CONCEPTUAL FRAMEWORK OF NATURAL CAPITAL MAINTENANCE*

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Abstract

Concern for environmental degradation has led to the suggestion that natural capital maintenance is a necessary but insufficient condition for a sustainable society. Natural capital tends to be discussed in an all-inclusive sense without explicitly recognizing the attributes that make it so important. The article comprises a set of theoretical statements regarding conceptual framework of natural capital maintenance. The comparison of concept of financial capital maintenance and the concept of natural capital maintenance allowed to determine the impact on the financial statements prepared based on International Financial Reporting standards. The disclosure of the mechanism for the return of advanced capital and profit by converting the capital equation was established. As a result, the parameters of financial statements compiled using the physical concept of capital proposed.

Keywords: concept of financial capital maintenance, concept of physical capital maintenance, financial reporting, IFRS, natural capital maintenance, profit

1. Introduction

The Accounting has developed under the influence of fundamental changes in both economic and legal relations in society, expressed in the development of commodity exchange, the prosperity of trade between countries, industrial revolution, the emergence of new organizational and legal forms of enterprises, the complication of legal relations between business entities. Marx's theory of capital, attempts to synthesize dynamic and static balance

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theories led to the realization of the main task of accounting - the preservation of capital in value and in kind, which in turn predetermined the emergence of two concepts of maintaining (preserving) capital: financial and physical.

2. Theory

The development of economic theory influenced the theory of accounting. So, if the doctrine of physiocrats influenced the legal direction of accounting, then, in our opinion, the theory of capital Karl Marx is devoted to the development of balance studies (Marx, 1887). It is precisely the representation of economic activity in the form of the circulation of capital along the money, productive and commodity stages, the introduction into the theory of such concepts as the value, originally advanced by the owners, surplus value, which were the prerequisites for the creation of a dynamic balance theory whose main purpose is to disclose capital in the balance sheet.

Currently in accounting studies there is a lack of agreement on the definition and accounting implications of the various equity theories (Van Mourik, 2010). Some authors try to answer law-specific question as whether this literature adequately captures judicial influences on the development of the capital maintenance doctrine (Arnold, 2017; Ardern and Aiken, 2005). The others develop precise concepts. Traditionally in accounting capital was originally a credit concept but has many uses related to assets (Nobes, 2015).

As Sokolov (2000) rightly emphasizes, "the theories of static and dynamic balances are the two extremes conditioned by the principle of complementarity". This principle has two implications. The first is that "the more accurate the assessment of funds, the less accurate is the assessment of the financial result (due to the use of the static balance theory). The second principle is "the more accurate the evaluation of the financial result, the less accurate is the assessment of funds (due to the use of the dynamic theory of balance)." Sokolov notes attempts to create a synthesized balance theory that would combine the strengths of both static and dynamic theories. He presents these attempts as a desire to unite the unconnected and solve two mutually exclusive problems. Among such attempts Sokolov distinguishes the balance theory of A.P. Rudanovsky, Zh.B. Dumarshe, F. Schmidt. Nevertheless Ya. V. Sokolov does not see a complete solution to the synthesis problem in any of the attempts but only sees in them the identification of conditions for a better understanding of this problem (Sokolov, 2000). We see in these theories the prerequisites for setting a general task before accounting, namely, the preservation of capital. Indeed, the solution of both problems: the evaluation of financial position and financial result, is aimed primarily at preserving capital and its multiplying.

Basic theses of the theory of A.P. Rudanovsky which prove the presence in his theory of the prerequisites for solving the problem of preserving capital, are presented in Fig. 1. In our opinion, the theory of A.P. Rudanovsky contains the conceptual foundations of capital maintenance which consist of the definition and disclosure of basic accounting principles, non-observance of which in practice can lead to the insolvency of the enterprise. The closest thing to understanding the solution of the problem of capital maintenance was F. Schmidt. Ya.V. Sokolov emphasizes: "Fritz Schmidt understood the main task of accounting at the-- need to maintain the capital of the company" (Sokolov, 2000). F. Schmidt proceeded from the fact that the enterprise is a living organism, in connection with this he calls the balance sheet as a model of the enterprise, organic. Synthesis of dynamic and static theories by F. Schmidt consisted in determining accounting, as dynamics, balance as a statics, balance analysis as a comparative statics.

The most significant contribution to the development of accounting was the distinction made by F. Schmidt between the result of economic activity and profit (loss), based on a two-layer representation of values. The first layer is natural in the form of a real presence of the
values reflecting the entrepreneurial capital in a natural meter. The second layer is the value layer which expresses the abstract presence of values representing entrepreneurial capital in a money measure. "The result of economic activity is determined by the increase (decrease) in the real volume of the enterprise's property and the profit is calculated in abstract monetary units" (Sokolov, 2000). In this case a direct relationship between these values cannot be made since the volume of property may decrease and the profit may grow due to the price increase. The main purpose of the profit F. Schmidt saw the maintenance of the enterprise's ability to entrepreneurial activity which is achieved when the growth of profit corresponds to the growth of the result of economic activity.

**The main task of accounting is capital maintenance**

The theory of accounting is built on three mutually complementary principles:

### The principle of stability - maintenance of the solvency of the enterprise:
- A division in the asset and liabilities of the balance of that part of property and rights that should constitute "capital in the property necessary for the preservation of the economy";
- Preventing the issuance of exaggerated profits at the expense of capital;
- Revaluation of property can be made only at the expense of capital.

### The principle of coordination is a strict distinction in the accounting of the states of accumulation, consumption and production with a view to maintaining the economy in a state that meets its goals, i.e. to maintain its stability:
- Applying funding and reserving methods
- Differentiation of funds to establish the limit value of resources that the administration can manage
- Reservations to clarify the assessment of values

### The principle of unity (countable harmony) is the equation of all states by proper methods of estimating states:
- The use of valuation at historical cost based on the data of source documents

**Fig.1.** The concept of capital maintenance on Rudanovsky A.P.

Important for the management of the enterprise F. Schmidt considered the analysis of various phases of the capital circulation, for which he proposed using the organic balance compiled daily. The daily balance sheet he justified the need to eliminate the volatility of the monetary meter due to rapid changes in the purchasing power of money. At the same time he recognized that the main measure is natural measure and considered profit only that it found an increase due to ordinary economic activities in the asset, and the profit received as a result of the increase in prices was recognized by him as imaginary (Sokolov, 2000).

Thus it can be argued that the synthesized theory of F. Schmidt which was explicitly influenced by Marx's capital theory became the basis for modern concepts of maintaining capital: financial and physical. It should also be noted that the physical concept is built on the theory of evaluation for the current (replacement cost) which was developed in the works of such scientists as Arnold (1809), T. Limperg (20-30g of the twentieth century), G. Sweeney
(1933) and others. Of particular interest is the conclusion of Kovalev on the prerequisites for the emergence of capital maintenance concepts. He sees them in an attempt to answer two key questions: 1) how to calculate the real profitability of the company? and 2) how to link dividends and profits? At the same time the scientist underlines the critical importance of these issues during periods of significant inflation (Kovalev, 2006).

Indeed, in the first decade of the 20th century when discussing the issues of the relationship between profit and dividend policy the idea of disclosing the physical nature of capital was only discussed. In the middle of the twentieth century studies were conducted in Great Britain and the United States on the impact of price changes on financial indicators, as a result of which conclusions were reached about a violation of the comparability of reported indicators, the impossibility of an objective assessment of the financial position under inflation conditions. However this had no effect on accounting practices since at that time the inflation rate did not exceed 4%. And only in connection with a sharp increase in the level of inflation in the 70s of the twentieth century which swept the majority of countries the interest in accounting for price changes revived. By that time they were already known as selective approaches to reflect the effects of inflation in the financial statements (the formation of reserves to cover the increase in the cost of replacement of assets, revaluation of assets, accelerated depreciation, etc.) and global (accounting for current purchasing power (CPP), current cost accounting (CCA), continuous cost accounting (CoCoA), replacement price accounting (RPA)). Among the global approaches the most widely used were the methods of CPP and CCA. The basic global methods were based on the concepts of capital maintenance. Thus the concept of physical capital maintenance found its embodiment in the method of CCA, the concept of financial capital maintenance - in the CPP method.

In international standards the methods of accounting for price changes CCA and CPP were once reflected in IFRS 15 "Information Reflecting the Effects of Changing Prices" adopted in 1981. In 1989 the international committee decided to make the standard voluntary. Since January 1, 2005 due to the lack of international consensus the standard was abolished. In 1989 IAS 29 "Financial Reporting in Hyperinflationary Economies" was adopted and currently is mandatory for use in primary financial statements for companies that report in the currency of a hyperinflationary economy. IAS 29 "Financial Reporting in Hyperinflationary Economies" is based on the traditional CPP inflation accounting method. Thus, at present according to international accounting standards the impact of inflation on reporting indicators is only required if there is hyperinflation.

Investigation of the evolution of the accounting category "equity capital" allowed to establish its central place in the accounting system. As scientists rightly point out the subject of accounting is the circulation of capital from the moment of its advance and ending with the moment of its return with incremental or reduced value. In this connection one can note the objectivity of the fact that the concept of maintaining capital lies at the heart of various national accounting systems. These systems include the German Commercial Code, US GAAP, International Financial Reporting Standards (IFRS).

Many modern Russian scientists try different aspects of International Financial Reporting Standards (Kulikova and Gafieva, 2014; Kulikova et al., 2015; Markaryan et al., 2014; Vetoshkina and Tukhvatullin) but still in the system of Russian accounting such a concept is not formally considered. Since at present the Russian accounting system is in the stage of active reform which is reflected in its harmonization in accordance with International Financial Reporting Standards (hereinafter IFRS) we consider it necessary first of all to consider the concepts of capital maintenance which underlie IFRS.
3. Results

Let us consider the content, the main directions, the scope of the concepts and their fundamental differences. The main conclusions and results of comparing the concepts of capital maintenance are presented in Table 1. The concepts of capital and capital maintenance are discussed in the Conceptual Framework for Financial Reporting.

### Table 1. Comparative characteristics of capital concepts

<table>
<thead>
<tr>
<th>Symptom of comparison</th>
<th>Concept of financial capital maintenance</th>
<th>Concept of physical capital maintenance</th>
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<tbody>
<tr>
<td>1. Content of capital categories</td>
<td>Net assets of the company</td>
<td>Production capacities or operational capabilities of the organization</td>
</tr>
<tr>
<td>2. The degree of community of interests of users of financial statements</td>
<td>Mismatch, competitive relationship</td>
<td>Consistency, expectation of benefits in the long run</td>
</tr>
<tr>
<td>3. Priority group of users - investors, creditors</td>
<td>Majority shareholders (shareholders having significant influence over the company's activities) who acquired control to manage the acquired company as an independent unit and subsequent sale or entry of its shares into the secondary market</td>
<td>Majority shareholders (shareholders who exercise significant influence over the company's activities) who acquired control in order to join the acquired company to its core business and expand it</td>
</tr>
<tr>
<td></td>
<td>Minority shareholders</td>
<td>Lenders that have provided financial resources for an extended period of time</td>
</tr>
<tr>
<td></td>
<td>Lenders that have provided financial resources both for a long and short term</td>
<td></td>
</tr>
<tr>
<td>3. Applicable estimates of financial statements</td>
<td>The concept does not impose requirements on the application of any evaluation. Most often, the original (historical) cost</td>
<td>Current (replacement cost)</td>
</tr>
<tr>
<td>4. The unit of measurement</td>
<td>Nominal monetary units, monetary units of constant purchasing power</td>
<td>Nominal monetary units</td>
</tr>
<tr>
<td>5. Qualification of revaluation</td>
<td>When using the concept of nominal financial capital, a revaluation is recognized as a profit. With the use of the concept of real financial capital, the revaluation within the inflation level is recognized as an adjustment ensuring the maintenance of capital (the reserve of inflationary growth), in excess of the inflation rate, by profit</td>
<td>Revaluation is recognized as an adjustment ensuring the maintenance of capital (a reserve for the restoration of resources)</td>
</tr>
<tr>
<td>6. Financial result of the company</td>
<td>When using the concept of nominal financial capital profit is calculated as the difference between income and expenditure and is increased by the amount of the revaluation. When using the concept of real financial capital profit is calculated as the difference between income and expenditure and is increased by the amount of the additional revaluation over inflation</td>
<td>Operating profit calculated as the difference between income and expenditure in the current valuation</td>
</tr>
<tr>
<td>7. Method of accounting of inflation</td>
<td>With the help of a general inflation index. The consumer price index is more often used</td>
<td>Private price indices for the relevant assets or current (replacement) cost</td>
</tr>
</tbody>
</table>

In our opinion the purpose of the concept of maintaining capital as a whole disclosed in IFRS can be interpreted from the point of view of the tasks solved by the concept:
1) defining of the concept of "capital, which must be maintained by the company";
2) establishing a connection with the concept of profit which determines the principle of measuring profit;
3) determining the basis for dividing the return on the company's capital and the cost of returning of its capital.

The purpose of the concepts of capital maintenance through the variability of the tasks they solve is schematically shown in Fig. 2.

The solution of the first task is naturally connected with the choice of the concept of capital. International standards offer two concepts of capital: financial and physical. The financial concept treats capital as a synonym for net assets or equity implying that it is invested money or invested purchasing power. The physical concept of capital considers the production capacity of the company having in mind its operational capacity. The standards give an example of measuring the production capacity in units of output per day. Thus we are talking about the choice of value or natural expression of capital.

![Fig. 2. Concepts of capital maintenance under IFRS](image-url)
Conceptual framework of natural capital maintenance

The choice of the concept depends on the objectives of satisfying the information needs of users of financial statements. The priority group of users is a group of real and potential investors which should directly determine the format of financial statements. Therefore in relation to joint-stock companies we will consider when investors are interested in information about financial capital and when about physical. First of all, investors need to be divided into two groups: 1) majority shareholders which exert significant influence on the company's activities; 2) minority shareholders who do not exert significant influence on the company's activities. The first group is formed as a rule as a result of buying either the whole company or a controlling stake. Quite clearly describe the interests of buyers of the company Stanley Foster Reed and Alexander Reed Lazhu which distinguish two types of buyers of companies. The first type is "buyer-operators" who carry out "strategic" acquisitions in order to join the acquired company to its main business and expand it. The second type is "buyers-investors" who are engaged in financial takeovers to manage "the acquired company as an independent unit that is not integrated into the buyer's primary business". However as the authors note the ultimate goal of "buyer-investors" is usually the subsequent sale of the company or the placement of its shares on the secondary market (Reed, 2006). In our opinion if there is enough information for "investor buyers" to provide nominal invested capital or its purchasing power then for "buyers-operators" in addition the information about the company's operational capacity is also needed.

Thus, the interest in the information section depends on the long-term investment intentions of the buyers as well as on the future nature of the buyers' participation in the economic activities of the purchased company. As for minority shareholders information provided on the basis of the financial concept of capital will be quite sufficient for them.

The second task of the concept of capital maintenance is connected with establishing a connection with the concept of profit which determines the very principle of measuring profit. In general, the maintenance of capital is achieved by obtaining a net profit in such a size that after its distribution in the form of dividends during the reporting period the enterprise remains at the end of the period as financially sound as at the beginning of the period. Therefore profits are subject to measurement with respect to the maintenance of capital. At the same time this problem is considered taking into account the growth of asset prices under the influence of inflation. In accordance with the concept of financial capital maintained the company's equity capital is retained if its value by the end of the reporting period less the amounts paid by shareholders and paid to shareholders is equal to its value fixed at the beginning of the same reporting period. It should be noted that this refers to the maintenance of financial capital expressed in nominal value (nominal financial capital) or financial capital expressed in terms of purchasing power (real financial capital). At the same time the concept of maintaining nominal financial capital recognizes by profit the excess of the value of equity or net assets at the end of the period over the amount of equity or net assets at the beginning of the reporting period taking into account the above deductions.

The financial capital expressed in terms of purchasing power is calculated taking into account the general level of inflation. Therefore, the maintenance of real financial capital is associated with the need to return a volume of capital that would allow to provide the same volumes of the enterprise's activity in the conditions of constantly acting inflation. In this regard, according to the concept of maintaining real financial capital profits are earned if the net assets at the end of the period exceed the amount of net assets at the beginning of the period recalculated in units of the same purchasing power at the end of the period.

According to the concept of physical capital maintenance an enterprise retains its capital if by the end of the reporting period it has the same level of physical productivity (productive capacity) as at the beginning of the reporting period. The profit is considered to be received only if the level of the production potential is exceeded at the end of the reporting period above the level of the production potential at the beginning of the reporting period.
The preservation of the level of physical performance directly depends on the process of renewal of resources: fixed assets and material resources. In order for the enterprise to maintain the level of production at the same level, it must maintain a sufficient amount of fixed assets and material resources. In conditions of the rise in prices caused by inflation without an additional source of financing this cannot be achieved. In this regard, the concept of physical capital maintenance takes into account not just the impact of inflation as the concept of maintaining real financial capital but reflects the impact of the very effects of inflation—the rise in prices of certain goods and services purchased by the enterprise. Consequently, the maintenance of physical capital is associated with the need to return such a volume of capital that would allow to provide the same volumes of the enterprise's activity in the conditions of rising prices for assets purchased by the enterprise due to the current inflation and other market factors.

Thus for both concepts it is equivalent that the amount received above what is required to maintain capital at the beginning of the period is a profit. It is possible to derive a general formula for determining profit according to which profit is the difference between income and expenses (including adjustments that ensure the maintenance of capital when necessary). The difference between the conceptual approaches is to estimate the income and expenses, as well as the adjustments necessary to maintain capital (in evaluating the formula indicators themselves). In turn, the assessment of revenues and expenses depends on the valuation of assets and liabilities. The concept of physical capital maintenance involves the use of an estimate of replacement cost which is associated with the need for renewal of resources. The concept of financial capital maintenance does not put forward mandatory requirements for the application of any type of assessment. At the same time the choice of the type of evaluation depends on how the capital is measured - in nominal monetary units or in terms of purchasing power.

The introduction of the notion of adjustments ensuring the maintenance of capital is closely related to the implementation of the third task of the concept of capital maintenance which consists in determining the basis for dividing profits by the company's capital and the cost of recovering its advanced capital. Adjustments that support capital maintenance are applied subject to the concept of maintaining real financial capital and the concept of maintaining physical capital which is due to the need to reflect the impact of inflation or its effects in the form of higher prices for financial reporting indicators. It is known that revenue covering expenses ensures the return of advanced capital and profit. Let us prove this by means of the transformation of the capital equation (Table 2).

**Table 2. Disclosure of the mechanism for the return of advanced capital and profit by converting the capital equation**

<table>
<thead>
<tr>
<th>Business transactions</th>
<th>Balance sheet model</th>
<th>Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establishment of a joint-stock company</td>
<td>Assets = Advance capital</td>
<td>At the time of establishment the company receives assets from shareholders to carry out its statutory activities. Under the advanced capital it is necessary to understand the amount of the authorized capital and share premium</td>
</tr>
<tr>
<td>2. Attracting borrowed funds</td>
<td>Assets = Advance capital + Liabilities Assets - Liabilities = Advance capital Net assets = Advance capital</td>
<td>At attraction of extra means at a society obligations are formed. Advance capital can be determined by subtracting liabilities from the total amount of assets. The resulting difference is usually called net assets</td>
</tr>
</tbody>
</table>
Conceptual framework of natural capital maintenance

<table>
<thead>
<tr>
<th>3. Extraction of profit from the use of all assets for the reporting period</th>
<th>Net assets + increase in Net assets = Advance Capital + Income - Expenses Income = Advance capital + Profit</th>
<th>Receipt of profit means an increase in the value of net assets. Provided that all net assets (hence all the advanced capital) were expended for the purpose of generating income the receipt of new assets in place of the used ones is nothing more than the received income (revenue). Thus, the proceeds ensure the return of the advanced capital and the receipt of profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Revaluation of assets</td>
<td>Net assets + Revaluation of assets = Advance capital + Revaluation reserve</td>
<td>The revaluation of assets leads to the formation of a revaluation reserve (a reserve to cover additional costs associated with an increase in asset prices)</td>
</tr>
<tr>
<td>5. Extraction of profit from the use of all assets for the reporting period</td>
<td>Net assets + Revaluation of assets + increase in Net assets = Advance capital + Revaluation reserve + Income-Expenses Income = Advance capital + Revaluation reserve + Profit</td>
<td>The received incomes should provide thus return of the advanced capital, a revaluation reserve and reception of profit</td>
</tr>
</tbody>
</table>

Thus, the assignment of adjustments that support the maintenance of capital is to create a reserve to cover the additional costs associated with the increase in prices for the acquired assets. The adjustment itself which ensures the maintenance of capital is a revaluation of existing assets in connection with the increase in prices on them. As a result of the revaluation the value of the asset increases and a reserve of revaluation is formed at the same time. Subsequently, upon writing-off of an asset the amount of the revaluation reduces the profit of the reporting period, and, consequently, the final source of the provision is profit. Thus, the ultimate goal of adjustments that ensure the maintenance of capital is to divide the amount of revenue received into the amount of repayment of the advanced portion of the capital, the reserve to increase the value of the asset and profit. As a result of a decrease in profits, the amount of the created reserve is determined by the part that can be distributed without causing damage to the economic activities of the enterprise. The calculation of financial capital in nominal monetary units permits the revaluation of assets that increases the profit of the reporting period. At the same time profits may not be recognized until the assets themselves are disposed of. In this case the creation of a reserve of growth in value as a result of revaluations of non-current assets cannot be considered an adjustment supporting capital.

The concept of maintaining real financial capital involves reflecting the impact of inflationary processes as well as the devaluation of the national currency by adjusting the financial statements to appropriate inflation indices or general price indices. The indices used indicate changes in general prices for consumer goods and not on goods and services purchased by the enterprise. These adjustments ensuring the maintenance of capital as mentioned above consist of the revaluation of assets through these indices. Calculation of the reserve with the use of general inflation indices can only support the purchasing power of investments by owners, namely, the purchasing power of money invested by owners. Therefore, we are talking about maintaining financial capital. In this case, the reserve of revaluation can be called the reserve of inflationary capital growth or a reserve for ensuring the purchasing power of investments by owners.

When using this concept an enterprise makes a profit when the revenues exceed the expenses reflected in the estimates of assets adjusted for the inflation index. Then we can say that the revenues in this case provide the return of the advanced part of the capital covering the reserve of inflationary capital gains and profits.
However the revaluation can take into account the price increase and above the inflation rate. IFRS on this account prescribe that the revaluation of assets within the inflation level is recognized as part of equity and the overestimation above inflation is profit. This suggests that the overestimation above the level of inflation is taken into account in exactly the same way as when using the concept of maintaining nominal financial capital.

The presentation of financial statements in accordance with the physical concept of capital is based on the replacement value of assets and liabilities. In determining the replacement cost specific replacement prices for assets purchased by the enterprise are taken into account. In this case the revaluation of assets to their replacement value increases the revaluation reserve and is part of the capital. The calculation of the reserve taking into account the specific price changes in the assets used by the enterprise is aimed at maintaining the resources at the required level which allows to provide the set production volumes. That is, it is about maintaining physical capital. In this situation the revaluation reserve can be designated as a reserve for the restoration of resources. Then the revenues ensure the return of the advanced part of the capital covering the reserve for the restoration of resources and profit. In this case the reserve for the restoration of resources will not be added to the profit on the disposal of the assets themselves as in the case of the application of the concept of maintaining nominal financial capital. The profit according to these financial statements will reflect the increase in the company's production volumes (operational capabilities) without taking into account changes in prices for assets and liabilities (price factor).

Thus, the chosen concept of capital maintenance affects the valuation of assets, liabilities and capital as well as the structure of equity. The principal difference between the two concepts of maintaining capital is the order of reflecting the results of changes in prices for assets and liabilities. In the conditions of inflation the profit obtained using the concept of physical capital maintenance will be the lowest and the profit calculated using the concept of maintaining nominal financial capital is the highest. But at the same time IFRS does not contain clear prescriptions regarding the implementation of the concept of physical capital. Therefore, in order to implement the concepts of capital maintenance it is necessary to solve the following methodological problems associated with the application of the physical concept of capital and its maintenance:

- defining of the main parameters of financial statements that characterize physical capital;
- determination of assets and liabilities subject to revaluation;
- creation of a system for measuring current value, the main purpose of which is to determine the conditions for choosing alternative bases for its measurement;
- choice of methods for adjusting accounting information;
- transformation of the capital structure in connection with the reflection of adjustments that ensure the maintenance of capital;
- determination of the way of presenting the corrected information.

In this connection it seems to us necessary, first of all, to determine the content of information characterizing the state of physical capital. The proposed parameters of reporting information on physical capital are presented in Fig.3.

4. Conclusions

We believe that the conceptual foundations of capital maintenance laid down by IFRS can be fully borrowed by the system of Russian accounting and adjusted to the existing shortcomings.

The concept of maintaining real financial capital involves reflecting the impact of inflationary processes as well as the devaluation of the national currency by adjusting the financial statements to appropriate inflation indices or general price indices.
When using this concept an enterprise makes a profit when the revenues exceed the expenses reflected in the estimates of assets adjusted for the inflation index. Then we can say that the revenues in this case provide the return of the advanced part of the capital covering the reserve of inflationary capital gains and profits.

<table>
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<tr>
<th><strong>Balance sheet:</strong></th>
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<tr>
<td>the value of assets used at different stages of the capital cycle;</td>
</tr>
<tr>
<td>the value of assets involved and not participating in operating activities;</td>
</tr>
<tr>
<td>value of non-yielding assets</td>
</tr>
<tr>
<td>reserves for the restoration of the value of assets</td>
</tr>
<tr>
<td>allowance for impairment</td>
</tr>
<tr>
<td>reserves adjusting the value of unused assets</td>
</tr>
<tr>
<td>Retained earnings resulting from increased physical productivity (business activity)</td>
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<tr>
<th><strong>Income statement:</strong></th>
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<td>Profit obtained as a result of increasing physical productivity (business activity)</td>
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<tr>
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<th><strong>Statement of changes in equity:</strong></th>
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<td>reserve for the restoration of the value of assets</td>
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</tbody>
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**Notes:**
- physical performance
- efficiency of use of economic resources
- ability of assets to generate cash flows
- analysis of performance change factors

Fig. 3. The proposed parameters of financial statements compiled using the physical concept of capital
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