

Professional Judgement and its influence on performance of financial condition of russian companies

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1. Introduction

One of the key features of accounting in accordance with international financial reporting standards is the need to use professional judgment, based on experience, skills, future expectations of experts of the companies responsible for preparation of financial statements (accountants, economists, financiers, and others). The current literature provides a number of different interpretations of the term “professional judgment”. Some sources understand this term as an opinion about the economic situation in the company expressed by a professional accountant, which will be used for managerial decision-making⁽¹⁾. Other sources interpret professional judgment as justified opinion of professional accountants about methods of classification and disclosure of reliable information about the financial position and financial results of the organization and their changes⁽²⁾. As a rule, professional judgment is used in evaluating assets and liabilities, income and expenses, and in assess and classify of specific transactions and events in uncertain conditions. As a consequence, its application produces occurrence of subjective evaluations of values in the financial statements and impacts the financial status of organizations.

2. Professional judgment in the creation of reserves

Most often professional judgment is used in the time of creating a reserve - liabilities with no stated maturity of performance or of uncertain magnitude. The procedure of evaluation and reflection of reserves in financial statements in accordance with international standards is regulated by the International Accounting Standard 37 “Provisions, Contingent

⁽¹⁾ Sokolov Y.V., Terentyev T.S. Professional accounting judgment: the results of the last century / Y.V. Sokolov, T.S. Terentyev // Accounting, 2001. - № 12. p. 66

⁽²⁾ Nikolaeva S.A. Professional judgment in the system of regulatory accounting. / S.A. Nikolaeva // Accounting, 2000. - № 12. p. 50

Liabilities and Contingent Assets.” In Russia the issue regulated by the normative act under the same name⁽³⁾.

According to p.14 IAS 37, p. 5 Regulation of Accounting 8/2010, a provision should be recognized when:

1. an entity has a present obligation (legal or constructive) as a result of a past event. The legal obligation arises from the norms of law, and judicial decisions, and as a consequence, it must be properly documented. Constructive obligations emerge from an company's actions when
2. by an established pattern of past practice, published policies or a sufficiently specific current statement, the company has indicated to other parties that it will accept certain responsibilities;
3. it is probable (ie more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and
4. a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision should reflect the best estimate of the cost required at the end of the reporting period for the settlement of existing obligations. Experts of the companies assess the amount of reserves using a variety of statistical techniques, such as the method of “expected value”, which essentially means a calculating the weighted average value of an outflow of resources, embodying economic benefits, on the basis of probability of covering certain categories of obligations.

If these conditions are not met, a provision is not recognized. According to IFRS, if these criteria are complied, provisions are reflected in the statement of financial position as long- term or short-term obligations. In accordance with the Russian legislation, estimated liabilities are recorded in the balance sheet. As a rule, provisions are the company's expenses, reflected in the statement of comprehensive income. An analogue of this report in the Russian accounting practice is the report of the income statement. In addition, according to international standards, provisions may be included in the original cost of assets, and expenses will arise as depreciation of the object. This approach is used in cases where creating of a reserve is related to the disposal of a long-term assets. The Russian accounting system currently does not provide for such a provision.

Assessing the likelihood of repayment of obligations and estimating of the expected financial impact of recognition a reserve in accordance with international and Russian standards are done on the basis of judgments of the company's management about the practice of similar transactions. In some cases, companies use the assistance of independent experts to solve this problem. This is an example of professional judgments affecting the financial performance of organizations.

A numerical example may serve as a good illustration of the problem. The Company X sells goods with the guarantee: buyers are entitled to reimbursement for the removal of any manufacturing defects, detected during the first year after the purchase. The experts evaluated potential costs of removing defects of goods sold and came to the following:

- If all the goods have minor defects, the cost of warranty repairs in the next year will
- amount to \$1 million;

⁽³⁾ Regulation of Accounting «Provisions, Contingent Liabilities and Contingent Assets» (approved by Order Ministry of Finance of Russia of 06.07.99 № 43n)

- If all the goods sold will have major defects, the repair costs will amount to \$5 million.

The prognosis by the company's experts, based on their experience of the past three years, suggests that in the coming year 80% of goods sold will have no defects, 10% of goods will have minor defects and 10% will have significant defects.

To obtain the best estimate of reserves for warranty repairs in this situation the accountant calculated the weighted average value based on the product of each value on its probability of occurrence:

$$80\% * \$0 + 10\% * \$1 \text{ mln.} + 10\% * \$5 \text{ mln.} = \$0.6 \text{ mln.}$$

The provision for warranty repairs will reduce the financial results of the organization for the current period and will be reflected in current liabilities.

Let us now suppose that auditors, carrying out the audit of this company's financial statements, in order to assess reserves for warranty, use statistical information on the industry in which Company X operates, and their prognosis is less optimistic:

- 60% of goods sold will have no defects;
- 20% of products will have slight defects;
- 20% of products will have significant defects.

Based on the data provided by the auditors, we determine the expected value of the cost of warranty repairs in the next year:

$$60\% * \$0 + 20\% * \$1 \text{ mln.} + 20\% * \$5 \text{ mln.} = \$1.2 \text{ mln.}$$

Thus, using two different opinions, we get twice the difference in the magnitude of the provision.

Let's now see how this situation will affect the financial condition of the organization.

The indicators of financial reporting of the Company X at the beginning of the reporting period [see Table 1], will enable us to calculate the indicators of assets, liabilities, revenues, expenditures and financial results at the end of the reporting period. Under "Option 1" we will understand the evaluation of the reserve for warranty repairs, made by the experts of the company, under "Option 2" - that, made by the auditors.

Table 1 - Indicators of assets and liabilities of the Company X at the beginning of the reporting period

№	Indicators		Amount, USD mln.
	Name	Designation	
Assets			
1	Long-term assets	<i>F</i>	2
2	Short-term assets	<i>Q</i>	0.5
	Total	<i>Ba</i>	2.5
Equity and liabilities			
3	Owned capital:	<i>Ic</i>	2.4
3.1	Share capital	<i>I_{sc}</i>	0.4
3.2	Retained earnings	<i>I_{re}</i>	2.0
4	Long-term liabilities	<i>K</i>	-
5	Short-term liabilities:	<i>R_p</i>	0.1
5.1	Short-term reserves	<i>R_{res}</i>	-
5.2	Trade and other payables	<i>R_{tp}</i>	0.1
	Total	<i>Bp</i>	2.5

Table 2 shows the values of the indicators of the company's economic operations, calculated for both options.

Table 2 - The impact of a reserve for warranty repairs on the values of the financial statements

№	Indicators	Financial statements	Option 1, USD mln.	Option 2, USD mln.
1	2	3	4	5
1	Retained earnings	Statement of financial position (Balance sheet)	(0.6)	(1.2)
2	Short-term reserves	Statement of financial position (Balance sheet)	0.6	1.2
3	Other expenses	Statement of comprehensive income (Income statement)	(0.6)	(1.2)
4	Profit or loss before tax	Statement of comprehensive income (Income statement)	(0.6)	(1.2)

To illustrate the influence of professional judgment on the financial condition of the Company X we will present extracts from the statement of comprehensive income (income statement) before and after the creation of the reserve for warranty repairs [Table 3].

Table 3 - Indicators of revenues and expenditures of the Company X

№	Indicators		Before creation of reserve, USD mln.	After creation of reserve, USD mln.	
	Name	Designation		Option 1	Option 2
1	2	3	4	5	6
1	Revenue	<i>N</i>	4	4	4
2	Cost of sales	<i>C</i>	(2)	(2)	(2)
3	Operating profit or loss	<i>Ps</i>	2	2	2
4	Other expenses	<i>Pop</i>	-	(0.6)	(1.2)
6	Profit or loss before tax	<i>P</i>	2	1.4	0.8

Table 4 shows the values of assets and liabilities at the end of the reporting period. The profit of Company X is entered in the settlement account, “Cost of sales” represents the cost of the sold goods, reflected in the composition of short-term assets.

Table 4 - Statement of financial position of the Company X

№	Indicators		Option 1, USD mln.		Option 2, USD mln.	
	Name	Designation	The beginning	The end	The beginning	The end
1	2	3	4	5	6	7
Assets						
1	Long-term assets	<i>F</i>	2	2	2	2
2	Short-term assets	<i>Q</i>	0.5	2.5 (0.5+ 4-2)	0.5	2.5 (0.5+ 4-2)
	Total	<i>Ba</i>	2.5	4.5	2.5	4.5
Equity and liabilities						
3	Owned capital:	<i>Ic</i>	2.4	3.8	2.4	3.2
3.1	Share capital	<i>I_{sc}</i>	0.4	400	0.4	0.4
3.2	Retained earnings	<i>I_{re}</i>	2	3.4 (2+ 1.4)	2	2.8 (2 + 0.8)
4	Long-term liabilities	<i>K</i>	-	-	-	-
5	Short-term liabilities:	<i>Rp</i>	0.1	0.7	0.1	1.3
5.1	Short-term reserves	<i>R_{res}</i>	-	0.6	-	1.2
5.2	Trade and other payables	<i>R_{ip}</i>	0.1	0.1	0.1	0.1
	Total	<i>Bp</i>	2.5	4.5	2.5	4.5

Table 5 shows the indicators of the company's financial condition at the end of the reporting period.

Table 5 - Indicators of the financial condition of the Company X

Indicators	The procedure of calculating	Option 1	Option 2	Deviation
Economic profitability	$R = \frac{P}{(F+Q)cp} * 100\%$	40%	23 %	17 %
Autonomy ratio	$Licb = \frac{Ic}{Ba} * 100\%$	84 %	71 %	13 %
Ratio of financing	$Lick = \frac{Ic}{K+Rp} * 100\%$	543%	246 %	297 %

We can see that the estimation of the provision for warranty repairs with the use of professional judgment by the auditors is significantly higher than the appraisal, made by the employees of the Company X. As a consequence, in Option 2 profit before tax and profitability of the company's activity are lower. Thus, Table 5 shows that the economic profitability in Option 1 is 17% higher than the similar indicator in Option 2. A similar situation is observed with the indicators of financial stability.

3. Professional judgment in the discounting of elements in financial statements

Another example of using professional judgment is applying discount rate in calculating of indicators. This discount rate matches the current and future assessment of the assets, liabilities, income and expenses. In accordance with the international standards of financial statements, companies use discounting in relation to the provisions, where the effect of the time value of money is material⁽⁴⁾. According to the Russian legislation, the amount of the provision is determined by the discounted value, if the prospective time of performance of valuation of liabilities exceeds 12 months after the reporting date or a shorter period, established by the accounting policy of the organization⁽⁵⁾.

The discount rate is the rate before tax that reflects current market assessments of the value of money in time and takes into account all the risks associated with the obligation. The present (current) value of the reserves is calculated by the best amount of expenses required to cover the resulting liability, multiplied by the discount factor. The discount factor is determined by following:

⁽⁴⁾ IAS 37«Provisions, Contingent Liabilities and Contingent Assets» p.45

⁽⁵⁾ Regulation on Accounting «Provisions, Contingent Liabilities and Contingent Assets». Approved by Order Ministry of Finance of Russia of 06.07.99 № 43n p. 20

$$DF = 1 / (1 + i)^n \quad (1),$$

where DF - discount factor;

i - discount rate;

n - period of the discount reserve (estimated liabilities).

In subsequent periods the present value of the provision will be increased by the amount of accrued interest. In accordance with international financial reporting standards, this increase is recognized as interest expense⁶, and in accordance with the Russian legislation, as "other expenses"⁷.

In practice the discount rate is typically, but not exhaustively, equal to:

- Average interest rate on loans;
- The weighted average cost of capital, which takes into account both the cost of equity (stock) and debt capital;
- The discount rate valid at the moment of transaction.

The choice of how the discount rate is estimated affects accounting (financial) statements. If the discount rate increases, the initial amount of a reserve will reduce, the expenses of the current period will decrease and, as a consequence, the income of the current period will increase, and the value of liabilities at the end of the current period will be reduced. However, in the subsequent reporting periods the initial increase in the discount rate will lead to an increase in interest expense, and the organization's financial result will be reduced. Similarly, the value of the discount rate also impacts the present value of other indicators of the financial statements, namely: the accounts receivable and payable; the assets acquired by the long-term delay of payment, and others.

Let's consider the following example. An obligation event occurs at the beginning of the reporting period in the Company X, meaning that in 10 years the Company X must cover its liabilities associated with eliminating effects of pollution, in the amount of \$1 mln. According to estimates by the experts of the company, the value of the discount rate is 8% per annum, their calculation is based on an average cost of capital of the company.

In accordance with Russian and international standards, in this situation the Company X should create a long-term reserve for the obligation. The assessment of the reserve is carried out at the discounted value. To do this, we must define the value of the discount factor:

$$DF = 1 / (1 + 0.08)^{10} = 0.4631935.$$

Therefore, the discounted value of the reserve will be equal to:

$$\$1 \text{ mln.} * 0.4631935 = \$0.4631935 \text{ mln.}$$

In the end of the reporting period, in the financial statements of the Company X must be reflected an increase in reserve, associated with the growth of its discounted (present) value. The increase is calculated by multiplying the discount rate by the carrying amount of the reserve:

$$0.08 * \$0.4631935 \text{ mln.} = \$0,0370555 \text{ mln.}$$

⁶ IAS 37 «Provisions, Contingent Liabilities and Contingent Assets» p.60

⁷ Regulation on Accounting «Provisions, Contingent Liabilities and Contingent Assets». Approved by Order Ministry of Finance of Russia of 06.07.99 № 43n p. 20

As a result, the value of the reserve at the end of the year in the statement of financial position will be \$0.500249 mln. (0.4631935 + 0.0370555).

According to the international standards of financial statements, the increase of the value of the reserve during the reporting period is reflected as "interest expense", and in accordance with the Russian approach, it is categorized as "other expenses".

Let us suppose that the audit company, which performs the audit of financial statements of the Company X, calculates the discount rate using the average amount of debt capital, whose value at the beginning of the reporting period was 10%. Consequently, the value of the discount factor, according to the auditing company's data, will be equal to:

$$DF = 1 / (1+0.1)^{10} = 0.385543.$$

The discounted (present) value of the reserve will be equal to:

$$\$1 \text{ mln.} * 0.385543 = \$0.385543 \text{ mln.}$$

The increase of the reserve amount during the reporting period will be:

$$0.1 * \$0.385543 \text{ mln.} = \$0.0385543 \text{ mln.}$$

Thus, according to the estimates of the audit company, the value of the reserve reflected in the statement of financial position of the Company X at the end of the year will be \$0.4240973 mln. (0.385543+0.0385543).

Table 6 consolidates the amounts of assets, liabilities, income, expenses and financial results, reported by the Company X by the end of the period. As the opening balances will be used the data reflected in Table 1. "Option 1" will reflect the data, calculated on the basis of the professional judgment by the experts of the Company X; "Option 2" will reflect the assessment by the auditors.

Table 7 constitutes excerpts from the statement of comprehensive income (income statement) before and after the creation of the reserve at the present value.

Table 6 - The values of the indicators of financial reporting in case of the creation of the reserve at the discounted value

№	Indicators	Form of financial statement	Option 1, USD mln.	Option 2, USD mln.
1	2	3	4	5
1	Retained earnings	Statement of financial position (Balance sheet)	(0.500249)	(0.4240973)
2	Long-term reserves	Statement of financial position (Balance sheet)	0.500249	0.4240973
3	Other expenses: - interest expenses	Statement of comprehensive income (Income statement)	(0.500249) (0.0370555)	(0.4240973) (0.0385543)
4	Profit or loss before tax	Statement of comprehensive income (Income statement)	(0.500249)	(0.4240973)

Table 7 - Indicators of revenues and expenditures of the Company X

№	Indicators		Values of indicators before creation of the reserve, USD mln.	Values of indicators after creation of the reserve	
	Name	Designation		Option 1, USD mln.	Option 2, USD mln.
1	2	3	4	5	6
1	Revenue	<i>N</i>	4	4	4
2	Cost of sales	<i>C</i>	(2)	(2)	(2)
3	Operating profit or loss	<i>Ps</i>	2	2	2
4	Other expenses: - interest expenses	<i>Pop</i>	- -	(0.500249) (0.0370555)	(0.4240973) (0.0385543)
6	Profit or loss before tax	<i>P</i>	2	1.499751	1.5759027

Table 8 shows the values of assets and liabilities at the end of the reporting period.

Table 8 - Indicators of assets and liabilities of the Company X at the end of the reporting period

№	Indicators		Option 1, USD mln.		Option 2, USD mln.	
	Name	Designation	The beginning of the period	The end of the period	The beginning of the period	The end of the period
1	2	3	4	5	6	7
Assets						
1	Long-term assets	<i>F</i>	2	2	2	2
2	Short-term assets	<i>Q</i>	0.5	2.5 (0.5+ 4- 2)	0.5	2.5 (0.5+ 4-2)
	Total	<i>Ba</i>	2.5	4.5	2.5	4.5
Liabilities						
3	Owned capital:	<i>Ic</i>	2.4	3.899 751	2.4	3.975902 7
3.1	Share capital	<i>I_{sc}</i>	0.4	0.4	0.4	0.4
3.2	Retained earnings	<i>I_{re}</i>	2	3.49975 1 (2+ 1.49975 1)	2	3.575902 7 (2+ 1.575902 7)
4	Long — term liabilities	<i>K</i>	-	0.50024 9	-	0.424097 3
4.1	Long-term reserves	<i>K</i>	-	0.50024 9	-	0.424097 3
5	Short-term liabilities:	<i>Rp</i>	0.1	0.1	0.1	0.1
5.1	Short-term reserves	<i>R_{res}</i>	-	-	-	-
5.2	Trade and other payables	<i>R_{tp}</i>	0.1	0.1	0.1	0.1
	Total	<i>Bp</i>	2.5	4.5	2.5	4.5

To illustrate how the financial condition of the company is influenced by professional judgment in assessing the discount rate, we will calculate the relevant indicators at the end of the reporting period [see Table 9].

Table 9 - Indicators of the financial condition of the Company X

Indicators	The calculation algorithm	Option 1	Option 2	Deviation
Economic profitability	$R = \frac{P}{(F+Q)_{\text{average}}} * 100\%$	43%	45%	(2%)
Autonomy ratio	$\text{Licb} = \frac{\text{Ic}}{\text{Ba}} * 100\%$	87%	88%	(1%)
Ratio of financing	$\text{Lick} = \frac{\text{Ic}}{\text{K+Rp}} * 100\%$	650%	759%	(109%)

The inverse dependency of the size of the discount rate and the appraised value of the reserve for the obligation was reflected in a decrease in the present value of the reserve at the end of the year with a 2% increase in the discount rate. Thus, the pre-tax profit of the Company X in Option 2 is larger than that in Option 1, and it naturally affects the profitability of the enterprise, which, according to the data of Table 9, has increased by 2%. The increase in values of financial stability indicators, calculated on the basis of the financial statements, prepared according to the results of valuation allowances in Option 2, also shows the improvement of the financial condition of the company with a higher value of the discount rate. Thus, the coefficient of autonomy (independence) of the organization has increased by 1%, and the coefficient of financing - by 109%.

4. Professional judgment in impairment of elements in financial statements

Another example of using professional judgment in accordance with international standards can be seen in operations of impairment of assets⁸.

Under IAS, an impairment of assets has occurred, if the carrying amount of the asset exceeds the recoverable amount, which means the higher of the two values:

- ⤴ the fair value of the asset less costs to sell;
- ⤴ the value in use of the asset.

The fair value less costs to sell is defined as the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the cost of disposal. When determining the value in use of an asset one must estimate future cash flows, which the enterprise expects to obtain from the use of the asset. Since the assessment of value in use is directly related to future reporting periods, when making this assessment it is necessary, firstly, to take into account the discounting, and, secondly, base the assessment on:

- ⤴ the management's best assessment of the whole range of conditions, that will exist over the remaining useful life of the asset;

⁸ IAS 36 "Impairment of Assets".

- ⤴ the most recent financial forecasts, which should cover a period no more than 5 years;
- ⤴ extrapolation, based on the forecast of prospective assessments, with application for subsequent years the constant, increasing or decreasing indicator of growth.

The assessment, made by management or built on the most recent financial forecasts, is based on professional judgment.

If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The decrease is an impairment loss. An impairment loss is recognized in accounting as an expense, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease.

It must be noted, that after the impairment loss is recognized, we will need to recalculate the amounts of depreciation, which IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" defines as a change in the accounting estimate, and which must be recognized in the financial statements prospectively.

Often in practice the calculation of the recoverable amount of an individual asset is impossible because this asset does not generate cash flows itself. In such situations, in accordance with IAS 36, it is necessary to estimate the recoverable amount of the cash-generating unit, to which this individual asset belongs. The generating unit is the smallest identifiable group of assets that generates cash inflows, that are largely independent from cash inflows from other assets or groups of assets. Merger of assets into cash-generating units, in our opinion, is the result of professional judgment of the organization's experts.

Let's consider the following situation. Company X, offering mobile communication services, operates three towers with the carrying value of \$1 mln. per unit. The market value of the towers at the end of the reporting period is \$800 mln. per unit, the amount of costs to sell of these assets is negligible and is recognized by the experts of the company as insignificant. In the process of preparing financial statements, the company should verify the assets for the purpose of their impairment, because the market price of the property has decreased significantly. In the opinion of the company's specialists, these towers form part of equipment, necessary to relay GSM signals, do not generate separate cash flows, and, thus, should be treated as a single cash-generating unit, which, according to their data, has the carrying value of \$6 mln., and whose recoverable amount equals \$7 mln. As the recoverable amount of the cash-generating unit exceeds its carrying value, according to the professional judgment of the specialists of the Company X, impairment of assets is not happening.

Nevertheless, experts of the audit firm that assesses the accounts of the Company X, choose to estimate the value in use of the towers as individual assets. According to their calculations, this value equals approximately \$0.5 mln.

Thus, in accordance with the professional judgment of the auditors, the recoverable value of each tower is \$0.8 mln., and so exceeds the tower's market value and value in use. In this assessment Company X should recognize the impairment loss in respect of each asset in the amount of \$0.2 mln. The total amount of the towers' impairment loss is \$0.6 mln.

Let us now look at how the situation is reflected in the financial statements of the Company X, stipulating that in "Option 1" the towers are considered as part of a single cash-generating unit, and in "Option 2" each tower is seen as a separate asset.

Table 10 presents the amounts of income, expenses and financial results of the Company X for each of this Options.

Table 10 - The values of financial reporting indicators for different calculations of an impairment loss

№	Indicators	Form of financial statement	Option 1, USD mln.	Option 2, USD mln.
1	2	3	4	5
1	Retained earnings	Statement of financial position (Balance sheet)	-	(0.6)
2	Depreciation	Statement of comprehensive income (Income statement)	-	(0.6)
3	Profit or loss before tax	Statement of comprehensive income (Income statement)	-	(0.6)

Excerpts from the statement of comprehensive income (income statement) before and after recognition of impairment losses are presented in Table 11.

Table 11 - Indicators of revenues and expenditures of the Company X

№	Indicators		Values of indicators before recognition of impairment loss, USD mln.	Values of indicators after recognition of impairment loss	
	Name	Designation		Option 1, USD mln.	Option 2, USD mln.
1	2	3	4	5	6
1	Revenue	<i>N</i>	4	4	4
2	Cost of sales	<i>C</i>	(2)	(2)	(2)
3	Operating profit or loss	<i>Ps</i>	2	2	2
4	Depreciation	<i>Pop</i>	-	-	(0.6)
5	Profit or loss before tax	<i>P</i>	2	2	1.4

Tables 11 and 12 present the reported amounts of assets, liabilities, income, expenses and financial results by the end of the reporting period on the basis of the example cited above, using the data of Table 1 as the opening balances.

Let us now calculate the indicators of the Company X's financial condition for each of these Options [see Table 13].

Table 12 - Indicators of the Company X's assets and liabilities at the end of the reporting period

№	Indicators		Option 1, USD mln.		Option 2, USD mln.	
	Name	Designation	The beginning of the period	The end of the period	The beginning of the period	The end of the period
1	2	3	4	5	6	7
Assets						
1	Long-term assets	<i>F</i>	2	2	2	1.4 (2 - 0.6)
2	Short-term assets	<i>Q</i>	0.5	2.5 (0.5+ 4-2)	0.5	2.5 (0.5+ 4-2)
	Total	Ba	2.5	4.5	2.5	3.9
Liabilities						
3	Owned capital:	<i>Ic</i>	2.4	4.4	2.4	3.8
3.1	Share capital	<i>Isc</i>	0.4	0.4	0.4	0.4
3.2	Retained earnings	<i>Ire</i>	2	4 (2 + 2)	2	3.4 (2+ 1.4)
4	Long-term liabilities	<i>K</i>	-	-	-	-
5	Short-term liabilities:	<i>Rp</i>	0.1	0.1	0.1	0.1
5.1	Short-term reserves	<i>Rres</i>	-	-	-	-
5.2	Trade and other payables	<i>Rtp</i>	0.1	0.1	0.1	0.1
	Total	Bp	2.5	4.5	2.5	3.9

Table 13 - Indicators of the financial condition of the Company X

Indicators	The calculation algorithm	Option 1	Option 2	Deviation
Economic profitability	$R = \frac{P}{(F + Q) \text{ average}} * 100\%$	57%	44%	13%
Autonomy ratio	$Licb = \frac{Ic}{Ba} * 100\%$	98%	97%	1%
Capital productivity	$Lf = \frac{N}{\text{Fin}\delta}$	2	2.35	0.35

In financial statements of the company impairment loss of assets is categorized as “other expenses” and so reduces the company's profit and its indicators of efficiency. According to the data of Table 13, in Option 2 economic profitability of the company is 13% lower than that in Option 1. The reduction of the company's profit leads to a stronger de-

pendence on borrowed sources of financing, and thus, changes the company's autonomy coefficient, which in Option 2 is 1% less than in Option 1. As the value of fixed assets decreases, the weight of short-term assets in the total amount of assets increases, improving the liquidity and business activity of the company. Thus, if impairment of the towers is recognized, the turnover of company's long-term assets (its capital productivity) increases by 0.35.

5. Conclusion

Thus, it can be clearly demonstrated, that financial condition of organization is greatly influenced by the professional judgment of various experts. It makes it especially important for users of the financial statements to understand this effect and, in the process of making management and economic decisions, to pay closer attention to the disclosure of information pertaining to professional evaluations by the company's experts.

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