

# THE IMPORTANCE OF THE APPLICATION OF FAIR VALUE OF THE COMPANY'S PROPERTY IN TRANSITIONAL COUNTRIES ON THE WAY TO THE EU

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## **Abstract**

*The fair value within the business improvement in the enterprises of the Republic of Serbia is continuing demanding work that is carried out in the framework of financial reporting management companies, sectors of economy, but the national authorities may require a completely evaluation of companies, based on the decisions of state bodies and individual requirements.*

*An important place in this context have the internal audit, external audit, as these can be a driver of the fair value of the initial phase by the management council. External audit is able to thinking management delivered only after the end of the business year, when it receives the financial statements of the previous year of business, and then can make recommendations, because through their impact on future business management, provided that it is adopted, it will be is maintained in the next period of operation.*

*Therefore regardless of the drivers and the initiator of the fair value now exist ways to increase the security of the overall business, and in this paper highlighted the fair value as an element of financial reporting. It is expected to increase the number of effective fair value in the Republic of Serbia, because companies can realize numerous benefits.*

**Keywords:** financial statements, financial analysis, fair value.

**Classification JEL:** M41.

## **1. Introduction**

Observation of numerous and heterogeneous enterprises in the Republic of Serbia, should be, focused on the acquisition of valid statements which fair value has its prominent place. This will provide real and full management support, as well as asylum-reporting, such as government bodies. Financial reporting to be regarded as regular evaluation [1] which is the end of the delivered state bodies [2], [3], [4], which affects the final presentation of the results in the ledgers activity [5], and which are susceptible to audit processes [6].

The main objective of financial reporting that would be realistic to increase the security of the enterprise, which can be attributed to the standard approach, which meet the authors [7], [8], [9]. Recommendations for the management of the introduction of fair value are more and at the same time he show weaknesses of financial reporting. Overall fair value may affect the general improvement in the security business entities, which is of particular importance for the public sector, especially in the large number of heterogeneous budget users in transition countries such as the Republic of Serbia.

Management should provide conditions for independent operation within the entities to everyone involved in making the report on the work related to improving financial reporting. In addition should provide conditions for continuous and regular auditing program adopted plans to improve financial reporting taking care to provide space for any activity of specialized experts at the request of management or state authorities, as part of raising effort for better governance.

The heterogeneity of jobs held by employees in the context of improving the financial reporting's demands continuous education of the perpetrator in the context of finance, but also of the whole enterprise. Periodic training should be the duty of all employees in order to increase gain skills and knowledge, which is in line with the principle mentioned continuous training of all employees in the company.

Accounting policies of public companies must undergo its final verification by the supervisory body, because only then there is a full verification of the previous implementation of standardization, approved by management. The system of internal control mechanisms [10], [11], [12], [13] in the enterprise serve to protect themselves of corporate assets. He also developed control supports the structure of control. Processes standardization of financial reporting contributes to the harmonization of the management company. This changes the General of the socio-economic understanding in the society as a whole. [14].

Reliability of information is of crucial importance for increasing the performance of the enterprise. However, for now the internal control mechanisms [15], [16], [17], [18] essentially begin to come to life in a growing number of companies in the Republic of Serbia.

Questions fair value of assets, for example are important in many companies. Observation can also be inferred from analysis of evaluation of the neighboring countries of Serbia we see the authors [19], but also through monitoring the business of certain industrial activities, especially agriculture [20], [21], [22], [23], as it can be impact on increasing the effectiveness, efficiency and economy.

Management companies can have great support form if control mechanisms. All the activities that will occur in a number of companies in Serbia should be viewed through the events after December 2015, when the Republic of Serbia signed the first two chapters of the accession negotiations. One of them is a chapter 32 or chapter on financial control and on the obligations that the Republic of Serbia has signed under this section to its full capacity in the coming years.

## **2. Observation fair-asset within the company financial reporting**

Fai valuation of the areas of the Republic of Serbia is coming to the fore last 10 years. Intensive Transition essentially meant that the entities are turning to a more realistic presentation of the value of assets managed by the management entity. The generally accepted view is that fair value should be a common point of view adopted regarding the valuation in the financial statements. The concept of "fair value" is the modern achievements of financial reporting, and requires a fair presentation of the values that must be implemented in a relatively short period of time and timelines.

Fair value means to show the factual situation regarding assets of the entity in the form of a numerical amount can be represented as part of the financial statements by management or the person having the right to request specific reporting.

The concept of the observation seen in the financial reporting by [24] in accordance with a fair evaluation means:

- Leaving the historical approach to reporting,
- Actualization of events in financial reporting at the reporting date,
- Process focus in the evaluation of everything that is subject to fair valuation.

The focus of the fair value should be directed to:

- identifying the objectives of fair valuation,
- perception of the continent in which the set objectives can be realized,
- mark the main components,

- prepare a plan to implement the objectives of fair value,
- establish control mechanisms of the process of making a fair evaluation and presentation of the financial statements,
- Produce financial statements in the spirit of fair value.

In addition to this, we should point out some of the basic assumptions regarding fair value:

- The subject of evaluation is the property of the company,
- Obtain a valid information regarding the price of assets in the domestic and international markets in order to acquire really and relevant information,
- The assumptions are part of performing tasks regarding the presentation of the report on the valuation of the entity,
- Highlighting, which is a method of assessing the assessor used,
- The resulting value in figures made after assessment of fair value is used for further balancing of the entity after the approval of the management body, and any disclosures are presented in the notes.

The fair value of the company should be considered as part of the overall management activities to improve the control mechanisms through the work and operations of the company. Fer-evaluation of time affect the operational safety management because the value primarily property and equipment must be realistic if it is to make the right decision management to business results were better and more successful.

Starting the process fair value and there are several initiators fair value:

- State authorities
- Management of the company.

If you are an initiative of the state authority are talking about external initiative, and her company must respond within a specified time reporting to the state authority.

Internal auditing companies may also provide management initiative to launch a job fair valuation of assets. In addition should make proposals for improving the current trends of financial documents in the entity, which will serve as the basis for a normative activities and the perpetrator in order to improve the functioning of the entities.

To a company must prepare a report on the assessment. This means that assessment, logic has a few basic units and to:

- Economic and business position of the company,
- Financial analysis,
- The stated basis for the preparation and presentation of financial statements and
- Assessment of value and capital structure.

### **3. The necessary documentation to perform the tasks and guidance notes fair valuation of real estate**

The aim of conducting a fair evaluation and assessment is to determine the valuation of the entire capital of the entity, or enterprise. The subject of evaluation, it estimates the value of the capital on the day of assessment. External assessors at the request of management do the work required for the assessment required by the contracting authority the fair value method.

Documentation includes the basics:

- Financial statements for the last 6 years;
- Accounting supporting documents,
- Non-financial information provided by the customer,
- Information provided by full-time employees,
- Information obtained from the responsible managers,
- Legal documentation import of capital;
- The data obtained from the agency for business registers,
- Information required by national bank of Serbia,

- Information from of actual real estate market,
- Specialist opinions for property valuation and others.

It should be noted that when creating a concrete assessment must take into account the labeling responsibilities of the participants. This means that you must specify responsibility of appraisers, or that it is responsible for the quality of the evaluation. The responsibility of the Purchaser arising from liability related to the quality of the information provided and presented, assessor.

In addition, it is necessary to point out that the amount of compensation is agreed between the client and the assessor cannot be a basis for influencing the contracting authority estimates the assessed value by the assessor expressed in the form of reports supplied by the customer after the work done.

The following is necessarily appraisers that in his work led codes of conduct applicable to the profession appraiser.

It is desirable to point out that the evaluator of interest independent of the Purchaser's assessment, as well as that it does not have any interest related to the customer, as well as that it is not in any kind of transaction with the client assessment.

Emphasis is necessary with regard to the testimony of appraisers emphasize that the contracted price assessment services not result dependent relationship between the client and appraiser, and the fact that the size of the estimated value was created as an expression of the actual certificates of appraisers who submitted the purchaser in writing of the report.

#### 4. Case Study

To create a study, and before starting work, it is desirable that the assessor statement and that any findings that have come in connection with an assessment of the entity will keep following the principles and respect as strictly confidential guards trade secrets, and that if all the materials are also opinions concerning the contracting authority estimates stored and will not disclose, and eventually will do so only with the approval of the contracting authority marked assessments.

The paper presents and are used already published works [25], [26] which are slightly modified in order to gain a picture of the benefits use fair valuation of assets, so that in the first table shows three comparative within the overall passing score fair valuation of real estate companies. Estimates of the valuation at the fair valuation and office buildings of approximately 500 m<sup>2</sup> in the central area of Novi Sad, the second largest in the Republic of Serbia for a company that realistically wants to show the value of the Company's books based on estimates by value in the first half of 2017, with note that the representations given in real currency per m<sup>2</sup>, on the basis of application of the comparative method, and with the choice of three comparative.

Table two authors give an overview presentation of weights that affect the expression of comparative value, and real estate companies.

Table three gives an overview of the carrying amount of the property company after the assessment at fair mean values.

Table 1 Only three comparative within the overall decision-making results in fair valuation of property companies

Information comparative	No comparative. 1	No comparative. 2	No comparative. 3
Location	City center	City center	City center
Floors comparative properties	Second	Third	Fourth
Quality comparable properties	Good	Good	Good
Source of information	Real Estate Agency 1	Real Estate Agency 2	Real Estate Agency 3
Area comparative properties (m <sup>2</sup> )	500,00	500,00	500

The offered price is comparable properties (€)	650.000,00	650.000,00	635.000,00
Offered unit price of comparable properties (€/m <sup>2</sup> )	1300	1300	1270
Unit price after adjustment (€/m <sup>2</sup> )	1186	1138	1153

Table 2 - Only the introduction of weights under the consideration of the value of property per m2

Features	Weight	No comparative 1		No comparative 2		No comparative 3	
Location subject property	25%	Also	25%	Also	25%	Also	25%
Age of the subject property	10%	Newer	10%	Newer	10%	Newer	10%
Floors subject property	10%	Also	10%	Also	9%	Also	8%
The quality of the subject property	20%	Also (with adjusted-it)	15%	Better	15%	Better	15%
The surface of the subject property	15%	Also	13%	Also	13%	Also	13%
Improvements over the comparative	20%	Also	18%	Also	18%	Also	18%
Percentage comparison		<b>91%</b>		<b>90%</b>		<b>89%</b>	
Unit price (or adjusted unit price)		<b>1186</b>		<b>1138,00</b>		<b>1153,00</b>	
Unit price after comparisons		<b>1067,40</b>		<b>1024,20</b>		<b>1026,20</b>	

Table 3 Review of the carrying amount of properties in EUR per m2

DESCRIPTION	Unit of measure	Expression of the results after the fair valuation
The calculated unit price	EUR/m <sup>2</sup>	1039,26
Total area	m <sup>2</sup>	500
Calculated total price for the property companies	EUR	519.630

Source: Authors

Based on 3 tables, it is clear that the method of comparison has its advantages in terms of making management decisions for its implementation as part of financial reporting. Internal control mechanisms allow the country's overall behavior of enterprises in terms of fair evaluations. Based on both expressed and determined by the method of assessment of fair value management can improve their decisions and to work towards increasing the efficiency of business operation of the company.

The aim of this is making the right decisions and quality, and therefore financial reporting could have the effect of applying to positive and countries in transition if you take into account the fair value of assets.

The remainder of this paper provides possible kicking a schematic representation regarding the adoption of the initiating Decision on fair valuation (Figure 1). Given show internal and external factors in the likely view of possible movement in this process.

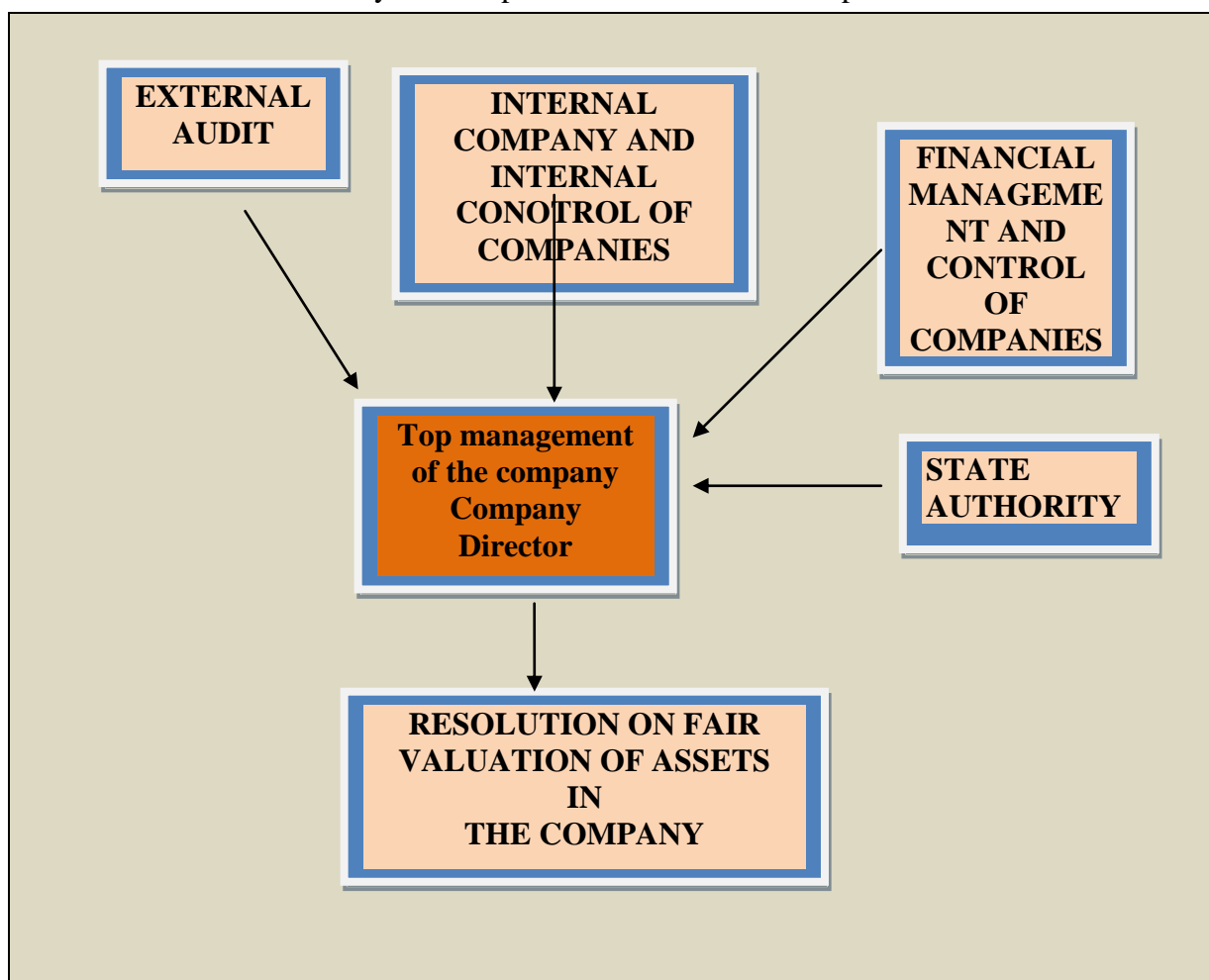


Figure 1 initiation and deciding on fair valuation possible schematic view

In continuation of kicking are provided schematic view of initiating and deciding on the fair valuation in order to show the possible movement of the important factors involved in the decision-making process on the fair valuation of assets in enterprises.

## 5. Conclusions

In Serbia, since the end of 2015, when they signed the first two chapters of EU accession, financial reporting evident that uphold fair value can have its positive effect on the processes of business management. Activities privatization and transformation that is expected in 2017 and the next few years will be all the more attention to the real evaluation property with which manages the company's management.

Internal control mechanisms in the Republic of Serbia may require fair value because its use can raise security in the company by the management to adopt such financial reporting and the application of fair value in the assessment of the company's assets. In this paper, the authors show that fair value can be implemented medium enterprise transition countries such as the Republic of Serbia.

Each part of the work within the framework of evaluation must be in a manner prescribed by the management in order to achieve the best possible security operations. Such an approach can be applied fair value of real estate in a number of companies in the Republic of Serbia, and it is

possible to raise the fair value of assets and property to a level that is very close to the current state of real estate market and property managed by the company.

This creates the conditions for the application of the fair value of property, equipment and real estate are displayed because then management decisions can be timely, realistic, with a degree of certainty and realistic in space and time.

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