Evaluation of Financial and Analytical Activities of the Biggest Car Makers of the Russian Federation

(Penilaian Aktiviti Kewangan dan Analisa Pembuat Kereta Terbesar Persekutuan Rusia)

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ABSTRACT

Companies need an internal management control system to develop successfully in the current conditions of a market economy. This statement is true irrespective of an organisational form of a company. Financial indicators (such as profit) can give a full picture of absolute effectiveness of the company's performance. The main activities of any company can be split into the following groups: production, sales, procurement, financial and investment activities. According to the 2013-2016 consolidated financial statements prepared under IFRS, Russia's largest car producers include AVTOVAZ Group, GAZ Group, KAMAZ Group and SOLLERS Group. They all used a three-factor model of return on equity and other mathematical tools. Analysis of the three-factor model of return on equity enabled us to formulate several statements. The main factor affecting return on equity is the sales margin. When the sales margin is measured within a certain period of time, there can be either a negative or a positive influence on the final financial results of a company. The two other factors that influence return on equity are less significant. The factor of margin is the most significant and the index of capital intensity is the least significant factor of the three. Our practical innovation is a new model to analyse financial reporting of a car making company, which showcases the financial position of a company.

Keywords: International Financial Reporting Standards; accounting policies and procedures in a company; profit and loss; taxation; consolidated financial statements

ABSTRAK

Sesebuah syarikat memerlukan sistem kawalan pengurusan dalaman untuk membangun dengan jayanya dalam keadaan pasaran ekonomi semasa. Kenyataan ini adalah benar tanpa mengira bentuk organisasi sesebuah syarikat. Penunjuk kewangan (seperti keuntungan) dapat memberikan gambaran penuh tentang keberkesanan mutlak prestasi perusahaan. Aktiviti utama mana-mana syarikat boleh dibahagikan kepada kumpulan berikut: pengeluaran, jualan, perolehan, aktiviti kewangan dan pelaburan. Menurut penyata kewangan yang disatukan 2013-2016 yang disediakan di bawah IFRS, pengeluar kereta terbesar di Rusia termasuk Kumpulan AVTOVAZ, Kumpulan GAZ, Kumpulan KAMAZ dan Kumpulan SOLLERS. Kesemua mereka menggunakan model tiga faktor pulangan ekuiti dan alat matematik lain. Analisis model pulangan ekuiti tiga faktor membolehkan kita merumuskan beberapa penyataan. Faktor utama yang mempengaruhi pulangan ekuiti ialah keuntungan jualan. Apabila keuntungan jualan diukur dalam tempoh masa tertentu, terdapat kemungkinan sama ada pengaruh negatif atau positif terhadap keputusan kewangan akhir sebuah syarikat. Dua faktor lain yang mempengaruhi pulangan ke atas ekuiti adalah kurang ketara. Faktor keuntungan adalah yang paling ketara dan indeks keamatan modal adalah faktor yang paling kurang ketara di antara ketiga-tiga factor. Inovasi praktikal kami adalah model baru untuk menganalisis laporan kewangan sebuah syarikat pembuatan kereta, yang mempamerkan kedudukan kewangan sebuah syarikat.

Kata kunci: Piawaian Laporan Kewangan Antarabangsa; dasar dan prosedur perakaunan dalam syarikat; untung dan rugi; pencukaian; penyata kewangan disatukan

INTRODUCTION

Russia's car industry is one of the country's key sectors, which can create a multiplier effect in related industries, establish the economic and social level in the country as a whole and in its regions. Demand for cars generates demand for hi-tech products of the metallurgical, chemical, electrical engineering and other industry branches and provides people with jobs. All this makes assessment of the financial standing of the largest car makers and their future important.

A system of ratios, which characterizes financial and business activities of a company in the bulk of developing countries is usually given in the financial statements. There are different user groups for these financial ratios, such as shareholders, management, investors, etc. The ratios are prepared in line with accounting policies. The financial statements and results of financial performance of a company can be interpreted differently with contradictions appearing in interpretations because different accounting policies and methods can be applied Mohammed and Colin (2007). Contradictions in accounting policies, different accounting methods and financial reporting analysis influence further evaluation of business activity indicators. Analytical possibilities of financial reporting, and in particular, its extension play a key role in evaluation of financial and business activities of a company. Financial reporting figures can be interpreted differently, which means that the management and other users of the financial statements can take both positive and negative decisions, on which the company's business and financial activities are fully dependent.

According to economists Pavlova et al. (2018) and Barilenko (2018), Russia uses a factor model to evaluate return on equity of a company under Russian Accounting Standards. However, as risks grow, while the future of the car-making industry becomes murkier, future profits as well as the factors of influence are hard to assess. The traditional profit analysis methods, which were researched by Efimova and Samohina (2014), including the method of deterministic factor analysis of profit (loss) from sales fail to reveal full analytical possibilities of the indicator and is based on the indicators used in Russian Accounting Standards (Kovalev 2013). The best indicators acknowledged by most jurisdictions in the world are presented in financial reporting under international standards. Consequently, analysis of a company's financial activities should be done using indicators calculated under international standards. Such an approach to assessment of financial activities of the largest car building plants – AVTOVAZ Group, GAZ Group, KAMAZ Group and SOLLERS Group – can reveal the direction, in which some systemic problems of the industry can be solved.

LITERATURE REVIEW

International practice of management decisions in the area of accounting and analysis have undergone serious changes in the past 30 years due to globalization and introduction of International Financial Reporting Standards. In Russia, according to Sokolov (1996), the changes were reflected in the adoption of a new chart of accounts. Among the main reasons for the adoption of the new chart of accounts were the need to account for foreign economic activity and simultaneous accounting for commercial and non-commercial activities. It is necessary to add that the accounting standards, which were introduced in Russia in the last few years have a lot in common with International Financial Reporting Standards. In particular, a regulation called Accounting Policies of a Company was reviewed four times between 1994 and 2008 because International Financial Reporting Standards were reworked and reissued.

The same tendency can be followed when talking about regulation in the area of company reporting. For example, there is an order issued by the Russian Ministry of Finance dated 25.11.2011 (No. 160) on Introduction of International Financial Reporting Standards and Interpretation of International Financial Reporting Standards. Under the ruling, the companies are obliged to apply International Financial Reporting Standards while preparing consolidated financial statements. There is another Federal Law No. 208 called On Consolidated Financial Reporting, which the companies must follow while preparing consolidated financial statements.

At the same time, according to the Federal Law, financial statements are a source of information about assets and financial position of a company. This also applies to the final reports on business activity prepared in line with regulations and policies. There is different interpretation in Federal Law No. 402-FL dated 06.12.2011. Reporting includes information about financial position of an economic entity on a reporting date, financial performance and cash movements during a certain period of time. According to IAS, 1 Presentation of Financial Statements, financial statements reflect the financial position and financial performance of a company. The goal of financial statements is to give information about the financial position, financial performance and cash movements of a company. Such information has to be relevant to different user groups to enable them to make economic decisions. As we see, Russian accounting legislation does not require detailed information about financial performance in the statements on a reporting date and business activity results are shown within a reporting period. It means that there is no time frame requirement in financial statements, making evaluation of the overall effectiveness of business management by the users of the financial statements difficult. According to Kovalev (2013), the following algorithm (Figure 1) can be applied while compiling a Profit and Loss Statement.
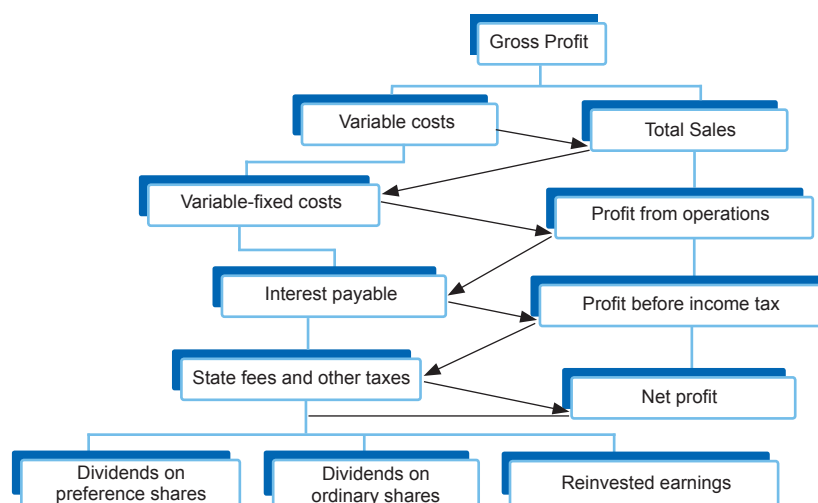
FIGURE 1. Profit calculation

The chart above demonstrates how profit is calculated in line with accounting policies, although the end financial result (represented by net profit) is influenced not only by the accounting policies but also by the tax requirements imposed by the government. Financial reporting in Russia is undergoing change in line with International Financial Reporting Standards to make the Russian accounting system as close to International Financial Reporting Standards as possible. As a result, Russia's current financial statements become similar to the financial statements prepared under International Financial Reporting Standards.

Many guidelines to International Financial Reporting Standards were published, various discussions and researches of their effectiveness were carried out. Epstein and Jermakowicz (2010), Nicolas (2017) and Hennie (2005) are some of the authors of the books about International Financial Reporting Standards. Research indicates that the firms, which apply international standards, demonstrate a higher variance of net income changes, a wider change in cash flows, a significantly lower negative correlation between accruals and cash flows, a lower frequency of a small positive income, a higher frequency of a large negative income and a higher value relevance in accounting amounts. Additionally, these firms have less earnings management, a timely loss recognition and a high value relevance in accounting amounts compared to the US firms sticking to GAAP (Cooper & Kaplan 1992). Therefore, firms using International Financial Reporting Standards generally exhibit higher accounting quality than when they followed GAAP (Dent 1990).

PricewaterhouseCoopers researched income looking into the additional income indicators the companies include in their financial statements beyond the minimum required by International Financial Reporting Standards. It also examined the way the companies present these non-GAAP indicators in their income statements. Additional indictors can be useful for the market as they give investors a greater insight into the companies and how they are managed (Chenhall 2003; Drury 2007). According to the Survey of 2,800 European Financial Statements, published by PricewaterhouseCoopers and prepared by PwC senior Manager Mr. Arjan Brouwer (2006), during a previous PricewaterhouseCoopers' research in Canada, the US and the UK, investors said that they found additional income indicators useful and take them into account when making investment decisions. In particular, they look for non-GAAP indictors, which the management uses to run the business, consistency of information over time, and comparability of information among companies, particularly in the same industry (Gosselin 1997; Flynn & Jacobs 2007). International Financials Reporting Standards are there to reduce such gaps by harmonizing applicable legislation, accounting standards and policies related to preparation and presentation of financial statements. A conceptual framework also plays a significant role.

There are differences between International Financial Reporting Standards and other countries' Generally Accepted Accounting Principles (i.e. in UK and USA), which affect the way a financial ratio is calculated. IFRS also have different requirements for expenses; for example, if a company spends on development or investment for the future, it does not necessarily have to be reported as costs (it can be capitalized). Another difference between IFRS and GAAP is the way inventory is accounted for. There are two ways to keep track of this, first in first out (FIFO) and last in first out (LIFO). FIFO means that the most recent inventory is left unsold until the older inventory is sold; LIFO means that the most recent inventory is the first to be sold. International Financial Reporting Standards prohibit LIFO, while American and other countries' standards allow companies to use either freely.

RESEARCH METHODOLOGY

The objective of the financial statements prepared under International Financial Reporting Standards is to extend the list of users of these financial statements from solely local Russian users to foreign users. According to IAS,

1 Presentation of Financial Statements as a minimum, the statement of comprehensive income shall include line items, which present the following indicators for the period: revenue; financial costs; the share of profit or loss of associated firms and joint ventures calculated using the equity method; tax expenses; profit or loss; total comprehensive income.

Table 1 compares contents of a statement of comprehensive income prepared under International Financial Reporting Standards and under Russian Accounting Standards. It is necessary to mention that International Financial Reporting Standards influenced the income statement prepared under Russian Accounting Standards because most of the line items in the income statement (Russian Accounting Standards) are similar to the line items of the statement of comprehensive income (International Financial Reporting Standards).

TABLE 1. Comparison between line items in the financial statements prepared in line with International Financial Reporting Standards and Russian Accounting Standards*

Statement of comprehensive income (International Financial Reporting Standards)	Statement of Financial results (Russian Accounting Standards)
Revenue	Revenue
Gross profit	Operating profit or sales profit/loss
Financial costs	Cost of Sales Commercial costs Management costs
Share of profit or loss of associates and joint ventures accounted for using equity method	Income from shareholdings
Tax expense	Current income tax Deferred tax asset Deferred tax liability
Profit/Loss	Gross Profit/Loss
Total comprehensive income for period	Net Profit/Loss

Note: *TABLE 1 was prepared basing on Russian accounting legislation and International Financial Reporting Standards

Even though the statement of comprehensive income (International Financial Reporting Standards) and the income statement (Russian Accounting Standards) are similar, the figures for both statements are calculated differently. For example, according to International Financial Reporting Standards 15 Revenue from Contracts with Customers, revenue has to be recognised and reflected in the statement of comprehensive income only if future economic benefits are highly probable and the economic benefits can be measured and identified reliably. According to Russian Accounting Standards, not only the criterion of revenue recognition has to be considered but also the criterion of the right of ownership has to be taken into account (Lere & Saraph 2006). If the right of ownership' criterion was not met, revenue cannot be recognised and reflected in the income statement (Varkulevich & Bulgakova 2017).

The income statement and its figures give a good basis for the factor analysis of profit and loss. It also helps to evaluate and understand the factors, which influence financial results of a company. The methods of analysis of an income statement depend on whether external or internal users of financial information carry out the analysis as the internal users also analyse management accounting figures. Hence, we can define internal and external methods of analysis of an income statement. The internal method of analysis can include the following stages: structural and dynamical analysis of income and costs in a company within a certain period of time, their dependence and evaluation; dynamical analysis of profit figures; structural analysis of an accounting profit and evaluation of structural changes in profit (horizontal analysis of a profit before tax); factor analysis of profit figures and evaluation of their influence; and coefficient analysis.

The first step in any analysis of an income statement is structural and dynamical analysis of income and expenditure of a company. Any profit figure is calculated as a difference between income and expenditure. The objective of structural and dynamic analysis of income and expenditure is to understand their structure and position in the previous and current periods. Another objective is to evaluate and understand changes in income and expenditure and to compare them in the reporting and previous periods. The quality of income is defined in this analysis. If the share of income earned from standard activities is significant, the quality of income is then considered to be good. The notes to the financial statements give detailed analysis of the costs. The costs are analysed according to their elements and functions in the notes. Structural and dynamic analysis also includes relative indicators that will explain how total revenue relates to total costs.

The second step in analysis of the income statement includes horizontal analysis of profit. Profit is evaluated and dynamics of the profit figures are identified. Some sources of income and costs have a higher impact on the

total profit figure than others and therefore have to be considered. Stability of the current and future income is analysed.

The next step is vertical analysis of the income statement. At this stage individual income and expenditure articles are considered and their influence on the total profit figure is identified. Different methods are applied while carrying out vertical analysis. The profit figures (the gross profit, margin profit, accounting profit) are calculated as percentage of total revenue VAT exclusive for the reporting period. According to Efimova (2013), analysis of the intermediate level of profitability has to be considered. The main disadvantage of vertical analysis is that not all the income and expenditure influence the sales figure directly. Hence, the best solution here is to analyse the structure of accounting profit or profit before tax.

Factor analysis of the profit figure in the income statement is the most complicated one. There are many factors, which influence financial performance of a company. Some factors can easily be identified with the help of factor analysis because they influence financial performance directly. Other factors are impossible or difficult to identify because their influence on financial performance is indirect (Green & Amenkhienan 1992). Both internal and external factors may affect financial performance. The external factors include inflation and government policies in the area of pricing, breaches of contracts by suppliers, financial and banking institutions. A company cannot change the external factors, while the internal factors can be changed (Malik & Sullivan 1995) because the internal factors depend on business activities of the company. The internal factors, which influence financial performance of a company can be classified as the first, second and third level factors. The first level factors are the factors which exert direct influence and change the accounting profit in an income statement. An additive model based on the method suggested by Van and John (2009) is shown below:

$$AP = SR + OI + IR - IP + OIR - OC \qquad (1)$$

Where;

AP is an accounting profit or profit before tax;
SR is Sales Revenue;
OI is other income received from shareholding in other companies;
IR and IP is interest receivable and interest payable;
OIR and OC is other income receivable and other costs.

Second level factors influence the accounting profit by changing sales revenue. The examples of the second level factors are the net sales revenue (NSR), operating costs (OC), commercial and administrative costs (CC and AC). An additive model for the second level factors based on the method suggested by Van and John (2009) can be presented as follows:

$$AP = NSR - OC - CC - AC + OI + IR - IP + OIR - OC \qquad (2)$$

The influence of each factor can be identified by way of systematic replacement of parts of the formula shown above. Another significant part in the factor analysis is to understand the role of taxation. The following has to be analysed and calculated: the income tax and its influence on the net profit and the effective tax rate.

According to Sheremet (2016), the real effectiveness of operating activity of a company can be characterised by its sales margins. The margin of a particular activity has to be calculated, its dynamics to be followed and the main factors, which influence it, have to be identified in order to carry out the sales profitability analysis. Sales profitability (SP) can be calculated by using the following additive model:

$$SP = (NSR - OC - CC - AC + OI + IR - IP + OIR - OC)/NSR \qquad (3)$$

The formula demonstrates that the same factors influence the sales margin and the accounting profit. The quantitative influence of each factor can be evaluated by chain substitutions. As far as the internal analysis of an income statement is concerned, it should be carried out basing on management reporting as well as financial reporting. Such an analysis has to include not only an income statement but also analysis of the profit quality and its forecast. The income and costs have to be very detailed. The income has to be reviewed in connection with average profitability, market analysis, risk assessment and competition. The cost analysis has to be carried out as well. Costs have to be classified basing on their economic substance, calculation groups, responsibility centres and processes (Ruhl & Hartman 1998). If relation between the sales figure and operating, commercial and administration costs shows reduction in sales, the cost analysis points to cost control issues (Pavlatos 2011).

Financial performance can be measured by the changes in equity during the reporting period. Special financial indicators can evaluate and explain the ability of a company to increase its share capital. Some factors have a great influence on profitability. They can be calculated by performing chain substitutions and a three-factor model based on the following methodology suggested by Van and John (2009):

$$R = \frac{P/N}{F/N + E/N} = \frac{\lambda^P}{\lambda^F + \lambda^E}, \qquad (4)$$

where $\lambda^P = P/N$ is sales profitability;
$\lambda^F = F/N$ is capital intensity of sales of non-current assets;
$\lambda^E = E/N$ is capital intensity of sales of current assets.

Sales profitability can be characterised by the following formula:

a) changes in sales profitability can be shown as:

$$\Delta R_{i+1}(\lambda^P) = R_{i+1}(\lambda^P) - R_i \qquad (5)$$

RESULTS

This section demonstrates practical application of a three-factor model (5,6,7) of return on equity. As an example, consolidated financial statements will be presented (a statement of comprehensive income and a cash flow statement). These statements were prepared under International Financial Reporting Standards in 2013-2016 by Russia's biggest carmakers AVTOVAZ Group, GAZ Group, KAMAZ Group and SOLLERS Group. The original data used in the consolidated financial statements are shown in Appendix 1.1. When using index 0,1 which shows that the mark relates to the previous period given as comparison to the current period (8), the general changes, which impact equity, the sales margin, the capital ratio and turnover of current assets are demonstrated in Appendix 1.2.

There were changes in equity of AVTOVAZ Group in 2013-2016 with the sales margin being the most influential factor here (the negative figure amounted to –0.4197 and the positive figure to 0.2659). The less influential factors were the capital ratio (the negative figure stood at –0.1127) and asset turnover (the negative figure stood at –0.0168 and the positive figure at 0.0714 (Figure 2).

where $R_{i+1}(\lambda^P) = \dfrac{\lambda_{i+1}^P}{\lambda_i^F + \lambda_i^E}$

b) changes in capital intensity of sales of non-current assets can be shown as:

$$\Delta R_{i+1}(\lambda^F) = R_{i+1}(\lambda^F) - R_i \qquad (6)$$

where $R_{i+1}(\lambda^F) = \dfrac{\lambda_{i+1}^P}{\lambda_{i+1}^F + \lambda_i^E}$

c) changes in capital intensity of sales of current assets can be shown as:

$$\Delta R_{i+1}(\lambda^E) = R_{i+1}(\lambda^E) - R_i \qquad (7)$$

where $R_{i+1}(\lambda^E) = \dfrac{\lambda_{i+1}^P}{\lambda_{i+1}^F + \lambda_{i+1}^E}$

Various factors influence return on equity but one of the main factors is the sales margin. This allows us to suggest a formula, which would factor in changes in return on equity during the reporting period:

$$\Delta R_1(\lambda^P) = R_1(\lambda^P) - R_0 \qquad (8)$$
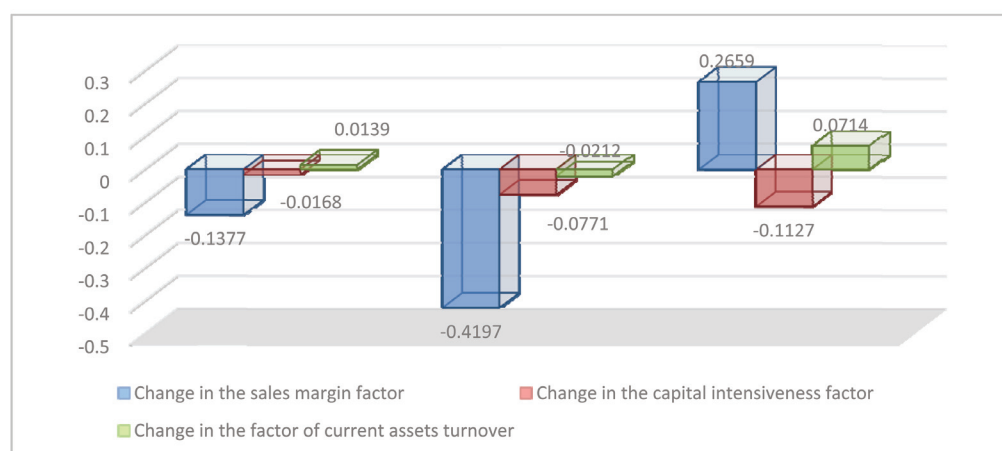

FIGURE 2. Factors influencing changes in equity of AVTOVAZ Group

Looking at the equity changes at GAZ Group, we see that the most influential factor was the sales margin (the negative figure was –0.0424 and the positive figure 0.0326). The capital ratio (the negative figure was –0.00291) and asset turnover (the negative figure –0.013374) were less significant in this case (Figure 3).

The sales margin factor was the most influential in KAMAZ Group in 2013-2016 in the changes in equity (the maximum negative figure was –0.0442, while the positive figure was 0.0302). The asset turnover factor also played an important role with the maximum positive figure of 0.0103. The capital ratio played a less significant role with its positive figure of 0.0018 (Figure 4).

The sales margin factor was also the most influential of all in the SOLLERS Group of companies in 2013-2016 (its negative figure was –0.2947 and the positive figure

was 0.2700). The capital ratio factor (with its maximum figure of 0.0193) and the asset turnover factor (the positive figure was 0.0214 and the negative figure was – 0.0170) were less influential (Figure 5).

Therefore, the analysis of a three-factor model has demonstrated how equity changes and what factors influence it. We can make the following statements. The sales margin is the most influential factor, because there can be both a negative and a positive influence on the final financial results when we talk about the sales margin in a certain period of time. We have proved that the asset turnover and the capital ratio are less influential. Such dependence on equity can be described by the following formula:

$$\Delta C = \alpha R_{i+1}(\lambda^P) + \beta R_{i+1}(\lambda^F) + \gamma R_{i+1}(\lambda^E) \qquad (9)$$
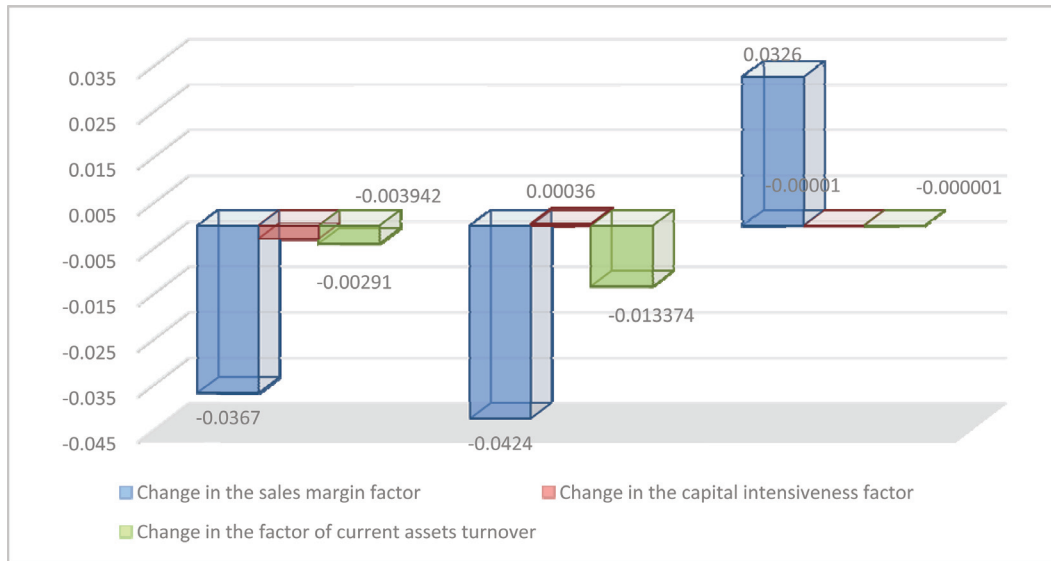
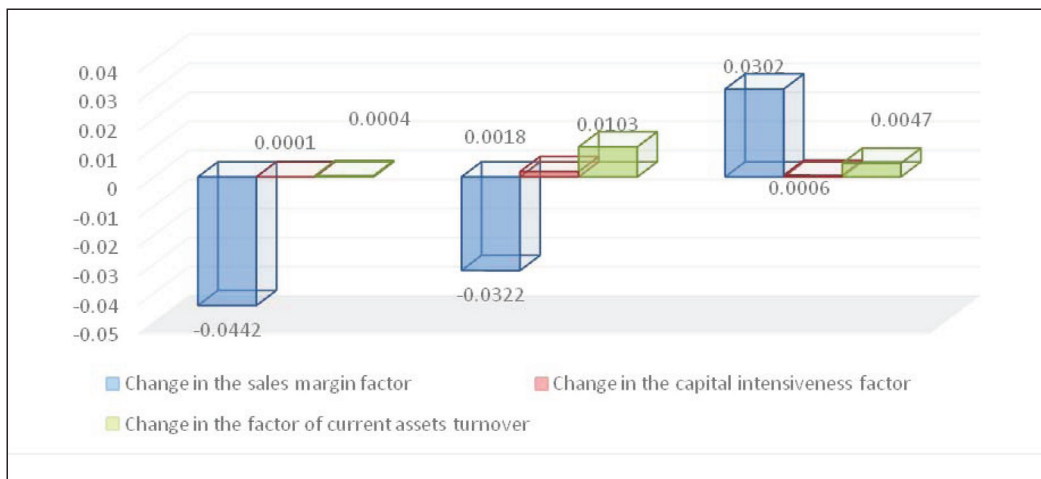FIGURE 3. Factors influencing changes in equity in GAZ Group

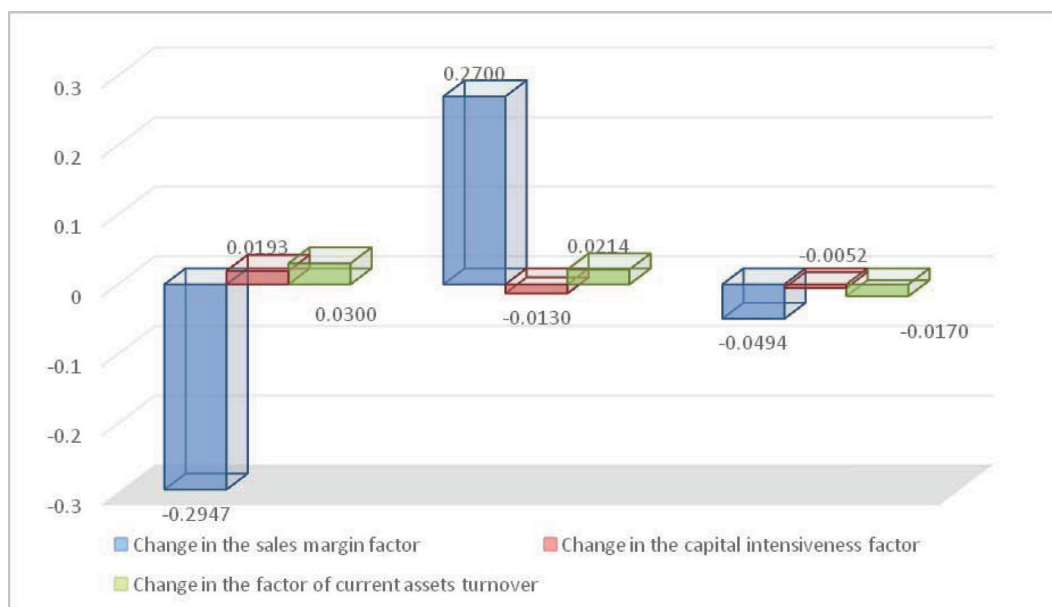FIGURE 4. Factors influencing changes in equity in KAMAZ Group

FIGURE 5. Factors influencing changes in equity in SOLLERS Group

where » γ » β – margin is the most significant factor, while the capital ratio has less significance;
ΔC – equity changes.

DISCUSSION

The existence and development of the car making industry is one of the priorities of all economically developed countries. If the car making industry is well developed, a country can independently provide cars, all necessary machinery, buses and agricultural equipment to its population. Moreover, if the car making industry is developed, it triggers development of other industries and activities such as mechanical engineering, the chemical industry, the power industry etc (Mangan 1995). The car making industry also creates jobs and develops infrastructure, including all the road networks. It increases turnover of internal and external freight traffic.

External users and stakeholders demonstrate great interest to the car making industry of the Russian Federation. The car building firms' investment attractiveness depends on many factors, including financial reporting figures. When analysing the financial figures, one should understand and analyse the economic conditions and markets, where the company operates. The economy of the Russian Federation bears some features of an emerging country. It is sensitive to the oil and gas price fluctuations, according to a research by (Osipov et al. 2017). Low hydrocarbon prices, political tensions and extended economic sanctions against some companies have a negative effect on the Russian economy. All these factors contribute to economic recession and reduction of GDP. There is still no stability on the financial markets, prices fluctuate and the bid-ask spreads in trade operations have widened. Russia's rating was downgraded to the junk level. As a result, the cost of capital is now very high and its affordability is limited. Future economic growth is uncertain and this can hurt the financial position, operation results and economic future of the companies under consideration, according to Moody's Investors Service (Kennedy & Affleck-Graves 2001). Therefore, operations and economic prospects the carmakers depend a lot on the accounting policies accepted internally (Appendix 2).

Analysis of the accounting policies accepted by Russia's biggest carmakers, such as AVTOVAZ Group, GAZ Group, KAMAZ Group and SOLLERS Group, was done in 2013-2016. Revenue measurement and recognition, stocks and costs were analysed. According to this analysis, the accounting policies of the carmakers are similar and their financial results are comparable. There are similar trends in financial reporting of the analysed companies. As an example, assets and liabilities in the statement of financial position are grouped as current and non-current and costs are grouped according to their function in the statement of comprehensive income. The statement of comprehensive income is not only prepared in line with International Financial Reporting Standards but also includes the lines required by Russian Accounting Standards. The gross profit is calculated by deducting operating costs from total revenue. Such a formula is also applied in Russian accounting practice. All the companies increase gross profit from year to year, while VAZ Group shows a loss.

In our opinion, the gross profit figure plays a key role in understanding the financial position of a company. All information in the financial statements has to be reliable so that external users can make their decisions based on it. We believe that a gross loss could be avoided, if the goods and raw materials are tested timely to impairment. Producing companies do not need to impair raw materials, if the end product is profitable. If the end product is not profitable, the cost of raw material from which it is produced has to be reduced to the net sales costs. All the companies provide for an impairment reserve in case the stock value declines. The reports reflect the stock figures after deduction of the reserve. Although there can be situations when the goods produced are not profitable. The total cost of goods includes direct costs, part of overheads, non-refundable taxes, recycling collection fees and other fees. In this case, we suggest reducing the costs of goods to the level of the net sales price at the point of sale and revenue recognition. Therefore, the gross profit (shown as a difference between the sales and the cost of sales) will never turn into a loss in the statement of comprehensive income (Table 2).

TABLE 2. Financial results showing deduction of the cost of sales to the level of sales. VAZ Group' financial results for 2016 (mln. rubles)

Actual figures		Figures shown when final goods have reduced their value	
Sales	184931	Sales	184931
Cost of Sales	(186828)	Cost of Sales	(184931)
Gross Profit	(1897)	Gross Profit	0
		Impairment loss	(1897)

The profit figure demonstrates the company's absolute effectiveness as a business entity in all areas such as production, sales, procurement, finance and investment. Financial results also show how the company is developed economically and how financial relations with its business participants develop.

If profit grows, the company can reinvest, expand its production and create extra social benefits and incentives for the employees. Profit is also a source of income for budgets of different levels (federal, republican, and local) and a source of timely debt repayment to banks, creditors and investors. Therefore, the profit figure is a key figure if we need to understand the results of business activity of a company, its reliability and financial stability as a business partner.

MANAGERIAL IMPLICATION

The method used to write off the cost of stock affects the cost of sales directly. This means that if we change the method of writing off the cost of inventory, we can increase or decrease the cost of sales and that will change the gross profit directly. The following figures are included in the statement of comprehensive income:

1. total sales for the reporting period;
2. total cost of sales;
3. recurring income and expenses unrelated to the core business of the company;

The main goal of analysis of the figures in the statement of comprehensive income are the following:

1. analysis of income and costs, their structure, contents and dynamics;
2. analysis and further evaluation of the company's profitability and its dynamics;
3. factor analysis of a gross profit and profit before tax;
4. analysis of the quality of profit;
5. analysis and further evaluation of the net profit use;
6. margins calculation and its factor analysis based on modelling.

CONCLUSION

Such an analysis helps the top management of a company understand potential development and growth of a company. Profit is one of the main sources for the current needs and investment of a company. For the shareholders, the analysis of financial results gives a better understanding of how to increase their dividends. Creditors need such information to be able to understand solvency of a company to make correct decisions on whether or not to issue a loan. State institutions, including the tax authorities, need financial information about a company to have an idea of the taxable profit figures. If we are talking about transport organisations, its shareholders need more than just a statement of comprehensive income because it fails to show all the factors affecting the gross profit. Such factors can be: transportation costs, transport infrastructure, market prices for raw materials and production materials. Based on the factors listed above we can say that a current statement of comprehensive income bears some limitations in terms of analytics. Therefore, extension of analytical options of this statement remains an open question nowadays.

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APPENDIX 1.1. Data used by companies to produce consolidated financial statements under IFRS

	AVTOVAZ Group				GAZ Group				KAMAZ Group				SOLLERS			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Factor 1 Accounting Profit/Net sales Income (Excl. VAT)	-0,03814	-0,13199	-0,41388	-0,25986	0,03498	0,01542	-0,01414	-0,00027	0,02627	-0,00168	-0,02659	0,00964	0,02627	-0,00168	-0,02659	0,009645
Factor 2 Non-Current Asset/ Net sales Income (Excl. VAT)	0,43893	0,38463	0,309986	0,19367	0,26889	0,32830	0,34086	0,33217	0,248904	0,26118	0,30487	0,22768	0,24890	0,26118	0,30487	0,227685
Factor 3 Current Assets/ Net sales Income (Excl. VAT)	0,24268	0,28701	0,269314	0,33674	0,26372	0,369286	0,08389	0,083350	0,38318	0,51287	0,89379	0,49823	0,38318	0,51287	0,89379	0,498233

APPENDIX 1.2. The change in factors that affect equity in companies, which prepare consolidated financial statements under IFRS

	AVTOVAZ Group			GAZ Group			KAMAZ Group			SOLLERS		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Factor 1	-0,13768	-0,4197	0,265871	-0,03673	-0,04237	0,032638185	-0,04423328	-0,03217	0,030226	-0,29473	0,270003	-0,04936
Factor 2	-0,01676	-0,07705	-0,1127	-0,00291	0,000359	-0,000013418	5,07138E-05	0,001835	0,000554	0,019306	-0,01302	-0,00521
Factor 3	0,013887	-0,02119	0,071357	-0,00394	-0,01337	-0,000000855	0,000437249	0,010332	0,004686	0,030032	0,021392	-0,01702

APPENDIX 2. Analysis of current accounting policies applied to revenue recognition and measurement, stock and cost of sales in companies, which prepare their statements under IFRS

Recognition and measurement	GAZ Group	SOLLERS	KAMAZ Group	AVTOVAZ Group
Stock	Stock is valued at the lowest figure – at production cost or Net realisable value (NRV). The weighted average method (AVCO) is applied as a stock valuation method. The costs of produced goods and Work in Progress include part of overheads based on a normal capacity level.	Stock is valued at the lowest figure – at production cost or Net realisable value (NRV). The weighted average method (AVCO) is applied as a stock valuation method. The costs of produced goods and Work in Progress include osts of raw materials, staff costs and other direct costs, part of production overheads based on a normal use of production capacities. They do not include financing costs.	Stock is valued at the lowest figure – at production cost or Net realisable value (NRV). The weighted average method (AVCO) is applied as a stock valuation method. The costs of produced goods and Work in Progress include the costs of raw materials, staff costs and other direct costs, part of production overheads based on a normal use of production capacities. They do not include financing costs. The net realisable value is calculated as the sales price (considering normal business activity) less costs to sell and the costs to finish the production stage.	Stock is valued at the lowest figure – at production cost or Net realisable value (NRV). The weighted average method (AVCO) is applied as a stock valuation method. The costs of produced goods (based on the actual costs) and the costs of Work in Progress (based on normal use of production capacities) include the costs of materials, direct staff costs and related indirect production costs.
Revenue	Revenue from the sale of goods shows an actual figure of revenue already received or receivable less returns and trade and bulk discounts. Revenue is recognised in the financial statements at the moment when all the risks and rewards are transferred to a buyer, when the probability that revenue will be received is very high, when we can fairly estimate the costs to sell and the costs of return of goods.	Revenue received from the sale of cars, engines and spare parts is recognised at the moment when all risks and rewards from the ownership of goods are transferred to a buyer. This usually happens when the goods are shipped. If the Company takes responsibility to deliver goods to a destination, recognition of revenue is at the moment when the goods are delivered to this destination and handed over to value of goods received as part of a barter deal, the fair costs of goods/services are used. Interest receivable is recognised based on the terms of financial agreement and the effective rate method is used.	Revenue from the sale of trucks, spare parts and other goods is recognised at the moment when all risks and rewards from ownership of goods are transferred to a buyer. This usually happens when the goods are shipped. If the Company takes responsibility to deliver goods to a destination, recognition of revenue is at to this destination and handed over to the customer.	Revenue is recognised when an inflow of economic benefits is probable and when the revenue figure can be measured reliably irrespective of the time when the payment is made. It is defined as a fair value of consideration paid or payable less discounts, taxes and customs fees.