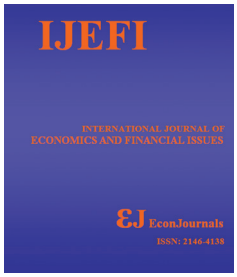

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Representativeness of the Value Based Activities and Reports under the Dominating Influence of Counterparties

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ABSTRACT

In the article the problems of the value based financial activities and reports in conditions of the economic entity dependence on suppliers and customers are being researched, the algorithms of calculation relevant in the meaning of the supplier and customer interests the indexes of economic profit are being developed, the forms of financial reporting and registers, forming the price-oriented financial indexes are being represented for the reader's attention.

Keywords: Value Based Activities, Financial Reports, Forms of Economic Influence, Economic Profit, Relevant Costs, Opportunity Costs
JEL Classifications: O150; E660; R130

1. INTRODUCTION

Significant impact on the accounting-analytical providing of financial controlling and management is made by the predominant participation of the suppliers-customers in the economic entity management (Acheson et al. 2015). Extra clarification is needed for the notion of aggregating into the general form of predominant participation of buyers and suppliers. The basis for such an approach is that the buyer and the supplier-are two integrate categories of the economic relationship. That is to say, if there is a buyer, there must be a contractual supplier. Justified is the opposite statement. This notion affords to choose for study subject whole group of companies or the added value communities and consequently to develop for them the methodology of accounting-analytical providing of financial management. Can be added, the "Supplier-Buyer" relationship pattern has a core meaning in organizing intercompany structure, based on the notion of economical calculation between the centers of responsibility. Substantiation of importance of the researched topic can be its active influence in the wide range of economic relationship and at the same time the presence in many problematic aspects of methodology of accounting-analytical providing of financial controlling: Stating the planning-controlling calculation; defining the forms, content and assignment of internal and external reporting; defining the content of financial information and selecting the way of its collecting, generating and interpretation etc. For full study of the topic, we define three significant from the point of view of the current study cases of such economic relationship:

- Mostly visibly this form of participation can be observed in intercompany relations between managing (head) company and dependent company, making group of companies, conglomerate, and concerns. The object of management if the group of companies are dependent (affiliated) companies for which the managing company is usually at the same time the supplier of material and stuff and the buyer of the produced by the affiliated company goods;
- The trace of participation in such form can be revealed in relationship without nominal participation in the property of the dependent company-in cases of indirect participation. The example can be economical systems with strong interfirm relations, strategically partnership and the cases of market monopolization by one of the parties of the economic relationship.

Such forms Mins G. and Shneider D. called value added community (Grady and Schneider, 2001). Their specific feature is that the predominant meaning gains the intellectually organized capital or brand-capital;

- This for of participation is characteristic for any company, intercompany structure of which is built under the principle of economical calculation between the centers of responsibility. Notably the building of such structure is view by the researchers and specialists as one of the main questions of organizing the accounting-analytical providing of budgeting (Gareev, 2014).

2. ECONOMICAL DEPENDENCE OF THE COMPANIES IMPACT ON THE REPRESENTATIVENESS OF VALUE BASED FINANCIAL ACTIVITIES AND REPORTS

From the point of view of the researches and specialists, the problem area of the impact of the predominant participation of suppliers and buyers upon the stating of the accounting-analytical providing is the transfer pricing. Moreover significant methodological problems of the transfer resource value calculation make the questions of effective usage of intercompany calculations debatable (Nosov et al., 2014).

Before proceeding to the study of methodological issues of stating the accounting-analytical providing financial controlling, it will be logical to check the truthfulness of the stated beyond assumption via analyze of the result sensitivity of the dependent company against the deviation in the price of the transfer resources. For this purpose we apply the data of JSC "KAMAZ-Diesel," where JSC "KAMAZ" is the predominant in managing the supplier-buyer material; resources. Accounting the actually set transfer prices for JSC "KAMAZ" we calculate the indexes of economic profit (EP) JSC "KAMAZ-Diesel" dated December 31, 2014 (Tables 1-4).

Suppose the purchasing transfer prices of JSC "KAMAZ-Diesel" were underscored for 10%. In this case the fair amount of EP of the dependent company will be over scored for 1638 mln. rubles. That is to say, 1638 mln. rubles of the EP are redistributed in a favor of dependent company.

There are other possible variants of JSC "KAMAZ" participation in transfer redistribution of resources:

- Lowering the purchase transfer prices with the fair level of sale transfer prices;
- Deviation of the sales transfer prices with the fair level of purchase transfer prices;
- Simultaneous deviation of the sales and purchase transfer prices from their fair values.

The results of analysis of the EP sensitivity of the dependent company upon the possible variant of influence of JSC "KAMAZ" are stated further.

The results of analysis let us make the conclusion (Tables 1-4), that taken into account the transfer pieces calculation really created the condition of the dependent company performance distortion, while the result of the group of companies in general can be accumulated in head company as well as at its affiliated

Table 1: Calculation of the EP index upon the accounting data of JSC "KAMAZ-Diesel" dated December 31, 2014

Indexes	Value, mln. rubles	
	2013	2014
Proceeds (net) from sales of products, works and services	15,127	20,519
Products	14,978	20,441
Cost of goods, products, works, services	14,627	19,398
Gross profit	500	1122
Selling expenses	14	25
Administrative expenses	475	555
EBIT	10	542
Tax on profit	3	130
NOPAT	8	412
Capital invested in operations (Cap), including:	2742	4044
Intangible assets	-	-
Fixed assets	1537	1412
Construction in progress	30	592
Profitable investments in tangible assets	0	0
Deferred tax assets	64	24
Other noncurrent assets	0	0
Inventories	528	716
Value added tax on purchased goods	10	2
Accounts receivable (payments are expected in over 12 months after the reporting date)	-	-
Accounts receivable (payments expected within 12 months after the reporting date)	540	1232
Cash	33	66
Other current assets	-	-
WACC		15.43%
EP		−11

EBITs: Earnings before interest and taxes, NOPAT: Net operating profit after taxes, WACC: Weighted average cost of capital, EP: Economic profit

companies. Simultaneously with that it is notable that the indexes of the income and costs of JSC "KAMAZ-Diesel," calculated on the notion of set transfer prices, are not meeting the second principle of relevancy. This fact makes reasonable the statement, that the problem of analytical providing of financial controlling is linked with irrationality in planning-controlling calculations irrelevant towards the dependent centers of index responsibility.

For the sake of empirical study of the topic let us consider the relationship between JSC "KAMAZ" and JSC "KAMAZ-Diesel." In managing the affiliated company JSC "KAMAZ-Diesel" the head company JSC "KAMAZ" has 100% participation, what let making the affiliated company connect the main part of the resource streams with the general economic process of the group of affiliated companies. That is to say, the main part of raw material and stuff of JSC "KAMAZ-Diesel" purchases at JSC "KAMAZ" all the manufactured main products also sells to the managing company.

Finally the diagram of resources movement in economical process of the JSC "KAMAZ" - JSC "KAMAZ-Diesel" complex can be represented like the following (Figure 1).

Analyzing the diagram, we can conclude, that the summery result, which finally brings the JSC "KAMAZ-Diesel" to its predominant participant is the result of two constituents:

Figure 1: The diagram of the resources movement on the economic process of the JSC "KAMAZ" - JSC "KAMAZ-Diesel" complex

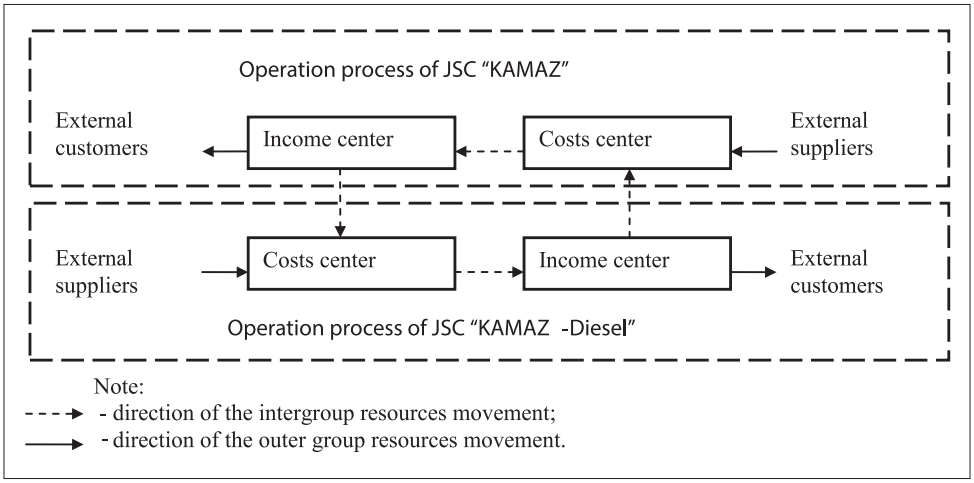

Table 2: Calculation of the EP indexes upon the data of accounting reports of JSC "KAMAZ-Diesel" dated December 31, 2007, in case of underscored purchasing transfer prices for 10%

Indexes	Value, mln. rubles	
	2013	2014
Proceeds (net) from sales of products, works and services	15,127	20,519
Products	14.978	20,441
Cost of goods, products, works, services	16,252	21,553
Gross profit	−1125	−1033
Selling expenses	14	25
Administrative expenses	475	555
EBIT	−1615	−1613
Tax on profit	−388	−387
NOPAT	−1227	−1226
Capital invested in operations (Cap), including:	2742	4044
Intangible assets	-	-
Fixed assets	1537	1412
Construction in progress	30	592
Profitable investments in tangible assets	-	-
Deferred tax assets	64	24
Other noncurrent assets	-	-
Inventories	528	716
Value added tax on purchased goods	10	2
Accounts receivable (payments are expected in over 12 months after the reporting date)	-	-
Accounts receivable (payments expected within 12 months after the reporting date)	540	1232
Cash	33	66
Other current assets	-	-
WACC		15.43%
EP		−1649

EBITs: Earnings before interest and taxes, NOPAT: Net operating profit after taxes, WACC: Weighted average cost of capital, EP: Economic profit

Table 3: Calculation of the EP index against the possible deviation of the actual set transfer prices versus fair

Possible deviations of transfer prices	Estimated value RI, mln. rubles	The final impact on the actual value RI, mln. rubles
Transfer prices were not distorted	−11	0
The purchase transfer prices are underscored for 10%	−1649	1638
The purchase transfer prices are over scored for 10%	1329	−1340
The sales transfer prices are underscored for 10%	1722	−1733
The sales transfer prices are over scored for 10%	−1429	1418
The purchase and sales transfer prices are underscored for 10%	−89	78
The purchase and sales transfer prices are over scored for 10%	84	−95
The purchase transfer prices are over scored and sales transfer prices are underscored by 10%	3062	−3073
The purchase transfer prices are underscored and the sales transfer prices are over scored for 10%	−3067	3056

EP: Economic profit

- Own financial result of JSC "KAMAZ-Diesel,"
- Income of JSC "KAMAZ" from the sales to the dependant company material and other values-transfer income.

As total result we get the following algorithm of calculation the relevant results on the notion of managing company:

$$\text{Relevant result } mc = \text{Pr } di + tInc\ mc \quad (1)$$

Where: Pr *di* - the financial result of the dependant company, *tInc mc* - The transfer income of the managing company.

Converting the notions into the indexes of the dependant company, we get the following:

$$\text{Relevant result } mc = \text{Pr } di + tC\ di \quad (2)$$

Where: *tC di* - the costs of the dependant company, caused by the consumption of the transfer resources.

Taking into account the equalization (2) and on the basis of assumption of participation of the intellectual capital owner (Allen and Allen, 2015), the suggested economic result calculation is reasonable to represent it the following way:

Table 4: Suggested calculation of the EP (MC) index upon the accounting reports data of JSC "KAMAZ-Diesel" for December 31, 2014

Indexes	Value, mln. rubles	
	2013	2014
Proceeds (net) from sales of products, works and services	15,127	20,519
Products	14,978	20,441
The relevant cost of production and sale of products	365	316
Gross profit	14,762	20,203
Selling expenses	14	25
Administrative expenses	475	555
Earnings before interest and taxes (EBIT)	14,272	19,624
Tax on profit	3425	4710
Net operating profit after taxes (NOPAT)	10,847	14,914
Capital invested in operations (Cap), including:	2742	4044
Intangible assets	-	-
Fixed assets	1537	1412
Construction in progress	30	592
Profitable investments in tangible assets	-	-
Deferred tax assets	64	24
Other noncurrent assets	-	-
Inventories	528	716
Value added tax on purchased goods	10	2
Accounts receivable (payments are expected in over 12 months after the reporting date)	-	-
Accounts receivable (payments expected within 12 months after the reporting date)	540	1.232
Cash	33	66
Other current assets	-	-
Weighted average cost of capital (WACC)		15.43%
Relevant economic profit (EP)		14,491

EBITs: Earnings before interest and taxes, NOPAT: Net operating profit after taxes, WACC: Weighted average cost of capital, EP: Economic profit

$$\text{EP (MC)} = \text{Pr } di + tC\ di\ WACC \times \sum Capi \quad (3)$$

Where: EP (MC) - economical income, relevant on the notion of supplier-buyer participation in the economical process of the company;

Capi - *i*-the item of the relevant capital, calculated considering the share of the supplier-buyer participation in the company management.

Testing the received relevant index on the data of JSC "KAMAZ-Diesel," we get the following form for making the integrate financial report.

Analyzing the formulated index and build on its basis formula of financial report, it is needed to draw the attention on the fact, that its effective application in stating the accounting-analytical providing of the financial controlling of the dependant companies is possible in conditions of average functional dependency of the company on the participant, that is to say, when some insignificant part of the result can be caused by the economic relationship out of the group (as shown in the Figure 1). This condition is fair towards the first two mentioned before cases of predominant participation of the suppliers and buyers if the activity of the managed objects.

3. IMPACT ON THE REPRESENTATIVENESS OF THE VALUE BASED FINANCIAL ACTIVITIES AND REPORTS OF TIGHT FUNCTIONAL DEPENDENCE OF THE RESPONSIBILITY CENTERS

In conditions of tight functional dependence, which usually takes place in the activity of the production responsibility centers, the report form demands additional transformation.

To make logic of transformation clear, it seems to be right to reveal the point of the tight functional dependence. This form of dependence means, that the responsibility center is dealing strictly with particular activity, which makes the general economic process of the company (Bagautdinova et al., 2015). But for this reason produced by the responsibility center resources will be only transfer ones, means be liable to nominal selling to the company. Consequently, the income of the responsibility center shall be calculated taking the transfer prices into account, the range of which is defined by the company.

Finally the tight functional dependence makes the revenue of the production responsibility center irrelevant index.

Considering this condition, we conclude, that the accounting-analytical information from the view point of the production responsibility centers will be not the final economical result, but relevant economical expenditures. Which we suggest to calculate the following way:

$$\text{ECost } di = \text{rC } di - \text{WACC} \times \sum Capi \quad (4)$$

Where: ECost *di* - Relevant economical expenditures of the responsibility centre;
rC *di* - Relevant obvious expenses, not considering the expenses, caused by the transfer resources consumption;
Capi - I item of the capital, occupied in the activity of the responsibility center.

Being guided by the represented calculation algorithm, the accounting-analytical providing is reasonable to do from the view point of:

- Item of the capital
- Item of the alternative expenses.

For these purposes it is efficient to suggest the following control-analytical schedule of the matrix form (Tables 5-7).

Let us show the application of the matrix schedule on the accounting-report data of the oil and gas producing company (Table 8-10).

Table 5: Matrix schedule "responsibility center - relevant capital"

Responsibility center	The average value of the borrowed relevant capital (the items of the assets used by the responsibility centers)				Total value of the relevant capital
	Inventory	Buildings	Equipment	Other	
Department 1	1a	1б	1в	1г	∑1
Department 2	2a	2б	2в	2г	∑2
Department 3	3a	3б	3в	3г	∑3
Sum	∑a	∑б	∑в	∑г	

Table 6: Matrix schedule "responsibility center-opportunity costs"

Responsibility center	Opportunity costs for maintaining the relevant capital, kept in the items of the borrowed by the responsibility center assets				Total opportunity costs of maintaining capital
	Inventory	Buildings	Equipment	Other	
Department 1	1a×WACC	1б×WACC	1в×WACC	1г×WACC	∑1×WACC
Department 2	2a×WACC	2б×WACC	2в×WACC	2г×WACC	∑2×WACC
Department 3	3a×WACC	3б×WACC	3в×WACC	3г×WACC	∑3×WACC
Sum	∑a×WACC	∑б×WACC	∑в×WACC	∑г×WACC	

WACC: Weighted average cost of capital

Table 7: Matrix schedule "responsibility center-relevant expenses"

Responsibility center	The relevant expenses				Total relevant expenses
	Salary costs	Material costs	Opportunity costs	Other	
Department 1			∑1×WACC		
Department 2			∑2×WACC		
Department 3			∑3×WACC		
Sum					

WACC: Weighted average cost of capital

Table 8: Matrix schedule "responsibility center-relevant capital" (According to Oil and Gas Company)

Responsibility center	The average value of the borrowed relevant capital (the items of the assets used by the responsibility centers), mln. rubles						Total
	The wells in operation	Wells on conservation	Other fixed assets	Raw materials and other similar values	Intangible assets	Other assets	
The center of production of oil and gas (further: CPOG)-1	728,810	-	501,780	30	-	-	1 230 620
CPOG-2	697,992	797	641,073	16	-	-	1 339 878
CPOG-3	793,923	20,634	899,521	69	-	-	1 714 147
CPOG-4	566,678	850	693,700	20	-	-	1 261 248
CPOG-5	635,787	5558	488,419	212	-	-	1 129 976
CPOG-6	808,003	1065	563,416	76	-	-	1 372 560
The center of service	64,941	-	263,754	63	-	-	328 758
The center of geological exploration	-	-	663,430	183	-	-	663 613
The center of reservoir pressure maintenance	-	-	963,861	369	-	-	964 230
Manadgement Department	-	-	238,527	26,485	10,600	16 963	292 575
Sum	4,296,134	28,904	5,917,481	27,523	10,600	16 963	

Table 9: Matrix schedule "responsibility center-opportunity costs" (According to Oil and Gas Company)

Responsibility center	Opportunity costs for maintaining the relevant capital, kept in the items of the borrowed by the responsibility center assets, mln. rubles						Total opportunity costs of maintaining capital
	The wells in operation	Wells on conservation	Other fixed assets	Raw materials and other similar values	Intangible assets	Other assets	
The center of production of oil and gas (further: CPOG)-1	70,184	-	48,321	3	-	-	118,509
CPOG-2	67,217	77	61,735	2	-	-	129,030
CPOG-3	76,455	1987	86,624	7	-	-	165,072
CPOG-4	54,571	82	66,803	2	-	-	121,458
CPOG-5	61,226	535	47,035	20	-	-	108,817
CPOG-6	77,811	103	54,257	7	-	-	132,178
The center of service	6254	-	25,400	6	-	-	31,659
The center of geological exploration	-	-	63,888	18	-	-	63,906
The center of reservoir pressure maintenance	-	-	92,820	36	-	-	92,855
Manadgement department	-	-	22,970	2551	1021	1634	28,175
Sum	413,718	2783	569,853	2650	1021	1634	991,659

Table 10: Matrix schedule "responsibility center-relevant expenses" (According to Oil and Gas Company)

Responsibility center	The relevant expenses, mln. rubles						Total relevant expenses
	Labor costs	Premiums	Material costs	Energy costs	Opportunity costs	Other expenses	
The center of production of oil and gas (further: CPOG)-1	12,462	3082	7602	48,608	118,509	968,518	1,158,781
CPOG-2	13,120	3272	5430	50,477	129,030	1,071,534	1,272,863
CPOG-3	15,914	3960	5730	51,339	165,072	904,667	1,146,683
CPOG-4	13,946	3467	6404	51,761	121,458	1,029,494	1,226,530
CPOG-5	12,689	3181	8307	51,827	108,817	658,946	843,766
CPOG-6	16,669	4185	14578	67,882	132,178	1,266,116	1,501,607
The center of service	13,113	3311	3988	83,823	31,659	2314	138,208
The center of geological exploration	44,213	10,809	4899	407	63,906	11,477	135,712
The center of reservoir pressure maintenance	41,178	10,185	25,120	160,619	92,855	3,200,321	3,530,278
Manadgement Department	38,237	9457	23,325	149,146	28,175	2,971,727	3,220,068
Sum	221,540	54,910	105,383	715,891	991,659	12,085,114	14,174,496

4. CONCLUSION

To conclude we summarize the results of the research.

Firstly, the impact on the economic activity and management of the company of different interested groups can be reflected in different forms of predominant participation the correspondent groups and can be characteristic for different economic conditions. The analysis of form and conditions of relationship between the management object and predominant participant is needed for getting the representative financial documentation;

Secondly, price-oriented calculations are applicable to the activity of the whole company or group of companies as well as separate responsibility centers. If in case of the responsibility centers the indexes of expenses, results and the value of the capital can be identified and relevant, it is possible to build the planning-controlling calculations and report forms according to the model of economic income. In case of no chance to define the relevant results for the methodology of financial controlling the distribution of relevant economical expenses per the responsibility centers from the view point of the borrowed capital is important.

Therefore getting the representative price-oriented indexes and reports requires deep analysis of the influence of the financial information users interests on the company and its subjects.

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