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## CONCEPTS OF FINANCIAL RESULTS FORMATION AS ACCOUNTING OBJECTS

**The article examines the approaches of the financial results formation as accounting objects from a historical point of view and their comparison with modern economic realities. The syntactic, semantic and pragmatic profit concept display as a result of entities activity is disclosed. Static and dynamic balance theory is given. It is established that the modern reporting forms used in domestic and world practice are based on the organic combination of static and dynamic balance theories, which increases the degree of reliability of accounting information.**

**Keywords:** profit; financial result; reporting; static balance theory; dynamic balance theory.

**Formulation of the problem.** In accounting theory and practice in Ukraine there are two basic concepts of formation and reflection of financial results of economic activity of the subject:

- in accordance with National Accounting Regulations (standards);
- according to a variant algorithm: depending on management needs, based on the results of management accounting of the subject.

The first concept is related to the presentation of financial results in accordance with the principles of national accounting provisions for their registration in the accounts and display in the forms of reporting. The concept of determining the financial result is consistent calculation of the revenue costs associated with such income.

According to another concept (which has become more and more widespread in recent years) financial results in accounting are displayed in a way that is consistent with the decision-making patterns of owners, investors and creditors. However, the order of their formation is variable depending on the peculiarities of management accounting of the subject.

Each of the concepts has a deep theoretical basis and wide practical application, and disclosure of their content allows us to identify the functional orientation of the entire accounting and reporting system and the mechanism of its practical application in the management system.

**Analysis of recent research and publications.** The investigation of financial results economic nature, the formation and reflection of



financial results are revealed in works of many domestic and foreign scientists and specialists. The outcomes of research of economic theory and theory of financial results in the context of the development of world scientific thought are presented in the works of R. N. Anthony, J. S. Reece, M. I. Kuter, A. Marshall, D. Ricardo, J. Richard, K. Marks, P. Samuelson; peculiarities of forming financial results elements – O. I. Volkova, A. P. Grechana, V. S. Savchuk, O. O. Lapko, Ya. V. Sokolova, E. S. Hendrix, M. F. Van Breda et al.

Recognizing the importance of the scientific contribution of the aforementioned scientists in the development of the theory and practice of financial results accounting, it should be noted that the results obtained require further research, taking into account current trends in socio-economic development.

**Formulating the article goals. The purpose of the article.** The purpose of this article is to investigate approaches of financial results formation as accounting objects from a historical point of view and to compare them with current domestic realities.

**Outline of the main research material.** The well-known work of US accounting scientists E. S. Hendrixen and M. F. Van Breda's «Theory of Accounting» is devoted to the concepts of profit reflection as a result of the entity's activity in the financial statements. Scientists view accounting as a scientific theory that studies the various properties of an information system designed to reflect the formation of the final financial results of the activity. This approach allows us to claim that E. S. Hendrixen and M. F. Van Bred is approached to study accounting from the standpoint of semiotics, a science that explores ways of transmitting information, properties of signs and sign systems [3].

The syntactic concept involves considering financial results in terms of the rules for determining them. N. Belford believes that users of financial statements should be aware that the content of financial results can be grasped only through an understanding of the method and algorithm for calculating it. Within this concept, scientists identify two approaches to assessing financial performance: operating and by type of subjects' activity.

The operating approach is the most common in accounting. Its essence is that the valuation of assets and liabilities items is reflected in the accounts only if these changes are the result of business transactions. Note that the term «transaction» is understood in the broad sense of the word: includes internal and external operations; is the result of the use or transformation of assets within the entity, as well as the transfer or occurrence of assets and/or accounts payable in the course of interaction with external parties.

The advantages of this approach include:

1) the components of financial results can be classified in various ways (for example, by product nomenclature, customers, production units, etc.), which allows to satisfy different information needs of administrative staff;

2) the financial result, which is reflected in the financial statements, can easily be presented by sources of its origin (from the main and non-core activities);

3) the financial result allows to structure assets and accounts payable at the end of the period in a form that is convenient to use for other methods of measuring financial results.

According to the semantic concept, profit is viewed through the prism of fundamental economic realities, recognized as an indicator of the efficiency of owners' investment. Thus, the main purpose of the enterprise is to maximize profits in terms of market structure.

The authors conclude that the difference between economic and accounting income is the usage of different depreciation methods. However, in addition to the technical difficulties in evaluating financial results, there are more serious problems associated with the existence of information asymmetry in an uncertain and incomplete market, so it is difficult to even compare the accounting and economic performance of financial results [3, P. 203-230].

The pragmatic concept emphasizes the evaluation of financial results from the point of view of its use by investors, regardless of the method of determination and measurement. Emphasis is placed on the fact that accounting information has a great influence on decision-making by investors and creditors [3, P. 203-230].

Analysis of judgments of E.S. Hendrixen and M.F. Van Breda, in the context of the theoretical foundations and practical features of the domestic accounting system, shows that the syntactic concept should be understood as a mechanism for generating financial results by types of activity, indicators of which are distinguished by regulatory control into independent information elements. The semantic concept of financial result metrics implies that it changes in relation to income tax and owners' income in the reporting period and beyond. The pragmatic concept examines the impact of financial performance accounting information on the decisions of all interested users of the reporting, the direct and feedback relationships between the entities and external users of the reporting.

These three concepts of presentation of financial results are an important contribution to the development of accounting science, but they are of a general nature and formulated on the basis of experience of economic system development and accounting in Western countries.

At the same time, controlling authorities are virtually excluded from the users, who remain, under any circumstances, one of the priority users of reporting.

Despite the scientific value of these concepts, the use in practice of only one of them will lead to bias in accounting and analytical information; will violate the harmony of the accounting system. Yes, it is impossible to display complete information about financial results without disclosing the mechanism of its formation in the context of activities of the entity. In turn, the value of financial performance indicators by type of activity is an indicator of the economic efficiency of the entity and the basis for predicting the different areas of its operation.

The concepts of generating financial results are also disclosed in the work of R. N. Anthony and J. S. Reece, professors at Harvard and Michigan Universities, entitled «Accounting: Situations and Examples». In particular, they state that the income statement consists of two elements. One reflects the creation of assets resulting from the sale of goods and services to customers – these amounts are called revenues. The other represents the outflow (consumption) of resources that were needed to generate revenue and are expenses [1, P. 41].

According to the results of generalizing the development of scientific opinion on the sequence of calculation of financial result of economic activity in work, the following concepts are distinguished: accounting period, conservatism and realization, correlation of income and expenses, consistency, materiality (in Table).

Table

Concepts of financial results formation and presentation

Title	Content of concept
1	2
Accounting period concept	The accounting estimates the activity of the entity for a specific period of time, called the accounting period. At the presentation of outside parties accounting period usually is one year
The concept of conservatism	Revenue (increase in retained earnings) is recognized only when there is reasonable assurance about its receipt. Expenses (reduction of retained earnings) are recognized as a reasonable opportunity to consider them as such
The concept of realization	This concept defines the amount of revenue that should be recognized from a particular sale. The realization is the receipt of funds or claims on them (bills to pay) as a result of the sale of goods or services. Revenue is recognized if it is reasonably certain about its payment

1	2
The concept of linking income and expenses	If an event affects both revenue and expenses, the impact on the event should be recognized in the same reporting period. Two criteria for recognizing costs should be considered: 1. expenses related to the economic activities of a given period are expenses of the period; 2. Current period expenses are expenses that are not related to future income
The concept of consistency	Choosing a method of accounting, the entity shall follow it for all future events of similar nature until any good reason to change method. Frequent changes in accounting techniques may make the comparison of financial statements of different periods difficult
The concept of materiality	Minor events may not be taken into account, but all relevant information must be fully disclosed

At present, classical theories of reporting remain poorly understood. It should be noted that the formation of accounting information on financial results is significantly influenced by static and dynamic balance theories.

Balance theories as the basis of modern accounting methodology are widely considered in the works of scholars belonging to the Continental European School of Accountancy: J. Betge «Balance Science», H. Shirenbek «Economics of Enterprise», J. Richard «Accounting: Theory and Practice» [6] and F. Oberbrinkmann «Modern understanding of the balance sheet» [5].

The most complete ideas of static balance theory are described by J. Richard. Combining static balance theory and relevant accounting practices, which can be characterized by the term «static accounting», Richard notes that «static accounting – accounting, the main purpose of which is to determine whether the sale (sale) of all assets of the entity now receive the amount necessary to pay his accounts payable» [6, P. 44].

According to Richard, a static accounting was created gradually from XIII to XIX century. Static balance theory is the result of understanding a fairly long period of practice of assessing the financial condition of enterprises in accordance with accounting methodology. The basis of this practice is the legal culture of Roman law, which provides for the legal stability of the civil turnover by minimizing the facts of insolvency and bankruptcy. At the same time, the basic idea of Roman law is that an enterprise can use profit (or distribute losses) only in the case of its true or foreseeable liquidation [6, P. 44-48].



At present, this approach may seem somewhat archaic, but it is with the most realism that it reflects the real state of affairs. Creating a business entity involves the fulfillment of a certain mission, envisaged by the founders: formation of profits, harmonious influence on the development of regional economic development. When this case is completed, one can then determine whether the value of the property of the owners increased as a result of its implementation, or, conversely, the value of the owners became less (the owners suffered losses as a result of the entity's activities).

The emergence of static balance theory is related to the activities of Venetian sailors. Upon returning from each voyage, they compiled a liquidation balance and thus calculated the financial result as the difference between the capital received from the sale of goods and the original capital.

The development of the textile industry has become a prerequisite for the development of a dynamic accounting and reporting system. The urgent task for industrialists was to calculate profits for a certain reporting period, not for the entire period of economic activity, the duration of which cannot be predicted.

Formulation of the basic provisions of the theory of static balance associated with the name of the author of the alternative concept – the theory of dynamic balance – the German economist E. Schmalenbach, who in 1908 in his famous article «Depreciation» showed the incompatibility of the concepts of static and dynamic accounting, affirming dynamic accounting used to calculate a financial result and measure an entity's performance cannot be used to measure their assets. This is the task of static accounting. According to J. Richard, it was E. Schmalenbach, clearly distinguishing the goals and methods of the two types of accounting, based on the work of several of his predecessors, was able to determine the basis of the theory of static balance [6, P. 48]. Revealing the content of E. Schmalenbach's ideas, J. Richard writes not about contrasting dynamic theory with the provisions of static balance theory, but about their objective opposite and the possibility of complementing each other in practice.

The purpose of a static balance is to evaluate the assets of an entity and its solvency. The purpose of dynamic balance is to calculate the financial result and to provide an opportunity to evaluate the effectiveness of the activity.

Modern accounting methodology is based in part on the theory of dynamic balance and the principles of calculating financial results, developed by E. Schmalenbach, namely: consistency and continuity,

comparability, reliability and certainty of accounting methods, prudence, uniformity of estimation etc. [6, P. 177-188].

It should be noted that this concept of formation of financial results correlates with the principles of accounting and financial reporting defined for domestic entities of entrepreneurial and non-business activities by the Law of Ukraine «Accounting and Financial Reporting in Ukraine» and the The national provision (standard) of accounting in the public sector 101 «Presentation of Financial Statements» as well as The national provision (standard) of accounting 1 «General Requirements for Financial Reporting».

Schmidt's greatest merit was that he distinguished between economic activity and profit (loss). The result of economic activity (it is not a financial result – the figure indicated by F. Schmidt is more generalizable) was determined by the increase (decrease) of real volume of property, and the profit was calculated in abstract monetary units. However, there is no direct correlation between these values, the volume of property can decrease, and the profit – to grow, and vice versa. As the purpose of profit is to support entrepreneurial activity, it is crucial to achieve a state where the growth of profit corresponds to the growth of financial result. Profit is generated as a result of the capital cycle. At the same time, for both the accountant and the entrepreneur, the analysis of changes in the volume and composition of the property is crucial. According to organic balance theory, the decisive tool for such analysis is the organic balance, which should be made daily [8, P. 420-424].

**Conclusions.** Modern reporting forms used in domestic and international practice are based on an organic combination of static and dynamic balance theories, which increases the degree of reliability of accounting information. This declares the possibility of meeting the needs of different categories of users.

The dualism of balance sheet theories and the synthesis of the concepts of income recognition that underlie the construction of financial statements do not always produce positive results. On the contrary, it is possible to manipulate the magnitude of the entity's financial result and capital.

In order to ensure profitability as a tool for improving the liquidity of assets and liabilities, the criterion of investor confidence, etc. the accounting method of business activity is intended to take into account the factors of recognition of nominal, real and fictitious profit.

This fully applies to business entities in terms of profit accounting, to non-business entities in the result of budgeting.



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## **КОНЦЕПЦІЇ ФОРМУВАННЯ ФІНАНСОВИХ РЕЗУЛЬТАТІВ ЯК ОБ'ЄКТІВ БУХГАЛТЕРСЬКОГО ОБЛІКУ**

**У статті досліджуються підходи до формування фінансових результатів як об'єктів бухгалтерського обліку з історичної точки зору та їх порівняння із сучасними економічними реаліями. Розкрито синтаксичну, семантичну та прагматичну концепції відображення прибутку як результату діяльності суб'єкта господарювання. Зазначені три концепції відображення фінансових результатів є важливим внеском у розвиток науки про бухгалтерський облік, втім вони носять загальний характер і сформульовані на підставі досвіду розвитку економічної системи та обліку у західних країнах. Незважаючи на їхню наукову цінність, використання на практиці лише однієї з концепцій призведе до необ'єктивності обліково-аналітичної інформації, порушить гармонійність облікової системи.**

**Приділено увагу статичній та динамічній теорії балансу. Визначено, що мета статичного балансу – оцінка майна суб'єкта господарювання і його платоспроможності, мета динамічного – обчислення фінансового**



результату та забезпечення можливості оцінки ефективності діяльності.

Встановлено, що сучасна методологія бухгалтерського обліку частково заснована на теорії динамічного балансу та принципах обчислення фінансових результатів, розроблених Е. Шмаленбахом у 1908 році, а саме: узгодженості і безперервності, зіставності, надійності і визначеності методів обліку, обачності, одноманітності оцінювання, реалізації при розподілі доходів, причинності при розподілі витрат

Встановлено, що сучасні форми звітності, які застосовуються у вітчизняній і світовій практиці, засновані на органічному поєднанні статичної та динамічної балансових теорій, що підвищує ступінь достовірності облікової інформації. Дуалізм балансових теорій та синтез концепцій визнання доходу, покладених в основу побудови фінансової звітності, не завжди призводить до позитивних результатів, оскільки виникає можливість маніпулювання величиною фінансового результату та капіталу суб'єкта господарювання.

Для забезпечення достовірності прибутку як інструменту покращення ліквідності активів та зобов'язань, критерію довіри інвесторів тощо методика обліку бухгалтерського обліку господарської діяльності покликана враховувати фактори визнання номінального, реального та фіктивного прибутку.

**Ключові слова:** прибуток; фінансовий результат; звітність; статична теорія балансу; динамічна теорія балансу.

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## **КОНЦЕПЦИИ ФОРМИРОВАНИЯ ФИНАНСОВЫХ РЕЗУЛЬТАТОВ КАК ОБЪЕКТОВ БУХГАЛТЕРСКОГО УЧЕТА**

В статье исследуются подходы к формированию финансовых результатов как объектов бухгалтерского учета с исторической точки зрения и их сравнение с современными экономическими реалиями. Раскрыты синтаксическую, семантическую и прагматическую концепции отражения прибыли как результата деятельности субъекта хозяйствования. Уделено внимание статической и динамической теории баланса. Установлено, что современные формы отчетности, которые применяются в отечественной и мировой практике, основанные на органическом сочетании статической и динамической балансовых теорий, повышает степень достоверности учетной информации.

**Ключевые слова:** прибыль; финансовый результат; отчетность; статическая теория баланса; динамическая теория баланса.

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