

ACCOUNTING AS AN INFORMATION SOURCE FOR DETERMINATION OF GENERAL ASSET VALUE IN CONDITIONS OF THE SLOVAK REPUBLIC

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Abstract

Currently, expert witness's activities became an essential part of the development of business activities. Expert witness's activities deals with the process of determining the value based on the use of appropriate valuation methods. The basic role of expert witness's activities is valuation of the assets. In practice, expert witness' opinions are increasingly required not only by the courts and other public authorities, but also by the banking institutions, natural and legal persons. This demand stems primarily from the difference between the perception of price and the actual value of assets. The essential prerequisite for the success of a forensic expert witness's work is the access to quality information. The article's aim is to identify the information sources from which an expert witness is based on the preparation of expert witness's opinion. The theoretical and empirical research was applied in order to achieve the article's aim. The collection of empirical data was carried out using the technique of standardized interview with respondents. Based on the conducted research it can be concluded that the accounting is the principal point and the information source underlying the activity of a forensic expert witness in the determination of general asset value respectively the parts or individual assets items. Accounting presents the information source for various internal and external users. Forensic expert witnesses shall be even included to the users of accounting as regards the establishment of expertizing as a new scientific discipline.

Key words: accounting, information, general value, valuation, expert activities

Introduction

Expertizing has recently started to be created as a new scientific discipline. The importance of expertizing and the importance of expert witness's activity are growing. M. Kubica, P. Kardoš, and M. Jakubec (2013) state that the reason is mainly the actual social conditions, transformational changes, also globalization of the economy in a new environment. In connection with the development of market economy further needs for the expertizing application are constantly arising.

Expert activity is determined by A. Harumová, et al. (2009) as an activity performed by an expert witness to a customer pursuant the legal regulations regarding the expertizing. Main legal regulations adjusting the activity of expert witnesses in the Slovak Republic are as follows:

- Act No. 382/2004 Coll. on Experts, Interpreters and Translators as amended;
- Decree No. 490/2004 Coll. executing the Act on Experts;
- Decree No. 491/2004 Coll. on Remuneration, Expenses and Compensation for the loss of time for experts, interpreters and translators;
- Decree No. 492/2004 Coll. on Determination of General Asset Value (hereinafter referred to as the Decree on Determination of General Asset Value).

The result of the expert witness's activity is so called general value, which under the Decree on General Asset Value means "the eventual objective value of an asset, which is an expert witness's estimate of the most likely price of the asset at the date of valuation at a given place and time, the value which an asset should reach in the market under the term of free competition, in the honest sale, where the buyer and seller will act with due caution and awareness, and provided that the price is not affected by undue consideration; usually including value added tax". The objectification means "the expert witness's determination of general asset value taking into account conditions, market impact, economic influences, and other specific factors".

The main objective of accounting is to provide a true and fair view of asset, financial situation and income of an entity. Accounting performs several functions, while the main ones include the function of documentation, control and information. The function of documentation represents the fact that the accounting documents everything that is the subject of accounting and archives this information. Accounting also fulfils a control function, which sense is that the information about last events provided by the accounting is compared with previously planned information. Comparison results of the plan with reality create space for the correction of any deviations, detecting their causes, uncovering the search for new reserves and possible solutions in the business activity of an accounting entity.

The task of the information function of accounting is to provide information to various users, allowing them to make the right decisions. Accounting information has essentially twofold determination for internal users of an entity and various external users. Managers at all levels of management, members of the Management and Supervisory Board, Board of Directors, employees are representing the internal users. A. Látečková (2013) states that the accounting has been formed as a system that allows recording and then providing the requested information since its inception. Accounting information is an integral part of manager's work. Its effective use is greatly affected by the economic process and performance of an entity. The importance of accounting as an information source for managers, particularly in relation to the implementation of financial analysis is also emphasized by P. Serenčič, et al. (2014) E. Škorecová (2010) states, that the accounting information is essential not only to internal users, but also to external users, for example tax authorities to check

the income tax base, banks in order to provide loans, statistical authorities, leasing companies, investors, creditors, social security institutions and health insurance institutions, auditors, law enforcement agencies and the others.

Materials and methods

The article's aim is to identify the information sources used in expert witness's activity in order to determine the general asset value, respectively parts of a company or its assets items. The theoretical and empirical research was applied in order to achieve the article's aim. Except for the scientific literature basic input materials were legal regulations, namely:

- Act No. 431/2002 Coll. on Accounting as amended (hereinafter referred to as the Act on Accounting);
- Act No. 382/2004 Coll. on Experts, Interpreters and Translators as amended;
- Decree of the Ministry of Justice of the Slovak Republic No. 492/2004 Coll. on Determination of General Asset Value as amended.

The collection of empirical data was carried out using the technique of standardized interview with respondents. Respondents are represented by forensic expert witnesses from the Department of Economics and Management, Accounting and Taxation. Generally recognized basic methods of research that lead to the acquisition of scientific knowledge on the subject were used in the article elaboration.

In order to achieve the set task we provide an example of determining the general asset value in the selected unnamed company for the elected legal action using information from the accounting. We have selected the asset item which is presented by a receivable. The method of financial ratios was used as regards the determination of general receivable value in the selected company. Concerning this method, the financial situation of debtor was determined. Other appropriate materials essential for the receivable assessment were data from the accounting documents which have been provided by the creditor and the debtor for the period of years 2011 - 2013.

Results

The need for an objective value of company's asset is based on the fact that the value of asset recorded in the accounts is the only administrative data, which does not correspond to the actual value of an asset at a given place and time, so to its general value. General asset value determined in accordance with the Decree becomes e.g. the value of the contribution to company or starting price at auction according to purpose of expert witness's opinion.

One of the basic tasks of expertizing is the company's valuation, its parts or asset items. If there is a necessity to set the general asset value of the whole company or its parts, the valuation is performed by expert organizations as legal persons registered in the expert witness's area - business economics in the register of the Ministry of Justice of the Slovak Republic. If there is a necessity to set the general asset value of selected asset items, the valuation is performed by expert witness (natural person) of appropriate expert witness's area registered in the register of expert witnesses. E.g. vehicles might be valued by an expert witness in the area of road transport; real estate is valued by an expert witness in the area of building industry, economic items of company's assets e.g. receivables, shares are valued by an expert witness in the area of economy and management.

Particular manner and methods of property valuation are following the Decree on Determination of General Asset Value. The methodology for the determination of general value of individual asset items in company or other assets, e.g. intangible assets, real estate and buildings, electrical equipment, vehicles, inventories, receivables, financial assets, equity and liabilities and others are set in the appendices of the Decree. Basic methods used for asset valuation are asset, business, liquidation, comparable and combined method pursuant the legal regulation in the Slovak Republic. Asset method determines the general value of company and its parts by the summary of general values of individual asset items decreased by the general value of equity and liabilities at the date of valuation. Asset method is mainly used for legal act of company's sale, non-monetary contribution, increase in share capital and others. Business method is focused on the determination of future company's income, absorbed sources for the valued period of company's activity. Asset and business method are the mostly used methods of determination of general asset value in the expertizing in the Slovak Republic.

Liquidation method is used for the company's valuation in liquidation or bankruptcy. Basic manner derives from the asset method, while the possibility of company's assets valuation is taken into account. The general value is determined by the weighted average of asset and business method while using the combined method. The use of this method is not recommended in case the values determined by assets and business method significantly differentiate. Comparable method derives from the comparison with sample companies of the same industry and focus, comparable size and structure, while the data are known, about their sale or purchase. In conditions of the Slovak Republic the developed market with companies cannot be mentioned, therefore this method is used at least in the expertizing in the Slovak Republic.

The most significant information source used in the valuation process is accounting. Financial statements are the most important output of accounting; they serve for the needs of wide range of users, including expert witnesses for verification and presentation of results and information about the financial position of a company. Financial statements are defined by the Act on Accounting [7] as „ a structured presentation of the facts, representing the subject of accounting, which is provided to persons who use this information. “ Financial statements in the double entry bookkeeping comprise of balance sheet, profit and loss statement, notes. The statement of movements in equity and cash flow statement are included in notes. In these statements the basic information potential about the asset structure, equity and liabilities, profit/loss and its items, i.e. expenses and revenues and cash flows of valued company is acquired.

Asset and business method of company's value determination are used in valuation in the Slovak Republic. The balance sheet is a basic fundamental for expert witnesses when the asset method is used. Values of assets and liabilities recognized in the balance sheet are used as fundamental values of assets and liabilities. Fundamental value is considered as the value recorded in the accounting, i.e. the measurement of assets and liabilities in the accounting. Assets and liabilities are measured pursuant the Act on Accounting. The date of their measurement is the accounting transaction date and the balance sheet date. Pursuant the Act on Accounting the following values are stipulated:

1. Acquisition cost, the assets acquired by purchase are valued by this value. Acquisition cost is the price paid for the asset including costs related to the acquisition, e.g. external and internal transport, commission, duty, insurance and others.
2. Conversion cost is used for the assets created by own activities. Conversion costs are direct costs needed for production or another activity, alternatively the part of indirect costs related to production or another activity.
3. Replacement cost means the price at which an asset would be acquired at the time it is recorded. It is used for the measurement of assets acquired free of charge, e.g. assets acquired as gifts, assets acquired as newly identified in the stocktaking and not yet recorded, assets converted from personal to corporate ownership, livestock breeding and increments if the conversion cost cannot be determined.
4. Nominal value is the price stated on cash, stamps and vouchers or the amount shown for receivables or liabilities.
5. Fair value is used to the measurement of assets acquired as a contribution to company or at company's purchase and its parts, assets acquired in exchange. Fair value means market price. If fair value cannot be reliably determined, fair value is determined by qualified estimate or expert witness's opinion.

Fundamental value of assets and liabilities acquired from accounting is transferred to general value by means of various factors which are obtained in different coefficients. E.g. the coefficient of objectification reflects the usability of inventory, its possibility to liquidate inventory to cash, specific position of inventory's owner, average cost of capital related to inventory's financing, abundant status of inventory, physical and moral status of inventory, its specific characteristics, inventory turnover when the determination of inventory value is performed. In case of receivable valuation, fundamental value is transferred to general value by means of coefficient enforcement of claims, which takes into account the debtor's payment discipline, his trading activity, due date, volume and ensuring of receivable collection. The determination of these coefficients for each company's value is largely subjective and requires high expertise of expert witness and available information on which the expert witness is based.

When expert witnesses use business method, they derive from the profit and loss statement. Balance sheet, profit and loss statement are fundamentals for economic and financial company's analysis which is usually the part of expert witness's opinion. Financial and economic analysis is, inter alia, the basis for the determination of life cycle of valued company, as well as it is needed for the determination of break point. Notes are significant for expert witnesses also, as they present an equivalent part of financial statements, containing the information not included in accounting books and statements. In notes there are listed e.g. information about ongoing litigation, collaterals for third parties, assets which are pledged, or similar information which might affect the general value of company. It is essential to note that the audited financial statements are reliable information source for the expert witness's opinion. Each accounting unit which is obliged to have audited financial statements pursuant the Act on Accounting, shall elaborate the annual report, which is the subject of audit as well. Annual report contains other relevant information and data necessary for the elaboration of expert witness's opinion except for financial statements.

Except for financial statements, the stocktaking of assets and liabilities of valued company belongs to important source of information to expert witnesses. Its aim is to show that the book state of assets and liabilities in accounting correspond to an actual situation. All assets and liabilities in accounting evidence are the subject of stocktaking, as well as assets and liabilities recognized in off-balance sheet accounts, e.g. assets which are pledged, rented assets and so on. An expert witness is obliged to take into account the results of stocktaking, as all assets and liabilities are not listed in accounting evidence. In case the information obtained from financial statements differentiates, the fundamental for determination of general value is the value obtained from stocktaking of assets and liabilities. An accounting entity shall perform stocktaking at the balance sheet date of

ordinary and extraordinary financial statements pursuant the Act on Accounting. Regarding this fact it is suitable to elaborate expert witness's opinion at the balance sheet date, because the stocktaking of assets and liabilities performed at the balance sheet date is at disposal as well.

Except for financial statements and stocktaking, more detailed accounting information is inevitable for the elaboration of expert witness's opinion. Its source is e.g. general ledger with synthetic and analytical accounts in electronic or other form, journal, trial balance, off-balance sheet evidence. In case of asset method use for company valuation, documents related to asset evidence like asset/inventory/stock cards, depreciation/amortization plans, deed and others are needed. Accounting documents are other significant information source, accounting transactions are reported on their basis. The main emphasis is laid on primary documents and the documents that are verifiable, such as bank statements, tax returns listed in the tax office, etc. An expert witness is obliged to request all documents at the date of valuation pursuant valid legal regulations.

We provide an example of determining the general asset value in the selected unnamed company for the elected legal action using information from the accounting. We have selected the asset item which is presented by a receivable. The expert witness follows the annexe No. 9 of the Decree of the Ministry of Justice of the Slovak Republic No. 492/2004 Coll. on Determination of General Asset Value as amended. The general receivable value is determined after the inventory as at the date of expert witness's opinion preparation and it is the multiplication of the fundamental value and the coefficient of receivable enforcement. The fundamental value is considered to be the accounting value. The accounting value of receivables in EUR presented in a foreign currency is set by the calculation of receivable accounting value in foreign currency using the exchange rate of European Central Bank (ECB) or National Bank of Slovakia valid as at the assessment date. The general receivable value is determined as follows:

$$V\check{S}H_{PO} = VH_{PO} \cdot x \cdot k_v \quad (1)$$

where $V\check{S}H_{PO}$ - the general receivable value;

VH_{PO} - the fundamental value of receivable;

k_v - the coefficient of receivable enforcement, while at its calculation the solvency of the debtor's business activity, due date, the volume of claims and secured transaction are taken into account.

Receivables after the expert witness's examination of enforcement are classified into the following groups:

- a) Non-classified receivables ($k_v = 1,0$). These are the receivables until the maturity date, where the debtor is solvent and at the same time the receivable cannot be classified under the letter f), g) a h);
- b) Classified receivables of class I ($k_v = 0,6 - 1,0$). Classified receivables of class I are the receivables after maturity date, where the debtor is solvent, temporarily insolvent or insolvent and at the same time the receivable cannot be classified under the letters f), g) a h);
- c) Classified receivables of class II ($k_v = 0,2 - 0,6$). These are the receivables after maturity date where the debtor is insolvent for a long time;
- d) Classified receivables of class III ($k_v = 0,0 - 0,2$). Classified receivables of class III are doubtful and non-recoverable receivables after maturity date, where the debtor is insolvent;
- e) Time – barred receivables ($k_v = 0,0$);
- f) Receivables towards entities in liquidation ($k_v = 0,0 - 1,0$);
- g) Receivables towards entities in bankruptcy ($k_v = 0,0 - 1,0$);
- h) Judicial enforced receivables ($k_v = 0,0 - 1,0$);

The receivable which is the subject of assessment, arose on the basis of the agreement on the software distribution between the creditor seated in the USA focused on the development, production and sale of software and the debtor seated in Slovakia specialized in the software distribution for European region. The creditor's company is the parent company and owns 100 % of capital interest in the debtor's company. The provable document of the assessed receivable establishment is the invoice, invoiced by the creditor, which meets the requirements of an accounting document pursuant the Act on Accounting. Based on the referred invoice the assessed receivable was accounted for in the accounting of both, debtor and creditor. The amount of the assessed receivable presents 1 500 000 USD. The referred amount arises from the agreement on software distribution, in which the provision is set in the amount of 60 % from the total debtor's income. As at the assessment date the receivable is 31 days after maturity. The debtor acknowledged his obligation in the amount 1 500 000 USD based on the confirmation of obligation acknowledgement. As the companies of creditor and debtor present the related parties, the documentation of transfer pricing concerning the international intercompany transactions between the debtor's company and his parent company was at disposal. In pursuance of this analysis the licence price set in the agreement on software distribution can be considered as the market price. The financial situation of debtor, performed by means of financial ratios, significantly influences the general receivable value. The conducted analysis proved the ability of debtor to settle his obligation arisen from the assessed receivable.

Pursuant the Decree on Determination of General Asset Value the receivable is classified to the group of classified receivables of class I, as the receivable is after maturity and the debtor is solvent. The coefficient of enforcement is determined at the level 1,00 based on the following facts:

- based on the performed financial analysis we can conclude that the debtor is able to settle its obligation;
- the maturity of obligation is not at risk due to capital ties of creditor and debtor;
- the debtor acknowledged his obligation towards the creditor;
- the obligation is properly recorded in the account 321 – Suppliers in the accounting of debtor;
- the debtor has been conducting his business activity since 2000, which also creates a presumption of obligation settlement.

Based on the following, the general receivable value is determined as follows in table 1:

Table 1. The determining of the general receivable value (Source: own elaboration)

Fundamental value of receivable in USD (VH _{PO})	Foreign exchange rate of ECB as at the assessment date	Fundamental value of receivable in EUR (VH _{PO})	Coefficient of enforcement (K _v)	General receivable value in EUR (VŠH _{PO})
1 500 000	1,3356	1 123 090,746	1,00	1 123 090

Conclusions

The basic prerequisite for the successful expert witness's work is the access to quality information. Accounting belongs to the most important sources of information from which the expert witness's activities derive in determining the general asset value of company, respectively company's parts or individual assets items. Scope, content and methods of accounting are regulated by the State through the Act on Accounting. However, not only accounting legal regulations (Act on Accounting, Measures of Ministry of Finance, and Methodical Guidelines) are reflected in the accounting methodology, but as well many other acts and regulations must be taken into account. Accounting has multidisciplinary character and its mastering is a challenging activity.

The basic fundamental for valuation is the particular information in company's financial statements. Except for the financial statements, there are other fundamentals essential for the elaboration of an expert witness's opinion like annual report, stocktaking of assets and liabilities and other supplementary financial information, which are outputs of information bookkeeping system, records of assets evidence and own accounting documents. In the valuation process defining the necessary documents from the accounting, their collection, sorting, verification and use are the important parts of expert witness's activity and the main prerequisite for an expert witness's opinion.

The expert witness is required to orientate in related legislation and manage accounting methodology (manner of bookkeeping, measurement of assets and liabilities, depreciation/amortization, creation of provisions, adjustments, profit/loss calculation and its transformation to income tax base of legal persons, and others) when performing his activity. The expert witness's work might be problematic as the legal regulation of accounting enables the use of alternative manners, e.g. when assets are recorded, assets not meeting the limit value pursuant the Act No. 595/2003 on Income Tax as amended. In this context it is not possible to apply a universal manner in the use of accounting information in the process of expert witness's opinion. The expert witness shall take into account the specific features of a particular company's valuation and apply a systemic approach in his activities. Another critical factor is a factor of time in the expert witness's work with data of accounting evidence. Amendments to acts may decisively influence the accounting, tax and other relevant facts related to the activity of valued company. Therefore, in addition to a systemic approach it is necessary to apply separated approach to the accounting information for a certain activity's period of valued company.

In conclusion, it should be noted that a confusion of terms measurement and valuation occurs often in literature and in practice, while these terms, as well as price and value are not the same. Accounting and expertizing are two areas where the confusion of these terms can be met. The term measurement pursuant accounting statutory legislation is used for the purpose of expressing the subject of measurement in monetary terms. Valuation can be characterized as a process of determining the value using appropriate valuation methods. This term is used in the area of expert witness's activity. In the valuation process of company's assets the measurement of assets and liabilities defined in the accounting is the basis for the determination of general value.

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APSKAITA KAIP INFORMACIJOS ŠALTINIS NUSTATANT TURTO VERTĘ SLOVAKIJOS RESPUBLIKOJE

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Santrauka

Šiuo metu ekspertinė veikla tapo svarbia įmonės veiklos plėtros sudadamąja dalimi. Ekspertinė vertės nustatymo veikla grindžiama tam tikrų vertinimo metodų naudojimu. Dažniausiai ekspertiškai yra nustatinėjama turto vertė. Praktiškai ekspertų nuomonės vis dažniau reikia ne tik teismams ir kitos valstybės institucijoms, bet ir bankams bei fiziniams ir juridiniams asmenims. Šio vertinimo poreikis dažniausiai kyla dėl skirtingo kainos ir tikrosios turto vertės suvokimo. Esminė sėkmingo ekspertinio vertinimo sąlyga yra prieiga prie kokybiškos informacijos. Šio straipsnio tikslas yra nustatyti informacijos šaltinius, kuriais būtų galima pagrįsti ekspertinio vertinimo nuomonę. Siekiant šio tikslo buvo atliktas teorinis ir empirinis tyrimas. Empirinio tyrimo duomenys buvo gauti atlikus respondentų apklausą naudojant standartizuotą interviu. Remiantis atlikto tyrimo duomenimis galima daryti išvadą, kad apskaita yra pagrindinis atramos taškas ir informacijos šaltinis, kuriuo gali būti grindžiama ekspertų nuomonė dėl bendrosios turto ir atskirų turto dalių vertės. Apskaita yra informacijos šaltinis įvairiems vidaus ir išorės vartotojams, todėl turto vertinimą atliekantys ekspertai turėtų būti pripažinti apskaitos informacijos vartotojais, o ekspertizę atlikimas pripažintas nauja mokslinių tyrimų kryptimi.

Reikšminiai žodžiai: apskaita, informacija, bendroji vertė, vertinimas, ekspertinė veikla.