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## Accounting Procedures in the System of Searching and Generating the Balance Sheet of Accounting Information by Various Stakeholder Groups

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**Abstract:**

*This article emphasizes the importance of analyzing critically and using the multi-option models of running the accounting records that make it possible to considerably improve the harmonization of interests of various stakeholder groups and the quality of the accounting data as well.*

*The authors have resorted to various conceptual principles as their study subject to carry out the research that is used by modern science and that is intended to tackle the challenges of realizing a quantum leap in business processes.*

*The authors have demonstrated the peculiarities of generating and using multi-option models of running the accounting records, the specific features of their demonstration in the GAAP, IFRS systems, the continental accounting model and in the Russian practices. They consider the aggregate scenarios in financial and economic development of business entities as obtained by means of accounting sampling to be the most promising trend in optimizing the accounting information in the system of possible stakeholder inquiries.*

*By reference to the results of the research the authors conclude that the interests of the property owners, executive management and mass public that are aimed at the neutrality criterion as obtained by means of the accounting information should be harmonized.*

**Keywords:** Accounting transformation, methods of accounting, useful information, interests of specific users of accounting information.

**JEL Classification Codes:** M41, M40, M20, M14

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## **1. Introduction**

Modern changes related to the theoretical revision of accounting principles within the concept of positivism have brought to the forefront the relevancy concept with its two crucial constituents: current and predictive relevance of the accounting information. In this respect the accounting process should select on a non-biased basis the most relevant options of running the accounting records by reference to the specific place and time. This research is intended primarily to analyze critically and substantiate the ways of harmonizing the accounting information provided by various user groups that make it possible to neutralize the opportunistic behaviour of the senior management, with the economic role of owners and other social groups to be increased appropriately.

In order to accomplish the designated goal and decisions as defined by the scientific problem we, firstly, have studied critically the modern concepts related to the strong and weak points of using multi-option models of running the accounting records. Secondly, we have shown the potentials of using the multi-option accounting information by various stakeholders. Thirdly, we have considered the prospects of introducing the neutrality criteria for the accounting information that ensure a quantum-leap improvement of the aggregate of indicators of business sustainability.

## **2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research**

At present, the multi-option model of running the accounting records as generated and practiced by modern business has accentuated the problem of significance and relevance of the accounting information. This presupposes that the most well-balanced options of running the integrated accounting records generated heavily in these recent times as well as those of running the financial, managerial and strategic accounting should be further searched for.

In this respect, it is difficult to define precisely whether the multivariance in accounting stands for an appropriate legal and regulatory measure since both rigid and flexible regulation of accounting procedures has its advantages and disadvantages. Moreover, the variance has its own concepts spoken of by S.F. Legenchuk (Legenchuk, 2016). Particularly, they outline four conceptual premises as follows:

- a) concept of ultimate monovariance;
- b) concept of extended monovariance;
- c) concept of limited monovariance;
- d) concept of partially unlimited multivariance;
- e) concept of ultimate unlimited multivariance.

Notwithstanding such a diverse variance, it is necessary that one should focus on the inviolability of legal aspects of this issue. Even the concept of ultimate unlimited variance presupposes the use of statutory moments. Moreover, these moments extend substantially as compared with the ultimate monovariance, expanding at the same the possibility proper of showing the facts of economic life in the accounting records that make it possible to describe the economic environment more impartially. The condition here is the only one: the user must have access not only to the accounting information but also to the list of those rules and instructional techniques as used by the accountants in course of obtaining the information and accounting product. In this respect the requirements assigned to chief accountants in the USA who must be able to choose various models of running the accounting records to meet the demands of various users (particularly, those assigned by senior management) are of interest. It is naturally that the basis of such requirements accounts for the possibilities to affect the evaluation of the financial standing of a business entity. This implies that the accounting methods rely either on the increased value of assets and income or the decreased arising obligations and expenditure.

Tracy suggests that all the methods of recognition of income and expenditure should be divided into two large groups: 1) conservative that “brake” the recognition of the income and increase the expenditure; 2) liberal that make it possible to show on a priority basis the income, slowing down the display of the expenditure (Tracy, 2008).

Of interest are the materials published by Watts and Zimmerman in their research studies to the effect that the accountant’s choice affects the company size. The majority of large companies support the methodologic tools designed to decrease the income owing to various political and taxation reasons, which makes it possible not to increase the salary, wages or other emoluments (Legenchuk, 2012). As a matter of principle it corresponds to the English and American approach to choosing the priorities of users of the accounting information, which is evident even by reference to the balance sheet structure.

At the same time, the distinguishing feature of the German balance sheets lies in an attempt to take into account the informational requirements of all agents of market relations as well as in their dynamic nature and detailed disclosure of their own capital. The French balance sheets are characterized by their distinctive static nature, and, significantly, they point out to the interests of the employees, which is shown by the availability of such items as the pension and reserve funds, the minority share (Tkach, 2013).

In this respect we need to interpret differently the activities of the accountants who must not only register the facts of economic activities and their accounting interpretation in the current mode but they also must substantiate the same and make the accountant’s choice as applied to the methods of accounting. Moreover, the accounting information should meet the said requirements in line with the choice

insofar as related to the quantity features which would make it possible to minimize the expenses and retrieve the most useful details. As far as the national accounting practices are concerned, this refers to the transformation of the definition “accounting practices” that predicates upon the professional judgment by using different alternatives and that is officially implemented under a relevant administrative order.

From this point of view the supporters of the English and American accounting school consider the financial records not as the exact demonstration of the real state of affairs of business entities but as a certain creative process of activities by the accountants and managers. The financial records provide one of possible alternatives of description of the financial condition of the enterprise by applying a specific accounting choice (professional judgment). The main task of using the conceptual basics consists in the minimization of influence on the part of the accounting agents and corporate managers upon the indicators in the financial records by applying the rules of the accountant’s choice. Alternatively, according to J. Foster and T. Johnson, the conceptual basics allow for the fundamentals to be created, by means of which the advantages of the presented alternatives will be evaluated. This will neutralize those that are inconsistent with the provisions of the conceptual foundations (Foster, 2011).

Along with this, the existing conceptual foundations are far from being identical since those are user-challenged, with their groups being most numerous, which results in various tools determining a specific accountant’s choice. In order to reduce the number of such differences FASB started applying to the financial accounting records in 2010 the new conceptual foundation SFAC 8 within the context of converging GAAP and IFRS. Despite the fact that no material changes have taken place as compared with the previous conceptual foundations, the hierarchic structure of the so called quality features that ensure the usefulness of the user-relevant accounting information has been reinforced.

Moreover, the usefulness constituents (relevance and true presentation) and their constituent elements, their forecasting and confirming value, essentiality, completeness, neutrality and non-availability of errors have been made more specific. Thanks to this approach, the hierarchic set of quality features allows, at least hypothetically, for the most appropriate, by reference to the specificity of the place and time, methods of accounting from among the available alternatives to be recommended.

Nevertheless, IFRS, unlike GAAP, does not apply the definition of the “accountant’s choice”, the problem of multivariance having no specific formulation here despite the widespread application of the definition “accounting policies” and “professional judgment”. The IFRS system is constructed as based on the application of the multivariance concept, with the accountant’s choice being assessed by applying the standards where alternative approaches towards the evaluation and accounting

demonstration of the facts of economic activities and their consequences are shown. Nevertheless, GAAP is regarded as a more decentralized and more regulatory-lenient system of accounting. Even in terms of the principle of uniform accounting models the rules are essential, and this role shows how modern scientific and research statistics of accounting practices keep up improving.

In this respect we need to interpret differently the activities of the accountants who must not only register the facts of economic activities and their accounting transformation in the current mode but they also must substantiate the same and make the accountant's choice as applied to the methods of accounting. Moreover, the accounting information should meet the said requirements in line with the choice insofar as related to the quality features which would make it possible to minimize the expenses and retrieve the most useful information. As far as the national accounting practices are concerned, this refers to the transformation of the definition the "accountant's choice" into the "accounting practices" that predicates upon the professional judgment by using most diverse alternatives and that is officially implemented under a relevant administrative order.

When applying the concept of limited multivariance, the imperatives of accounting and the selection of alternatives of showing in the accounting records the facts of economic activities are applied at the same time. Accounting standards are considered to be the form of implementation of the said approach. In this respect, most interesting trends are evident. For example, the Russian accounting practice undergoes the growth of relevance of professional judgment that predicates upon the principles of the accounting science. Equally, the British school of accounting is affected by kind of "drift" towards more rigid statutory regulation of the accounting procedures. One should note here particular groups of limitations (principles) itemized in the accounting standards or in the corresponding legal acts. This approach is regarded nowadays as the world's most common.

The partially unlimited multivariance presupposes the regulation of the accounting only as based on the alternatives, choice of one thereof, with specific limitations as principles in accounting to be taken into consideration. Finally, the ultimate unlimited multivariance presupposes the regulation of the accounting only as based on the aggregate of the alternative options of showing the economic operations without any limitations. In theoretical terms, the main reasons for the multivariance's existing consist in the opinion that every economic entity has its own micro- and macroeconomic environment, which results in their being affected by economic real conditions, just as by various informational requirements of domestic and foreign users (Fama, 1970).

The widespread use of the conception of limited multivariance, in its turn, as predicated upon the positivistic accounting theory, is affected, primarily, by the neo-institutional economic theory which describes the efficiency of markets, contracts and where the asymmetry of information is present. The efficiency of market from

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the classical microeconomic point of view is closely related to the fluctuations of market prices (inclusive of securities) and their corresponding demonstration in terms of accounting. However, a number of conditions should be observed in this respect: the neutrality and impartiality of the accountant, sufficiency of the resource information, absence of personal influence on the accounting manager services and owners (Fama, 1970).

The real situation is essentially different. Particularly, the senior managers are susceptible to the lure of obtaining additional economic benefits even to the disadvantage of the owners. Opportunistic prospects occur quite often when the managers support the contracts without having or wishing to have any complete information, putting in the foreground their personal interests. In this case the accounting and informational support of the activities of business entities does not allow investors to take any efficient impartiality-based decisions. The priority of personal interests of the senior management may be realized in three dimensions as shown in the works by R.L Watts "Positive Accounting Theory: A Ten Year Perspective" (Watters, 1990).

If the senior managers seek to implement the bonus scheme of their activities, they should select the accounting methods focusing on the artificially increased income to be shown in the current accounting records because the majority of benefits are paid as based on the indicators of financial nature. According to the financial accounting records, it is possible that the income should get increased sharply by using the so called debt-based index numbers, while the increased value of the debt capital reduces the possibility of honouring the debt obligations. In this respect, if an enterprise gets involved in the relationship with the State, then it happens quite often that such an enterprise should resort to the methods reducing the income, which means that this should reduce the attention on the part of the State to the social issues.

### **3. Results**

For the neutrality level of the accounting information directly affecting the relevance of the latter to be improved one should use more extensively the elements of the so called senile theory (Holthausen, 1983). This theory makes it possible for the internal information to be studied by external users according to certain methods of accounting as selected by the managers, which enables the latter to adjust their investment-related and other financial decisions. In some cases, the negative role of the senior managers in terms of selection of the accounting tools contradicts the fundamental goals of the enterprise's activities.

Usually the managers maximize the financial results when it suits their interests, which enhances the impact of adverse events on the use of the models of multivariant accounting. It is for this reason that the improved quality of the

accounting information product requires for a number of fundamental issues to be resolved, namely:

- a) degree of harmonized interests of the owners and senior management to be increased;
- b) while taking decisions, the managers to face a number of scenarios of financial and economic growth of the enterprise to be obtained by reference to the accountant's choice,
- c) level of economic safety to be improved by neutralizing the information to be obtained as description of the methodological accounting and economic tools to be used in course of generating the financial accounting records;
- d) market value of the enterprise and its assessment to take into account the specific features of the accountant's choice that should be applied equally to the distribution of capital;
- e) using the limited multivariance to be accompanied by advanced and improved accounting procedures within the scope of accounting.

#### **4. Conclusions**

In our opinion, the accounting-focused thought should drift towards studying the activities of the agents involved in the accountant's choice and the reasons underlying such activities. In this respect one should agree with the supporters of positivism with regard to the necessity to track down both the direct and reverse causality related to the impact of the published financial accounting records on the complexity of economic factors and operations as well as on the behaviour of the senior managers, government, investors and creditors. However, the enhanced complexity causes for the relevant conditions to be established or the same presupposes a set of certain variants of presentation in terms of accounting of the facts of economic activities. The rigid set of requirements contradicts various business factors that function in a very complicated and discordant financial world.

From this point of view, it is hard to disregard the opinion of T. J. Higgins as to the impossibility to take into account the interests of all the parties concerned at the same time (Higgins, 1963). In this respect, in our opinion, of interest is the issue concerning the neutrality of the accounting information. One should distinguish two aspects here:

- 1) neutrality as a formal criterion of impartiality of the accounting information;
- 2) neutrality to be understood by reference to the priority of current interests in course of development of distinct social institutions.

In accordance with the first criterion, we should disregard the interests of specific users of accounting information, admitting their interests to be of equal ranking. Calculating the median with regard to the interests of various users may appear quite

possible here (and, by the way, rather common). It is the median that is considered to be in the center of extreme values of the indicator under study.

The accounting practice should take as such an indicator that what is considered to be the main product of the accounting activities. This is usually understood as the financial result mainly shown as the income, while in the first decades of XXI century considerable changes appeared in the paradigm of management that became to be referred to as the singularity. This guiding point suggests that the activities of business entities should shift their targeting focus from the indicators of income to the accretion of property, the transactional methods and techniques of engineering nature to penetrate such activities extensively.

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