

THE IMPORTANCE OF BALANCE THEORIES IN THE FORMATION OF FINANCIAL RESULTS

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ABSTRACT-- *This article provides a comparative analysis of the requirements of existing balance theories in the preparation of financial statements. As a result of the research, the effectiveness of organic balance in the formation of financial results by businesses at the level of requirements of international standards is substantiated.*

Keywords-- *Financial reporting, balance sheet, financial result, income, cost, profit, loss, balance theories, static balance theory, dynamic balance theory, organic balance theory.*

I. INTRODUCTION

Financial statements contain important information for economic decision-making, for which a realistic understanding of the content of accounting information is essential. The most important information about the property and financial condition of business entities, as well as the financial results of its activities is contained in the financial statements of the business entity.

The formation of information about financial results is important for all users. If we look at the theory of accounting, we see that there are 3 main theories in the formation of financial performance indicators: static, dynamic and organic. While the main goal of static theory is to determine the value of property and the coefficient of financial independence, in dynamic theory the main focus is on determining the indicators of profitability. The theory of organic balance was formed in order to overcome the contradictions between static and dynamic theories. This theory combined the requirements of static and dynamic balance theories as much as possible. In organic theory, information is intended for both internal and external users, and the goal of this theory is to jointly determine both financial results and property status.

II. A REVIEW OF THE LITERATURE ON THE TOPIC

Balance theories have been extensively studied by economists.

According to the research of Emmanuel Opoku Ware and Andrews Amankwahlar, there are 3 types of balance theories: static, dynamic and organic theories [1].

According to I. Yaremko, N. Podolchak, L. Pylypenko, O. Tyvonchuk, the fundamental principles of financial reporting are formed on the basis of static, dynamic and organic theories [2].

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The purpose of the static balance is to prepare information on the property status of external users and business owners, accounts payable and the amount of private capital. In this theory, the financial result is studied in order to determine the value of the assets [3, 43].

The balance, which reflects the activities and development of the business entity, the property is not the purpose of reporting in it, but only an instrument, is called "dynamic". E. Schmalenbach described it as follows: "Dynamic balance represents the ratio of active and passive reserves of forces, taking into account the time relationship between material and financial turnover of financial results" [3, 44].

Usenko L.N. and Udalova Z.V., in the theory of dynamic balance, the main task of the report is to provide information about the financial results for the management of the enterprise [4].

According to Karelskaya S. and Zuga E., a static balance assumes a reliable assessment of the value of the property, while a dynamic balance implies an accurate determination of financial results. The first theory is solvency, the second theory is profitability 5.

According to NN Karzaeva, in the theory of organic balance, in addition to maintaining the initial value of the property, it is necessary to reflect its market value, so the potential values are used in the formation of organic balance. In this case, the balance sheet reflects the property at both the market and starting price and at the same time reflects the amount of profit that corresponds to both the current completed business operations and the change in the initial value of the property on the balance sheet date [6].

III. ANALYSIS AND RESULTS

In theories of static, dynamic and organic balance, different views have been formed on the preparation of financial statements. The essence of the static theory is to reflect the solvency of the business entity, ie its ability to repay debts. Here, creditors appear as the main users of the report. The essence of the theory of dynamic balance is to reflect the activities of the business entity by determining the amount of financial results from the accounting report. The main users here are the owners of the business entity.

The concept of static balance is the result of the development of legal and property directions in accounting. The implementation of the theory of static balance involves an inventory of assets at a specified time and their valuation at current market prices, as if the assets are sold "now". The result showed how stable the business entity was, while the volume of inventory and net assets determined the amount of profit. The importance and necessity of calculating the property and net assets of an economic entity is a characteristic feature of the concept of static balance.

Proponents of the static balance theory see profit as an increase in an entity's equity (net assets) [7]. Here, the receipt of any asset is the profit received, and the determination of the financial result is based on the fact that the entity can compare the assets that make up the property complex.

Thus, according to the theory of static balance, the profit and loss account has no independent value and is allocated as a separate account of the Capital account.

The theory of static balance is based on static indicators for a fixed date (assets, liabilities, capital) and, unlike the dynamic balance theory, determines the net value of property, but distorts the financial results of the business entity.

The principles of static balance formation are as follows: principles that define the set of balance sheet assets and liabilities; principles of their change (valuation, depreciation).

The first principle is that the assets of a business entity that can be sold include property owned by the business entity, and in the absence of such property is treated as a loss on the balance sheet.

The second group of principles is based on the rule of false (fake) liquidation of an economic entity, which provides that the value of assets is determined in the event of their sale at the time of liquidation. Therefore, it is necessary to apply market prices, the increase of which is studied as a profit, and the decrease as a loss. However, when valuing assets at market value, there is a need to periodically revalue the property. Depreciation is considered to be a decrease in the value of assets that reduces profits [8].

Currently, the use of the principles of static balance sheet formation provides accurate information on the value of property, financial results of operations, as well as the protection of the rights of creditors and owners in the financial statements.

Dynamic balance theory contradicts static balance theory. According to this theory, financial reporting focuses on providing information about profitability. Here, profit is studied as a key indicator of an entity's performance.

According to E. Schmalenbach's theory, the balance sheet is a tool for determining financial results. In dynamic balance theory, the financial result is expressed as an intermediate indicator. The dynamic balance shows the value of the property only at the level required to calculate this benefit. That is, unlike a static balance sheet, it reflects the efficiency and financial performance of an entity.

The dynamic balance shows the turnover of capital, the stages of movement of income and expenses are the elements of the balance. Here, the expenses of the business entity that will bring it income in the future are considered assets. Indicates where the money is directed in order to make an active profit.

M.L. Pyatov sees the main feature of understanding the balance sheet asset in dynamic theory in the evaluation of its items. Assets are understood here as the costs of an entity measured at cost, ie the sum of the operating costs of their formation. An asset revaluation should not be performed because the income received should be compared with the sum of the expenses incurred to generate the income in order to determine the profit [8].

It is necessary to follow the principle of uniformity of valuation in the balance sheet compiled in accordance with the dynamic theory, because the financial results are distorted in the revaluation of assets and liabilities of the business entity.

In a dynamic balance sheet, receivables are strictly limited to earnings. Income includes both the income of the business entity and potential (probable) income in the form of receivables. Accounts receivable should be recorded in the "Profit and Loss" account at the time of their payment without interest payments for late payment, ie only the capital actually invested. Accounts payable are interpreted as the expected outflow of cash. The use of dynamic accounting allows you to reflect at any time the process of transition of cash to inventories, and in the process of production to the transition to goods, and, consequently, the transition to receivables and cash.

Striving for the efficient and successful operation of the business entity, the concept of dynamic balance solves the following issues: to determine the exact financial results at any time, to adhere to the principle of

comparability of income and expenses, to adhere to the principle of accuracy over time, to adhere to the principle of prudence .

Trying to combine static and dynamic theories, F. Schmidt created the theory of organic balance. In his organic balance theory, the reflection of property (static theory) and the determination of financial result (dynamic theory) are two goals of equal importance. The main goal of the financial and economic activity of the business entity is to achieve a situation in which the increase in profits should be consistent with the increase in capital turnover [9].

According to M.G. Mirgorodskaya, in Schmidt's balance theory, the purpose of profit is to support entrepreneurial ability. The increase in the amount of profit corresponds to the increase in the amount of the financial result. Profit occurs in the process of capital turnover [10].

In the organic balance, profit is recognized as an indicator that leads to an increase in the volume of assets in the course of the main financial and economic activities, while the gain from the price increase is an insignificant indicator.

In Schmidt's balance theory, the main goal is to determine a reliable amount of property and profit [4].

H. Shirenbek sees Schmidt's main idea as making clear distinctions between the actual financial result (difference between income from sales and the cost of restoring fixed capital) and the insignificant financial result (difference between the initial and replacement value of fixed capital). Therefore, F. Schmidt proposes to maintain an account "Change in long-term assets", which reflects information about insignificant profit or loss. In particular, in determining the financial performance of an entity, the effect of an insignificant portion of that outcome is eliminated (resulting in only the 'net' current financial result remaining) and the assets can be accounted for at their replacement cost [11].

T. Limperg, the head of the Amsterdam School of Accounting, developed the idea of F. Schmidt that in the 20s and 30s of the twentieth century he proposed to reflect the wealth to be accounted for at the cost of recovery, rather than keeping the account at cost and current prices. Only such measures will allow businesses to support their activities [12].

According to M.L.Pyatov, a number of problems arise in the practical application of this approach in the framework of balance theory. The financial result is reduced when the costs are revalued at cost. However, a revaluation of expenses within the balance sheet is a revaluation of these assets, while a revaluation of assets not related to an increase in accounts payable is an increase in the amount of own funds, ie a practical reflection of profits [13].

The differences of the balance theories listed above in the formation of financial results are given in the table below (Table 1).

Table 1: Comparative analysis of balance theories on the formation of financial results

Measures	Balance theories and their naming		
	Static	Dynamic	Organic

The purpose of the calculation	Determining solvency, financial stability	Determining profitability	Determining financial results and assessing property status
Benefit to users	Protecting the interests of creditors and investors	Protecting the interests of property owners	Protecting the interests of both external and internal users
Computational elements	Assets, capital, liabilities	Income, cost, profit	Assets, capital, liabilities, income, expenses, profits
Evaluation of elements	Evaluation of key elements as a result of inventory at a given time	Estimation of key elements by cost	Valuation at current value

Hence, while an attempt is made to reflect more balance elements in static theory, dynamic theory mainly serves to reflect financial results. Organic theory, on the other hand, seeks to reconcile the requirements of these two theories.

In summary, static balance theory to some extent satisfies the interests of external users, such as investors and property owners, especially potential investors and property owners who wish to purchase assets. Users of the static balance see the real (current) value of the business entity, how much its property is valued, as well as the amount of profit earned.

In the theory of dynamic balance, some shortcomings of the theory of static balance, which consists in ignoring the goals of individual cases of economic life in determining the financial result, are eliminated. That is, the theory of dynamic balance allows to calculate the cost of individual calculation objects, while in the theory of static balance this advantage disappears.

Thus, to overcome the contradictions between the two balance theories, F. Schmidt proposes an alternative in the form of an organic balance theory.

Currently, there is a combination of balance theories in financial statements, ie they reflect static, dynamic and organic indicators, such as valuation of assets at their current cost and the presence of future expenses, intangible assets correspond to the dynamic component, assets are reflected in the balance sheet reflects the static concept, while the revaluation of assets is consistent with static and organic theories.

In our opinion, organic balance theory can claim the role of a theory capable of overcoming the contradictions between static and dynamic theory and providing users of the report with an objective view of the business entity, accurately reflect the current property status, profit (loss) and expected income.

In our view, organic balance theory in many respects meets IFRS requirements, as the current value concept, which is currently relevant, essentially implies an asset revaluation.

We will consider these aspects formed as a result of scientific research. The following table discusses the elements of financial reporting in accounting, the values applied based on the requirements of applicable law and the organic balance theory we propose, and their differences (Table 2).

Table 2: Evaluation of some elements of the financial statements for 2018 in JSC "Gulistan Oil-Extract" on the current legislation and the theory of organic balance

T / p	Reporting elements	Value used in the practice of Uzbekistan	The value applied to the theory of organic balance	Value under BHMS (in thousand s of soums)	Cost according to the theory of organic balance (in thousands of soums)	Differen ce (in thousan ds of soums)
1.	Basic tools		Current value	7280606	6363387 0	-917219
2.	Inventories	Initial (reset) value	Current value	2671200 0	2588923 7	-822763
3.	Duties	actual cost or market price	Current value	4287762 1	3991390 7	- 2963714

As can be seen from the table, when applying the requirements of the theory of organic balance, we see that fixed assets decreased by -917219 thousand soums, inventories by -822763 thousand soums, liabilities by -2963714 thousand soums. Hence, organic balance theory allows real data to be obtained without overstating the amount of reporting indicators.

The management of business entities should independently determine the ways in which information about the property status and financial results should be reflected in the financial statements and decide what goals they should pursue in order to achieve an effective result.

At the same time, in the current conditions of economic development, it is expedient to use the basic rules of all the above balance theories from accounting and financial reporting. This allows the rational rules of these theories to be harmonized to improve accounting, increase the level of reliability and objectivity of financial reporting.

Business entities on the basis of different ownership in the Republic of Uzbekistan should be based on the proposed theory of organic balance in the formation of financial results. This theory serves the interests of the state, investors and owners.

IV. CONCLUSIONS AND OFFERS

1. When business entities start their activities, their main goal is to get the maximum benefit. It is therefore important for any entity to make a profit, i.e. to achieve a positive financial result. The study focused on the

concepts of financial results, profit, loss, income, cost, their content. The views of economists on this have been studied. The opinions of economists are summarized, and it is concluded that the financial results end with the calculation of profits and losses, and also reflect the increase and decrease in the volume of assets of the business entity for a certain period.

2. Financial results play an important role not only in accounting, but also in the management of the entire business entity. If the financial results are determined in accounting, they are analyzed in the analysis and control system. In the management system, management decisions are made on the basis of financial performance indicators. When making effective management decisions, it is important to accurately determine the financial results in accounting.

3. During the study, similarities and differences of balance theories in the formation of financial results were studied. Although all balance theories serve to accurately determine financial results, the predominance of present value in organic balance theory serves to bring this theory closer to international financial reporting standards.

4. It is expedient to rely on the theory of organic balance, which is currently being introduced in the practice of our country in accordance with international financial reporting standards. This theory assumes that the elements of financial reporting are valued at present value. During the study, the procedure for evaluating certain elements of the financial statements of JSC "Gulistan Oil-Extract" on the current legislation and the theory of organic balance was considered. As a result, it became possible to more accurately reflect the elements of financial reporting when applying the requirements of organic balance theory.

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