

SYSTEM ANALYSIS OF INTELLECTUAL PROPERTY INDICATORS OF FINANCIAL STATEMENTS

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ABSTRACT

The given paper highlights the impact of future financial figures rather than past ones of the intellectual property and business transactions on current business performance. The author suggests adding the block of financial reporting showing financial result of business achieved during past years should be complemented by a special statement showing total financial result of business achieved during firm's previous entire operational period.

JEL CLASSIFICATION & KEYWORDS

■ M40 ■ M41 ■ Intellectual property ■ Business transactions
■ Financial reporting

INTRODUCTION

In the traditional economic analysis the business performance is measured by absolute and comparative figures. The figures of economic effectiveness and efficiency fundamentally differ from each other. Economic effectiveness is measured quantitatively by absolute figures. In this economic analysis, the financial performance figures divide into two groups [1]:

1. figures of financial results achieved during current period (profit or cash flow);
2. figures of financial results accumulated by the end of current period (net asset and market capitalization).

Economic efficiency is measured qualitatively through comparative figures and it points out the business functioning result of high quality. In broad sense, the economic efficiency is measured by the following groups of figures:

1. comparative efficiency ratios (cost efficiency, profitability, return on capital and etc);
2. time ratios (velocity, frequency) to reach the desired result (asset and capital turnover);
3. risk ratios (instability) to reach the desired result (liquidity, financial stability/dependency) of the firm [2].

The retained earning of the firm formally exceeds the result of the income and loss statement as it is not related to the process of forming the firm's financial result, but to its allotment. Stressing out that figure is of high importance for two purposes: firstly, for unveiling the nature of the financial result figures accumulated by the firm during current period, secondly, for underlining the narrowness of the accounting concept of profit as compared to that of value added.

Simplified algorithm of business's net profit allotment can be described in this way: the part of net profit is retained, i.e. used for reproduction and business capitalization; the other part of the net profit is given to the business owners as dividend payment.

Thus, the net profit of business is divided into two parts: retained earnings (reinvested profit) and profit of business owners in the form of dividend will be extracted by them. Reinvested part of profit is an internal source of financing for the business owners' operations; hence it is apparent that the current profit retention policy determines the size of external financing attracted by the firm. The parameter proprietors' dividend reflects the part of business's current financial result which is extracted from it by its owners.

Net profit and proprietors' dividend analysis

In financial analysis the most frequently used local parameters include business's net profit and proprietors' dividends: 1) earnings per share (EPS) are equal to the ratio of net business profit (Pn) to the number of shares outstanding.

$$(Y): EPS = Pn / Y \quad (1)$$

2) dividend from each share (DVY) is equal to the ratio of amount of dividend payment (DV) to the number of shares of the given type:

$$DVY = DV / Y \quad (2)$$

3) dividend payment coefficient (KDV) is equal to the ratio of dividend from each share (DVY) to earnings per share (EPS):

$$KDV = DVY / EPS = DV / Pn \quad (3)$$

In financial analysis and management cash flow parameter is used as one of the measures of the firm's financial performance as of certain period of time. In this sense, cash flow is a measure of current financial result, means the result actually obtained in monetary form from business's operation during accounting period.

The use of the cash flow parameter as a measurer of performance results (as an analogue of profit parameter) makes sense assuming that a long analyzed period is used (based on the principle of the operating enterprise, it is, theoretically, an infinity).

A detailed calculation of cash flow parameter formation is stated in a special cash flow statement (SCF). It should be noted that both international standards and the majority of national standards of accounting and bookkeeping require that this statement underline streams of cash inflows and cash outflows for operational, financial and investment activities.

Of the highest analytical value is cash flow from operations parameter (CFO) reflected in the cash flow statement and that is the main forecasting objective in business planning and business cost calculation using cash flow movements methods (CFM). Cash flow from the main operations can be calculated in two ways: direct and indirect. With the indirect method, business' net profit parameter in the financial results statement is corrected into noncash articles. With the direct method (accrual basis accounting), all cash inflows and cash outflows are included. Additionally, in aggregate income statement, both proceeds and cost price, not the financial result, will be corrected.

The necessity to determine the CFO parameter and make a special cash flow statement (apart from aggregate income statement settling the income parameter) is caused by the following: the function of the financial results statement is to measure the enterprise's cost-efficiency as of certain period. But it does not show the moment where the cash occurred and the influence of operational activities on liquidity and solvency. This information is provided in the cash flow statement and its CFO part which presents different aspects of the same reality.

CFO as a performance is less prone to distortions than net profit value. That is why analysts prefer to relate CFO to statement value of net profit to check its quality. Theoretically, in the most general form, the firm's performance result as of certain date should equal to the sum of business' net profits for all the operational years of the organization. But this algorithm of financial results accumulated by the firm is correct only if such funds from business were not withdrawn, i.e. there were no dividend payments made to proprietors, no net profit used for incentives and social security of the participants, etc. In reality, financial result accumulated by the firm equals to the sum of profit actually reinvested in business for all operational years of the business operator.

Investments in business take the form of assets, therefore net assets parameter of the business operator is traditionally used in financial analysis to show accumulated results.

By their economic essence, net assets are accounting cost of the firm's own capitals as of certain date. Thus, in accordance with national standards of accountancy of the Republic of Uzbekistan, net assets are a value identified by deducting the sum of business operator's relevant liabilities from the sum of its relevant assets. Property components (assets), liabilities and the firm's own capital (liabilities) as of certain date are reflected in the business operator's balance. Thus, the business operator's balance can be considered a statement on financial results accumulated by the firm as of certain date.

Market capitalization is a market cost of the firm's own capital as of certain date. In fact, the main difference between the firm's market capitalization and the organization's net assets is in the assets evaluation methods: based on market prices or on accounting (historical) prices of procurement. Besides, in formulating market capitalization, the firm's business reputation (the level of the firm's fulfillment of its commitments to its counterparties) is of considerable significance. Therefore, net assets and market capitalization parameters can be seen as variants of integral criterion for the firm's performance assessment applied in financial analysis. By calculation algorithm they are similar to the methodology for determining the cost of enterprise as property complex and firm's market cost used by evaluators (property and market approaches).

System of parameters of comparative economic effect

Company's direct comparative cost-efficiency (performance) parameter is its cost-efficiency (profitability) coefficient. The relation of profit to invested capital is commonly referred to as cost-efficiency; relation of profit (cash flow) to effected expenditure (income) is referred to as profitability. Based on this presumption, the system of parameters of comparative economic effect from the firm's performance includes two parameter classes:

1. Business profitability coefficients determined by comparing different levels of profit with income received;
2. accounting rate of return on investment (investment cost-efficiency) parameters (capital use rate of return) [3].

The basic parameter of accounting rate of return on investment (investment cost-efficiency) is the relation of net income to capital invested in creating this income (return on investment, ROI). ROI parameter links profit with the size of capital needed for making this profit:

$$ROI = \text{profit} / \text{capital invested} \quad (4)$$

Since a firm is a targeted business system of participants, the economic efficiency from the functioning of the business

should be considered from two prospective: from the participant's prospective and from the system's prospective as a whole (from the business position). In this interpretation business capital bears productiveness for business and participants which at the same time is the cost of capital for the firm. Therefore, by economic content, concepts such as cost of capital and price of capital are very close to the category of capital cost-efficiency. In its broad meaning, the term cost of capital is the size of financial liability/commitment undertaken by the firm for using its own and borrowed capital to carry out its activities [4]. This very opinion is upheld by authors of other works [5]. Thus, A.N.Khorin states that "price of organization's capital is generally a recognized level of profitability which is guaranteed by the organization both to proprietors and creators".

As the above analysis shows, financial reporting is a system of financial figures or a set of delayed parameters for the past period. In order to meet the needs of economy of international society, the coverage of firms' performance should be based primarily on anticipating parameters of transactions and business capital which define the tendency of changes in financial parameters achieved as of current moment. This means that the modernization of the existing system of external reporting by business operators includes the provision of additional block of anticipating intellectual capital and business transaction parameters as well as modification of financial statements themselves.

Conclusion

Based on the above, the following proposals are made for the system of financial reporting by firms to reflect intellectual capital:

1. To add the block of reports on intellectual capital and business transaction Business' Intellectual Capital Statement and Firm's Major Operations Characteristics (Business Process Chart).
2. To add the block of financial reporting showing financial result of business achieved during past years should be complemented by a special statement showing total financial result of business achieved during firm's previous entire operational period (Business Performance Results Report as of certain date).
3. Profit and loss statement (f2) of business operator's same reporting block should be replaced by report on business' value added generation and distribution during accounting period.

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