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Risk in the accounting system: factors, nature and criteria of recognition

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Abstract: The article deals with the investigation of mutual relation of uncertainty and risk, factors causing risk and its nature, criteria of the risk recognition in the system of accounting. Different approaches to the classification of risk factors in the activity of enterprise (according to the decision-making, possibility of insurance etc.) have been determined and the most acceptable classification of the risk factors depending on their place of arising (external and internal), which is interrelated with the methods of risk management, have been found. It was determined, that uncertainty is the reason of risk arising. Risk was found to be treated in native legislation on the problems of accounting as the accompanying element of transactions performed, and information on risks is presented in the system of accounts while describing the specific features of the business transactions. Subjective-objective nature of risk and its main features in accounting (uncertainty, alternative, contradiction) have been found. Criteria of the accounting objects recognition (materiality nature of the object, right of property, estimation in value terms, participation of information in further decision-making) have been analysed and it was found, if the risk is recognized in the system of accounting, modern needs of users of accounting information in the conditions of the variable environment of their functioning must be taken into account.

Keywords: risk, uncertainty, accounting, alternative, information.



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1. Statement of the problem

Every business entity is planning its activity in the conditions of uncertainty. While choosing this or that development strategy, a business entity can both benefit and lose its funds (that is, to obtain less than it was expected). Being in the conditions of uncertainty, the leaders face a great amount of alternative solutions, successful realisation of which (that is, they can be totally beneficial) depends on many factors affecting the business entity inside and outside, subjective treatment of the leader in particular. In such situation the notion of risk is revealed.

2. Analysis of the latest investigations and publications

The papers by native and foreign scientists I. M. Vygivska, O. M. Goncharenko, S. A. Dereviashkin, M. V. Stafievskaja, A. S. Tolstova, O. V. Fomina, A. Y. Shevelev, Y. V. Sheveliova etc. deal with the investigation of risks in accounting. Native scientists analyse the problems of theoretical, organizational, methodic issues of accounting business transactions in risk conditions, classification of risks, that is, risk is treated mostly as accompanying element in the enterprise activity. At the same time foreign scientists analyse the definitions and the main accounting risks their impacts on the trustworthiness of financial statements of business entities, theoretic-methodic issues of accounting-analytical providing of the enterprise risks management, method of systematic accounting of risks. Thus, it can be stated, that risk in our native accounting science stays to be not studied enough.

3. Objective of the article

To investigate the interrelation of uncertainty and risk, to identify factors of the risk arising and its nature, to determine criteria of the risk recognition in the system of accounting.

4. Main ideas of investigation

Financial-economic situation of the enterprise depends mainly on the fact, in what extent all types of the risk factors are taken into consideration during the process of management. Specific feature of the native enterprises functioning is that they constantly undergo the impact of general economic and special factors of risk, general economic factors of risk being typical for the entrepreneurial activity of any economic environment. At the same time specific factors are the characteristics of the native enterprises. From the other side, the whole complex of risk factors is divided into two groups: 1) "predicted" factors, possibility of arising of which is known from the economic theory or business experience. At the same time, what factor and when it arises is unknown; 2) factors, which resulted because of the lack of complete information and variability of the enterprise external environment, which cannot be predicted. Classification of factors of risk as the source and reason of ruining the economic safety of the enterprise can be done according to different indications. But it must be taken into account, that classification of the risk factors is interrelated with the methods of the risk management.

In whole, different approaches to the classification of risk factors in the activity of the enterprise (according to the level of decision-making and possibility of insurance etc.) are presented in the literature on economics, but generally adopted and clear classification is not still available. That is why the most acceptable for the native enterprises can be considered the classification of the risk factors depending on the place of their arising: external and internal.

External risk factors are those, which are not caused directly by the activity of the enterprise itself, because they are caused by the external environment of the enterprise functioning. External risk factors of the enterprise include: political, social-economic, ecological and scientific-technological. Political risk factors deal with possible losses or decrease of profit as the result of governmental or regional policy. Social-economic factors can be caused by the legislative activity of the governmental bodies, changes of contract terms, appearance of new business entities. Ecological risk factors are caused by the interaction of production and environment. Scientific-technological risk factors result in the fact, that innovations can be both advantageous and disadvantageous for the enterprise.

Internal factors include those, which depend on the enterprise activity, they are: risk factors of the production activity (out-of-date manufacturing technology, reduction of production output), reproductive activity (recruiting policy, training, improvement of professional skills), in the management sphere (decision-making in strategic, tactical and effective guidance) and in circulation sphere (breaking of delivery terms, nonpayment of products cost by the customers).

Significance of this classification of the risk factors is, that it makes possible: 1) to define possible threats of the enterprise economic safety; 2) to identify the reasons of arising undesired events development at the enterprise; 3) to estimate preliminary the amount of possible consequences of this or that risk factor; 4) to

analyse the possibilities for the management of the risk degree; 5) to make information base for decision-making taking into account possible outcomes of the risk factors.

Risk is a multiple notion, which is often associated with losses, disadvantageous outcomes. But this is only one interpretation of the risk treatment, as risk and profit are directly dependable: higher profit of the enterprise activity is always accompanied with the high level of risk. Thus, V. V. Kovaliov treats risk and profit as two interrelated categories: "Assets, which are associated with relatively greater amount of possible losses, are treated as more risky. Accordingly, such assets must meet higher demands as to their profit" [1, p. 404].

Y. A. Shumpeter in the book "Theory of economic development" writes, that, if risks are not taken into account from the point of view of management activity, they are, on the one hand, the source of losses, on the other – the source of profits. One may make decision, which undergoes less risk, but the obtained profit will be smaller as well. Greater risk results in the possibility to obtain higher profit [2].

Uncertainty in the accounting of the business entity reveals itself mostly while making accounting data and financial statements, as well as while decision-making in management by the users of accounting information. Uncertainty is revealed, when clear information is not available and as the result of uncertainty in the standards of accounting and financial statements.

Analysis of native Regulations (standards) on accounting testified the association of risk with the uncertainty of the entrepreneurial activity, which does not make possible to treat risk as the accounting object. Besides, uncertainty is only the reason of the risk arising and to associate different notions as to their meaning is not recommended. Native legislation in the system of accounting treats a risk as the accompanying element of transactions performed, and information on risks is reflected in the system of accounts, when peculiarities of business transactions are analysed.

The problem of accounting risks is not studied enough in both, accounting itself and the science on risks. But it is worth being stressed, that some scientists investigate this problem. Thus, famous American economist L. A. Bernstein notes: "Accounting risk is caused by the human factor as to its nature, and inaccuracy, which is the characteristic of the accounting in whole. It occurs because the alternative principles of accounting are available, as well as not clear criterion, which defines them, and, correspondingly, not clear standards in practice. The lack of guarantee as to the standards or methods and ways of their application can result in the variety of results, and thus, high level of uncertainty" [3, p. 56]. At the same time, A. Y. Shevelev stresses, that "accounting risk is caused by the possible mistakes while making economic information of the enterprise by the accounting staff" [4, p. 102].

Objects, which undergo registration in accounting, are determined by the law. To recognize risk as the object of accounting, let us analyse legislation as to the recognition of the accounting objects. Thus, in Law of Ukraine "On accounting and financial statements in Ukraine" the definition of the notion "object" is not available as well as recognition criteria of economic life facts in accounting [5]. In Regulations (standards) on accounting while recognition of fixed assets, intangible assets, inventories, expenses, liabilities etc., their value estimation or real value must be determined [6]. That is, the basis of their recognition is their value estimation. Besides, while analysing the mentioned accounting objects, their material, nonmaterial or financial monetary or nonmonetary form must be determined. But native Regulations (standards) on accounting do not contain separate chapters as to the criteria of recognition of certain objects of accounting.

As the risk is not recognised as the object in native legislation on accounting, let us analyse possible criterion versions of recognition accounting objects. Thus materiality nature of the object can be the first criterion. But not all accounting objects are of material form, e.g. intangible assets.

The right of property can be the second criterion, which includes the right of ownership, using and management. This criterion can be used for most assets of the enterprise, because they are owned, used and managed by it, that is, because they are included or not included in the enterprise assets. But it cannot be used for the expenses, as they can be used and can be accumulated and form the cost price just as the result of using the enterprise assets. That is why expenses are not the object of ownership, using and management. This right is possessed by the assets.

The third criterion, which is used to recognize objects, is estimation in value terms. That is, irrespective of the fact are the objects of material or nonmaterial nature, or are they in the ownership, the objects are to be stated the value. But very often agreements are set, which are broken, although the value of them can be stated. That is why these transactions must not be registered in the system of accounting. That is why the criterion of value statement cannot be considered optimal for recognition of the object of accounting, as the value can be stated for some transactions, but the expediency of their registration is not confirmed. As, in fact, they did not take place and did not result in any changes in the enterprise activity.

Logical criterion for being recognized the object of accounting is the usage of information in future decision-making in management. It is confirmed by the definition of accounting, that is: "Accounting is the process of identification, measuring, registration, accumulation, generalisation, storing and transferring of information on the enterprise activity to the external and internal users for decision-making" [5]. We consider the words "information ... for decision-making" to be of paramount importance for the recognition of objects of accounting, as modern needs of the accounting information users as to the recognition and registration of the

accounting object in the varying environment of their functioning must be taken into account. Such variety is specified by the uncertainty and risk – the elements of modern world. Let's analyse the essence of uncertainty and risk in the information environment of the enterprise.

Uncertainty should be treated as scanty or scarce information on any activity or its outcomes, not full enough knowledge of something. Pablo A. Guerron-Quintana writes, that “the concept of uncertainty goes beyond those situations in which we cannot establish the likelihood of events. It also includes cases when we do not even know the outcomes” [7, p. 11].

Risk is sufficient possibility of the event to occur in the conditions of the environment uncertainty of the enterprise functioning, which is the subject of quantitative and qualitative estimation. Risk is characterized by the availability of uncertainty and is the variety of uncertainty, when the probability of the event appears and it can be found. The notion of risk is always connected with the possibility to choose this or that option for the events development. Risk is inseparably connected with the notion of alternative.

Evidently enough, risk is not specific in accounting; it is present in all professions and often seen closely related to expected or projected benefits. Risk is expressed quantitatively as the probability or degree of loss. Mathematically, probability is a quantitative measure. Assumed risk, however, is not just mathematics but also a function of qualitative factors, such as a nature of the counterparty (a person, company, government or other entity), characteristics of the transaction and specifics of the exposure [8, p. 5].

Risk in the accounting system is of subjective-objective nature. On the one hand, it is connected with the choice of some options (alternatives), calculation of probability of their outcomes (if it is possible). That is, risk is realized through the subject – a person, who makes decision. People can make mistakes, in decision-making in particular. Besides, different business entities have different aims in their activity, different legal status. All this causes the availability of the subjective risk component in accounting. On the other hand, probable nature of economic activity of business entities, lack of possibility to predict clearly its outcomes, uncertainty, caused by the objective, independent on the subject environment factors, stipulate the availability of risks in the accounting of the objective component. Thus, subjective-objective nature of risk in accounting is specified by the fact, that it is initiated by the processes of both, subjective nature, and those, the availability of which finally does not depend on the desire and consciousness of people.

Sequence of elements of decision-making process can be presented as follows: event → uncertainty → risk → alternative → estimation → decision → outcome. As it is seen, the precondition of risk is uncertainty, and its consequence is alternative. Thus, managerial decisions made by the leaders of enterprise are always accompanied by the uncertainty of environment, in which they are made, and, therefore, by risk of appearance of undesired outcomes for the enterprise.

The main principle of decision-making by the enterprises is their seeking for greater profit; here the amount of possible profit is in proportion to risk. Users of accounting information make many decisions, when some possible options in the conditions of uncertainty of the market situation are available. Sensible and fair treatment of information makes possible to identify reasonably the main characteristics of risk, in the accounting in particular:

- risk uncertainty (uniform approach, unfair information on risk are not available). The task is to decrease the risk outcomes if possible, to find means for minimization of unexpected losses in advance;
- risk alternative (choice from some methods of risk estimation). Risk alternative in accounting is specified by the standards of accounting, which give the enterprise the right of choice (in some cases): method of estimation; the way of presenting information in financial statements; methods and ways of presenting accounting objects, which make possible to describe more clearly the results of its activity and the financial position;
- contradiction of risk in the accounting is caused by the capital market effect on the content and the size of financial statements. That is why the enterprise faces very complex problem: to meet the interests of all users of financial statements.

Ducu C. writes, that “the identification and the management of the accounting risks to limit them can be achieved by implementing the internal control system, performing various audit missions and the proper use of the accounting information” [9, p. 1377].

In the “Conception of accounting and financial statements development in Russian Federation for medium-term period” it is stated, that the reform of accounting strategically, as the main information source of meeting interests of users of different groups, must be directed to the support of the integrity of the accounting system and identification of the risk effect (inadequacy of real economic situation, incompatibility of information etc.) on the stability of the enterprise functioning and development [10]. That is, importance of the accounting system as the tool for the enterprise risks management is stressed and profound investigations on recognition of risk as the object of accounting is specified.

The institute of certified financial analysts of Great Britain proposed the Model of comprehensive financial statements of business, in which minimization of risks is treated as the main reserve of raising the business value [11]. Application of the accounting tools for the business risks management has been interpreted. It will

make possible, in its turn, to provide estimation of possible risk outcomes (threats) and to promote the ways of their decrease.

5. Conclusions

In whole risk as an object in accounting can be treated from the point of view, that probability of its arising lays in all assets, liabilities, owner's equity and processes, and is revealed as different nature deviations (from limits, standards, other parameters). Risk is independent of the individual behavior and specifies objectively available regularities – this is the objective nature of risk. Subjective nature of risk reveals itself in personal estimation of uncertainty, that is, personal respond to the events. Thus, the task of accounting as the main information system of the enterprise is to identify risks in time and decrease the degree of their effect on the activity of business entities.

Author details (in Ukrainian)

Ризик в системі бухгалтерського обліку: фактори, природа та критерії визнання

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Анотація. Стаття присвячена дослідженню взаємозв'язку невизначеності та ризику, факторів виникнення ризику та його природи, критеріїв визнання ризику в системі бухгалтерського обліку. Встановлено різноманітні підходи до класифікації факторів ризику в діяльності підприємства (за рівнем прийняття рішень, за можливістю страхування тощо) та визначено найбільш прийнятною для вітчизняних підприємств класифікацію факторів ризику залежно від місця їх виникнення (зовнішні та внутрішні), яка взаємопов'язана з методами управління ризиком. Виявлено, що невизначеність – це причина виникнення ризику. Встановлено, що ризик у вітчизняному законодавстві з питань обліку визначено як супутній елемент операцій, що здійснюються, і інформація про ризики відображається в системі рахунків при розкритті особливостей здійснення господарських операцій. Виявлено суб'єктивно-об'єктивну природу ризику та основні його риси в обліку (невизначеність, альтернативність, суперечливість). Проаналізовано критерії визнання об'єктів в обліку (матеріальність об'єкта, право власності, оцінка у вартісному вимірнику, участь інформації у прийнятті майбутніх управлінських рішень) та визначено, що при визнанні ризику в системі бухгалтерського обліку необхідно враховувати сучасні потреби користувачів облікової інформації в умовах мінливого середовища їх функціонування.

Ключові слова: ризик, невизначеність, облік, альтернативність, інформація.

Author details (in Russian)

Риск в системе бухгалтерского учета: факторы, природа и критерии признания

Татьяна Королюк

Аннотация. Статья посвящена исследованию взаимосвязи неопределенности и риска, факторов возникновения риска и его природы, критериев признания риска в системе бухгалтерского учета. Установлено различные подходы к классификации факторов риска в деятельности предприятия (по уровню принятия решений, по возможности страхования и т.п.) и определено наиболее приемлемой для отечественных предприятий классификацию факторов риска в зависимости от места их возникновения (внешние и внутренние), которая взаимосвязана с методами управления риском. Виявлено, что неопределенность – это причина возникновения риска. Установлено, что риск в отечественном законодательстве по вопросам учета определен как сопутствующий элемент осуществляемых операций, и информация о рисках отражается в системе счетов при раскрытии особенностей осуществления хозяйственных операций. Виявлено субъективно-объективную природу риска и основные его черты в учете (неопределенность, альтернативность, противоречивость). Проанализированы критерии признания объектов в учете (материальность объекта, право собственности, оценка в стоимостном измерителе, участие информации в принятии будущих управленческих решений) и определено, что при признании риска в системе бухгалтерского учета необходимо учитывать современные потребности пользователей учетной информации в условиях меняющейся среды их функционирования.

Ключевые слова: риск, неопределенность, учет, альтернативность, информация.

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