The Role and Specifics of the Valuation Method in Accounting

Abstract: The article discusses the concept, nature and role of valuation as a monetary expression of the property and its impact on the results of the company. This will reveal the different interpretations of the concept of valuation in the works of domestic and foreign scholars. The opinion was expressed that the valuation traditionally serves as one of the main elements of accounting, which allows to get a generalized view of the state of the property and the results of the company. The method of accounting determines the place of valuation in the list of elements using examples.

Key words: valuation, accounting, accounting method, cost, valuation object, monetary measurement.

Introduction. The understanding of valuation in accounting is constantly changing. First of all, this is related to its historical development, the expansion of the scope of information generated in the accounting system, and the natural growth of accounting capabilities. At present, accounting is not only the registration of information, but also its processing and synthesis using certain methods and techniques.

Analysis of the literature on the topic. For a long time, accounting theory did not consider the possibility of forming the value of objects in the accounting system. For example, F. Leitner maintained that: “The accounting does not self-assess. It does not independently create any valuations, but only assimilates them.” (Leitner F., 1929). I.P. Russiyan also applied the same idea: “For accounting, it is assumed that the valuation of property should also consist of the ready information, such as its structure” (Russiyan I.P., 1891).

The following ideas belong to A. I. Guliaev: “valuation of property components is more a matter of political economy and economic policy than of accounting science” (Gulyayev A.I.,1913). P.B. Struve
held that: “accounting is not perfect and is frankly unsatisfactory where it provides valuation” (Struve P.B., 1913).

Methodology of research. The following methods and techniques were used in writing the article: a systematic and comparative analysis of the opinions and views of the prominent scientists of the sphere on the topic in question was conducted, information processing was carried out.

Analysis and results. This point of view was relevant at a time when accounting was not tasked to generate evaluative information about objects for users. At that time, accounting was more concerned with recording business transactions and using external cost data. At that time, the accounting system had not yet developed valuation methods that would allow the calculation of a reliable value of property, liabilities and equity. In this case, the "turnkey" cost reflects the real value of the property only at the moment when it is received by the enterprise.

In the process of using and disposing of property under the influence of the factor of time and inflationary phenomena, the monetary value of property and liabilities changes and, accordingly, requires its clarification in order to achieve objectivity and reliability of accounting data. Another factor that precludes the use of turnkey pricing in accounting is situations where there are no external valuations of the facility at all. For example, in relation to unique objects excluded from economic turnover, products manufactured, work performed, services rendered, natural resources, etc. Their value is determined within the accounting system.

At present, the need to revise and clarify the concept of evaluation is based on the influence of a number of factors.

First, most scholars (Paliy V.F. (10), Bykova A.L. (5), Karimov A.A. (7), Makarov V.G. (6), Toshmamatov N.T. (8), Ismanov I.N. (9), Sumsov A.I. (11)) working in the field of directive regulation of accounting theory of valuation principles and methods existing in the country are unanimous in their understanding and interpretation of the concept of valuation. In addition, the concept of "valuation" has not been studied in monographs directly and is only covered indirectly in determining the elements of the accounting method.

Secondly, the understanding of valuation as an element of the accounting method was purely technical in nature - it consisted in the conversion of natural indicators into value by multiplying the set price by the amount specified in the document. Particularly, A.L. Bykova believes that "natural indicators in documents are transformed into monetary indicators with the help of valuation" (Bykova A.L., 1962). V.G. Makarov also had this point of view: "With the help of valuation, natural and labor indicators are translated into monetary ones. For the transfer... current state prices are used." (Makarov V.G., 1978). At the present time, this understanding of valuation is clearly insufficient. If consider that valuation is a method of cost measurement, and measurement involves performing a series of actions to determine the value of the object, then it cannot be limited to a simple mathematical action.

And finally, the development of market relations in the country led to the abolition of fixed prices for the same item and the emergence of different prices. In the process of accounting reform, various methods of valuation, use of "low cost" rule and the application of market prices, fair values were allowed. Accordingly, the previous concept of valuation has lost its relevance.

Most authors of modern monographs still consider valuation as "a way of expressing the objects of accounting in a generalized monetary measure" (Kuter M.I., 2000). Kiryanova Z.V. considers valuation as "a method of expressing the property of an enterprise and its resources in monetary form" (Kir'yanova Z.V., 1995). This interpretation of the concept of evaluation, in general, does not violate the principles and rules of accounting but does not show the content of this "method", its qualitative indicators, and as a consequence, the essence of evaluation as an accounting process remains undisclosed.
There is another point of view whose proponents see valuation as either a collection of activities or as a process. This viewpoint is comparable to the idea that any process may be summarized as a collection of actions. According to the aforementioned traditions, Y.V. Sokolov specifically defines valuation as "the method of transfer of accounting objects from natural measure to monetary measure" (Sokolov Y.A.V., 2000); however, in contrast to other authors, he emphasizes that the method's essence is "the choice of one or more measures and provides its application to life" (Sokolov Y.A.V., 2000).

According to Hendriksen E.S. and Van Breda M.F., "the valuation process itself consists in the act of attaching certain monetary values to accounting objects in such a way that they can be employed both together and separately" (Hendriksen E.S. and Van Breda M.F., 1997).

International Financial Reporting Standards (16) interpret valuation as "the process of determining the monetary values by which elements of the financial statements should be recognized and included in both the balance sheet and the income statement.

In our opinion, the understanding of valuation as a process of forming the value of accounting objects fully reflects the real content of this element. Given the diversity of business situations and objects of accounting and, most importantly, the variety of purposes pursued by users of accounting information, valuation as an accounting activity remains complex and time-consuming. During the evaluation, data from the internal information system of the enterprise and the external environment are used, the interests of consumers of information are taken into account and the choice of method of calculation takes place.

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In the process of economic activity, there is a need for constant revaluation, that is, the revaluation of assets and liabilities, taking into account the factor of time. These cases prove that valuation does not consist of a single action but includes a set of actions.

The current accounting rules in the country do not define the concept of evaluation, although the main accounting document—the Law "On Accounting"—has a separate article on evaluation. It states that "evaluation of property and liabilities is carried out in the organization for their monetary expression in accounting and reporting." This text in some cases leads to a free interpretation of the concept of the content of evaluation and either to its narrowing or subjective expansion. Therefore, in order to reveal the concept of valuation and understand it as a process of value formation, it is necessary to clarify the field of valuation movement in the accounting system.

The authors of the above paragraphs on valuation define the scope of valuation in accounting in different ways. In particular, Z.V. Kiryanova points out that the valuation involves "the property of the enterprise and its sources" (Kir'yanova Z.V., 1995), at the same time she omits one of the most important groups of objects - business operations. This narrows the scope of its application.

The economic processes that lead to expenditures and ultimately to revenues must have a measure of value and come within the scope of valuation. Otherwise, the absence of their cost measure does not allow to determine the company's efficiency, the effectiveness of its activities. M.I. Kuter believes that "evaluation extends to all stages of the life cycle of a manufactured product" (Kuter M.I., 2000). This definition covers only the valuation of the financial result, excluding assets and liabilities existing in the enterprise. Additionally, since it only pertains to reporting and will not be applicable to current accounting, the IFRS concept of valuation should not be the only definition used.

Summarizing the different points of view and accounting practices, it can be noted that the scope of valuation includes all objects of accounting. In relation to property and liabilities, their value is determined in accounting, on the presence and outflow at the balance sheet date, in terms of business processes-the amount of income and expenses, and financial results. Indicators obtained in the course of valuation are applied both to individual objects and to generalized descriptions of a group of similar objects.
Before properly defining the notion of valuation, it is important to understand the meaning of a few words that are related to it and frequently used interchangeably with valuation, namely, value and price. Ambiguity and inconsistency in terminology lead to misinterpretation of these concepts in practice. Especially when accounting uses terms that have a broad meaning to refer to specific concepts.

There are two different views on the definition of price. According to the first, a product’s price reflects its value, while the second reflects how much a consumer is ready to spend on a good that will net them a particular amount of money. In the first case we are talking about the value theory of price, the foundations of which were created by W. Petty, A. Smith and D. Ricardo, and in the second - the theory of use value typical of the market economy.

The essence of the price and value concept is that all goods are the products of human labor, and in their creation "human and living labor is expended, and as a result value is created" (Kudbiyev D., Ismanov I.N., Toshpulatov A., 2019). On this basis, the value of various goods depends on the amount of effort spent on them, that is determined by the sum of the costs of their production.

Price and value are incompatible in market relations where supply and demand factors are at work. A corollary to this is the theory of high utility, according to which the price is determined by the financial capacity, motives, or special interests of the buyer. The price in this case will depend not only on the manufacturer's costs but also on its attractiveness to the buyer. Nevertheless, the price is still an indicator of value because the sale of goods must cover all costs associated with the processes of production and sales. In particular, "the main Tariff and Trade Agency" recommends the following definition of value: "Normal cost is understood as the cost of materials in the country of origin and the cost of producing the goods, which represent normal commercial operations plus realized profits and total expenses."

The main difference between price and value is that price is a historical fact. It belongs to a particular time and place. Cost is the concept of the value of goods and services at a particular point in time according to the chosen valuation conditions. Value is the end result of valuation, that is, valuation is the process of measuring value. It can be acquired through valuation, which is the process of determining value.

Based on the etymology of the term valuation, its economic content, scope of application, and the functions it performs in accounting, valuation can be defined as: "Valuation is the process of forming the value of accounting objects by which the value of each object or group of objects is measured for the purpose of summarizing information."

Proceeding from the fact that the valuation provides accounting facilities, generates cost data on the availability, use, and movement of resources; determines the amount of equity and debt capital; and determines the effectiveness of business operations, the evaluation process includes the following steps:

- Determining the purpose of valuation in different business environments
- Selection of the type of value based on the time factor and the stages of the object in circulation
- Choice of valuation method, taking into account its properties and regulations
- Calculation of the set value

The valuation process must comply with all accounting rules, and the value indicators that arise must satisfy the standards for the quality of accounting information because valuation is regarded as a component of the accounting method and directly contributes to the creation of accounting information. Before using the data obtained in the valuation process in the current account and then in reports, it is necessary to analyze it in terms of the presence of a number of properties. It should be noted that the extent to which estimated value indicators possess these properties allows one to judge the use of...
valuation data in accounting, either by limiting the scope of their application or by rejecting the chosen method of calculation and recognizing unsatisfactory valuation results.

In order for an assessment to form accounting data that meets the requirements of validity, comprehensibility, reliability, and comparability, it must have the following properties (Figure-1.).

The relevance of the valuation implies that the information must be beneficial to the user in helping to make decisions or help the user achieve their goals. Valuation should provide information about the real value of the property, the amount of equity and debt capital. However, in each successive period of time, an operating enterprise undergoes business operations that affect the amount of its assets, liabilities and capital. Consequently, the property of utility is provided by the timeliness and predictability of evaluation.

Figure 1. Properties of valuation in the accounting system.

The conduct of valuation at sufficiently short intervals to reflect changes in the value of the accounting objects and is consistent with the period of economic activity of the enterprise is referred to as timeliness.

The ability of valuation to provide a reasonable forecast of future income and expenses, as well as the value of property permanently available in the enterprise, indicates that it is predictable. The cost of an object for its accounting should include the full range of costs required for its acquisition, construction, or preparation, on the basis of which it is possible to reliably assess the future profitability of the object and the possibility of replacing it. The value calculated using norms and standards, given that they correspond to the technical level of production, will have a high degree of predictability. The external conditions of economic transactions, the identification of the relationship of valuation objects to past and future events, and the difficulty of accurately determining the standards lead to deviations in forecasting. But at the same time, the lack of predictability in valuation does not solve the problems of accounting and deprives it of utility.

The next property of valuation is the reliability or expediency, which lies in achieving objective consistency between accounting information and the actual existence of the facts of business life. At the same time, the concept of expediency is not alienated with absolute accuracy or reliability, but assumes that in the process of evaluating assets, no significant errors are made, smoothing the influence of persons for whom the estimated information is formed. The reliability of the valuation here is ensured by its verifiability and neutrality.

The property of verifiability means that any future user of accounting information must obtain the same result as the previous one in the valuation of the same accounting object. To do so, only documented primary data must be used, strict regulations on the valuation of specific assets and liabilities must be
strictly followed, and all factors affecting the amount of the formed value must be taken into account; however, taking into account all of these requirements in accounting is extremely difficult. The external price of a transaction is almost never an accounting valuation of an object, since the accountant determines the value of the property received or given up while accounting for the numerous costs associated with this process. Despite the fact that, in practice, the procurement process determines the normative structure of the costs included in the value of the construction or object, the valuation often depends on the feedback of the accountant, which is not mentioned in the accounting policy or in the report. This makes it difficult to choose the statutory valuation to be verified as well as the method for determining the value. In this case, users of accounting information must be informed of the accounting methods the organization has chosen in order for them to be able to verify them.

Several approaches can be used to determine if the verifiability property is present in the valuation. The first of these states that valuation is verifiable if its value can be proven. The disadvantage of this approach is the subjectivity, the bias of the evidence itself.

The second approach is to have the valuation results approved by independent, qualified appraisers who are not influenced by interested parties. "Neutrality of valuation" refers to valuation that is not based on the interests of any group of users or individuals who cannot be motivated to make a predetermined decision. At first glance, the property of neutrality seems to contradict the property of utility, because it is necessary to have as many valuations of the same object as possible to meet the needs of different groups of users. However, in accounting, each object corresponds to a single valuation, and it must be objective, otherwise the information loses its value. Accordingly, the valuation in the accounting should be neutral. In this case, users will have the opportunity to calculate the necessary indicators based on accounting valuations.

Furthermore, neutrality of valuation implies that it is unaffected by previous valuations. For example, the amount of residual value of fixed assets is affected by their original cost and the value determined by revaluation. If the requirement of completeness was violated in the formation of the object's original cost, the replacement value is calculated without regard to the conditions under which it occurred, the period of use and its intensity, and the physical condition of the object, then the real value does not correspond to the residual value. Thus, if valuation methods are applied on the basis of the dependency factor when replacing the value of the object being valued with a new one, it becomes difficult to achieve the property of neutrality. On this basis, the property of neutrality is not observed when reflecting the value of objects under the exchange contract. In national law, the property of neutrality is determined by the value of the objects being disposed of, so that errors made in determining the sale value are transferred to the purchase price, and the valuation remains agreed upon in advance.

The next valuation property is comparability, which makes it possible to compare the economic performance of different reporting periods. This property helps to analyze, predict and make management decisions. The comparability of the valuation depends on its homogeneity and sustainability.

The homogeneity property can be defined as the use of the same style for similar objects and operations. The need for this property in the valuation process is justified for several reasons. First, the variety of valuation options used in accounting practice does not allow for comparison of data from different enterprises. Second, the administration's freedom to choose its own valuation methods can lead to the deliberate concealment of values of real value. In practice, a unified form is achieved by fixing on a normative basis, the rules of valuation of each type of accounting object.

But the forced choice of methods violates the freedom of management, limits the accounting rigid rules and methods of valuation, and they are not always effective for the enterprise, do not correspond to the economic situation, and make the results of the valuation comparable not in content but in form, and
finally, blocks the further development of accounting practices. Therefore, a conscious approach to the legislative consolidation of valuation methods is necessary, the choice of which is not mandatory but should remain a voluntary goal of the accounting policy of the enterprise since the economic consequences of any directive methods cannot be foreseen.

The consistency property refers to the use by the same organization of certain methods of valuation of property and liabilities in different periods of time. This consistency enables the enterprise's results to be predicted based on periodic data. If different valuation methods or operations are used in accounting, it is difficult to determine the financial and economic effects of external factors when an enterprise moves from one accounting period to another. For instance, if the same assets are valued at different times, especially if the dynamics of price rise are high, their value will not be accurately reflected.

However, the consistency property should not be abandoned because of changes in valuation methods if the new methods provide more accurate and useful information. Of course, changes in valuation methods must be justified and reflected in the period in which they are implemented. In addition, it is necessary to inform all users of accounting information about the changes.

Conclusions and recommendations. Consequently, the modern understanding of valuation in accounting involves its interpretation as a process of obtaining a certain value for the accounting object. Since the valuation provides information on the value in the accounting system, the result of the valuation process must have all the qualitative properties of accounting information, which is achieved by complying with the properties of utility, reliability, and comparability. Before the result of the valuation will be reflected in the registers of accounts, it is necessary to check it for the presence of the mentioned properties. The valuation as an independent element of the accounting method can have its own principles aimed at the observance of these properties, which apply to the entire accounting system and only to this element.

References
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