

VALUE CREATION AS THE MAIN PRINCIPLE OF CONSTRUCTION COMPANY EFFICIENT FUNCTIONING

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Abstract

Some main aspects of value assessment in the accounting system dealing with the imperfection of conventional methods of property assessment have been taken into consideration in the article. The factors assessing enterprise value have been specified and substantiated. It has been found out that most scientists use different conceptions while studying the enterprise value, namely: economic profit; net assets formed by cash flows; market price; investment cost, etc.

It has been proved that due to the development of economic relations in society it is necessary to assess new accounting entities. It has been substantiated that the accounting estimate is a basis for the economic one. The use of such instrument as enterprise value assessment appears under some specific conditions or their combination, namely: when an enterprise is being reorganized; under an enterprise, bankruptcy or liquidation conditions; when an enterprise was sold as a whole property complex, etc. Value criteria is a logic development of strategic planning as the main requirements of any party concerned can be valued. Value indices are unique as they allow reaching compromise between main business stakeholders making the balance of their interests possible and approaching in this way economic growth, and what is the most important, social stability.

We have found out that there are some conflicts of laws on the issue under discussion, namely the legal system of Ukraine has a tendency of ambivalent approach to interpreting the essence of an enterprise. It is taking place due to the law enforcement of corporate and civil laws.

Four main value standards are used during the construction companies' value creation implementation: balance, liquidation, fair (market) and value while using (use-value).

Modern techniques of business assessment are developing quite intensively both in theory and in practice, already existing methods are being modified, the synthesis of different methods is taking place, new techniques are appearing. The conventional techniques in some way or other are based on the hypothesis dealing with the existence of two sources of money flow for the owners of invested capital: the money flow, integrated by the functioning business and the money flow gained on the disposal of assets involved into the particular business.

Some problems of assessment and calculating (value measuring) have been defined in the modern accounting system, namely: initial and further evaluation and re-evaluation of the accounting entities, their depreciation, and amortization, the use of normative and non-normative methods of expenditures calculating, the use of numerous methods of calculating and others.

Keywords: value creation, assessment, construction companies.

INTRODUCTION

Knowledge about the cost of institutional units can effectively organize and, consequently, function management economics of modern type. Obviously, without knowing what you own, it is impossible to account for, control, analyze and make effective management decisions. Maximum approximation to accuracy in determining the value of the company allows the use of mathematical and analytical

resources, to make optimal decisions in each specific situation of the management economy.

One of the main problems in the system of national accounting is the determination of the value of the enterprise as well as those companies whose shares are undervalued on the stock exchanges. This situation is generally triggered by the opacity of the market and the imperfection of the property valuation methods used.

The method of valuation of the enterprise has always attracted the attention of scholars in the field of accounting, as well as accountants-practitioners. However, the key question about this problem has always been the factors that determine the value of the enterprise.

RESEARCH RESULTS AND DISCUSSION

Prominent scientist A. Smith focuses attention on the labor theory of value. The author states: "It was not by gold or by silver, but by labor, that all wealth of the world was originally purchased." [2, p. 77]

It is not completely possible to agree with this statement, because not all the wealth in the world a person can physically reach, especially for work. Therefore, finding a measure of value has led to the emergence of the abstract absolute as gold or silver. Wealth in such circumstances, in which it is not relevant, is measured in gold ounces, which are used as a measurement of value or accumulation.

Authoritative edition – Ukrainian dictionary, in 11 volumes given the following interpretation of the term "value":

- any price for something uttered in money;
- positive quality, value;
- the economic categories that are proper for commodity production, which is materialized and embodied in the product of socially necessary work [12, p. 294].

One of the answers was expressed by American scientist Eugene F. Brigham that in order to determine prices, the following key conditions such as a system of hypothetical balances that will generate expected cash flows; discount rate or cost of capital to be applied to estimated cash flows are necessary [5].

By hypothetical balances, a scientist understands derivative balances based on a specific hypothesis, such as the use of market prices, risk. However, E. F. Brigham does not provide a mechanism of its execution, guided only by general scientific approaches.

In the process of researching the value of the enterprise, most scientists are centered on the use of different concepts, in particular: economic profit (A. Smith); net assets generated by cash flows (ES Hendrix and MV Van Breda); market value (M. Miller, F. Modellani); investment value (GS Harrison) and others.

I. Blank takes the measurement of value as a set of ordered actions appraiser, including the collection and analysis of baseline data, opportunities for application of the entire set of approaches and methods of evaluation for a particular object, a series of calculations and results of examinations for the conclusion enterprise value [3, p. 445].

According to A.P. Rudanovsky, valuation is the basis of accounting, the application of which on assets, capital and liabilities allows to determine the volume

of net assets, that is, the property of the enterprise and to solve the following market problems: to protect the interests of the contractors of the enterprise in the event of its insolvency; to provide interests of owners [11].

As rightly A.G. Zavgorodniy points out, the main requirement for evaluation is its reality, which is ensured by the accuracy of accounting principles and accounting business transactions [6, p. 617].

With the development of economic relations in society, it is necessary to evaluate new accounting objects. In this statement renowned scientist V. Paliy notes that the economy establishes new accounting objects that have specific valuation methods: intangible assets, securities, and financial investments, currency values. There is a need to account for differences in exchange rates, issue income, and to use other methods of assessment of such assets. [9, p. 3]

However, it should be noted that an assessment is fundamental to economic, based on provisional values of monetary assets and determine other rules for assessing liabilities. The calculation of the estimated value assumes either the calculation of “today’s” amount in “tomorrow’s” money – this is the so-called procedure for increasing or the calculation of “tomorrow” amount in “today’s” money – a discounting procedure [8, p. 319].

Use a tool such as valuation occurs under certain circumstances or their combination in the process of reorganization; in case of bankruptcy and liquidation of the enterprise; provided the sale of the enterprise as integral property complex, etc.

Regarding this scientific and practical problems noteworthy is the opinion expressed by Professor O. Sobko, in particular the author states: “Businesses who want to modernize their competitive advantage in the direction of cost factors are forced to shift their focus to generators with an intellectual background: knowledge, competencies, information and communication technologies, intellectual property, which as a result enhances their creativity” [13, p. 6].

Using the latest control systems, which predominate in practice determine the effectiveness of the company, cost criteria is a logical development of strategic management. The main requirements of any stakeholder can be appreciated, in particular: the requirements of the owners with the discounted dividend value; requirements of state authorities - through the present value of tax deductions, etc. The uniqueness of cost indicators is to make a compromise between the main business stakeholders, which allows them to balance their interests, achieving economic and, most importantly, social stability.

However, in the course of the study, there were found certain legal conflicts in this matter. In particular, as Professor V.I. Borisov says, in the legislation of Ukraine traces the tendency of a dual approach to understanding the essence of the company, which is associated with the enforcement of economic and civil legislation. The author emphasizes that, unlike the Civil Code, the Economic Code of Ukraine (hereinafter referred to as the Civil Code), which regulates the procedure for the creation of legal entities under public law, attributes the enterprise to economic entities, and the integral property complex acts as the basis that allows the operation of sub-economic entities. In particular, the definition of the enterprise as an object of civil rights must consider the ratio of such concepts as “company” and “property

complex” because of the legal definition of enterprise given by a general (generic) category – a single property complex. The combination of civil rights objects that form the enterprise as a single property complex and the variety of modes of their legal regulation in their combination determine the specifics of the legal status of the enterprise itself, emphasizing its special position in the system of civil rights objects. [4].

It should be noted that the construction enterprise as a single property complex includes all types of property intended for its activity: land, buildings, and structures, equipment, inventory, basic and auxiliary materials, unfinished capital construction, claims, debts, as well as law trademark or other designation and other rights, unless otherwise stipulated by the contract or law (Part 2 of Article 191 of the CC). Given this legal rule, one of the main features of the enterprise is its complexity, which makes it possible to determine the enterprise property complex consisting of components (elements), each of which can act as an independent object of civil rights: things of immovable (land plots) , buildings, structures) and movable (equipment, inventory, raw materials, products); other property, including property rights (claim rights), property obligations (debts), intellectual property objects (trademark or other designation), information, etc., and their integration into a functional entity (integrative integrity) – the object gives the opportunity to use the enterprise for the intended purpose – for carrying out business activity. [14]

In the process of implementation of value creation of the construction company uses four basic standards of value: balance sheet, liquidation, fair (market) and value in use (consumer value).

Carrying value is defined as the difference between total assets (net of depreciation, resources used) and the total value of liabilities according to the balance sheet indicators. However, in practice, the use of this type of cost is a significant disadvantage because it depends on the characteristics of the accounting policies of the company. In turn, the residual value – a reasonable value of the sale of assets fewer total liabilities of the enterprise and the cost of their implementation.

Accordingly, the market value is the value at which the valuation object in the market of similar property can be alienated at the date of the valuation under the agreement concluded between the buyer and the seller after the relevant marketing, provided that each party acted with knowledge of the case, reasonably and without compulsion [10].

In international practice, the concept of “market value” is interpreted as the amount of money for which property must pass from hand to hand at the valuation date between a voluntary buyer and a voluntary seller as a result of a commercial transaction after adequate marketing; it is assumed that each party acted competently, carefully and without compulsion [1].

These market value definitions are based on the principle of efficiency of use, so their use is not appropriate in all circumstances. If the purpose of the valuation is to determine the value of an operating entity, the most efficient use principle cannot be applied, since it is determined not by the exchange transaction value but by the cost in use (consumer value) for the particular user. In highly developed countries with a developed stock market, there is such an indicator as to the product exchange stock

quotes on the number of issued shares. For domestic practice, this method is practically impossible. Therefore, the valuation of the enterprises of the construction complex is based on other principles: non-market types of value or value in use.

Consumer value is the value that a particular property has for a particular user at a particular use. The main feature of this type of value is the contribution that property adds to the value of the enterprise. It should be noted that the probability of a match consumer market and the cost is extremely low. On the contrary, the cost of ownership is generally higher because of the possession of the special rights, patents or licenses by the construction firm.

Quite often, the terms business value and firm value are identical, but these are different concepts. A business should be understood as specific areas of activity that are the object of assessment. In turn, a firm or construction company is a form of doing business, so it may belong to several of their types. That is, the value of the firm is exactly the value of its business.

In recent years, business assessment methods, both theoretical and practical, have been developing quite intensively, existing methods are being modified, different methods are being synthesized, and new techniques are emerging.

All current techniques are based in one way or another on the hypothesis that there are two sources of cash flow for owners of invested capital: cash flow integrated with a functioning business (cost of operating business) and cash flow from the sale of assets involved in this type of business. The existing methodology of value creation involves the use of three approaches: income, comparative and cost (Figure 1).

Besides, different methods of one approach may be considered in the application process. The group of income methods includes the following methods: capitalization of income, discounting cash flows, residual income. The group of comparative methods includes comparison multipliers, expert comparison methods, and statistical adjustments. The last of the selected groups include such methods as component separation, quantitative diagnostics, etc.

When considering the value creation of a construction business, it is important to take into account the brand, a special so-called “communicator” between the seller and the buyer, which reflects the unique features and features of the construction object or the enterprise as a whole. This set of tangible and intangible categories that form the consumer’s positive image of a construction product or company and a desire to buy a specific object, choosing from a variety of offers, despite the raised price of branded goods in the market.

As a rule, the brand influences customer decisions and can be the most valuable asset of an enterprise, so determining its value is an important task in the management process. Until recently, determining the value of the brand has been a problematic issue. However, the situation has changed with the implementation of the International Standard ISO 20671 “Brand Assessment. Principles and Guidelines”, which aims to supplement the ISO 10668 series of standards “Brand Assessment. Brand Financial Valuation Requirements, which focus on financial issues”. The latest approval date standard identifies approaches and techniques for increasing brand

value and combines both financial and non-financial measures and factors that affect brand success.

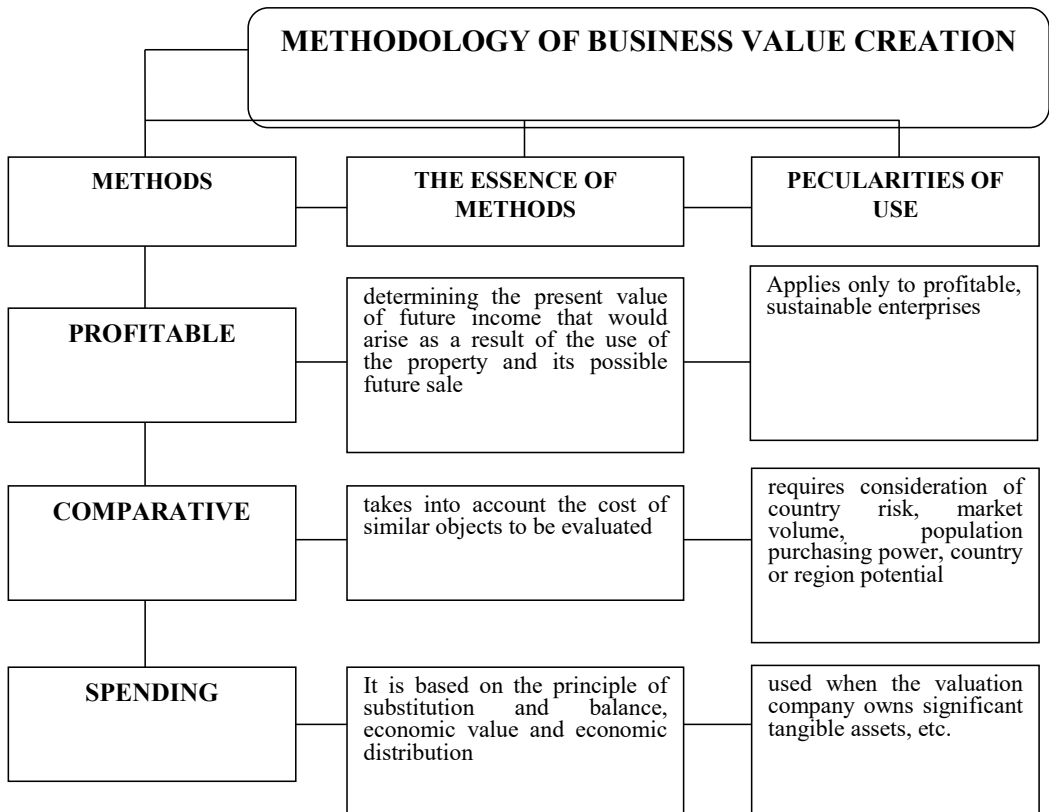


Figure 1. Characteristic features of methods of business creation

A special element in the construction of accounting systems is the evaluation. At this point, the researcher faces the dilemma of alternatives or no alternatives in choosing to evaluate a particular accounting entity. Both options depend on the regulatory framework in-laws, standards, instructions, etc. Because of no alternative, we get comparability of indicators by individual objects, their groups both within the individual enterprise and within enterprises of the whole industry or economy as a whole. The choice of valuation comparability causes loss of comparability of indicators; however, there is an opportunity for the management of the enterprise to influence the process of formation of financial result. Because, through such manipulation as an opportunity to increase (if finding an investor, etc.) and reduce the real value of financial results (under certain conditions by combining, acquisitions, etc.).

The Law of Ukraine “On Accounting and Financial Reporting in Ukraine” concerning quantification identifies two terms – “historical (actual) cost” and “single monetary measure” [7].

The system of accounting knowledge assessment can be considered in two main ways: as a method of combining different elements of capital into an integrated metric, as well as a way of reliably identifying available capital and changes in financial reporting over the reporting period [9].

Evaluation of accounting is nothing but a way of measuring in a particular measure of the components of capital in the process of its circulation. Undoubtedly, preference should be given to the monetary measure as the most versatile, which allows you to measure the most accurate elements of capital by reducing them to a single currency. As a result of such manipulations, the accounting functions become more efficient, which allows:

- control the preservation of capital;
- generate cost and profit information;
- receive data on the capitalization of the enterprise;
- to compare the value of the enterprise capital at different time intervals;
- summarize information about the value of the assets and liabilities of the enterprise.

Due to the spread of labor theory of value, the estimate of the actual cost (historical cost), which is still widely used in practice, has spread. Calculating the cost of all the items being accounted for has updated the development and deepening of existing costing techniques as one way of measuring value in accounting. This has become a prerequisite for the separation of such elements of the method of accounting as estimation and calculation.

Domination in the economy of marginal utility theory has led to the formation of a model for comparing the consumer value of goods for their usefulness to the seller and buyer. In this regard, accounting plays a declining role in the measurement of actual cost and the development of fair value measurement. Accordingly, the calculation as one of the accounting methods moves their focus on the management accounting system.

If we compare the methods used to assess the financial and management accounting, it is an immediately evident characteristic feature – the relativity of accounting information (data approximation), which consists, first, in building assessment methodology. In practice, accountants are convinced that, provided that the credentials are displayed correctly (without falsification), the documents reflect the absolute truth, which is not true.

CONCLUSION

Assessment of the enterprise, its property is one of the most difficult issues in the enterprise management system. In particular, it is possible to distinguish the value of the enterprise as a complete property complex and the assessment of the corporate rights of the entity. The value of an enterprise may be equal to the market value of its assets, but these concepts are different. In the first case, it is primarily about the value that can be created as a result of operating a business. The valuation of the enterprise

is usually based on the market value – the probable amount of money for which the valuation object can be bought and sold in the market.

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