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Independency of Lithuania*

## **Accounting, audit, analysis: Science and studies Retrospective and perspective**

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STRUCTURED LITERATURE REVIEW ON BUSINESS PROCESS PERFORMANCE ANALYSIS AND EVALUATION

# THE VALIDATION OF RELATIONSHIP BETWEEN THE QUALITY OF FINANCIAL REPORTING AND BUSINESS PERFORMANCE IN THE JORDANIAN CONTEXT: AN EMPIRICAL ANALYSIS

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**Abstract.** Understanding the dynamics and features of financial reporting quality and its relationships with business performance has gained and witnessed considerable interest of both scholars and practitioners in the last three decades in developed countries. However, in fact, over the Jordanian context as a developing country, there is a lack of empirical research that has examined and validates this relationship in a systematic approach which resulted in a limited understanding of the concept of quality of financial reporting and its measurement. Therefore, this research aims to examine, validate, and predict the reliability of the proposed relationship between the quality of financial reporting and business performance dimensions (financial, non-financial and combined) empirically. For this purpose, a conceptual framework based on content analysis of the previous studies was developed. Data was collected through using self-administrated questionnaire of 239 respondents. The key respondent approach was employed so that the target respondents were chosen from shareholding companies in Jordan. The result of structural equation modeling showed that the magnitude and significance of the loading estimate indicate that all components of the quality of financial reporting as one construct (i.e., relevancy, understandability, faithful representation and comparability) produce slightly better explanation of the variation on the combination of business performance dimensions (financial and non-financial together; 78%) rather than each dimension taken separately (financial 59% and non-financial .73%). Contribution of this research relies on providing the shareholding companies with practical implications for enhancing the quality of financial reporting and their business performance.

**Keywords:** Financial Reporting Quality, Business Performance, Financial and Non-financial, Developing Country.

**JEL Classifications:** M41, M49.

## **SOME THOUGHTS ABOUT ECONOMIC SUBSTANCE OF GAINS AND LOSSES**

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**Abstract.** Relevance of the topic: This study is the first to provide the inconsistencies in two pairs of opposite terms – profit/loss and gain/loss. The purpose of research is to identify the economic substance of gain/loss and the correct recognition of their amounts in the financial statements. Research methods used: textual analysis, transaction approach, double entry.

Short content: The economic substance and difference between gain/loss and profit/loss is explained based on following postulates:

1. Profit is not defined in IFRSs. Instead of definition, calculation formula is indicated: profit is difference between income and expenses.
2. Profit cannot arise without income(s). Income(s) and expenses are primary (measurable) indicators for profit calculations. Profit is the secondary indicator, not measurable directly but computable, derived from income(s) and expense(s). It is reason-consequence relation, where income(s) and expense(s) are reasons and profit is consequence.
3. Besides of income(s) and expense(s) amount of profit can be influenced by several corrections and adjustments which can be caused, for example, by revaluations, usage of different formulas (for example, for calculation of depreciation) etc. Finally, all these influence profit.

These postulates are illustrated by means of transaction approach where different examples have been worked out to show how to understand, identify and record gains/losses. Main conclusions: The amounts named gain/loss in disposal of property, plant and equipment are rather corrections or adjustments of previous miscalculations of depreciation expenses due to the formula. To make aforementioned adjustments and show them separately a Contra depreciation expense account or Depreciation adjunct account is recommended.

**Keywords:** income, gain, loss, profit, transaction approach

**JEL Classification:** M41

# PHILOSOPHICAL FRAMEWORK OF CURRICULUM-BUILDING PROCESS IN ACCOUNTING: EVIDENCE FROM ESTONIA

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**Abstract.** Relevance of the topic: Development of international business increases the process of globalization and sets up new requirements for the professional qualification of accountants. Accounting has been called the language of business and it is extremely important to create a curriculum with a good quality. The purpose of research is to explain the philosophical framework of curriculum-building process on the level of graduate studies in accounting. For illustrating the curriculum-building process, the leading accounting curriculum in Estonia is taken as example. Methods used: method of case study, matrix modeling.

Short content: There are number of approaches to global accounting education. One approach is prescriptive and specifies the general and technical education professional accountants need to develop the required skills. It is best thought of as an “input” approach. Another approach is the competency-based approach, where competency is defined as the ability to perform activities within an occupation or function to the standards expected in employment. It looks at competencies as “outputs” or “outcomes” and then works backwards to specify the education necessary to achieve these “outcomes”. Curriculum building is similar to a new product building. For higher education institutions, the curriculum is like a product for companies. The following steps must be taken: Study potential markets; Evaluate raw materials; Evaluate resources; Study competition; Develop strategy; State a mission; Design a product; Design a production process; Implement change; Monitor outcomes.

Main conclusions: method of case study and matrix modeling are recommended for the curriculum-building process.

**Keywords:** accounting education, case study, curriculum studies, matrix modeling

**JEL Classifications:** M41, I23



# PROBLEMS AND SOLUTIONS OF ACCOUNTING AND EVALUATION OF BIOLOGICAL ASSETS IN LATVIA

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**Abstract.** Activities in the field of agriculture deal with plants and animals constituting biological assets of the sector. From the point of view of accounting and valuation, biological assets is a scarcely investigated topic in Latvia, as well the object of the research only in general terms is reflected in Latvian legislation. That leads to confusion and uncertainty in evaluation and accounting of biological assets in the practical accounting. The subject of the study: evaluation and accounting of biological assets. The aim of the study is to explore and analyse problems of accounting and evaluation of biological assets in Latvia and to propose solutions. One of the research tasks is to explore the current legal base for evaluation and accounting of biological assets provided in the national legislation, to evaluate how it complies with the international accounting standards and to analyse the experience of other countries. The challenging issues of evaluation and accounting of biological assets in Latvia are defined in the research, possible solutions for improving the quality of accounting of biological assets are developed proposing the necessary amendments to the legislation and revisions to the methodological documents. Methods of the research: monographic/descriptive method, document analysis, and graphical analysis.

**Keywords:** biological assets, evaluation, accounting.

**JEL Classification:** M41

## AN ANALYSIS OF CROWDFUNDED PROJECTS: KPI'S TO SUCCESS

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**Abstract.** The perception of alternative finances is stimulating the global financial markets and competition between banking funding and non-banking one. In order to encourage the demand of alternative funding the overall studies and researches concentrate on different relationships of economic indicators, describing lending, savings, prosperity, GDP per capita, etc. However, there is still a lack of encouragement to the market participants to provide the market with ideas and projects, which could be crowdfunded. In order to put the efforts for the better acknowledgement and demand incentives this paper was worked up. With the aim to introduce the key performing indicators (KPI's) for successful projects, which were financed through crowdfunding platforms, the comparative analysis was made, using Pearson correlation and Regression forms. It has been found, that technological background and the reality of the idea and or product, visibility of the project are among the successful factors for crowdfunding. However, impact on society or nature as well as the requested amount of money seemed to have lesser effect to success of crowdfunding. The results of the research are adoptable for initial offerings in crowdfunding platforms, potential projects owners, as well as the further researchers developing the topic of crowdfunding. With the strong novelty and broad (regionally) sample, the research represents its value and contributes to the theoretical and empirical background of crowdfunding.

**Keywords:** crowdfunding, key performing factors, alternative financing, correlation

**JEL Classifications:** O16, G15, G29

# EVALUATION OF INFORMATION IN THE PROCESS SUBSYSTEM OF INTERNAL CONTROL OF THE CONTROLLING SYSTEM OF ORGANIZATIONS OF THE AGRO-INDUSTRIAL COMPLEX

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**Abstract.** In accordance with the new management concept, based on some provisions of the system paradigm, the process subsystem of internal control of the controlling system of organizations of the agro-industrial complex is considered.

The process system of internal control of agro-industrial complex organizations is primarily connected with the control of certain information systems that accumulate information on quantitative and qualitative indicators, taking into account the internal and external conditions of functioning of agro-industrial complex organizations, as well as management systems.

The article gives a description of approaches to the measurement of information in the process system of internal control: a syntactic approach that does not express a semantic relation to the object; a semantic approach that determines the semantic content of information; pragmatic approach that reflects the value, usefulness of using information. In the process of research, methods of abstraction, concretization, generalization were used.

The research purpose was to formulate a conclusion that in the process system of internal control of the agro-industrial complex organizations, large amounts of information are needed to inform controlling information in order to obtain the opportunity to make effective decisions to eliminate deviations, thereby increasing the efficiency of business development of agro-industrial organizations.

**Keywords.:** process system of internal control, controlling system, information, syntactic approach, semantic approach, pragmatic approach, business analytics, entropy.

**JEL Classifications:** D80, G 32, M 11, Q14, Q13

## TRAINING OF HIGH QUALIFICATIONS IN ACCORDANCE WITH PROFESSIONAL STANDARDS

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**Abstract.** The human resources potential of science should be considered as an integral characteristic of the available capabilities of each employee. It is important not only to properly assess this potential, but be able to form it. The training of highly qualified personnel is an important strategic stage in the formation of the human potential of science and increasing the competitiveness of the university, taking into account the presence of such negative factors as the aging of scientific personnel, the transfer of scientific and teaching staff to other spheres of the economy, etc.

The competitiveness of a higher educational institution largely depends on postgraduate education, which significantly affects the rating indicators of the university. The research purpose is to analyze the relationship between skill levels and levels of education, as well as to reveal excessive gradation of the levels of qualifications that do not require higher education; to compare the skill levels and the levels of higher education with the posts of practitioners and the teaching staff of a higher education institution

The research methods are the following: theoretical methods - abstraction, analysis and synthesis, from simple to complex; empirical methods - observation, comparison.

**Keywords.** Personnel potential of science, shots of the top skills, professional standard, skill levels, levels of the higher education.

**JEL Classifications:** J24, J80, M53

## ACCOUNTING METHODS FOR FORESTS: HISTORICAL COST VS. FAIR VALUE

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**Abstract.** The accounting methods based on two concepts - accounting by historical cost and accounting by fair value - are responsible for the provision of information about the enterprise's assets in the financial statements. Taking into consideration the specifics of the national financial accounting regulation, the forests managed by the forestry enterprises can also be measured by using either of these two accounting methods.

The purpose of the study is to evaluate the strengths and shortcomings of forest accounting methods based on fair value and historical cost, the practice of their use in Lithuanian forestry enterprises and to propose modified methods of accounting for forests that meet these two accounting concepts. The study examines scholarly literature and deploys the theoretical methods of comparative analysis, critical evaluation, systematisation, generalisation. The empirical research involved document content analysis, questionnaire survey.

The article deals with the issues of the use of accounting methods for forestry accounting: traditional cost-based accounting methods do not reflect the biological forest transformation, hinders identifying the forest development costs and the end of their capitalisation, the method of a systematic derecognition. On the other hand, the essential complication of the use of the fair value method is that the forest largely lacks an active market with quoted prices. Thus, its fair value is determined on the basis of rather subjective assumptions by means of diverse valuation methods, resulting in unreliable and unverifiable information. Moreover, the profit and loss accounts that include the change in the fair value of the forest to be sold in the forthcoming decades are not only doubtful, but also may lead to false interpretations of the financial indicators and a contradiction with the prudence principle.

The results of the research carried out into the forestry accounting policy observed in the Lithuania's private forestry enterprises revealed that forest accounting by cost is exclusively carried out by all the enterprises under investigation. Nevertheless, the method itself is interpreted quite differently. The article presents the modified forestry accounting methods by cost and by fair value, which allow reducing the identified shortcomings.

**Keywords:** forest (stands), accounting methods, fair value, historical cost.

**JEL Classifications:** M 41; Q23

# THE METHODOLOGY OF STATEMENT OF COMPREHENSIVE INCOME AND ITS IMPACT ON PROFITABILITY: THE CASE OF LATVIA

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**Abstract.** The financial statements of a company are used by external users as the main source of information in order to take financially informed decisions. The author of the article has summarized the study on one of the financial statements – a statement of comprehensive income (CI statement) that enables creditors and investors to assess the process of the formation of company's profit and profitability. Purpose: on the basis of the study of the specificity of the preparation of the statement of comprehensive income to analyze and evaluate the influence of CI statement items on the profitability of Latvian companies. In order to achieve the purpose, the author has structured the research in two parts. In the first part of the article they describe the core, type and content of CI statement and describe the components of other comprehensive income. In the second part of the article the author has analyzed the methodology for the preparation of CI statement at Latvian companies and impact of other comprehensive income on profitability. The subject of research was a sample of 26 financial statements of Latvian companies. The author applied generally accepted quantitative and qualitative research methods in economics: classification, comparative analysis and synthesis, methods of statistical. The essence of research findings is that the core of items of CI statement and the division into the reclassified and not reclassified items of other comprehensive income (OCI) are important for the company's financial result – evaluation of profit. Research showed that most of investigated companies of Latvia were influenced by reclassified items, besides, positively influenced - profitability ratios of ROE and ROA. The author believe that, when evaluating the profitability of assets and the equity of the company, the financial analysts shall take into account the reclassified items of OCI, and the calculations shall be performed using the modifications of formulae ROE and ROA.

**Keywords:** assets, comprehensive income, equity, financial statements, profitability

**JEL Classifications:** M41, M49

# METHODICAL BASES OF THE ASSESSMENT OF THE INTERNAL FINANCIAL CONTROL EFFECTIVENESS

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**Abstract.** In Ukraine, the internal audit should be carried out at the enterprises that have at least 50% of state property in order to provide the public sector governing bodies with information about the real state of its management system functioning.

The effectiveness of the state enterprise financial activity and financial risks are determined by the results of internal control. The actual direction of the study is to improve the methodology for assessing the effectiveness of internal financial control in order to achieve transparency and determine the effectiveness of public finances. The aim of the article is to substantiate methodical approaches for assessing the internal financial control effectiveness. Research methods: generalization, analysis and synthesis.

Key findings: the author formed the model of organization of the internal financial control at the state enterprise, which ensures the reliability of verification of financial, statistical and management reporting of the state enterprises. The author recommended the structure of the report about the internal financial control results at the state enterprise. This report is submitted to the management of the enterprise and relevant governing bodies for assessing the quality of financial and economic activities and relevant decisions taken. The normative methodical aspects of carrying out the internal financial control at state enterprises are identified and the main factors that influence on its effectiveness are characterized. The author evaluated the level of this method effectiveness and formulated the recommendations for its improvement in order to increase the control functions effectiveness for certain subjects and objects.

The proposals are based on the data transparency, clarification of the control procedures, improvement of the internal control structure and on various risks interpretation. The evaluation of the governing bodies' activities and effectiveness of the financial resources usage are carried out by creation a model of internal control, which allows assessing the effectiveness of the control system.

**Keywords:** financial control, state enterprise, risks, internal control, internal audit.

**JEL Classifications:** L32; M42

## CURRENT TRENDS IN ACCOUNTING REFORM OF UKRAINE

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**Abstract.** In the context of globalization and integration, law regulation of accounting in Ukraine is characterized by changes, additions and clarifications. This applies mainly to the legal regulation of financial accounting, as well as taxation field. It was used such methods as induction and deduction, synthesis and comparison, grouping and summarizing to write this article. The authors review the main changes in financial accounting related to the introduction of amendments to the Ukrainian Law "About Accounting and Financial Reporting in Ukraine", which will be put into effect on January 1, 2018. These changes relate to the introduction of new forms of reporting, namely: the state payments report and the management report. Also financial accounting going to have a new concept, called "enterprises of public interest", and "taxonomy of financial reporting". Besides, the main changes in tax legislation of Ukraine concerning the regulatory changes of the following types of taxes are considered: VAT (mechanism for suspending the registration of "risky" tax invoices and renewal of registration subject to the provision of relevant explanations and evidence by the taxpayer); income tax (the requirements of non-profit for non-profit organizations are specified, the procedure for calculating the depreciation of fixed assets is supplemented); environmental tax (increased tax rates); excise tax (abolition of compulsory registration for excise tax payers and increased excise tax rates) and other types of taxes and payments. It should be noted that the gradual implementation of IFRS standards in all sectors of economy is being implemented in Ukraine. It is proposed to implement further accounting reform in order to bring legislative regulation closer to world standards.

**Keywords:** law regulation, accounting, financial accounting, taxation

**JEL Classifications:** M41, M48, H25



# SEARCHING FOR INFORMATION QUALITY OF FINANCIAL REPORTS: FROM THE MAIN PRINCIPLES UP TO NEUROACCOUNTING

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**Abstract.** Ensuring the quality of financial reports' information is one of the main tasks of financial accounting. The requirement, related to quality of financial reports' information, is laid down in the legal acts, regulating preparation of reports. However, high quality of financial reports' information at the time of preparation of the reports has been a significant challenge, as there is no definition of the "quality of financial reports' information" and there is a lack of methods or ways, ensuring the quality of submitted information; thirdly, the academic researches, studying the quality of financial reports' information at the time of preparation of the reports, pay insufficient attention to such a significant factor, as a decision-making process of a person, preparing the reports, i.e. his/her freedom of interpreting, limits of freedom, possibility to achieve objective quality in making subjective decisions on information quality. Modern researches are oriented towards the quality of already prepared reports and are lacking a common opinion on the best method of quality assessing. Moreover, there is a small number of researches, intended to search for the method of quality assessing for the financial reports' information. Modern achievements in neurostudies allow understanding the decision-making roots in different areas, including the financial reporting area.

Aim of this article is to study the interaction of neurosciences and financial reporting, also the aspects of general decision-making process and one of accounting specialists from the neuroscientific point of view and to suggest how to improve the quality of decisions, related to submission and revealing information in financial reports. Methods: conceptual, critical and systemic analysis of academic literature, the comparative and the generalization methods. The Article aims to analyse the problem of ensuring of financial reports' quality in conventional ways, also to discuss several neurostudies insights on the decision-making and one of accounting specialists.

**Keywords:** information quality, financial reports, neuroaccounting.

**JEL Classifications:** M41

# QUALITATIVE ASPECTS IN THE SUCCESS OF PERFORMANCE MANAGEMENT SYSTEMS

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**Abstract.** The assessment of the success of a Performance Management Systems (PMS) is difficult because factors influencing the success of PMS are many, mutually dependent on each other, and located at different levels of organization. Therefore, there is need to describe the complete logical chain which makes PMS successful for an organization and to find out a comprehensive list of check points (key factors, KF) affecting the success of PMS. In addition to the existence of KFs is important to have their high quality. This research continues previous work of Kadak and Laitinen (2016) which concentrated on the existence of KFs in the logical chain. Now the same KFs are valued in qualitative aspects. Every KF has 1-4 qualitative characteristics.

**Research Method:** research is based on questionnaire received from 85 Estonian and Finland including all size business companies. **Findings:** Qualitative aspects of KFs of PMS affect organizational performance. PMS is successful for the organization when the qualitative aspects of PMS are high. Companies with higher quality of PMS achieve higher organizational performance. This research expands the understanding about the success of PMSs. It also enables to quantify the qualitative aspects of PMSs. **Practical implications:** The practical contribution of this study is that findings show that firms can design and assess their own PMSs and compare their check point values against the values of successful PMSs group. This kind of analysis indicates directly improvement potential for the different check points in PMS.

**Keywords:** Performance Management Systems, performance measures, quality of PMS, PMS design, success of PMS, performance, Balanced Scorecard

**JEL Classifications:** M410, M1, M2

## CREDIT RISK ASSESSMENT MODELS OF SMALL AND MICRO ENTERPRISES

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**Abstract.** Trade credit is inevitable in today's business environment, however, when the trade credit is provided a risk turns up and it must be assessed, monitored and controlled. Each assessment requires information that is usually obtained from the financial statements of a company. The structure of financial statements has changed in Lithuania since 2016. In addition, the amount of information included into statements of small and micro enterprises has decreased markedly. Therefore, it becomes important to assess whether the amount of the available information is sufficient for the trade credit risk assessment of small and micro enterprises.

The object of the research is the Credit Risk Assessment (hereinafter referred to as CRA) of small and micro enterprises. Moreover, the analysis has shown, that mainly transport and construction companies have gone bankrupt since the world crisis. Taking this fact into consideration, the aim of the research is to create a CRA model of small and micro enterprises for Lithuanian companies working in the construction and transport sectors. The methods used in this investigation are as follows: modelling, statistical analysis and evaluation of corporate data.

To achieve the aim the following objectives have been set: 1) to examine the risk assessment of trade credit on the theoretical level; 2) to create a theoretical CRA model of small and micro enterprises; 3) to evaluate the reliability of the developed the CRA model of small and micro enterprises for Lithuanian companies working in the construction and transport sectors. A technical tool used during the creditor's decision-making process that helps to estimate the probability of the default of a potential customer by using his initial data is based on a statistical CRA model. A model based on the logistic regression was developed using financial ratios. The designed model can be used by external users of financial statement information when making decisions regarding the granting a trade credit for a small or micro enterprise.

**Keywords:** trade credit, small and micro enterprises, financial ratios, risk assessment, logistic regression.

**JEL Classifications:** G32

# COMPILATION AND AUDIT OF CONSOLIDATED STATEMENTS IN BELARUS: CONDITION, PROBLEMS, PROSPECTS

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**Abstract.** The purpose of the research is to develop a methodology for compiling consolidated reporting within the conditions of harmonizing national financial accounting system and statement compilation with norms and principles of the International Financial Reporting Statements (IFRS). Aims of the research: a) analysis of the regulatory acts regulating compilation of consolidated financial statements in Belarus; b) identification of problematic issues arising in the course of compiling consolidated financial statements in accordance with national legislation; c) generation of specific propositions for improvement of the methodology for compilation of consolidated statements; d) analysis of the practice of audit of consolidated statements compiled in accordance with national legislation and IFRS norms.

In order to fulfill the given tasks, the author:

- performs analysis of national regulatory acts regulating compilation of financial statements, namely the national standard of financial accounting and reporting "Consolidated Financial Statements", prepared in accordance with IFRS norms and principles and acting in the Republic of Belarus since January 1, 2015;
- identifies the contradictions present in the national standard "Consolidated Financial Statements" and legal gaps preventing proper implementation of consolidation adjustments in a series of indicators of consolidated statements in order to ensure its reliability;
- reviews certain consolidation mechanisms causing questions from compilers of the statements, in particular: issues of consolidation and reporting of the authorized fund indicators of consolidation participants; exclusion of financial investment of the parent company in the authorized capital of affiliated companies and undistributed profit resulting from intra-group transactions, including transactions associated with distribution of investment assets within the group, from the consolidated statements; reporting of the deferred tax assets and their impact on other indicators in the statements;
- analyzes of the main aspects and problems of compiling consolidated financial statements in certain post-Soviet countries, namely in Russia and Ukraine;
- determines the approaches to solving organization and methodology issues arising in the course of consolidation of individual statements of the consolidation participants.

According to the author, the main reasons preventing compilation of verifiable consolidated statements in Belarus are:

- lack of a detailed set of tools which would allow consolidation of indicators from individual statements of all consolidation participants in an unambiguous manner and in relation to all indicators included in the consolidated statements;

- unpreparedness of accounting staff for compilation of financial statements in accordance with the national legislation taking into account international approaches, including in particular IFRS norms and principles.

Study of the consolidated statements compilation issues is linked to problematic issues of audit of such statements.

The work contains structural and logical diagram for compilation of consolidated financial statements in accordance with IFRS and national legislation and its annual mandatory audit designed by the author. The conclusion contains propositions for improvement of organization and clarification of methodology for compilation of financial statements as well as suggestions for altering legislation on audit activities concerning issues associated with audit of consolidated financial statements.

**Keywords:** consolidated financial statements, reporting, consolidation adjustments, intercompany transactions, unrealized gains, deferred tax assets, the audit of the financial statements.

**JEL Classifications:** M41, M42

# INTELLECTUAL CAPITAL: INFLUENCE OF THE PROCESS OF STRATEGIC DECISION MAKING ON CREATING ADDED VALUE IN ORGANISATIONS

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**Abstract.** Accelerating changes of business environment highlight the need to understand economic development in a long-term strategic perspective. Contemporary economy is economy of creativity, innovation, and sharing, and is associated with strategic, smart management, entrepreneurship and responsibility directed towards intellectual competitiveness and high added value. Organisational competitiveness is increasingly less dependent on its material assets and instead depends largely on intellectual assets, up-to-date competencies and experience. Strategic management and strategic decisions are regarded as the main instruments to increase organisational effectiveness and improve its performance. The aim of the article – to present a holistic approach to the influence of intellectual capital and the process of strategic decision making on creating added value in organisations. Current research lacks a scientifically-based, integrative approach, which would reveal broader theoretical assumptions that take into account current developments.

The article uses methods of Lithuanian and foreign literature review, comparative analysis and synthesis.

**Keywords:** intellectual capital, strategic decision making, value creation of intellectual asset, organisational competitiveness, creativity.

**JEL Classifications:** O34

# THE WAVES OF ENTERPRISES BANKRUPTCY AND THE FACTORS THAT DETERMINE THEM: THE CASE OF LATVIA AND LITHUANIA

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**Abstract.** Bankruptcies of enterprises are macroeconomic issues and a phenomenon of a dynamic and competitive market economy. They produce a lot of negative effects not only for the enterprise and its employees but also for other enterprises and institutions, as well as the state and society. The aim of the article is to carry out the analysis of bankruptcies of Latvian and Lithuanian enterprises. No such study has been carried out so far. Article analyses the dynamics of Latvian and Lithuanian enterprises bankruptcies, which manifest themselves in larger waves in certain periods and the factors that influence them. From 1993 – when the bankruptcies of enterprises were started to be officially registered – to 1 January 2017, 21,503 Latvian enterprises and 20,933 Lithuanian enterprises went bankrupt. The largest wave of bankruptcies took place in the period of 2008-2010, when a financial crisis started in both countries.

The comparative analysis of Latvian and Lithuanian enterprises bankruptcies was carried out according to the economic activity types and enterprises legal forms. In both countries mostly wholesale and retail trade, repair of motor vehicles and motorcycles enterprises (30% on average) go bankrupt, while construction enterprises (13% on average) are the runner-up. Initiators of enterprises bankruptcies are studied, numbers of Latvian and Lithuanian enterprises that went bankrupt are compared to the overall number of companies in the country. The data of this analysis are valuable when forecasting enterprises bankruptcies and preparing the measures to avoid them.

The main research methods: analysis of scientific literature and statistical data, case analysis, methods of collection, grouping, comparison and generalization of information.

**Keywords:** bankruptcy, waves of bankruptcies, number of bankruptcies, factors, economic activities, bankruptcy initiators

**JEL Classifications:** M49

# ACCOUNTING DEVELOPMENT OF NATURAL RESOURCES IN ORGANIZATIONS CARRYING OUT THE DISPOSAL OF MUNICIPAL WASTE AND BIOGAS EXTRACTION IN THE CONTEXT OF THE "GREEN" ECONOMY

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**Abstract.** Since the end of the 20th century, in the context of developing rational consumption of natural resources, energy efficiency and solving environmental problems related to the management and burial of municipal waste, there is a need to take into account the consumption of natural capital, its degradation, as well as to determine the growth of gaseous energy resources in assessing economic growth in both the whole country, and in a separate organization that buries municipal waste and extract biogas. Therefore, the authors set forward the objective of the research: to develop the account of gaseous resources stocks (biogas) and assimilation resource as elements of natural capital. For the purpose of the achievement of aim, the authors apply generally accepted economic research methods.

The article considers the economic essence of assimilation and gaseous energy resources of municipal waste as new objects of accounting. Both accounting objects are considered as long-term assets. The authors propose an accounting model for natural resources, which provides with information on the consumption of ecosystem capital and its degradation. It is proposed to estimate the assimilation potential of the environment at fair value (according to the current market) in the presented accounting model.

As a result of the study on the possibilities of applying parallel accounting for long-term natural resources, we propose to account the gaseous resources in two assessments: on the one hand, based on actual costs associated with investing in the formation and attraction of alternative technogenic energy resources in economic activity, on the other hand - at the fair value (current market value) of the methane stocks.

**Keywords:** municipal waste, biogas, technogenic energy resource, mineral resource, natural capital, assimilation resource, assimilative potential, assimilative capacity

**JEL Classifications:** Q29, Q42, Q53, Q57



# DIFFERENTIATION OF AUDIT MATERIALITY IN ACCORDANCE WITH ENTREPRENEURSHIP NEEDS

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**Abstract.** New companies are subject to various risks. Failure to identify and eliminate them in time may lead to impeded business development or even discontinuation of operations. A majority of risks can be disclosed with the help of an audit. An auditor has a limitless access to the information, and, in some cases, even commercial secrets. S/he collects a large amount of various information about a company, but it is used only for making a conclusion about financial statements. When an auditor closely cooperates with the persons in charge of the management of a company, the client needs can be identified, and when the audit plan is slightly revised, the areas of interest may be analysed in more detail.

The aim of the article is to study the means of compatibility between the materiality determined by auditors and entrepreneurship needs.

Chief company accountants were interviewed during the study on the accounts they thought were subject to the largest amount of risk, and which they wished to have detailed information about. Based on the information collected, a modified model of determining the audit materiality, which can facilitate identification of the weak spots, was created. A comparison of a number of audit working hours while applying the traditional and modified models has revealed that application of the modified model, without substantially increasing the working hours of an audit, allows auditing most risky accounts identified by the client in more detail. This would help to deal with the challenges emerging in entrepreneurship.

**Keywords:** materiality, entrepreneurship, audit, risks, management.

**JEL Classifications:** M 42.

# MODELING OF LIFE-CYCLE PARTICIPATION STRATEGY IN SECOND PENSION PILLAR: LITHUANIAN CASE<sup>1</sup>

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**Abstract.** The proposition to introduce life-cycle investment strategy as a default option in second pension pillar in Lithuania is currently intensively discussed as a measure to solve problems of non rational behaviour of pension funds participants. Latest analysis show, that majority of participants have selected inappropriate pension fund (investment strategy and investment risk) while evaluating the accumulation period, which have left till the retirement. Moreover, most of them are not active and do not change pension fund during accumulation period. The life-cycle investment strategy allows participants to switch automatically and gradually from one asset allocation to another as they get closer to the retirement. Therefore, such dynamic asset allocation must have strong analytical foundation. The aim of the study is to evaluate the optimal life-cycle investment strategy in Lithuanian second pension pillar. In order to achieve this aim, authors prepared a quantitatively calibrated model, closely followed to works as Cocco *et al.* (2005), Bagliano *et al.* (2009) and Blake *et al.* (2008). The model takes into account the specific of Lithuanian market, like contribution rates, investment performance of pension funds and participants' labour income process. In this paper authors use optimization problem, where participants' utility is maximised only by selected investment strategy (without consumption). The results show that from the beginning of accumulation period (age of 20) till age of approx. 40 years it is most rational to invest high proportion of participants' pension assets into equities. Then optimal asset allocation is gradually switching from equity to less risky asset (e. g. government bonds) as the retirement age (65) approaches, where only 19 per cent of assets are invested into equities. The paper consists of three main parts: literature review, the explanation of model and calibrated parameters, which were used to evaluate optimal life-cycle investment strategy, and main simulation results, including benchmark and sensitivity analysis.

**Keywords:** Pension funds, life-cycle investment, investment strategy.

**JEL Classifications:** J32, D15, G11.

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# THE QUALITY OF LEARNING IN ACCOUNTING EDUCATION: THE IMPACT OF APPROACHES TO STUDENTS PERFORMANCE

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**Abstract.** There is much debate in the literature concerning the changes necessary for university accounting education to meet the needs of the business environment and broader society. The aim of this research is to provide the evaluation of acquisition of professional competencies in accounting education and to analyze the impact of teaching approaches to students performance. The methods of the research: information analysis and synthesis, method of constructive logics, data grouping and comparison method.

As a result, the evaluation of acquisition of professional competencies, as well as the analysis of interaction in teaching methods and learning results is provided, which respectively leads to the following conclusions: 1) mutual interaction of learning outcomes and obtainable competencies, as well as interpretation of the study process facilitates students' perception of the obtainable skills required in the particular profession and their acquisition level; 2) it is of great importance to involve students in the evaluation process of professional competencies acquisition, as well as in the discussions, which, in their turn, both ensure the feedback within the study process and facilitate the quality of the study process in general; 3) the study course Accounting is fundamental in the development of general skills of not only economists and enterprise managers but it is vital in successful acquisition of study courses finance management and planning, wherewith, developing the study programs in the field of economics and management, it is significant to provide the study course Accounting.

**Keywords:** accounting, competencies, learning outcomes, study program, study course,

**JEL classifications:** M410, A200

## THE EVALUATION OF METHODOLOGICAL ASPECTS OF THE TRADE ENTERPRISES FINANCIAL STABILITY ANALYSIS

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**Abstract.** Modern world trade trends put forward additional requirements for the trade enterprises to ensure efficient functioning and achieve a high level of competition. Considering this, it becomes actual to form and implement substantiated organizational and economic mechanism of financial stability analysis. The aim of the article is to substantiate the methodical aspects of the trade enterprises financial stability analysis in order to ensure the improvement of the economic assessment mechanism of its level. Research methods: generalization, analysis and synthesis. Key findings: the existing trends in the usage of the trade enterprises analytical apparatus are indicated the need for modernization of many methodical aspects of financial stability analysis. The author justified that it is advisable to adapt and implement in practice the structures of performance indicators in specific activity areas and structural divisions, to determine their impact significance on the integral indicator of the trade enterprise effectiveness.

Prerequisites for improvement of the trade enterprises financial stability analysis system are revealed. Based on the scientific approaches evaluation the author developed methodological provisions of the complex analysis of the trade enterprises financial stability and highlighted the conceptual directions of the development and adaptation of existing methods to the real economy conditions. The main problems of ensuring the trade enterprises financial stability are revealed and ways of their solution are suggested. The theoretical provisions and methodological approaches discussed in the article can be used as the specific recommendations on the assessment of the trade enterprises financial stability and to develop an integrated model of such assessment. The scientific and methodological recommendations of the trade enterprises financial stability assessment that will contribute to the economic mechanism improvement for provision are proposed.

**Keywords:** financial stability, management, analysis, evaluation, trade enterprise.

**JEL Classifications:** G 320; L 810.

# COMPARATIVE ANALYSIS OF COMPANY PERFORMANCE EVALUATION METHODS

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**Abstract.** The evaluation of a company's performance is an integral part of the management of every company, which allows determining the impact of business management decisions on the performance results, as well as the direction of the results and the decisions that need to be made to improve them. Traditionally, a company's performance is evaluated on the basis of an analysis of financial performance indicators, but it is noted that in today's dynamic business environment, the timely control of the performance is crucial, so there is an increasing attention on non-financial performance indicators. The main aim of the article is to investigate and compare the modern methods for company performance evaluation that are based on the analysis of financial and non-financial performance indicators. The research is carried out using systematic analysis of scientific literature, comparison and aggregation methods. First of all, the article unfolds the essence of the concept of the company performance evaluation and highlights the differences between traditional and modern performance evaluation systems. Moreover, the advantages of non-financial performance indicators are compared with financial indicators. Furthermore, a classification scheme for performance evaluation methods is provided; by identifying their main advantages and disadvantages the most popular and widely used modern performance evaluation methods are overviewed: economic value added method, balanced scorecard, performance prism, performance pyramid, six-sigma model and multi-criteria company performance evaluation method. Finally, according to certain criteria, a comparative analysis of the latter methods is performed. The comparative analysis confirms that non-financial performance indicators complement financial indicators; therefore, in the process of a company's performance evaluation modern performance evaluation methods, combining financial and non-financial performance indicators and allowing the performance to be evaluated both quantitatively and qualitatively, should be used. However, there is no single method that would be appropriate for all companies, so further work can be targeted at establishing a multi-criteria performance evaluation method that would satisfy the needs of a particular business' activity and targets for evaluation.

**Keywords:** company performance evaluation, modern performance evaluation methods, financial indicators, non-financial indicators

**JEL Classifications:** L25, M21

# ETHICS AND PROFESSIONAL SKEPTICISM OF AUDITORS: LITERATURE REVIEW

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**Abstract.** Professional skepticism of auditors is considered as especially important factor of auditing and audit quality. Auditing standards describe requirements to evaluate audit evidence with an attitude of skepticism. Professional scepticism is that element what is missed when audit failures occur. This paper examines academic research literature related with the auditors' skeptical judgement and decisions. Main purpose of the research is according to an academic research papers and regulatory documents provide conceptual description of the professional skepticism, emphasize issues related with level of skepticism and provide main factors influencing skepticism, to evaluate the materiality of ethical principles influencing the activities of auditors. Literature review method is used to provide scientific issues discussed in the international leading scientific journals during last decade. Inductive and deductive methods of analysis provides opportunity to analyse recent academic and regulatory framework of understandings related with the ethical principles and professional skepticism level and their implementation issues. The sources of the research are international and Lithuanian scientific business, economics and management journals. Authors investigate the professional ethics codes of international organizations (IIA, IFAC, IFRS, AICPA) a set of regulations and standards of provision with a focus on the practical application of the ethical principles. Article compiles definitions of the professional skepticism in academic literature and in the professional regulatory documents; provides discussions how problem solving ability is related with the ethics or moral judgements; develops ideas of professional skepticism scales.

**Keywords:** Professional skepticism, ethical principles, auditor's decision, skeptical judgement.

**JEL Classifications:** M42

# CHOOSING A PERFORMANCE OR COMPLIANCE AUDIT TOPIC AT SUPREME AUDIT INSTITUTION

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**Abstract.** Most Supreme Audit Institutions (SAIs) perform three types of audits: financial, performance and compliance. Whilst the choice where to perform financial audit is usually clear or even mandatory – it focuses on public sector financial accounts – areas for choosing performance and compliance audits' topics are complicated. There are no mandatory requirements or standards for choosing performance and compliance audits, therefore every SAI has to make its own decision. Education, science, property and finance management, justice, foreign and internal affairs, national defence, environmental protection, agriculture, communications, energy, national economy, health and social security, culture – these are the main, however, not all the areas of public management that has to be covered by performance and compliance audits.

Gathering information about all areas and making a decision where to perform an audit, is usually called strategic research. Area of strategic researches at SAI level has not been deeply analysed by scientists, even though choosing right topic for performance or compliance audit is the crucial part of SAI performance. On the other hand, choosing wrong topic, means that even if the audit itself was conducted well, it has no added value or even can bring harm to society. The article focuses on the decision-making process while choosing a performance or compliance audit topic (strategic research) at SAI level: how is the process organized, what factors are taken into account, who makes the final decision.

**Keywords:** audit topic, decision making.

**JEL Classifications:** M49

## EVALUATION OF ACCOUNTING REGULATION EVOLUTION

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**Abstract.** Accounting forms a significant part of information on any enterprise and plays the most important role in different levels of enterprise' management as well as in country's. Accounting information is used by various information users, whose decisions may influence various spheres: from performance of enterprises to proceeding the state policy. Its role increased recently under conditions of modern global and competitive market economy, and will be increasing in the future. Importance of accounting information usage highlights the need of appropriate formation of such information. And accounting regulation plays the main role in the process of formation and presentation of accounting information as it determines requirements for accounting methodology, information performed in the single set of financial statements or consolidated financial statements. The purpose of the research is to evaluate evolution of accounting regulation for the period 1990 – 2017 and distinguish accounting regulation evolution phases and factors, which influenced development of the phases. Five countries, which are members of the European Union - Croatia, the Czech Republic, Latvia, the Republic of Lithuania, and the Slovak Republic - were chosen for the evolution of accounting evolution. For the research were used legislation analysis, systematisation, inductive and deductive, comparison and summary of information methods. Research results show, that evolution of accounting regulation in analysed countries may be distinguished in four general phases. The period of evolution started at the beginning of nineties (1990 – 1992) when the countries transformed from a central planned economy to market economy, this phase was followed by other phases (1993 – 2001 – 2005), when laws on accounting and additional legislation were issued. Accounting regulation evolution phase for alignment accounting legislation with Fourth and Seventh EU Directives started from 2002 / 2006 and the phase of the compliance with requirements of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013, which started in all analysed countries in 2016, except Slovakia – in 2014, completes the accounting regulation evolution period till present.

**Keywords:** accounting, development of accounting, accounting regulation

**JEL Classifications:** M41



## PERFORMANCE MEASUREMENT ISSUES IN CENTRAL BANKS

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**Abstract.** Central banks play an important role in financial system and are an essential part of overall public sector finances. Monetary policy responsibilities are common to all central banks. Financial stability is another area of central bank activity. Central banks provide financial stability by controlling the actions of the commercial banks. Central banks also are as lenders of last resort and payment mechanism managers. But the key issue in this article is to concentrate to foreign reserves management as a source of bank profit. The aim of this research is to create a performance valuation scheme which could help to compare foreign reserves management results in different central banks. Research methods used in this article are quantitative and qualitative. For quantitative analysis various statistical techniques are used and for qualitative analysis the main method is a case study. There are a lot of measures for commercial banks sector valuation but in practice we see a lack of analysis tools for central banks performance measurement. Foreign reserves management is an on-going process aimed at maximizing expected return over a constant investment horizon. Valuing foreign reserves management results we should concentrate to specified risk budget and the opportunity to have different kind of assets in the investment portfolio. Moreover, valuing the efficiency of financial assets management we should use economic principle rather than financial accounting principles.

**Keywords:** central banks, foreign reserves, performance measurement

**JEL Classifications:** E58, G2

# PERFORMANCE AUDIT AS FORENSIC EXAMINATION IN INTENTIONAL BANKRUPTCY CASES

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**Abstract.** Performance audit is a construct originally created to evaluate effectiveness and efficiency of public governance. However, with time passing and methods evolving, performance audit has a potential to evolve into wider areas of application. One of possible areas of expansion is a forensic examination, which is backed by various similarities of the two – qualification requirements, the type of work being done by the expert/auditor, etc., as well as it also taps into the essence of performance audit.

There is no argument whether financial audit can be applied as a forensic examination in court. Governments all around the world trust performance audit to provide assurance of proper governance and proper handling of public finances. Since performance audit doesn't have the time proven place in civil proceedings, this article strives to bring attention of scientists and practitioners to the possibilities of application of performance audit as a forensic examination in the process of intentional bankruptcy. Cases of intentional bankruptcy are specific by its origins due to the circumstances of occurrence of bankruptcy itself: because it is intentional, financial statements of legal entity might not be indicating *mala fide*, therefore, financial audit might not be capable of detecting the inappropriate actions of management. Performance audit might become a key to solving this deficiency.

This article utilises analysis of scientific literature as well as available (current and historical) court practice in Lithuania, seeking to provide an insight into – not only theoretical, but also practical – advantages that can be gained from performance audit examination in intentional bankruptcy cases.

By interpreting the law and analysing the content of the court decisions, the conclusion is being made that with the condition of proper qualification assurance performance audit examination might speed up the proceedings of the intentional bankruptcy and provides qualified factual evaluation for the court, hence making litigation process more efficient. It could also save time and expenses for both – court system (hence – the State) and involved parties. It would also help increase public trust and reliability of judicial system and its capability to effectively restore the clarity of economic relations between parties involved.

**Keywords:** performance audit, forensic investigation, civil proceedings, qualification of the expert, intentional bankruptcy

**JEL Classifications:** M42, M48, K15

# USABILITY OF INFORMATION FROM THE ACCOUNTING SYSTEM IN GROUPS OF AGRICULTURAL PRODUCERS

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**Abstract.** The purpose of the article was to present and evaluate the usefulness of information generated by the accounting information system of agricultural producers groups (APG). The research objects were annual financial statements (AFS). In general, data from AFS should meet information requirements of both internal and external users.

In the article there were research methods: analysis method (for literature research), comparative method (to compare financial statements) and the method of deduction (at the conclusion stage). The research material were financial statements, including the balance sheet and the account profits and losses in 2016.

Research findings indicate low usefulness of information for decision-making processes in APG were indicated.

**Keywords:** financial statements, groups of agricultural producers, accounting

**JEL Classifications:** M41, M1

# KEY AUDIT MATTERS: RESEARCH ON AUDITOR'S REPORTS OF LITHUANIAN LISTED COMPANIES

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**Abstract.** Article investigates the presentation of key audit matters in independent auditor's reports. The first theory based part of the article presents the problem of limited usefulness of auditor's report and explains how this problem was addressed in the system of International Standards of Auditing with the introduction of the requirement to include the paragraph of key audit matters in auditor's report issued on listed company's financial statements (or when it is mandatory under the local laws). Further the concept of key audit matters is explained. In the empirical part of the article the results of the research on key audit matters included in the auditor's reports of Lithuanian listed companies are presented. The typology of key audit matters is disclosed, while analysing the number, the content and the significance of key audit matters included in the research sample of auditor's report.

It can be concluded that key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. Audit firms of Lithuanian listed companies most often include one key audit matter in their auditor's reports, while assessing the valuation of assets and revenue recognition as the areas of most significance during the course of the audit. The paragraph of key audit matters covers approximately one quarter of the content of the auditor's report, indicating the informational significance of key audit matters and stressing a further need to improve their presentation.

**Keywords:** key audit matters, auditor's report, International standards on auditing.

**JEL classification:** M42

## THE OBJECTS OF ACCOUNTING AT TECHNOLOGICAL CYCLE STAGES OF INDUSTRIAL WASTE

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**Abstract.** There are different types of industrial waste arises during the activities of petrochemical organizations. Technological cycle stages separation of industrial waste is relevant not only for organizing correct waste management process, but also for identifying accounting objects at these stages, since each of them has its own specificity. Despite the fact that industrial waste valuation and accounting issues are reflected in some legal documents and economic literature, there are a number of unexplored issues in this area, which determines the relevance of the chosen topic.

The purpose of this research is the determination of technological cycle stages of industrial waste and the identification of accounting objects arising at these stages for further recommendations development of industrial waste assessment and accounting in petrochemical complex.

Among the methods used in the study the authors identify synthesis, analysis, comparison, logical generalization, inference by analogy, classification, grouping etc. In this article, technological cycle stages of industrial wastes will be considered (Stage 1 “Appearance”, Stage 2 “Collection and Accumulation”, Stage 3 “Waste Preparation for Use”, Stage 4 “Storage”, Stage 5 “Use”, Stage 5 “Burial (destruction)”) and identified objects of their accounting: waste of ferrous and non-ferrous metals, construction waste, waste arising from reservoirs cleaned), as well as costs due to the specifics of the technological stage.

**Keywords:** industrial waste, technological cycle, costs, waste of ferrous and non-ferrous metals, construction waste, waste arising from reservoirs cleaned

**JEL Classifications:** M41

# STRUCTURED LITERATURE REVIEW ON BUSINESS PROCESS PERFORMANCE ANALYSIS AND EVALUATION

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**Abstract.** Process improvement and reengineering require considerable resources, therefore knowledge of business process analysis instruments and methods enhance the possibility to quantify process management decisions and to achieve organizations' goals. While the amount of research on business process analysis and evaluation increases, there is a need to outline the intellectual structure of scientific research as embodied in business process scientific literature in order to define the main streams of research. The purpose of this paper is to present actionable knowledge of business process performance analysis and evaluation, based on the framework, integrating business process constructs and levels of analysis. In order to construct the framework, integrating the domains of business process performance research, method of structured literature review was applied. Literature review was based on a research papers that were available through the EBSCO host, Academic search complete database and that contained keywords "business process evaluation", "business process performance". Research contributions, addressing the business process performance topic, were selected by the keywords within the papers' title and abstract. After the initial evaluation of the papers, 58 articles were selected for in-depth analysis. This paper contributes to the business process management research by proposing the framework to integrate various business process performance research streams and highlighting exploratory potential areas for future inquiry.

**Keywords:** business process, business process performance, process evaluation, business process performance indicators.

**JEL Classifications:** M11