value added and its distribution (the name "Value added formation" can be an alternative name to "Cost of elements"). Unlike profit, value added is fully distributed in the reporting period, so the undistributed value added does not exist;

– to maintain off-balance sheet accounting to reflect non-financial information on the integrated value added of a company in off-balance sheet accounts for each type of capital using financial and non-financial indicators;

– to simplify the tax system by introducing a unified value-added tax, which will absorb income tax and contribute to further harmonization of financial and tax accounting.

6. Conclusions

The factors of convergence of indicators of book and market value of the enterprise according to the data of financial reporting are: first, an increase in the number of items estimated at fair value; second, an increase in their share in the total balance; third, the creation of internally generated goodwill in the form of excess of market capitalization of a company over the sum of net assets. The macro-environmental drivers of corporate value growth are: financialization; digitalization of the economy; transnationalization of business, which creates opportunities for transfer pricing and tax optimization. The main risks of value loss are: speculative nature of the stock market, implementation of risky innovations, excess of the rate of growth of securities and fictitious capital emission over the indicators of growth of the real sector of economy.

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