

## CONTINUOUS OBSERVATION AND MODELLING INTERVAL RISK MANAGEMENT AS PART OF THE IMPROVEMENTS OF THE COMPANY

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### ABSTRACT

*Evaluation of the company is necessary to perform in accordance with applicable international accounting standards and financial reporting standards with the aim of improving actual management and valid decision-making management. Possible deviations from the present value of asset carried amounts in the books of the company should be corrected as soon as possible, in order to achieve a real and realistic "fair value" of real estate or other equipment used by the company in its operations. The significance of this work lies in the fact that it draws attention to the professional public on the application of fair expression of the value of assets. In addition, the authors in this paper point to the importance of finding a management that ensures the elimination of potential risks in everyday business management.*

Keywords: fair value, management, model, IFRS

### INTRODUCTION

In this paper the subject of interest stems from the basic assumption that the financial statements of the company should serve the interests of better and more successful management of the company's management. The financial statements are seen as categories that are subject to adjustments, and based on the overall picture created by the business, they can make the right evaluation of the quality of financial statements that benefit the top management and other Government agencies (eg. the supervisory board) of the enterprises, but also shareholders in case of joint stock companies.

There are several objectives in this study. The first one is to highlight the importance of fair reporting enterprise management. The next objective is to define the conditions in which it is necessary to carry out the evaluation of property managed by the management. The last goal is to show the actual activities undertaken by management with the aim of correcting the financial statements. Actualities of labour in the opinion of the author are large, especially in countries in transition, such as the Republic of Serbia, as well as in countries of the former socialist bloc, and because they switched to a market way of organizing the economy.

Thus, evaluation involves a process of determining the value on the day of the entire evaluation procedure, which is an essential starting point for the adoption of further activities for the possible correction of the financial statements in the company.

Accordingly, the fair value is the amount for which the seller is willing to cede the ownership of the property to the buyer in a voluntary exchange, provided that there is a reasonable level of awareness on both sides of the case evaluation. It is necessary to note that the amount that will be the estimated value of the property, will almost never be an identical amount in the financial statements of companies, and corrections are typically made in accordance with IAS and IFRS.

### **MANAGEMENT AND ITS RELATIONSHIP TO THE MANAGED ASSETS**

In order the management could own real and fair value of property, which is close to fair value of property which are owned, it must be within the framework of its policy management to adopt accounting policies in the framework of which it will be incorporated into the basis of the fair value of all assets. For these reasons, the management has access to certain activities, which are usually of long-term character.

Prior to making decisions significant for enterprise financial management, it is required that the decision makers acquire the best possible image of comprehensive conditions, such as socio-economic (*Popović, 2014a*) influences on the enterprise they manage. There is no general model for reaching actual, that is, initial understanding of the environment and influences on the enterprise that the management could implement, but it is very useful to make a short SWOT analysis of the existing situation which will present the following: opportunities, weaknesses, odds and threats the enterprise will most probably encounter with. Consequently, prior to control process (*Gritsenko and Skorba, 2015*), harmonization (*Panchuk, 2015*) and audit (*Majstorović and Popović, 2015*), it would be preferable to execute SWOT analysis, first of all of the initial state. This is why the authors start this study with the presentation of possible short SWOT analysis, presented in *Table 1*.

After the completion of the SWOT analysis, enterprises may start forming the internal control mechanisms of the enterprise (*Popović, 2014b; Popović, 2014c*), which is particularly useful in case of capital investments (*Wang, 2003; Titman et al., 2004*). The procedure of the essential evaluation process is continued with the concretization of the evaluation of the enterprise, that is the evaluation of the parts of equipment or the real-estate (*Popović et al., 2015*), and finally completed with the audit process (*Slotani, 2009; Skrypnyk and Vygivska, 2015*).

The aforementioned activities should be seen as ongoing activities that are being implemented in the company, and the size of the company will depend on the degree of organization such as internal controls, the frequency of the evaluation of assets, the substantial use of audit opinions in order to remove the irregularities, etc. Most of the companies are trying to reduce risks in their operations, and in some ways they try to get this model to minimize risk. Therefore, using different risk factors, risk intervals will define firms in relation to the level of expected security.

**Table 1**

**SWOT analysis of the existing state of influences on evaluation of the real-estate in the Republic of Serbia.**

<b>The available options and the existing power</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- Justify the existence of legal solutions that encourage re-evaluating the assets of the company in the Republic,</li> <li>- The tradition of combining work book which dates from the time of the socialist economy, which proved to be very useful in real business conditions, we say that it is time that precedes Serbia's EU accession,</li> <li>- The existence of high-quality workforce that knows the situation in Serbia and finance companies,</li> <li>- The existence of the desires of skilled labour to perform continuous education and their professional development, which is essential in the process of assessing real estate,</li> <li>- The existence of a legal basis in the Republic of Serbia for the implementation of modern MRS, especially IAS 16 and IFRS 13 in the field of real estate appraisal company</li> </ul>	<ul style="list-style-type: none"> <li>- The lack of current information,</li> <li>- Insufficient interest of managers, due to the short presence in companies that link,</li> <li>- Insufficient repressive role of the state in terms of the implementation of adopted laws that relate to tax policy,</li> <li>- Lack of interest of local companies in the re-evaluation, as in the case of an increase in expression of the value grows tax liability companies,</li> <li>- Incoherent inspections and other state authorities, especially when detecting irregularities detected the final accounts of the company</li> </ul>
<b>Chances</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- Permanent increase in the security of financial statements, especially large companies,</li> <li>- Acceleration of the integration of several related companies into the large business system of international companies,</li> <li>- Development of new forms of financial reporting which is compliant with the EU reporting system,</li> <li>- Companies who first introduce a new system of financial management and control can be sold to other companies that model and realize the benefits of "knowledge" which are mastered,</li> <li>- Strengthening the institutional capacity of the state, if there is a large number of companies that present fairly the state of their business books</li> </ul>	<ul style="list-style-type: none"> <li>- The suppression of domestic enterprises by big foreign companies that have introduced new systems of financial reporting, as pressuring them to buy the right to use their knowledge, AOP, software systems et al.</li> <li>- Striving to increase the purchase price of finished programs of financial reporting companies, or pressure those big estimating and audit firms that carry out the assessment of property for the needs of domestic enterprises,</li> <li>- Negative impact of certain legal provisions, which are introduced in the Republic of Serbia, under the direction and influence of large companies that realistically lobby for some legal solutions that will be adopted in Serbia</li> </ul>

## **CONTINUOUS MONITORING OF RISK AND SPECIFYING THE INTERVAL RISK WHICH AFFECTS THE COMPANY**

Based on research conducted by the authors of this study in the second half of 2015 in the area of the second largest city in the Republic of Serbia, at over 100 medium-sized enterprises that actively exist over 5 years, the authors present some of the most important factors influencing the company, as well as at the evaluated risk intervals proposed by financial and general managers of medium-sized enterprises.

The authors of this study provide the presentation of certain factors significant for enterprise management, and which have particular influence on the real-estate evaluation, as follows: if the majority of risk intervals is higher in the presented *Table 2*, the influence on the enterprise will be stronger and the management will have to execute the correction of the current enterprise policy. After presentation of this “walk through the possible system”, the steps that the authors present in the first part of the study, the management may decide to execute balancing in the enterprises, as there are minimal risks of entering poor data in the business records of the enterprise.

**Table 2**

### **Presentation of the selected possible factors of influence on the enterprise preparing to make decisions relating real-estate evaluation and balancing**

<b>General factors' influence</b>		<b>The impact of activities on risk assessment</b>		<b>Internal factors in enterprise organization</b>	
Selected risk factor	Interval risk	Selected risk factor	Interval risk	Selected risk factor	Interval risk
Number of days of illiquidity in the past 12 months	1-5	Public-sector enterprises	1-5	Built mechanism of internal audit	1-5
The gearing ratios (the ratio of total loans and equity)	1-5	Sector Finance and Insurance	1-5	The existence of the obligation to harmonize accounting policies	1-5
Profitability ratios (the ratio of net income and operating income)	1-5	Industrial sector	1-5	The existence of the obligations of the IAS and IFRS in the company	1-5
The total risk	***		***		***

\*\*\* Total risk represents the value of adding risk presented by groups, numbered and presented on the basis of measurable impact on the Company in accordance with the policies of management companies.

Thus the assessment of the overall risk for the company can be affected by other factors such as:

- integrity management,
- knowledge and experience of management, and the impact of management changes,
- unusual pressures on management,
- the nature of business enterprises,
- other.

### **MODEL SELECTION OF INTERVAL RISKS AFFECTING THE ADOPTION OF BUSINESS MANAGEMENT DECISIONS**

The authors point out that there is no universal model that will provide answers to all the questions of risk evaluation interval. Possible explanation of those risk intervals the authors illustrate *Table 3*, where they presented three possible models of real value determining intervals of risk expressed in the range of risks that are obtained after collecting the results shown in the *Table 3*.

After the presentation of this “walk through the possible system”, the management may decide to execute balance in the enterprises, as there are minimal risks of entering poor data in the business records of the enterprise.

**Table 3**

**Tabulation three proposed models intervals of risks, which are obtained after evaluating the overall results given in the previous table**

<b>Displaying risk sharing interval of possible risks by using three models</b>				
The division of risk of different intensity into three categories that affect the company		The estimated value intervals in numerical risk evaluation		
		Model A	Model B	Model C
1	Low risk	1-10	1-11	1-12
2	Medium risk	10-13	11-13	12-13
3	High risk	13-15	13-15	13-15

### **CONSLUSIONS**

The Republic of Serbia, as well as a larger number of countries in transition in recent years are beginning to take respect to a greater extent and apply new models of help that influence the reduction of the level of risk to manage. The authors point out that it is useful to detect basic preconditions for modelling intervals of risk in the first phase of the analysis, using the so-called SWOT analysis.

After that, the company management should aim at discovering intervals for predefined risk factors. The large number of enterprises can increase the safety of operations, because they will know the factors that must be paid attention to during

the operation. The last part of the general application is the modelling and the use of a satisfactory model that will cover most of the risk to the appropriate level of security.

The first phase is followed by the use of International Accounting Standards, International Financial Reporting Standards, and the standards of the auditing profession in order to strengthen financial reports evaluating the company's assets or assets managed by the company's management. The work can also be applicable to all enterprises, as well as in all sectors in which the company operates. The goal of all activities should be minimizing risks and creating the conditions for more secure operations. The aim was to show the importance of introducing a relatively new way of doing business by determining the interval risk in order to improve the financial statements, and to improve safety management in the function of enterprise management.

The result of such activities is a range of models within which the level of the security of future business will be shown. Also, in this paper the authors attempted to present and systematize some of the important impacts of risks that may affect a large number of companies in Serbia. The author highlights the importance of the introduction, observation, and treatment of a large number of heterogeneous risks, which could substantially increase the effectiveness of financial reporting.

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