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SOME ASPECTS REGARDING THE QUALITY OF THE ACCOUNTING INFORMATION AND ITS USERS

The accounting information is a corner stone when making appropriate managerial decisions and providing economic indicators to external contractors. To this end it is necessary that while keeping business accounts the enterprise should provide neutrality of the information coming from it, i.e., it should exclude one-sided gratification of the interests of certain groups of information users, if through a selection of a definite form of presentation it impacts the decisions and assessments made by them in view of reaching predetermined results and ramifications.

In this case the difficulty lies in the fact that the very concept of “users” is rather indefinite and obscure: in fact, the users are many and each of them has certain interests. The latter stem mainly from their interests, though many of them do not become aware of their interests. One should aim at striking a balance between the interests of the various groups of accounting information users.

In order to study the relation of the accounting information users to the fairness principle it is necessary for one to outline target groups of information users, who are interested, one way or another, in its correct handling and utilization.

This is a possible classification of accounting information users:

The business’s managerial bodies are interested in receiving information for making managerial decisions within the entire spectrum of issues: strategic and practical planning, short-term and long-term funds management, current management of assets and liabilities, etc... Therefore, the managing board is interested in using high-quality information in view of achieving a fair assessment in reducing the risks of the managerial decisions made.

The company’s personnel need information enabling them to predict stability and solvency of the employer’s business, who duly disburses salaries and provides steady work for those employed in the business. In so far as the level of salary and bonuses impacts the business’s profit,

the assistants are not interested in the fair value of the economic performance outcome in cases when the financial result is underestimated. However, when the amounts for salaries are harshly devaluated owing to inflation and factors related to the world economic crisis, the employees incur a direct material and moral damage the adoption of the principle of fair price is a key social guarantee to the company’s personnel.

Shareholders can directly participate in the business/ the ones included in the internal users/ and those having shares in the business. Both show an increased interest in the capability of the business to provide income to their invested capital, as well as owing to the possibility of their shares’ value being increased. Therefore, they should show an obvious interest in the quality of the information concerning the fair evaluation of the performance outcome. Jacques Richard is of the following opinion on this issue: “...in a rather trivial fashion current shareholders and their managers are not interested in more information, but in more short-term money, and accountancy plays a key role namely with regard to these demands”.¹ It is necessary that many more shareholders heed the quality of information.

The suppliers and creditors providing to the business their commodity and financial resources are interested in information enabling to determine the reliability of the contractor, the probability of timely disbursement and securing the credits made. The more the supplier depends on the business client, the more carefully they keep track of its financial status and results to assess its performance, which is related to the degree of reliability and timeliness of disbursement. The given group of information users is also very interested in its operational utilization.

The clients and buyers are dependent on the business in so far as they look upon it as a supplier of the necessary goods and services and they are interested in the steadiness of deliveries and in the conducting of the services. The stronger the clients are dependent on the supplier the more interested they are in the stability of its financial condition and from here comes their interest in

¹ Jacques Richard. The New Accounting Capitalism. In *Le monde diplomatique*, Bulgarian edition, issue 7/2006, p. 7.

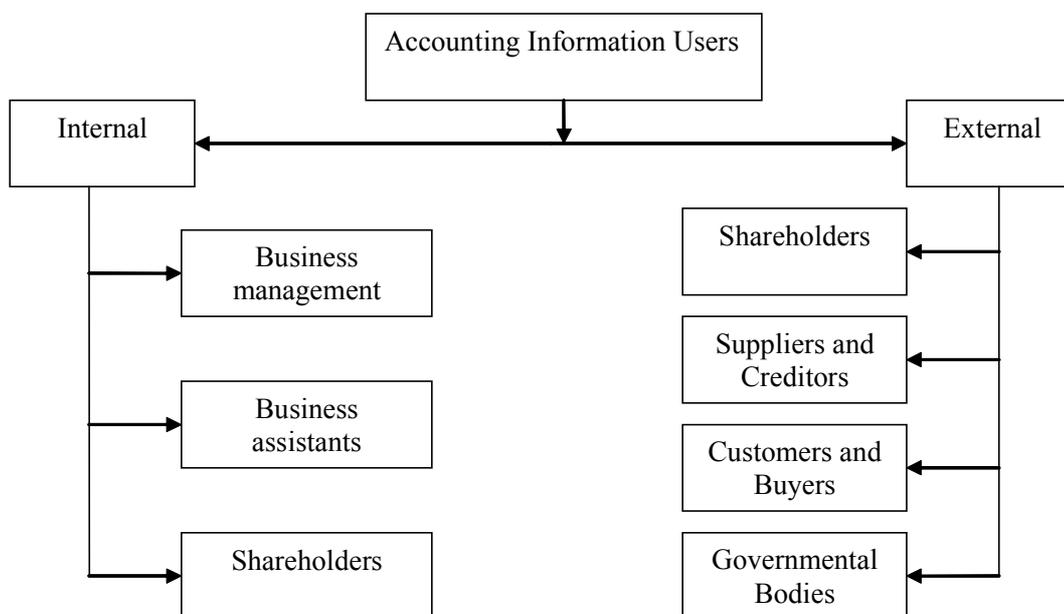


Fig. 1. Accounting Information Users

observing the contractual obligations. This is also accomplished by the availability of high-quality- and duly received information.

The state authorities embodied by the tax administration in most cases are opponents of adopting the principle of the fair price of financial results. They are not interested in the principle of fair price, neither are they interested in prognostic information. Very often they are guided by their own rules regulated in normative acts for endorsing and evaluating the objects of accounting. Although there is an ambiguous relation of the fair price principle to the interests of the treasury, in fact its acceptance in separate cases results in tax profit lowering or taxes on assets rise owing to the effect of the fair value on the size of the local taxes and charges.

Thus, the principle of the fair evaluation of results impacts the quantities of the financial indicators. It affects differently the business sharers and the users of financial information as far as each group pursues its own goals and carries out its own tasks. Most often the interests of accounting information users are opposing as concerns the employment of the fair price principle. In this light it is very difficult for one to characterize the concept of “users’ needs”. In some cases the needs are related to the interests and they complement one another. In other cases needs and interests can be various, even unbounded and often radically different. In yet other cases sometimes users do not themselves realize the needs and then things become even more difficult. To this end, it is necessary that each concrete case be studied with regard to the necessary and useful accounting information for each user.

Financial economic indicators are leading in

determining the necessary accounting information. The interaction of the fair evaluation principle with the other principles of financial accountancy has an impact on organizing and keeping the accounts of the business. It is obvious that the assets and liabilities critical to the business at a specific point in time should necessarily be subject to a fair evaluation. The methods of keeping financial accounting presume the fact that without knowledge of those methods it is impossible for one to make an authentic evaluation of the financial status of the business. For that purpose one is faced with the necessity of studying the existing criteria, which rank the information as essential to the individual users of accounting information.

In some cases accounting information can be viewed as essential provided the knowledge gained from that information is crucial to the users of financial accountancy. In fact, the essence as a quality of information should impact the decisions made by the users of the financial accountancy. It helps one determine the tactic of the business’s behavior to select the sequencing and related consistency of their accounting policy. For example, the relatively cheap assets can be accounted for as outlays at the point of their acquisition, although they themselves can be used within a longer timeframe. This is useful in some cases. In other cases the approach should be vice versa — the value of cheap assets should be incorporated in the newly created product for a longer period of time.

The stance of the International Financial Reporting Standards /IFRS/ recognizing information as essential is when its non-releasing would impact economic decision-

making. For this purpose they ought to be acknowledged by most of the explorers of the report when using their information. Here the most important of all the requirements is that essential information should impact decision-making. One can say that essence is established as a selection of criteria for information, though it is a different issue whether those criteria are unequivocal.

The essence can be set by qualitative or quantitative characteristics. Qualitative characteristics are typical of the facts on the business being crucial to the users of reporting in a situation of unpredictability, non-typicality, in a crisis situation.

We can also note that information essence depends on the size of the object or the mistakes assessed in concrete conditions as lapses or contortion. Thus, the essence is a starting threshold or point and not a key qualitative characteristic, which must embrace information, concerning what would be useful.

The quantitative features of the essence are even more difficult to determine, so often there is no unanimous interpretation of such features. Thus for example, we can assume that the margin between the reported amount and the amount found as a result of the conducted verification exceeding 10% is recognized as essential. Should the margin be between 5-10%, the decision whether this is essential is made by the analysts — managers, accountants, auditors — at their discretion. A margin not exceeding 5% is considered immaterial. In some countries as the USA the concept of information is not set as per quantitative indicators. In the USA the Board of financial reporting standards /Statements of Financial Accounting Concepts — SFAC/ in the Formulations of the conception on the financial report lays stress on the relativity of the concept of essence. Information essence is determined by frameworks /beyond which/whereby accounting may be reduced or presented incorrectly. Disregarding those frameworks may deceive the users of information or impact them by partly reduced or misrepresented information. When determining the essence of information in various countries it must be tied down to the currently applicable laws related to the performance of each business and country.

In the practice of Bulgaria often the category of essence is viewed from the standpoint of taxation. The reasoning on this topic is along the lines of the following: as far as a piece of information is significant from the standpoint of taxation, it is also essential to the users of financial reporting, and thence as accounting information.

Te sequencing of setting up accounting indicators for a given business extends its independence when evaluating the indicators for essence. Specifically, it is recommended that an indicator be considered essential if its inability to be unveiled may impact the economic

decisions of the interested user made on the basis of the financial information. Also the business's decision as to whether an indicator is essential is conducted depending on the evaluation of the indicator, its nature and the concrete circumstances of its origin. In other words, the business has the right to make its own decision. To recognize whether a piece of information is essential or not, one can also employ as a reference point the quantity or the individual weight of the indicators within the totality of indicators. Information must also be regular and stable within the framework of one reporting period of time.

In conclusion, from the stance on the quality of the accounting information, its essence must be determined by the accountant and he should pursue and employ his professional skills and reasoning in their capacity as arguments in the organization of the entire accounting process.

Accountancy is the key information system of the business. Accounting as an organized system of information in the first place must determine the place of the balance of payments as a basic form in the system of information. In general, in economic science the concept of balance is used for designating a system of interval indicators characterizing the resources in view of their utilization for a given period of time/interval/ and their sources depicted in definite tables as of certain dates.

From a technological standpoint the functioning of the accounting system of the business constitutes a process of uninterrupted aggregation of data. In this process it is important that an optimum be established. The low degree of data aggregation results in a lack of system and uncontrollability of huge volumes of circulating information. The overwhelmed aggregation of data, including accounting ones results in a harsh reduction of the synthetic and analytical nature of information. The level of data aggregation determines the degree of analytical nature of the balance sheet and in this case the relation is contrariwise proportional: the higher the level of aggregation the less analytical is the balance. For this reason the issue of expedience and the necessary degree of complexity are a matter of discussion. This concerns the necessity of extending entries, introducing additional groups, etc... Particularly, this issue was handled by the science of balances, which came into being at the turn of the 19th century in Germany. Within this school of thought balance requirements were set up: **precision, completeness, clarity, fair-dealing, continuity and unity**. These requirements in their greater part are valid today as well. They also determine the requirements to the accounting information contained in the balance sheet.

The degree of precision depends on the opinion of jurists and managers, i.e., the law and objectives put forward

by the high-ranking administration of companies. At the basis should be stipulated the requirements of the Commercial Law, Accountancy Law and other related laws.

The requirement for clarity is related to the fact that the balance sheet should be comprehended by a specialist as well as everyone who is interested in the matter. Recognizing all of the accomplishments of the theory and practice of financial reporting, we can differentiate several reasons concerning the lack of possibility for the clear understanding of the balance sheet and its information capacity:

1. Inaccurate name of the entries and sections in the balance sheet, and insufficiently established balance sheet terminology. The key concepts of economic activity in practice and theory are interpreted in different fashions;

2. Non-systematic, in some cases illogical sequencing of the balance entries. In order for the balance sheet to be clear and comprehensible it is necessary that one should pursue the road of a simplified balance — without regulating entries, via grouping of several entries into one, etc...;

3. Ambiguity with regard to the accounting information in the balance sheet;

4. The contradictions, which are often made manifest among accounting information users.

In line with the requirement for a fair price of the property the balance sheet must be drawn up recognizing the requirements of the normative foundation based on primary documents. There are many factors having an impact on the authenticity of the balance sheet:

1. Correctness in composing the primary information bearers;

2. Correctness in covering the facts of economic life on the accounts;

3. Precision of the accounting reports;

4. Validity of the balance sheet and covering the results of the conducted stock-takings;

5. The methods employed for reporting the accounts;

6. The accounting software, and

7. Other.

By continuity we mean sustaining through the corresponding years the structure of the balance and maintaining the principles of evaluation from previous to current year. This is necessary for the continuity of the very accounting information by calendar years.

By balance unity we mean that the balance of the mother company must incorporate the results of the balances of the daughter companies. In contemporary accounting practice the issue of accounting data aggregation in the balance sheet to date is extensively being discussed by specialists. The accounting report/in particular, the balance sheet as well/ must be concise and embracing a

small size of paper bearers. But in practice the balance sheet information is utilized by various information users with various information requirements. In this light we must note that it is expedient that several forms of balance sheet be drawn up, oriented to different users.

The requirements aimed at the balance sheet relate to a large extent to the other components of the financial report as well — the Profit and Loss Account, the Monetary Flow Account and the Capital Account. All of them provide the necessary accounting economic information received via the accounting reports of the different categories of users. On this topic there is incremental talk concerning the composing and employing the financial account for taxation, statistical and other purposes, which results in distorting information. We deem it necessary to support the opinion of composing a unified account meeting the requirements of all information users.

Those requirements can be complemented by the indication — purpose of composing the account /in particular, the balance sheet/: in view of showing the financial result /dynamic balance sheet/, evaluation of assets /static balance sheet/ or other. For example, when diminishing the value of the depreciated assets a correct financial result is reached, but given a contingent realization their value would be distorted. And vice versa, assigning a correct market price to the asset, we inevitably distort the results — the profit and loss.

The accountancy balance sheet as a component of the accounting method incorporates as follows:

- A formal section — requisites, dates, etc...;

- An information section — composition and structure of entries;

- A methodical section — principle of making up entries;

- A target-oriented section — users' requirements.

It is well-known that the consumption value of accounting is its information usefulness. In order to form the most acceptable accountancy regarding the various groups of users and judging from the principle of fair evaluation of assets, capital and liabilities we should be guided by the principles indicated in the following diagram.

In addition to the above diagram we should note that the formal and information sections in total constitute the form of accounting and the presented formally logical scheme is feasible to accountancy as well as to managerial reporting since it includes most general postulates needed for its formation.

In conclusion, in the process of organizing and keeping business accounts, which are a company's key information system, we can point out that accountancy is:

1. An element of communication between the information users of the financial account and the

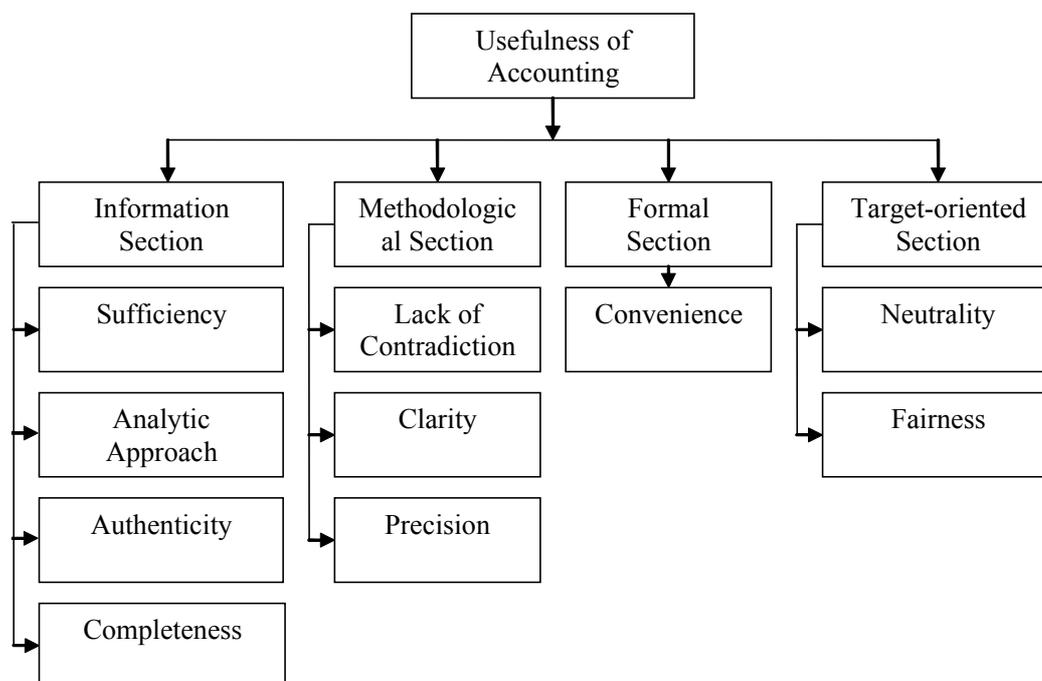


Fig. 2. Usefulness of Accounting

accounting scheme, i.e., it provides output information;

2. An element of link between the users of accounting and the accounting system, i.e., users would be able to correct and complement the forms and indicators of accounting in the process of development of the object of management and the external environment;

3. A method of control of the business and the participants in it;

4. A stimulus for investors;

5. A guarantor to creditors;

6. A source of information on the state budget proceeds.

All of the above underlies the receiving of high-quality information by the various users.

Dochev M. Some aspects regarding the quality of the accounting information and its users

The accounting information is a corner stone when making appropriate managerial decisions and providing economic indicators to external contractors. To this end it is necessary that while keeping business accounts the enterprise should provide neutrality of the information coming from it, i.e., it should exclude one-sided gratification of the interests of certain groups of

information users, if through a selection of a definite form of presentation it impacts the decisions and assessments made by them in view of reaching predetermined results and ramifications.

Key words: accounting, information, quality, aspects.

Дочев М. Деякі аспекти якості звітної інформації для її користувачів

Облікова інформація — наріжний камінь для ухвалення відповідних директорських рішень і забезпечення економічних показників для зовнішніх контрагентів. Вона повинна виключити одностороннє задоволення інтересів певних груп інформаційних користувачів.

Ключові слова: звітність, інформація, якість, аспекти.

Дочев М. Некоторые аспекты качества отчетной информации для ее пользователей

Учетная информация — краеугольный камень для принятия соответствующих директорских решений и обеспечения экономических показателей для внешних контрагентов. Она должна исключить одностороннее удовлетворение интересов определенных групп информационных пользователей.

Ключевые слова: отчетность, информация, качество, аспекты.

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