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IMPROVING THE METHODOLOGY OF FINANCIAL AND ACCOUNTING SUPPORT FOR BUSINESS ACTIVITIES

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ABSTRACT

Accounting reports, as the final product of accounting, which is provided to users for decision-making, have always been and will be in the future in the focus of scientists and practitioners. Based on the analysis of the level of its quality, they state the relevance of accounting information and the ability of the accounting system to meet the requests of interested users for accounting information. Important are both the problems of content of indicators of accounting statements, and the form of presentation of this information product, which determines the level of its perception by users.

The lack of comprehensive scientific research that would raise the most important problems in the field of accounting and identify the main trends in its further development, taking into account the transformation of the economic conditions of enterprises, changes in approaches to enterprise management, the widespread use of *modern information and computer systems and technologies were the reason for writing this article and became the goal that was set during this research.*

Keywords: Financial, Accounting, Business, Activities, Support.

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1. INTRODUCTION

Further development of the accounting system is associated with the development of the needs of users of accounting information. With the emergence of new management systems (social, environmental, information management, knowledge management, etc.), information requests, and the need to identify new types of accounting indicators, there is an impulse to improve the theoretical and methodological aspects of the functioning of the accounting system. In recent years, a significant number of scientific methods and theories have been used to improve accounting, resulting in a gradual approximation of the methodology of scientific research in the field of accounting with research in economic, social, behavioral and other types of Sciences [1]. All such attempts can be combined into two main approaches: an interdisciplinary approach, which involves using the methodology of other Sciences (computer science, sociology, psychology, linguistics) in accounting research, and an interdisciplinary approach, based on the use of research methodology, which can be applied in any science (system analysis, synergetics, etc.).

Such an interdisciplinary attempt to study accounting is the use of a process approach, according to which the accounting system is considered as a separate business process, the result of which is the creation of an information product in the form of accounting statements.

Accordingly, the indicators of accounting statements obtained at the exit from the system are considered the main result of the organization and functioning of accounting at the enterprise.

2. MATERIALS AND METHODS

In recent years, we can observe the gradual emergence of a new paradigm of accounting reporting, which is the reaction of the accounting system to the inability to meet the growing needs of users with relevant information for making economic decisions. This is due both to the gradual introduction of new types and forms of reports into the practice of enterprise reporting, their integration into a single report, and to the emergence of international organizations that provide regulation and methodological support for such reporting by issuing standards, guidelines and methodological recommendations for its application and principles and formats for its compilation [5]. In particular, in 2009 the king management Code for South Africa (III) was issued, which for the first time at the state level establishes the need to build integrated reporting that integrates the social, environmental and economic aspects of an enterprise, which should consist of all public companies. In 2010, the international integrated reporting Committee (IIRC) was formed, and in 2011, the Council for accounting standards from sustainable development (SASB) was formed. In 2013 The global reporting initiative (GRI) has issued four guidelines for reporting on sustainable development, and the climate change standards development Board (CDSB) has issued a conceptual framework for the compilation and disclosure of climate change reporting. The issue of the need to ensure even greater transparency of accounting reports through the formation and gradual implementation of the concept of integrated reporting was also raised at the level of interstate discussions, in particular, at the G20 meeting in France in 2011, as well as at the Earth Summit, which was held in Rio de Janeiro in 2012.

The emergence of a new paradigm of accounting reporting can actually be recognized as a natural process, since the changes that have occurred in recent years in the institutional environment of accounting must be taken into account by improving the accounting methodological apparatus [8]. The transition from one paradigm to another is characterized by deep structural shifts in the existing concept of accounting reporting, which significantly changes the understanding of its essence and determines the need to develop new models of decision-making by users based on it (based on financial and non-financial indicators).

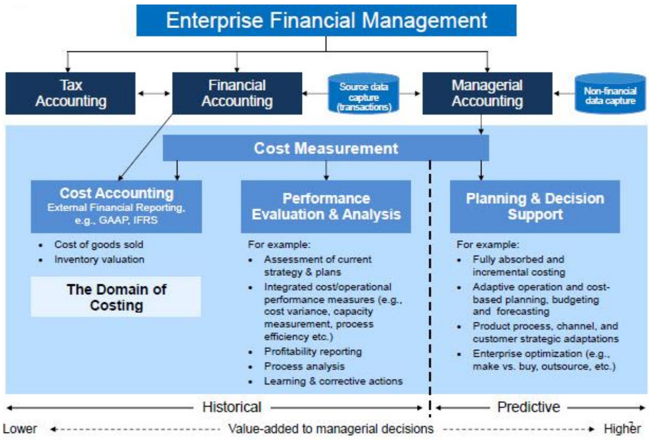

Figure 1 Enterprise financial management [4]

The main reasons for the need to switch to a new accounting paradigm is the inability of the previous paradigm to solve the problems that the accounting system faced with the onset of the global financial crisis in 2009. The possibility of environmental hazards and other risks arising from corporate activities were not disclosed in the corporate statements, and their disclosure by means of supporting reports or notes to the financial statements was carried out on a residual basis, in many cases did not attract the attention of users. Thus, the onset of the financial crisis has put on the agenda issues of economic risk and uncertainty, and accordingly, the development of recommendations to ensure the long-term viability and strategic stability of enterprises, by rethinking the role of resources used in the activities of enterprises [9]. As a result, there were increased requirements for accounting reports from external users, especially from investors, which was necessary for making effective decisions. One of these requirements is to provide non-financial information that should complement the set of indicators disclosed in the financial statements.

Today, accounting reports should not focus only on the activities of the enterprise and its micro-business environment, but should also contribute to providing an answer to current problems of functioning of socio-economic systems, including pressing social, environmental and managerial problems. In particular, in the discussion paper of the Committee on international integrated reporting “IIRC) " Towards integrated reporting. Combining value in the XXI century” clearly justified the need to review the current reporting model as a result of changes in business practices, approaches to generating enterprises ' value and business conditions. These changes are interrelated and reflect the following trends: globalization; the growth of political activity around the world in response to financial, managerial and other crises; high expectations of corporate transparency and accountability; actual and prospective resource scarcity, population growth, and environmental problems [7]. To account for all these changes, generating only financial statements or additional non-financial statements in the context of individual aspects of the company's activities (social, environmental, innovation, and others) is no longer sufficient, since users need somewhat broader (not about the objects of accounting, but about the factors of creating and destroying value) and more (more holistically) structured information for decision-making. Therefore, the existing accounting system and the reporting paradigm that is formed on its basis must be transformed to ensure that such “gaps” are eliminated and that accounting is adequate to modern socio-economic realities.

Thus, with the change in socio-economic and technological conditions for the functioning of enterprises, the existing paradigm of accounting reporting should be changed, and the formation of a new paradigm should be aimed at bridging the existing gap between the content of accounting reports and the expectations of external users, including investors, since non-financial reporting, which is currently published by a significant number of companies, was inadequate to their needs.

The General concept of integrated reporting, which is shared by a significant number of researchers in the field of accounting granted by the Committee on international integrated reporting (IIRC), according to the definition which is the process that leads to the submission of organization information, which are expressed in the production of periodic integrated report about value creation over time. The integrated report is a summary of how the organization's strategies, management, activities, and prospects in the context of the external environment have helped create value in the short, medium, and long term [6]. Representatives of Ernst & Young provide a more General definition, considering integrated reporting as a concept that was created to better articulate a broad set of metrics designed to measure the long-term value and role that an organization plays in society [4]. The above approaches to understanding the essence of integrated reporting are used as the basis for the definition given in the king management Code for South Africa (III) (2009), according to which an integrated report is a holistic and comprehensive representation of the company's performance in the context of its finances and sustainability [3].

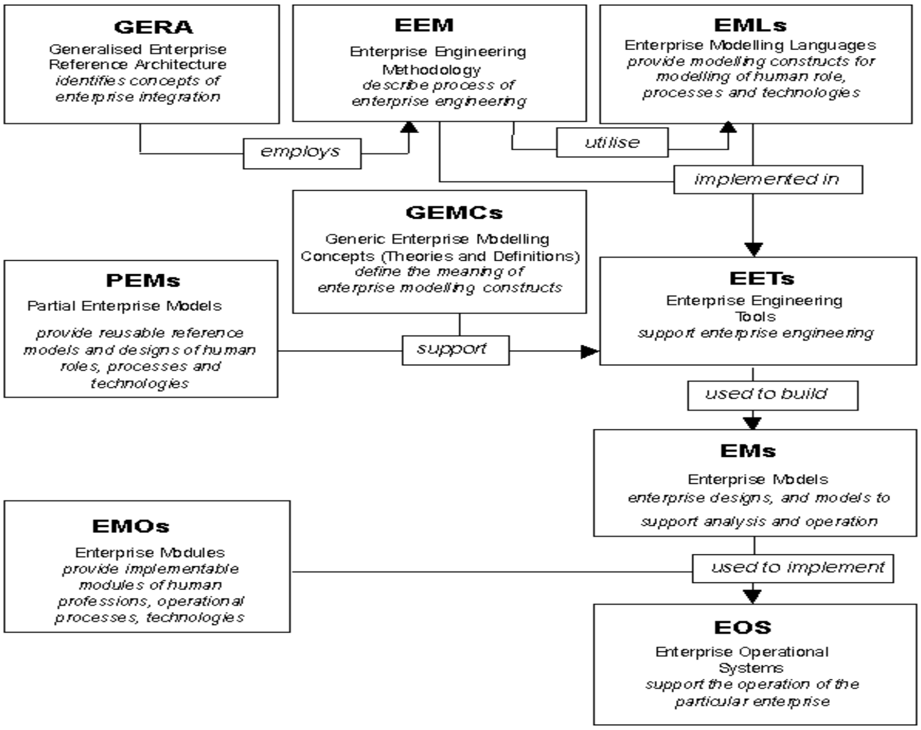

Figure 2 GERAM (Generalised Enterprise Reference Architecture and Methodology) framework components

Integrated reporting should not be considered as a new phenomenon that does not have its own theoretical and methodological Foundation, it is closely interrelated with financial and non-financial reporting, although it is developed on the basis of its own principles and methodology of construction [10]. The emergence of integrated reporting is the result of the evolution of the accounting system in the direction of meeting the growing demands of users and improving the transparency and relevance of accounting information. In contrast to other forms of reporting, which are regulated by law, integrated reporting has emerged as a result of the gradual accumulation of experience in corporate reporting under the influence of market requirements.

Since integrated reporting in comparison with financial reporting is focused on solving the key problems faced by the accounting system in the context of information and civilizational shifts in the economic system, its implementation radically changes the practice of external reporting, providing a significant number of advantages. The main advantages of using integrated reporting according to the scientist [6]:

- improving relations with investors and other stakeholders;
- increasing transparency and reliability of the information provided;
- control and management of the organization's risks and resource efficiency;
- short and integrated format of the provided information in a single report.

By issuing integrated reports, the company will increase the trust and confidence of its stakeholders, as well as the legitimacy of its operations. This can increase the company's business capabilities and improve the risk management system. By issuing internal integrated reports, the company assesses its ethics, fundamental value, management level, and external improvements and confidence that interested stakeholders need [2]. In this way, integrated reports can be issued as purely for internal users, and can also be made public to all stakeholders who need such information for decision-making (internal and external).

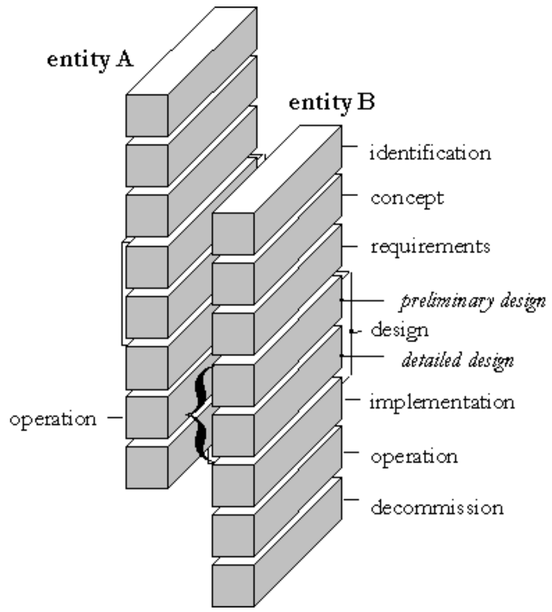

Figure 3 Example for the relationship between life-cycles of two entities

The concept of integrated reporting gained significant development with the creation of the international integrated reporting Committee in 2011, which issued the draft international integrated reporting format (IR) in 2013. In particular, this is confirmed by the fact that the world's largest database of corporate social responsibility reports “CorporateRegister.com” 268 integrated reports (at the end of 2019), 216 of them were released after 2015. Thus, the release of the project contributed to a more than four-fold increase in the production of integrated reports by companies around the world [11].

In General, the developers of the IR project believe that the set of elements proposed in it that go beyond traditional financial reporting (human and intellectual capital, natural resources, market and regulatory regulation, competition and focus on determining the value of the enterprise) should be clearly disclosed to interested parties. The main premise of the integrated reporting concept is that its developers believe that sustainable development of society is the only way to meet the needs of modern and future generations, which should be followed by all enterprises to ensure the creation of value for shareholders and other stakeholders in the short and long term [12]. As a result, there is a significant number of differences between the integrated reporting of an enterprise and other types of accounting reports.

In comparison with financial reporting, integrated reporting has the following main distinctive features (table. 1).

Table 1 Main differences between financial and integrated reporting [2]

Comparison criteria	Financial statements	Integrated reporting
Thinking	Isolated	Integrated
Main object of study	Financial capital	All types of capital
Hour-content orientation	The past, focusing on the financial component	The past and the future, focus on relationships and strategy
Time-frame	Short	Short -, medium-and long-term
Trust	A narrow opening	Greater transparency
Adaptivity	The limitations of the rules	Ability to take into account individual characteristics
Short	Voluminous and complex	Short and informative
Manufacturability	In paper form	Based on the use of modern technologies

In our opinion, a distinctive feature of integrated reporting is the presentation of information in the context of a slightly different capital structure of the enterprise than it is provided for in the financial statements. In particular, the draft international integrated reporting format (2018) identifies the following types of capital, in the context of which information is provided on the use of the total capital of the enterprise and the impact on it of the company's strategy: financial, industrial, intellectual, human, social, and natural [3]. According to this approach, the efficiency of an enterprise is determined not only on the basis of the effectiveness of the use of financial capital, but also other types of capital. As a result, there is a need to reclassify items in the accounting system and make changes in the composition of the criteria for recognizing assets, since certain types of capital are not currently reflected in the current accounting system or are accounted for as expenses of the period [13].

It should also be taken into account that this set of capital components proposed in the project may be somewhat expanded in the future. In particular, the European Commission already suggests that companies should at least disclose information about the following objects and processes: environmental impact; social significance and significance for employees; enforcement of human rights; anti-corruption measures and bribery [3]. Representatives of PricewaterhouseCoopers believe that the company should classify capital and decide on its significance depending on the specific circumstances. The following types of capital can be taken into account: financial, industrial, human; brand / client; natural / social; intellectual [4].

The introduction of such changes puts forward new requirements for improving the accounting system as the main information source for making investment decisions.

In contrast to highly specialized and large-scale corporate financial reports, integrated reporting is shorter and more informative, since it is built taking into account the requests of all groups of users of accounting information, and also takes into account the General needs of sustainable development of the company.

Another characteristic feature of integrated reporting is its focus on creating information support for strategic management, in particular, cost-based management. As a result, some researchers define an integrated report as a short message about how an organization's strategy, management, performance, and prospects in the context of its external environment lead to value creation in the short, medium, and long term [4]. Thus, integrated reporting has a slightly different and broader scope compared to financial reporting, since it allows you to reflect and measure individual components of the company's value creation.

The ability to provide users with accounting information about the relationship of financial drivers of value with non-financial drivers in the context of social, environmental and managerial aspects makes it possible to update the role of the accounting system as the main information source of the strategic management system. The integration of these two types of information helps to increase the information content of accounting statements due to additions and explanations resulting from the use of information from financial and management accounting systems.

According to the concept of integrated reporting, the cost should be considered in the context of three main levels, where each next level includes the previous one:

1. the level of value for the company, which is determined based on the analysis of financial indicators, and its role is manifested through the payment of dividends, growth in stock prices, etc;
2. the level of total value that benefits stakeholders directly associated with the enterprise (employees, buyers, suppliers, etc.). Its role is manifested due to the growth of working conditions for employees, improving relationships with customers, etc;
3. the level of value for the society, regardless of the mission and goals of the enterprise, which can be either positive or negative, and manifest itself by changing the level of economic life of the society. In particular, the integrated report should disclose what positive changes the company's activities will bring to the company's position, or what negative phenomena in the company's life will be changed or eliminated in the next year.

It is important to identify integrated reporting as elements of the accounting system is its focus on identifying those aspects of the company's activities that affect its strategic stability and long-term prospects. This characteristic has gained particular popularity among companies in countries where there are historical traditions of enterprise functioning, and their reputation and experience is one of the defining values. In such countries, it is quite common to make long-term investments, as a result of which investors, as users of accounting statements, have their own specific needs for accounting information that they need to make investment decisions [14].

In particular, as noted by Japanese researchers T. Oshika and H. Saka, today there are only 5586 firms with a history of more than 200 years around the world. Among them, more than half are Japanese firms (3,146 firms, 56.3 %), German firms – 837 (15.0%), Dutch firms – 222 (4.0%) and 196 firms (3.5%) are French. In addition, according to the Guinness Book of records, the oldest firm in the world is the Japanese firm "Kongo-gumi", founded in 578 [7]. Thus, in these countries, and especially in Japan, there is a significant demand for integrated reporting, which is dictated by the historical features of business development and the institutional structure of the economic system in the country.

3. CONCLUSION

1. One of the possible approaches to the development of accounting science in today's conditions is to consider the accounting system as a separate business process, which results in a certain information product-accounting reports. It is the result of applying accounting procedures that involve compliance with accounting rules and making a choice from available alternatives based on the accountant's professional judgment, and is characterized by a set of properties.
2. The most important property of financial reporting as an information product is its quality, the analysis of which allows you to form a set of criteria according to which the current accounting system should be transformed, which will ensure its adequacy to the growing demands of users.
3. The main reasons for the decline in the quality of financial statements are:
    - low efficiency of the capital market, which is manifested in the inertia of users ' reaction to changes in the activities of enterprises and are reflected in the reports;
    - inconsistency of the content of financial statements with the needs of its users;
    - conservatism and bias of national accounting regulators, which can act as an obstacle to the application of international best practices.
4. The process of improving the quality of financial statements involves a transition from lower to higher quality, and requires ensuring that it meets the requirements of users, which differ in a positive way from the original requirements. The main ways to improve the quality of financial statements are:
    - meaningful improvement that involves improving the content of financial statements, bringing them closer to economic reality;
    - formal organizational improvement, which involves improving the form of presentation and disclosure of financial statements, the process of organizing its preparation by using modern technical and software tools.
5. Over the past five years, a new paradigm of accounting has been emerging, one of the main elements of which is integrated reporting, which is a conglomerate of accounting management reports that reflect the ability of an enterprise to generate value provided to external users for decision-making. Its emergence is due to the inability of the current paradigm to solve the problems that the accounting profession faced with the onset of the global financial crisis. The defining features of integrated reporting that distinguish it from other types of reporting are:
    - a new approach to the structuring of the company's capital;
    - focus on the creation of an information system articlegetting management;
    - focus on highlighting those aspects of the company's activities that affect its strategic stability and long-term prospects.
6. Under these conditions, the survival of an enterprise directly depends on the ability of managers to choose economic benchmarks and achieve the set tactical and strategic goals, which determines the need to assess the prospects for further development of the enterprise, forecasting its financial performance in the future. In particular, the availability of forecast information plays an important role in making management decisions of a strategic nature, which makes it possible to form a set of measures for the implementation of strategic control. The information basis of this process is strategic financial reporting, which is compiled by taking into account historical data, the current situation and future trends in the company's activities. Formed forecast financial statements provide predictions of financial events that may occur in the foreseeable future, the formation of which is one of the important processes of information support for the company's activities.

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