

UNIVERSITY OF MISKOLC
FACULTY OF ECONOMICS

MÁRIA JUHÁSZ VÁRKONYI

**CHANGES IN THE DEFINITION OF VALUE
AND QUESTIONS OF ITS AUDIT IN THE
MIRROR OF HUNGARIAN REGULATION**

PH.D. DISSERTATION THEORIES

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PH.D. DISSERTATION THEORIES

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1. REVIEW OF THE RESEARCH TOPIC

One of the main characteristics of market development is the separation of owner and management functions; this is the reason why the majority of investors loose control of their wealth in the minute of investing it. Processes and transactions are started which are unfollowable and intransparent for them, but at the same time he wishes to be well-informed on the situation of his wealth, on the development of his investment, its success or insuccess, in order to be able to make the necessary decisions in time. Accountancy information system supplies information on the management of enterprises permanently, on the changes of their wealth, financial and income situation. Still, owners, investors and creditors do not trust to the credibility, justness and validity of these data definately, so they require the control of the coverage's justness. This means they regard it necessary to have the correctness, justness and validity of accounting reports attested and analysed by independent experts. [Bíró – Fridrich – Kresalek, 2005.]

On the one hand the fact that those, who use the reports – owners, investors, creditors, business partners, state authorities, the public opinion and the employees of the enterprises – do not possess enough information on the enterprise, even though they needed objective data supported by independent experts' opinions in order to found their decisions led to the confirmation of the system of auditing. Those who make decisions which influence the future of enterprises often lack the proper expertise to form trustable picture on the wealth, financial and income situation based on accounting information. Controlling the justness and validity of data supplied by the annual report is explained by the development of the economy too; the increase of enterprises' number and scale, and the enhanced difficulty of pursued activities as well. All these factors contributed to the evolution of need for the control of external experts in order to enhance credibility and audit's institutional system evolved in Hungary, determined by regulations and standards. During the process of audit the auditor has to rank the statements and objectives set in the annual report, but evaluation is the task he has to treat very carefully in case of each and every items of the balance sheet and the profit and loss account, as well as of the off-balance sheet items. This statement is supported by the audit scandals of the near past as well.

In the United States a new, even stricter regulation was introduced as a reaction to these scandals, while in Europe regulation by standards was uniformed, IFRS accounting and ISA audit standards were developed and spread, and Directive 8 regulating audit was modernised in order to restore the authority of the profession and the trust in it. [Ferenczi, 2002a., 2002b.]

Despite all these factors information supplied by accountancy on the value of enterprises still stands far from realistic even today. In my opinion though an evaluation method can be supported technically which besides giving objective accounting results ensures the more punctual determination of the enterprises' market value as well, both from accounting and from audit point of view, considering professional moral too.

2. RESEARCH BACKGROUND AND METHODOLOGY

In my university thesis I compared Hungarian and French regulation on the evaluation of assets. During my teaching activity started in 2001 I dealt with the accounting methods applied to the principle of the continuity of the undertaking and the regulation of accounting of special situations. Differences of distinct regulations turned my attention to the development of domestic asset evaluation in order to minimise the difference between book value and fair value of the enterprises' assets. I have continued my research as the PhD student of Enterprise Theory and Practice Doctoral School since 2005. During the past period I endeavoured to work up all the relevant technical literature.

Following this, the basic objective of my research became to give answer to the question whether the method of preparing annual reports based on the concept of dual evaluation can be used in domestic practice – and if it can be, in which way – and what can be the criteria of its successful application. To achieve this goal I worked out a possible new domestic regulation of assets' evaluation. The defined conceptual basic model was confronted with practice by applying case study method.

Application of case study method can be proposed instead of other methods if concepts and methods of case studies can guarantee the proper deepness to the development of theory. This approach's validity is high as instead of defining concepts case studies give detailed illustrations. Research strategies based on case study method can be characterised by – besides concerning one or few analysed unites – explorative nature as well. [Yin, 2003.]

According to Michael Burawoy who works on the revision of case study method existing theories can not be eliminated or forgotten. Contradictions or deficiencies found in theory or in earlier interpretations can be the most important focusers of research motivations. Case study method can serve the solution of problems evolving from concrete situations or critical control and review of earlier theories or interpretations. [Burawoy, 1991.]

This approach can hide several problems too. On the one hand it rarely gives punctual description of any populations, while on the other hand its reliability is questionable as well, as the personal nature of observations and measurement can lead to such results which can not be replicated by others without limits, thirdly the possibility of distortions by the sample is high. [Babbie, 2001.]

My aim is to justify the domestic use of international theory and to cover the phenomena in connection with the introduction of the method and to found further researches by the help of analysing an illustrative case. This qualitative research method creates the possibility of an exceptionally deep understanding while other methods often are accused of being superficial. At the same disadvantage of the applied method is that no punctual statements describing larger populations can be expected from using it, so conclusions based on it can rather be regarded as proposals, than definitive conclusions.

3. AIM OF THE RESEARCH

The aim of dissertation is to work out such an accounting evaluation model following getting to know and evaluating the theoretical background, which enables the narrowing of the gap between market value and book value by using new methods and techniques besides the already existing methods which inform external stakeholders too. In order to achieve this goal reliable answers were tried to be given to the following questions first of all:

1. Can the historical cost and the balance date value of immaterial goods which play a role in value creation but are not featured in the annual report be quantified in a controllable way?
2. Can the regulation of accountancy be perfected either by the accomplishment of the rules being in force in Hungary or by partial usage of international accounting standards?
3. Can the information content useful for the users of the annual report be broadened by restructuring the balance sheet or by the escalation of the revaluation model?

In order to be able to answer the above mentioned questions a new model was worked out which enables to narrow the gap between the equity (book) value and the market value of enterprises by revaluation of the assets according to a new point of view in case of the annual report. Our research is narrowed to the analysis of the annual report as we did not intend to escalate the method to the simplified annual report which contains less information.

The Dissertation is divided to four main chapters:

1. In the first chapter of the Dissertation the enhanced role of audit and its actuality will be introduced and the accomplished definitions will be given.
2. In the second chapter the reasons for the difference between market and book value will be analysed, then the theoretical approaches of evaluation will be introduced, followed by a review of the change of evaluation methods accomplished in Hungary from the changing of the Regime until today.
3. In the third chapter a qualitative research will be accomplished to test our hypotheses formulated after the review of the technical literature considering evaluation methods and the choices among them. The method used for qualitative analysis was the case study method, and idiographic understanding was chosen to accomplish the research. This means we intended to show the effects of the proposed evaluation method through a concrete case of an enterprise, even though some elements of the exclamation can be used for different situations too. [Babbie, 2001., 38.o.] The so called expert sample was the method used to choose the case which is a non-representative method, as the analysed enterprise was chosen based only on our own judgement. [Babbie, 2001., 206.o.] The main aspect of choosing the analysed enterprise was that it should have significant effect on its environment. This is the reason why a metallurgic enterprise, Eurofém-Halna Kft was chosen, which firm cooperated with us to enable making a case study which goes into details.
4. Finally, in chapter four the results of our empirical research will be concluded.

4. NEW AND NOVEL OBSERVATIONS OF THE RESEARCH

Major observations of the research will be introduced - in form of theses – around three points:

1. Statements concerning structure and value.
2. Proposals concerning value.
3. Hypothesis concerning structure.

4.1. THESES ON VALUE AND STRUCTURE

Theses concerning breakdown and value are focused on immaterial goods.

Our first working hypothesis was that a vast majority of immaterial goods are so called “soft” assets – which are not featured in the annual report – but the evaluation of historical cost and balance date value of some of these – for example of networking capital – can be solved.

Determination of relationships’ historical costs and their audit was proposed by us to get extended to enterprises which are to make annual reports similarly to the regulation in force on the Insurance Companies’ regulation of book-keeping and accounting. In our opinion, in case of such companies, which are involved in telecommunications services for example, the cost of collecting new customers – similarly to the insurance companies – can be very high, and the so called “loyalty declaration” is a common part of contracts. As the regulation being in force in Hungary already contains the accounting of the costs of collecting customers as assets, we proposed to modify the accountancy regulation in this way too. Even though the mentioned regulation requires enterprises to account this among deferred assets as a deferred (postponed) acquisition cost we proposed to capitalize these among immaterial goods, as this way, these costs could find their real place in the balance sheet.

When making balance date evaluation, we proposed to determine the substitution cost of relationships and to quantify the difference between this and the historical cost.

We proposed to introduce a new definition – in order to avoid mixing the definitions – set aside from revaluation and from fair valuation difference, which as a certain mix of these would not only contain the positive difference but the negative as well, but in a result-neutral way, so it could show the value of these assets besides maintaining the objectivity of the accounting results. The difference was called value correction and as its pair on the liability side of the balance sheet we proposed to include a new item in the balance sheet of the annual report called “Reserve for the immaterial goods’ value correction”. Value correction can not influence the accounting results either negatively or positively, the two items can only move in the same direction together and in the same scale, but value correction can be negative too. Of course, this new item – similarly to revaluation or to fair valuation difference – would only serve as an alternative for enterprises.

In the chosen case the historical value of relationships can not be determined in a justified way, as the customers for both iron and cinder are specialized. In case of cinder we found that even determining the cost of substitution is questionable as constructions in the close

environment can not be quantified. Following this, the substitution cost of iron-selling was pursued based on quantifying the cost of looking for an alternative customer, accounting the increase of cost concerning a new, alternative customer instead of the real ones. As the iron ore gained from cinder is used in a so called blast-furnace when producing raw iron, we analysed where we could find a similar technology in the surrounding countries and we observed that nearest potential customer would be the Slovakian U. S. Steel Kosice.

Based on the price lists of suppliers we discovered that – because of the differences in tariffs for international transportation – internal transportation is still cheaper despite the fact that the difference is twice as large to the domestic partner, as the present customer is situated in Dunaújváros which is twice as far from Miskolc as Kassa is. This way, the increase in costs evolving to this new potential customer which equals the substitution cost of the present customer would be almost three million Ft.

T1 The cost of obtaining networking capital, if it is significant, and its deadline is determined in a treaty, can be capitalized and in order to give its evaluation for balance date its substitution cost for similar networks should be calculated.

Our next working hypothesis was to evaluate own brands similarl to others' brands and to introduce them among the immaterial goods, despite the fact that international accountancy standards determining Hungarian regulation forbid to consider own brands, customer lists and similary items to be included among immaterial goods. [Balázs et al., 2006., 280-281. o.]

In Baricz's opinion [Baricz, 1994., 51. o.] assets with the following characteristics can be capitalized:

- possess economic value, which means they can earn some income in the future,
- can be traded individually (is marketable), which means they can be sold alone,
- can be evaluated individually, which means their value can be determined (denominated) in money.

In our opinion, marketability, which is a criteria for capitalization can not be accepted in all cases as some assets are allowed to be shown in the balance sheet even by the regulation in force, which are limited in their marketability.

Even though quantifying the rate of return in such cases where the context of investment and their earnings are more difficult [Lev, 2004., 45. o.], we think that an own brand could also be considered as an asset, as it fulfills the system of criteria for assets, possessing economic value by obtaining market share, becoming a potential for future earnings and its value can be denominated in money – similarly to external brands.

Quantifying the historical value of an own brand could be solved based on direct and invoiced cost and in relation with obtaining it – according to the general regulation –, while in case of the balance date evaluation we proposed to determine its substitution or market cost. If this differs from the cost invoiced in connection with the own brand and from the aggregated direct cost price, it will have to be shown in the balance sheet – as immaterial goods value correction.

As brand can be interpreted neither for cinder, nor for iron, we were not able to found this thesis empirically.

T2 Direct cost and invoiced items in connection with the own brand can be capitalized on their historical cost and substitution or market value can be used to evaluate them on balance date.

Our third working hypothesis was that factors in relation with human capital can partially be quantified in such a way which enables their audit too.

The importance of this question is signed by the fact that the European Council also declared its position in this question in the White book published in 1995. According to this even though human capital has not been included in the balance sheet among the assets up to now, it must be analysed how employees' skills and abilities could be declared as an additional value for the company, as this way the cost of trainings and a part of wages could be declared assets and be depreciated in the balance sheet. [Európai Bizottság, 1995.] The first task was to confirm whether it is possible to include the value of human capital in accounting report. In connection with this question we examined the system of criteria for capitalization.

Even though calculating the rate of return for human capital development is not an easy task either, as for example, without legal obligations it can not be ensured that the employees will be loyal to their employers, but it is not questionable that human capital represents economic value for the companies. In the following, we did not intend to evaluate distinct cases, but to determine the scale of value created by the company through buying the workforce of employees and using it in a given, distinct way. According to this the average fluctuation of companies can be regarded as the expected useful life; and there is no need for individual, determined period treaties.

Even though it is not an easy task to denominate human resource's value in money, we can find several solutions for this in the technical literature, with two main branches. On the one hand, the traditional accounting system and financial calculations can be developed. On the other hand we can use natural units of items to be aggregated. In connection with this several models can be found to evaluate human resources, and we formed our method as an alloy of these. Historical value of human resource – as it is not traded in an active market – will be capitalized based on the direct cost of employment – which includes the cost of recruitment (advertisement), selection, and training – and further training cost picked from the permanent cost of employment, but not on its returns. We also noted that determining historical cost of human resources this way would not be a new task to be introduced as information service with a similar content to the Central Statistics Office (KSH) is obligatory today as well, based on a regulation in force.

When analysing the distinct case we found that quantifying human resources this way can be supported by voucher and be controlled. Parallel to including this historical cost we increased the value of capital resources too, introducing a new item among the new „Latent capital resources” balance group called „Latent capital resources from human resources”.

In connection with the balance date evaluation we analysed the difference between the historical cost of a new employee based on present prices and the capitalized value of human resources. In the new employees historical cost on present prices we include severance payment to employees on the one hand and cost related to new employment on the other hand.

When using this theory in practice we can see that even in the analysed company's case, which mainly employs blue collar workers (in 88%) and as a consequence shows relatively

low training costs, immaterial goods' value increased by ten million Ft because of including human resources in the balance sheet.

T3 The historical cost of human resources can be regarded to be equal with the cost of advertisement (recruitment), selection, training on the one hand and further trainings on the other hand. Difference between the historical value and present price value of substitution cost for a new employee – which contains severance payment and cost in connection with employing a new worker – can be quantified at the balance date evaluation in a way which enables its audit as well.

Protection of the environment became an important part of everyday life today, reasoned by the increasing emission of waste polluting the environment on the one hand, and the over the long run unsustainable use of natural resources on the other hand. The most important aspect of treating environmental problems is prevention, as a consequence of which the next step of accountancy-evolution took place, mentioned in the technical literature as green (or eco) accountancy.

A hypothesis was set keeping in mind the above mentioned challenges according to which environmental pollution caused by enterprises can influence public opinion on them in a negative way. The need for showing this negative effect seems to be so significant that it would be worth changing the annual report in such a way which would let it show these effects without causing any additional cost to companies.

We imagine including environmental capital in the balance sheet similarly to Magness's theory [Magness, 1997., pp. 15-18.]. According to this the contribution of environmental resources must be showed among the assets opposed to capital resources, based on an implicit social treaty, behaving as environment was one of the company's owners. This will show the quantity of natural resources used by the company and as these stand at disposal in a limited quantity, the larger the extent of environmental capital is the larger step the company took backwards in profitability.

Two methods of determining the historical cost of environmental pollution were analysed. [Boone – Rubenstein, 1997, pp. 18-22] One of the methods is the so-called „damage approach”, which aims to determine the value of loss caused to ecological system and humanity in money. The major disadvantage of this method is that it is very difficult to set the borderline when measuring external effects. In our distinct case it would be very difficult to go beyond the usual factors and try to quantify the depreciation of houses in the surroundings of the company and the additional medical cost of the region's inhabitants caused by the effects of the company's pollution or the intangible value of plant or animal species possibly diseased by it.

Because of these factors we decided to determine the externalities' value in money by using another method, which is called „control cost” method. Based on it, the extent of damage contains nothing else but the cost of installing and maintaining the technology used to measure the scale of environment pollution. This means that this method assumes society evaluated the damaged asset to the extent it is willing to pay for its control.

Data collected this way will be integrated to the balance sheet in the item called „Environmental pollution” as an item decreasing the value of the company and the value of capital resources parallel to this by introducing a new item to “Latent capital resources” called „Latent capital resources from environmental pollution”.

In case of any changes in the environmental pollution, meaning that the emission of the company changes – because of technological changes – when making the balance date evaluation, historical value accounted for must be changed as well. Two pieces of information will be needed to accomplish this task, on the one hand the emission data of the company and society's environmental cost in connection with environmental protection on the other hand, which authorities of environmental protection and nature protection should publish in order to ensure feed-back.

In order to test the usefulness of this theory in practice, we accomplished the analysis of Miskolc town's region's environment-pollution data during which we discovered that metallurgy – and so Eurofém Halna Kft. – influences natural environment in a negative way in three fields: air-, water- and soil pollution.

Information on the installation and maintenance cost of technology used to measure the level of air-, water- and soil pollution and on the scale of Miskolc town's air-, water- and soil pollution caused by Eurofém-Halna Kft. was collected by asking data from the North-Hungarian Authority for environment- and nature protection. Based on this information we can ascertain that in case of the Eurofém-Halna Kft. only air pollution must be considered when measuring environmental pollution as placing metallurgical cinder is not the task of Eurofém-Halna Kft. so soil- and groundwater-pollution cannot be related to the company itself. Based on the authority's estimations Eurofém-Halna Kft.'s contribution to the Town's emission air pollution is 5 percent of the aggregated pollution. No systems for measuring dust pollution – by emission meaning activity – are used by the authority and the aggregated cost in the year 2006 were 9.2 million Ft.

Based on the above described data balance sheet footing of the Eurofém-Halna Kft. should be decreased by almost half a million Ft, the historical cost of environmental pollution which is to be changed in case of any changes in the scale of pollution in the next years.

T4 The value of environmental pollution, as an item decreasing the value of the enterprise, can be calculated by multiplying the installation and maintenance cost of the technology used to measure the level of environmental pollution – as the aggregated value of environmental damage - and the portion of environmental pollution caused by the company. The necessary information to accomplish this task in order to ensure the information for audit this item can be obtained by changing the present system the authority's data service.

Hungarian regulation in force – in harmony with international regulation - allows accounting for revaluation only for intellectual products and for rights worthing wealth among immaterial goods. In our opinion, historical value of immaterial goods without active markets should also be examined and evaluated at balance date. In order to accomplish this task we proposed to introduce a new definition, value correction in the previous chapters of this Dissertation.

Value correction – similarly to evaluation difference used in case of evaluation on fair value – could be accounted for in two ways. In case of immaterial goods without any active markets – which are not featured in the annual report according to the present regulation – demonstration should be accomplished in an earning-neutral way and not only positive but negative would also be considered, so we would be able to demonstrate the fair value of these assets while maintaining the objectivity of the annual report.

The liability-side pair of this item would be “Reserve for immaterial goods’ value correction” included among the items of capital resources.

Following this we analysed which methods could be used to determine market value in case of distinct types of immaterial goods. As the definition of market value is based on cost in the accountancy regulation in force – so it is based on the cost related to producing or acquiring the asset –, and it happens with the use of market-based methods, intellectual capital was divided to homogenous groups in order to determine which methods should be used to evaluate distinct items of it. According to Standfield’s systematization [Standfield, 2002. p. 48.] immaterial goods should be assorted by the following:

- can they be owned – like own brands – or,
- can they only be managed – like supply treaties, environmental pollution or working relationships.

As immaterial goods which are only manageable usually cannot be evaluated by market-based methods, in case of these cost-based methods should be used while in case of own brands we used both methods.

In case of other assets where introduction or depreciation is not forbidden by accountancy regulation – for example in case of inventories – only possible positive corrections are included in value correction – again, opposed to capital resources – but opposed to “Revaluation reserve for value correction” item formed inside „Revaluation reserve”.

Of course, this new item – similarly to revaluation and to fair valuation difference – can only be an alternative for enterprises.

T5 By introducing a new definition, value correction, the gap between historical value featured in the annual report and the market value of enterprises would be deceased. Value correction can only be positive in case of such assets, which are included in the annual report today while in case of immaterial goods negative correction should be featured as well.

Our next working hypothesis is connected to evaluation on fair value, assuming the subjective results evolving because of its accomplishment in some cases could be seized by showing the increase in the value of financial instruments in the annual report.

The most often heard critique on evaluation on fair value is that in case of some assets and liabilities – which should be evaluated on fair value – we have no information on the market value, finally a hypothetical market value’ mathematical calculation will be the fair value. The use of fair value calculated this way can be problematic as these can only be regarded as forecasts containing subjective information by nature, and the mathematical models which can be used will lead to different results as well. So, after fair value is strongly dependent on the method used to calculate it, data showed in the annual report can change significantly from year to year.

According to our opinion, if calculated fair value cannot be regarded as an entirely trustable value, it should be included in the balance sheet without having any direct effect on profitability.

This concept is the extension of revaluation model for the whole verticum of invested financial assets and for securities. We propose to show the positive difference determined this way as value correction opposed to the item „Revaluation reserve for value correction” formed inside „Revaluation reserve”.

While the analysed company possesses neither liquid nor invested securities, nor such assets to which evaluation on fair value could be extended, we were not able to accomplish the empirical test of this field either.

T6 Objectivity of the result can be ensured by the extension of revaluation model in case of fair value determined by mathematical models.

Our last working hypothesis concerning value and breakdown was to evaluate stock on either selling or substitution prices in the annual report by maintaining the earning untouched.

Even by the regulation in force several inter-year evaluation methods can be used for stock which has different effects on wealth and earning, but because of evaluation on historical value's universality this poorly meets the principle of solidity.

In our opinion, when evaluating stock – based on the principle of solidity – the real price of assets can be given by substitution cost and its adjustment in case of purchased stock, while in case of stock produced by the company the expected cost decreased by the market price should be considered. In order to avoid appreciation' positive effect on profit we proposed to use value correction in this case as well, opposed to "Revaluation reserve for value correction". We also noted that accounting this would not be a new task to do, as market value must be determined in connection with accounting for impairment too, in connection with the accountancy regulation's 56. § (1) paragraph.

When using the stock-evaluation in practice, we analysed both the material stock' and end-product inventory-value and market value.

In relation with the end-product stock we analysed the value based on market prices decreased by the trading cost of both cinder and iron, and compare the result with the one received based on the present regulation. As a result of the calculation more than eighteen million Ft surplus evolved, which should be accounted for – in our opinion – in „Stock's value correction" opposed to „Revaluation reserve".

When analysing material stocks we did not accomplish the present value evaluation of fuel and PB-gas as these are usually not collected as stocks, only the quantity needed for safe management is on stock besides regular purchase of the good, so the gap between market and book value is insignificant.

Raw materials are problematic at the same time, as the 2 Million Ft book value is sure to be significantly different from the market value, but determining the substitution price we proposed – because of the specialties of the asset – is not possible. This is why we evaluated the raw material for cinder based on disposable, experienced data and on the enterprise's calculations. During this, as a first step its quantity was determined. Using this the expected net sales was estimated, and as this is the only activity the company pursues, we corrected the received value by the rate of the net sales on the operating profit, estimating the expected market price of cinder, decreased by the expected cost. Based on this we think further forty Million Ft is reasoned to be showed in the balance sheet as „Stock's value correction" opposed to „Revaluation reserve".

T7 Evaluation of stocks based on the historical value model in the annual report will increase the gap between book and market value. This is the reason why it is needed to account for stock's value correction by evaluating stocks based on market or substitution prices.

4.2. THESIS ON VALUE

Our working hypothesis focused entirely on the change of evaluation was that the evaluation of the capitalised value of research and development would become more punctual if it contained some other factors which are connected to successful R&D activity.

We proposed to capitalize the cost of these – as preparation for the successful ones - in the future, instead of account them as unsuccessful research and development activity. Our theory is also supported by the fact that which was pulled down and was not put in practice increases the value of the parcel, up to its market value, while the part above this level must be included in the historical price of the investment according to the Hungarian regulation. Stewart [Stewart, 1991., pp. 29-31.] follows this way of thinking as well, when talking of the example of oil drilling states that the cost of earlier unsuccessful drillings can be accounted as items increasing the historical value of the successful drilling.

But, as we can predict whether a successful development will follow an unsuccessful one or not, technically, we propose include the cost of the unsuccessful research and development activity among other expenditure in the current year. But if the enterprise has a successful development in the future, this item must be capitalized against other revenues.

The enterprise we analyse does not pursue any research and development activities so we were not able to test our hypothesis empirically.

T8 The capitalized cost of research and development activity will contain the direct cost and/or the invoiced items connected to the earlier unsuccessful research and development activities, followed by a successful one.

In our opinion, the largest problem in connection with the evaluation of tangible assets is the subjectivity of judgement which is related to accounting depreciation, as formerly determined depreciation and actual physical obsolescence are often different. So, we set a hypothesis which states that accounting depreciation will show the actual change in value in distinct cases, if further adaptation of the international accountancy standards will continue in Hungarian regulation.

IAS 16 „Properties, machines and equipment” standard states that component approach’s integration to domestic regulation will increase the reality content of accounted depreciation if the asset has elements with historical values representing a significant part of the entire historical cost of the asset and the life-span of these differ from the whole machine’s. As in this case, the depreciation rate of these elements can be given individually. If the enterprise purchases the asset as a whole and does not have any information on its elements’ value, it can be given based on its market price or on an estimation based on a consultation with its supplier. [Balázs et al, 2006., 233-267. o.]

On behalf of the theory’s practical application we analysed whether the company possesses such assets which have elements of significant value and different expected useful-life from the whole machine. We discovered that in case of mechanical loaders we can talk of different expected useful-life, as the bailer of these – by the present production rate – must be replaced in each second year. In case of bailers we analysed whether their historical value can be considered as significant, compared to the whole machine. As the share we

calculated to be 5-10 percent can be considered as significant in our opinion, we calculated the value of the asset will change by almost 600 000 Ft when using this method.

T9 The domestic extension of component approach will decrease the gap between depreciation and actual physical obsolescence.

4.3. THESIS ON STRUCTURE

Our thesis which does not change the methods of evaluation but restructures the balance sheet concerns deferred and accrued items.

We proposed to interest payment included now among “prepaid expenses and accrued revenues” to be showed inside the distinct items of the balance sheet, but not as evaluation difference but in newly founded rows inside these items similarly to the regulation in force on private pension insurance companies’ regulation of book-keeping and accounting. The items formerly included among accrued revenues as other debtors should now be included in the balance sheet item „receivables” besides interest payments paid on debtors. We think two changes were needed to be made in connection with “accrued expenses and deferred revenues”. One of them was to show accrued expenses and cost among other liabilities, similarly to the treatment of accrued revenues, as these are liability-like items. The other was connected to government grants accounted among postponed revenues. In our opinion, with a further adaptation of the International Accountancy Standards – IAS 20 Accounting for Government Grants and Disclosure of Government Assistance – these should be showed as items decreasing the value of the asset, based on net introduction method. [Balázs et al., 2006.]

In practice, after restructuring the balance sheet, the values of revenues’ accrued revenues and accrued expenses and cost and expenditure rows became zero and – without further information from the notes to the financial statement – can unambiguously be assigned to the rows of the balance sheet.

T10 Further breakdown of accrued revenues in the rows of invested financial assets, debtors, funds and securities and showing accrued expenses and deferred revenues among tangible assets or liabilities would bring additional information without any additional compliance.
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5. POSSIBLE APPLICATIONS OF THE RESEARCH FINDINGS

My knowledge on decreasing the gap between book and market value and on reforming the system of accountancy with the results of my research could be capitalized on the field of higher education, in writing teaching materials on value, accountancy theory and research.

The research findings can contribute to the development of Hungarian accountancy regulation. The outcome of these efforts – as the most important source of information – the additional information supplied by these methods enable a more punctual evaluation in the fields of economic analysis, as in this new model of simplified organic balance theory besides showing the income earned by the company punctually, the value of wealth is showed on fair value, not on historical cost. This way enterprises' owners can gain an actual, realistic picture not only on the profitability of their invested wealth but on its fair value as well.

Domestic and international tendencies aiming the more punctual determination of fair value, in coherence with the theory of accountancy focus on the field of financial instruments, so they put the stakeholders using information of companies with a different structure of wealth to disadvantageous situation. Theories and practice of accountancy can be used analogically to other elements of wealth too, not only to financial instruments. With the help of the evaluation methods I proposed besides increasing the information content of the annual report comparing the annual reports of enterprises pursuing their activities on different fields of the economy would be enabled, considering the qualitative and quantitative determinations of risks as well.

Analysis of changes in asset evaluation offers other fields to extend our research as well. On the one hand, earlier researches can be extended continuing the analysis of the case study company by extending the time horizon of our research. On the other hand, other objective-groups can be chosen and the research can be continued:

- choosing a company which uses the opportunity of evaluation on fair value,
- choosing a company which plays a more stressed role in its environment, or
- it would be purposeful to make a study of public companies' evaluation differences.

Besides economic aspects the lawyers and researchers who work in the fields of economic regulation could also make use of the results of my research when working out the law-theoretic background of special situations for companies. Regulation of these situations could be simplified as well, as the information content of annual reports made according to the general rules by showing more static characteristics through evaluating wealth on fair value.

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