

FINANCIAL FORM OF BALANCE SHEET – INFORMATION SOURCE FOR THE ASSESSMENT OF COMPANY ASSETS AND CAPITAL RETENTION

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Abstract

For financial management, it is important to monitor the company's main financial parameters, to compare them with the forecast state and to take measures to guide their development in the desired direction. The primary task of accounting is to provide a true and fair view on assets, revenues and financial situation of a company. The analysis of the company assets changing trends of the entity should be one of the most important tasks of the financial analysis for the assessment of the financial situation of the company. Currently the issue of company assets is analysed by the majority of authors in the range in which it is solved within the IFRS Conceptual Framework in the part Concepts of Capital and Capital Maintenance. To the analysis of the company assets we can approach from two points of view: from the owner's point of view who attempts to increase equity and from the manager's points of view who attempts to preserve the business property. The assessment of property substance of a company and the effectiveness in invested capital arise from the Financial Statements, mainly from the Balance Sheet. In the article the Balance Sheet is presented as the basic source of information for the quantification of company assets. We have drawn the theoretical basis for the apprehension of company assets. The stated theoretical basis is applied on the concrete selected companies.

Keywords: *accounting, financial statements, Balance Sheet, company assets*

JEL classification: *M 21, M 40, M 41*

1 Introduction

Ongoing internationalization and permanently growing world globalization processes shape the market and influence business activities, demands and needs of enterprises (Országhová et al., 2016). In order to secure the sustainable development in the context of global economic changes it is indispensable to permanently create appropriate competitive, investment, financial and business environment. The entire social attitude towards a business subject firstly established for the purpose of acquiring of profit is reassessed. The interested parties are not involved only in current financial situation of company but mainly in the total view of all available aspects of assessment in the social environment of its influence in the context of long-term sustainability (Pakšiová, 2017). The future of a successful business is primarily based on the knowledge of the functioning of its own in-house management system (Dobošová, et al., 2017). Data and information enhanced by knowledge are driving force of the present times. To succeed in fighting with the competition, data and information must flow in the whole decision-making process (Šilerová et al., 2016). Content and quality of information is the assumption of efficiency of decision-making and managing processes of business subject. The accounting provides the set of information on economic reality of accounting entity in monetary terms.

Globally the pressure of users on the reliability, objectivity and comparability of accounting information increases as important decisions are made with long-term implications based on them (Baštincová, 2016). The financial statements present the main source of information from the accounting for several groups of users. They contain mainly quantitative indicators which are defined as financial information (Šlosárová, 2017). Balance Sheet, Profit and Loss Statement and Notes belong to the basic parts of financial statements in the double entry accounting in Slovakia. The mutual interconnection of individual parts of financial statements is combined with several indicators which numerical expression derives from other statements, respectively is explained in Notes. The most crucial information which the management acquires from the financial statements is the status of assets and the rate of its retention, increase respectively erosion in time. The assessment of company assets and effectivity of invested capital in them derives from the statements of financial statements, namely from the Balance Sheet.

2 Data and Methods

The company assets can be differently considered. If the assessment of entrepreneurship results derives from the apprehension of company assets in the

accounting, it presents mainly the determination of its development in time. As the quantification of company assets is performed from the items of Balance sheet, i.e. the status indicators so the numerical expression of company assets presents its status as at the exactly defined moment of company existence. The most often it presents the date at which the financial statements are prepared. Mostly the data defined in the Balance Sheet of ordinary financial statements are used. One of the most important tasks of financial analysis should be the detailed analysis of company assets development.

In the article the Balance Sheet is presented as the basic source of information for the quantification of company assets. We have drawn the theoretical basis for the apprehension of company assets. The stated theoretical basis is applied on the concrete selected companies. Based on the conducted calculations and from them deriving results we have assessed whether in the analysed companies the assets have been retained. The source of article processing was mainly the scientific literature, actual legal arrangements of accounting in the Slovak Republic (Act on Accounting and Accounting Procedures) and the financial statements of selected companies for the period of years 2013 - 2016, which we have identified as XY and XZ. As regards the individual manners of apprehension and explanation of a given issue we have derived from the use of inductive-deductive and analytical-synthetic logical scientific methods.

3 Results and Discussion

3.1 Accounting and company assets

The accounting presents the system of following, measuring and classification of facts of economic activity which generalizes and submits information to the management of economic processes. The basis for the accounting understanding (Dvořáková, 2014) is the apprehension of substance of economic activity (of an accounting entity), its specifics and not only in microeconomic relations but as well as in macroeconomic context which forms the environment and in which an accounting entity undertakes.

The accounting has an ability to record the real process of business activity and enables the assessment of achieved results. The primary task of accounting is to provide true and fair view on assets, revenues and financial situation of a company. The company financial situation systematically and complexly presents the quality of business activities, its economic level and therefore it manages to identify weaknesses and strengths of business activities.

Currently there exist diverse theories of assets apprehension. Therefore it is indispensable to determine different conceptions of company assets retention in detail. An accounting entity shall take into account the concrete manner of measurement of assets and liabilities and as well as the determination of profit in the accounting. In case the process of results assessment derives from the company assets apprehension in the accounting, it mainly presents the determination of its development in time. As the quantification of company assets is performed from the items of Balance Sheet, therefore from the status indicators, also the numerical expression of company assets presents its status as at the concrete moment of company existence. The most often it presents the date at which the financial statements are prepared. Mostly the data defined in the Balance Sheet of ordinary financial statements are used.

Each company enables to perform its activity so that at the end of accounting period it is “more wealthy” than at the beginning of accounting period. Generally we can state that the basic measure of wealth is profit which is included in the equity, so the company wealth increases also with the increase in equity. The biggest interest in wealth increase and therefore the increase in equity is presented by investors (owners, shareholders). The requirements of owners for company assets derive from the value of equity therefore we talk about the retention respectively the increase in company assets (Šlosárová & Blahušáková, 2017).

In order to define different apprehensions of company assets and to decide which of them will be applied in a given system presents the basis of our further analysis applying concrete methodological manners. The basic apprehension of company assets can be differentiated as follows:

- capital – the view on assets from the point of invested capital,
- assets – the view on assets from the point of its character and structure,
- performance – the view on assets from the point of means used to achieved the company performance.

The further classification can be into absolute and relative as regards the manner of its expression.

A1. Absolute capital apprehension of company assets is expressed in the absolute amount of ratio of owners invested capital in monetary terms.

A2. Relative capital apprehension of company assets is expressed as the ratio of invested capital of owners in the total amount of capital – own and foreign.

B1. Absolute expression of company assets apprehension is quantified by the total amount of assets in monetary terms.

B2. Relative apprehension of company assets determines the relative expression of individual parts of company assets which presents the quantification of ratio of

individual items of assets on the total amount of assets. In the complex summary it presents one hundred percent of assets.

C1. Absolute performance apprehension of company assets is expressed in the absolute amount of performance - total capacity of production in produced units based on the ownership of company assets, e.g. per day.

C2. Relative performance apprehension of company assets presents the calculation of relative ratio of assets items to acquired production. The total assets in this expression present one hundred percent (Pakšiová, 2014).

The apprehension of company assets and determination manners of its retention as an indicator of effectivity of invested capital in a company can be crucial for an investor in certain moments as regards the decision-making whether to invest free financial sources to an accounting entity or not. Currently the issue of own capital retention is treated by the Conceptual framework of financial reporting while two manners of own capital apprehension and its retention are differentiated:

- **Financial apprehension of capital**, based on this apprehension the capital is considered to be the synonym for the equity or net assets. In the accounting of each accounting entity the equity and net assets are determined in the same manner – as the difference of total assets and liabilities, therefore their values are the same. In case an accounting entity decided to apply the balance sheet principle so they are differentiated by the content. Pursuant to the financial apprehension of own capital an accounting entity reaches the profit only in such a case if the sum of equity is higher at the end of accounting period than the sum of equity at the beginning of accounting period. Contributions and withdrawals of owners during this accounting period are not taken into account. If the users of information from the financial statements are primary interested in the retention of nominal value of invested capital or the purchasing power of invested capital in such a case the before stated financial apprehension of capital shall be accepted. The equity represents the own sources of financing in an accounting entity therefore it is a suitable measure for the determination of company assets in financial (monetary) apprehension.
- **Physical apprehension of capital** is expressed by the production ability. The own capital is considered to be the production capacity of company which shall be expressed in physical measure units (e.g. in the number of produced products per day). IFRS recommend adopting the physical apprehension of capital when the users of information from the financial statements are more interested in the production ability of an accounting entity. The net assets are considered to be the basis and the measure of determination of company assets treated as the company production ability.

In the Slovak Republic as well as in the majority of companies in the world the financial apprehension of capital is applied which considers the own capital as a synonym of net assets or equity. The company reaches the profit only if the sum of net assets at the end of accounting period is higher than the sum of net assets at the beginning of accounting period while the contributions and withdrawals of owners during this period are not taking into account. The calculated change of equity in a current accounting period in comparison with the prior accounting period determines whether the company retained, increased or decreased its company assets.

The vertical (financial) form of Balance Sheet is considered to be a base for the assessment of development of company assets. The main meaning of such a form of Balance Sheet is the calculation of some financial indicators which directly relate to the assessment of company assets. Based on it the net assets and equity can be directly calculated. This form of Balance Sheet directly represents the title of owners to company assets. The most significant indicator in such a form of Balance Sheet is considered to be the net working capital which is directly calculated in the Balance Sheet as the difference of current assets and current liabilities. It is utilized e. g in the assessment of company liquidity. In order to calculate it, the current and non-current liabilities must be taken into account which present the owners titles to company assets.

3.2 Assessment of assets in the example of selected accounting entities

The before stated theoretical basis which relate to company assets have been applied to two concrete companies which we have identified as XY and XZ. These companies have been specializing in the production of fresh, air-cooled and deep-frozen poultry and the production of poultry products since the beginning of their existence. In our example we derive from the data of financial form of Balance sheet for the years 2013 - 2016. We compare the change of equity in a current accounting period in comparison to a prior accounting period and submit whether the companies retained their company assets, enhanced it or decreased their company assets.

Table 1 **Vertical form of Balance Sheet of the company XY in EUR**

	2014	2013
A. Non-current assets	23 382 098	24 520 591
B. Current assets	13 492 144	15 711 675
C. Current liabilities	10 026 469	9 393 727

	2014	2013
D. New working capital (net current assets) (B. – C.)	3 465 675	6 317 948
E. Non-current liabilities	77 656	236 110
F. Net assets (A. + D. - E.)	26 770 117	30 602 429
G. Equity (A. + B. - C. - E.)	26 770 117	30 602 429

Source: Balance Sheet of the company XY, own processing.

As we have stated we derived from the data of financial form of Balance Sheet and found out that the equity in the accounting period 2014 was lower than the equity in the accounting period 2013 and simultaneously the net assets in the accounting period 2014 were lower than the net assets in the accounting period 2013. Therefore it means that the company did not succeed to increase, enhance its company assets in the year 2014. The company assets decreased.

Table 2 Vertical form of Balance Sheet of the company XY in EUR

	2015	2014
A. Non-current assets	22 569 807	23 382 098
B. Current assets	15 057 944	13 492 144
C. Current liabilities	11 465 170	10 026 469
D. New working capital (net current assets) (B. – C.)	3 592 774	3 465 675
E. Non-current liabilities	89 477	77 656
F. Net assets (A. + D. - E.)	26 073 104	26 770 117
G. Equity (A. + B. - C. - E.)	26 073 104	26 770 117

Source: Balance Sheet of the company XY, own processing.

In the following compared period the analysed company also did not enhance its company assets. We found out that the equity in the accounting period 2015 was again disclosed lower in comparison with the equity in the accounting period 2014 and at the same time the net assets in the accounting period 2015 were lower in comparison with the net assets disclosed in the accounting period 2014. Therefore the company again decreased its company assets and did not succeed to enhance it in the following year.

Table 3 Vertical form of Balance Sheet of the company XY in EUR

	2016	2015
A. Non-current assets	23 058 431	22 569 807

	2016	2015
B. Current assets	15 962 109	15 057 944
C. Current liabilities	11 970 795	11 465 170
D. New working capital (net current assets) (B. – C.)	3 991 314	3 592 774
E. Non-current liabilities	91 112	89 477
F. Net assets (A. + D. - E.)	26 958 633	26 073 104
G. Equity (A. + B. - C. - E.)	26 958 633	26 073 104

Source: Balance Sheet of the company XY, own processing.

In the last comparison of accounting periods we found out that the equity in the accounting period 2016 was for the first time higher than the disclosed equity in the accounting period 2015 and at the same time the net assets in the accounting period 2016 were higher than the disclosed net assets in the accounting period 2015. We found out that in comparison with these accounting periods the company increased, i. e. enhanced its company assets for the first time.

Table 4 Vertical form of Balance Sheet of the company XZ in EUR

	2014	2013
A. Non-current assets	1 719 860	1 817 171
B. Current assets	4 253 305	4 364 031
C. Current liabilities	764 616	872 231
D. New working capital (net current assets) (B. – C.)	3 488 689	3 491 800
E. Non-current liabilities	606 864	610 401
F. Net assets (A. + D. - E.)	4 601 685	4 698 570
G. Equity (A. + B. - C. - E.)	4 601 685	4 698 570

Source: Balance Sheet of the company XZ, own processing.

In the second analysed company we have also derived from the data of financial form of Balance Sheet and found out that the equity in the accounting period 2014 was lower as the equity disclosed in the accounting period 2013 and at the same time the net assets in the accounting period 2014 were lower than the net assets in the accounting period 2013. Therefore the company did not succeed to increase, enhance its company assets.

Table 5 Vertical form of Balance Sheet of the company XZ in EUR

	2015	2014
A. Non-current assets	1 896 786	1 719 860
B. Current assets	4 200 884	4 253 305
C. Current liabilities	820 358	764 616
D. New working capital (net current assets) (B. – C.)	3 380 526	3 488 689
E. Non-current liabilities	481 858	606 864
F. Net assets (A. + D. - E.)	4 795 454	4 601 685
G. Equity (A. + B. - C. - E.)	4 795 454	4 601 685

Source: Balance Sheet of the company XZ, own processing.

In the following compared period the company succeeded to enhance its company assets. We found out that the equity in in the accounting period 2015 was higher in comparison with the equity disclosed in the accounting period 2014 and at the same time the net assets in the accounting period 2015 were also higher in comparison with the net assets disclosed in the accounting period 2014. The company slightly increased its company assets.

Table 6 Vertical form of Balance Sheet of the company XZ in EUR

	2016	2015
A. Non-current assets	3 659 805	1 896 786
B. Current assets	2 396 618	4 200 884
C. Current liabilities	679 526	820 358
D. New working capital (net current assets) (B. – C.)	1 717 092	3 380 526
E. Non-current liabilities	483 803	481 858
F. Net assets (A. + D. - E.)	4 893 094	4 795 454
G. Equity (A. + B. - C. - E.)	4 893 094	4 795 454

Source: Balance Sheet of the company XZ, own processing.

In the last comparison of accounting periods the second company again disclosed the higher equity in the accounting period 2016 than the equity in the accounting period 2015 and at the same time the net assets in the accounting period 2016 were higher than the net assets disclosed in the accounting period 2015. We can state that in the comparison of these accounting periods the company also increased therefore enhanced its company assets what is considered to be positive. The retention of own capital in the financial apprehension is measured:

- in nominal (monetary) units,
- in units of permanent purchasing power of cash.

Pursuant to the financial apprehension of own capital retention where the own capital is expressed in nominal monetary value, the profit presents the increase in the nominal value of own capital during the accounting period, i. e. the profit is the difference between the closing and opening status of equity in the nominal monetary units. The increase in the prices of assets during the period presents the non-realized profit, i. e. till the disposal of such assets the increase in the assets prices shall not be presented as realized profit.

Balance Sheet of the company XY .

Balance Sheet 31. 12. 2015			Balance Sheet 31. 12. 2016		
37704575		Equity without profit 23832134	39114701		Equity without profit 26850739
		Profit 2240970			Profit 1955380
		11631471			10308582

Source: Balance Sheet of the company XY, own processing.

Balance Sheet of the company XZ .

Balance Sheet 31. 12. 2015			Balance Sheet 31. 12. 2016		
6121077		Equity without profit 4639423	6092325		Equity without profit 4785200
		Profit 156031			Profit 107894
		1325623			1199231

Source: Balance Sheet of the company XZ, own processing.

4 Conclusion

The basis for accounting apprehension is the understanding of substance of company (accounting entity) economic activity and its specifics. The assessment of

company assets and effectivity in its invested capital derive from the financial statements, namely from the Balance Sheet. Currently the issue of company assets is treated by several authors in the range in which it is solved in the Conceptual framework of IFRS in the part Conception of capital and retention of own capital. The approach towards the company assets in the division according to the needs of users for information from the financial statements is preferred. The before stated fact corresponds with the understanding from the point of financial accounting which puts company assets directly to the relation with capital (own capital). It derives from the balance sheet equation.

When comparing two statuses of company assets in the following periods the users are interested whether the status of company assets is preserved in the later period from the compared periods. Only then the erosion of company assets and the depreciation of capital are not presented. Such a comparison is meaningful only in case that both statutes of company assets are calculated on the basis of the same assumptions, i. e. the same applied understanding of company assets using the relevant methods of measurement.

The article quantifies the company assets from the items of vertical form of Balance Sheet, i. e. the status indicators in two companies. They have been identified as the company XY and the company XZ. We can conclude based on the results of performed comparisons that in the observed period of years 2014–2013 the company XY and even the company XZ did not succeed to increase, enhance their company assets. In the following comparison of the years 2015 and 2014 the company XY did not succeed to increase, enhance its company assets, they repeatedly decreased. Vice versa in a given period the company XZ enhanced its company assets. Only in the last comparison of accounting periods of the years 2016–2015 the both assessed companies succeeded to increase, enhance their company assets.

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