

Petar Pepur, Ph.D.

University of Split, Department of professional studies

21 000 Split, Kopilica 5

Phone: 00385914433835

E-mail: ppepur@oss.unist.hr

Branka Ramljak, full professor

Faculty of Economics in Split

21 000 Split, Cvite Fiskovića 5

Phone: 0038521430611

E-mail: branka.ramljak@efst.hr

THE ACCOUNTING ROLE IN IMPLEMENTATION OF FINANCIAL POLICIES IN TRADING COMPANIES

RAČUNOVODSTVENA ULOGA U PROVOĐENJU FINANCIJSKE POLITIKE TRGOVAČKIH KOMPANIJA

ABSTRACT

Accounting represents the inevitable activity in business performing. Cognition the accounting role stems from the 15th century by Benedict Kotruljević which was indicated on accounting importance in business managing. Through history accounting evolved from passive business role which was oriented exclusively on recording and presentation business events to the active business role in business management. The active role in business management, accounting primarily owed to the accounting choice, which offers possibility that with chosen accounting procedure and method affects the company business. Accounting choices are refer to the accounting policies adopted by company and which are defined as specific principles, rules and practices of financial reporting. Nowadays company business is marked by the dynamic and turbulent market trends within which the emphasis is on the availability of financial resources, respectively on the managing and obtaining the required financial funds and ensuring company liquidity and solvency. Exactly in the context of financial policies, companies trying to provide financial funds necessary for undisturbed business process. Terms of obtaining the financial resources are negotiate on the basis of published accounting information in the company financial statements. Starting from the fact, that companies with accounting policies choices affect the financial statement, which represent its business on financial markets and financial institutions with the aim of obtaining necessary financial resources, we put in relation the company accounting policies and costs of financial resources which arising from company financial policies. So the goal of research is to determine whether the companies which have a higher level of financial costs will try to present better business result by selecting accounting policies, which mitigates the negative impact of financial costs and improves the current business performance, with which company will ensure the attractive perception and better condition of obtaining financial resources. Research was conducted on a sample of trading companies, applying the logistic regression within statistical software (SPSS).

Key words: *accounting, accounting choices, accounting policies, financial policies, cost of financial resources*

SAŽETAK

Računovodstvo predstavlja neizostavnu aktivnost u obavljanju poslovanja kompanija. Spoznaja računovodstvene uloge proizlazi još iz 15. stoljeća od strane Benedikta Kotruljevića koji je ukazao na značenje računovodstva u upravljanju poslovanjem. Računovodstvo je kroz povijest evoluiralo od pasivnog poslovnog čimbenika orijentiranog isključivo evidentiranju i prikazu nastalih poslovnih događaja do aktivnog poslovnog čimbenika orijentiranog upravljanju poslovanjem. Ulogu aktivnog čimbenika u upravljanju poslovanjem računovodstvo dužuje prije svega računovodstvenom izboru u okviru kojeg se pruža mogućnost da se izabranim računovodstvenim postupkom i metodom utječe na poslovanje kompanije. Računovodstveni izbor vezuje se uz računovodstvene politike koje je usvojila kompanija, a definiraju se kao posebna načela, osnove, pravila i praksa financijskoga izvještavanja. Današnje poslovanje kompanija obilježeno je dinamičnim i turbulentnim tržišnim kretanjima u okviru kojih se naglasak stavlja na raspoloživost financijskim sredstvima odnosno na upravljanje i pribavljanje potrebitih financijskih sredstava te osiguranje likvidnosti i solventnosti kompanije. Upravo u okviru financijske politike kompanije nastoje osigurati financijska sredstva za neometano odvijanje poslovnog procesa. Uvjeti nabavljanja financijskih sredstava dogovaraju se temeljem objavljenih računovodstvenih informacija u financijskim izvještajima kompanija. Polazeći od činjenice da kompanije izborom računovodstvenih politika utječu na prikaz temeljnih financijskih izvještaja kojim se kompanije predstavljaju na financijskim tržištima i financijskim institucijama s ciljem pribavljanja potrebitih financijskih sredstava, u odnos se stavljaju računovodstvene politike kompanije i troškovi financijskih sredstava proizašli iz financijske politike kompanije. Stoga je cilj istraživanja utvrditi da li će kompanije koje imaju veći nivo financijskih troškova nastojati prikazati povoljnije poslovne rezultate izborom onih računovodstvenih politika kojima se ublažava negativan utjecaj troškova financijskih sredstava i poboljšava prikaz tekućih poslovnih performansi kompanije, čime kompanija osigurava atraktivnu percepciju i bolje uvjete nabavljanja financijskih sredstava. Istraživanje je provedeno na uzorku trgovačkih kompanija, primjenom logističke regresije u okviru statističkog programa (SPSS).

Ključne riječi: računovodstvo, računovodstveni izbor, računovodstvene politike, financijska politika, trošak financijskih sredstava

1. Accounting role in business management

Cognition the accounting role stems from 15th century by Benedict Kotruljević which was indicated on the accounting importance in business managing. Nowadays company business is marked by the dynamic and turbulent market trends, so the company has to manage with their business in a way to meet current and anticipate future business conditions. Their existences, company justifies by exchange goods and services with the environment, but except the goods and services company with environment exchange and information's which are crucial for business managing. Information exchange is performed by the management information system which collects financial and nonfinancial information's which together represent the base for making business decision. Significant part of such information's are obtained with the accounting assistance, what indicates the information character of accounting activities. The significance of accounting as an information system is reflected by the collection, processing, production and timely distribution information's which are necessary for supporting different level of management in making business decisions. The accounting provides different information's (Ramljak, 1999, 67):

- Information's which will present the rating of company business,
- Information's which will be able to direct the future direct activities
- Information's which are necessary for making business decision.

Regarding with above mentioned information's accounting is closely connected with the process of business management. Accounting provides the necessary information's through the financial

statements. The financial statements as the final accounting product are influenced by applied accounting policies, respectively the financial statements in a certain calculation period depends of applied accounting policies (Ramljak, 2011, 1). Accounting policies represent the central link between accounting theory and practice, because they are defined by accounting theory and their choice affect the accounting practice. The choice of accounting policies provides the possibility of allocating business performance through the calculation periods. Depending of the allocating business performance through the calculation periods, the accounting policies choices can be defined as aggressive or conservative. The aggressive accounting choice applied methods and procedures by which overestimates current business performance, respectively allocates the expected future performance in the current period and thus improves the current business performance. The conservative accounting choice applied methods and procedures by which underestimates the current business performance, respectively allocates the realized performance of current period in future periods and thus smoothing business performance. Consequently, the accounting is important tool of business management.

2. Financial policies of the company

Turbulent business environment puts in front of company the challenges of continuous tracking the market trends. Company ability to tracking the market trends is associated with company availability of financial resources, what implying the financial policy as significant. Financing (Starčević, 1995, 121) is the activity of obtaining and using of financial resources which are necessary for business starting and business continuity. The company financial activities are determined by financial policy. Financial policy (Starčević, 1995, 107) defines the:

- manner and intensity of capital market research,
- policy of acquiring the financial resources,
- policy of rational investment and using the financial resources,
- policy of circulation resources and maintaining the company solvency,
- policy of financial relationship with others.

Financial policy through the availability of financial resources ensures the smooth running of all business activities and tracking the market trends. Tracking the market trends requires to taking different activities which demand necessary financial resources. The using of financial resources company shows through the financial statements in form of financial costs.

3. The accounting role in implementation of financial policies in trading companies

A dynamic market trends require fast reactions to the new conditions, so company for adoption to the new conditions must have available financial resources, what indicates the role of financial policy in the company. Terms of using financial resources are negotiated on the basis of the published financial statements, which are affected by accounting policies choices. With its research (Dechow, Sloan and Sweeny, 1996, 1-36) found that companies use accounting methods of revenue increasing in order to reduce cost of capital. Consequently it can be assumed that the companies which have a higher level of financial costs will try to present the better business results by applying of aggressive accounting choice. Therefore, the accounting role in implementation of financial policies in trading companies can be displayed on the basis of relationship between the level of financial cost and the aggressive accounting policies choices. Starting from the fact that companies in the choice of accounting policies have two options, the choice of aggressive or conservative accounting policies, which implies a binary dependent variable with value 0 and 1, where is the value 0 indicator of conservative accounting policies (doubled depreciation rates), while the value 1 is indicator of aggressive accounting policies (regular depreciation rates) and that the independent variable is numerical, i.e. financial costs, adequate is the application of logistics regression. Research included the depreciation rates and the absolute value of financial costs and

relative value of financial costs (their shares in total expenses) for a period of three years (2010., 2011., 2012.) Applying the absolute values of financial costs the following results have been generated and presented in the Table 1. and Table 2.:

Table 1 Descriptive statistics

		N	Mean	Std. Deviation
TFS 2012	0	50	6,3310	,64366
	1	78	6,7580	,71911
	Total	128	6,5912	,71911
TFS 2011	0	50	6,3952	,74002
	1	78	6,8657	,65265
	Total	128	6,6819	,72296
TFS 2010	0	51	6,2766	,75742
	1	78	6,8448	,66795
	Total	129	6,6202	,75515

Source: author's research

Table 2 Analysis of variance

		Sum of Squares	df	Mean Square	F	Sig.
TFS 2012	Between Groups	5,555	1	5,555	11,642	,001
	Within Groups	60,119	126	,477		
	Total	65,673	127			
TFS 2011	Between Groups	6,747	1	6,747	14,256	,000
	Within Groups	59,632	126	,473		
	Total	66,379	127			
TFS 2010	Between Groups	9,953	1	9,953	20,052	,000
	Within Groups	63,038	127	,496		
	Total	72,991	128			

Source: author's research

Based on the descriptive statistics and analysis of variance can be concluded that all variables are appropriate, in accordance with the theoretical assumptions, which associated the higher level of financial costs and choices of aggressive accounting policies, as was confirmed by previous tables from which is evident the higher level of financial costs in companies which applying the aggressive accounting choice. Consequently, the all variables are included in a logistics regression, what produces the following results in Table 3.:

Table 3 Logistics regression

	B	S.E.	Wald	df	Sig.	Exp(B)
TFS 2010	,955	,457	4,360	1	,037	2,599
Constant	-9,847	2,912	11,433	1	,001	,000

Source: author's research

Regarding with the variable TFS 2010 (Financial cost from 2010), odds ratio is 2,599 and is statistically significant at a significance level of 3,7%, which means that for the higher level of financial costs is higher probability of choosing the aggressive accounting policies for 159,9%

instead of the conservative accounting policies. Applying the relative value of financial costs (their shares in total expenses) the following results have been generated and presented in the Table 4. and Table 5.

Table 4 Descriptive statistics

/ T2012; T2011; T2010	N	Mean	Std. Deviation
TFS 2012 0	45	1,5976	1,55654
1	65	2,4491	2,98359
Total	110	2,1007	2,52620
TFS 2011 0	45	2,0200	2,29772
1	65	2,8642	2,91249
Total	110	2,5188	2,69919
TFS 2010 0	45	1,7644	1,83820
1	65	2,6115	2,05887
Total	110	2,2650	2,00698

Source: author's research

Table 5 Analysis of variance

/ T2012; T2011; T2010	Sum of Squares	df	Mean Square	F	Sig.
TFS 2012 Between Groups	19,281	1	19,281	3,079	,082
Within Groups	676,322	108	6,262		
Total	695,603	109			
TFS 2011 Between Groups	18,949	1	18,949	2,640	,107
Within Groups	775,185	108	7,178		
Total	794,134	109			
TFS 2010 Between Groups	19,081	1	19,081	4,907	,029
Within Groups	419,967	108	3,889		
Total	439,048	109			

Source: author's research

Based on the descriptive statistics and analysis of variance can be concluded that all variables are appropriate, in accordance with the theoretical assumptions, which associated the higher level of financial costs and choices of aggressive accounting policies, as was confirmed by previous tables from which is evident the higher proportion of financial costs in companies which applying the aggressive accounting choice. Consequently, the all variables are included in a logistics regression, what produces the following results in Table 6.

Table 6.: Logistics regression

/ T2012; T2011; T2010	B	S.E.	Wald	df	Sig.	Exp(B)
TFS 2010	,208	,125	2,772	1	,096	1,232
Constant	-,411	,390	1,109	1	,292	,663

Source: author's research

Regarding with the variable TFS₂₀₁₀ (Financial cost from 2010), odds ratio is 1,232 and is statistically significant at a significance level of 9,6%, which means that if the proportion of financial costs increased for 1% is higher probability of choosing the aggressive accounting policies for 23,2% instead of the conservative accounting policies. Obtained results lead to the conclusion of significant accounting role in implementation of financial policies.

4. Conclusion

Accounting role in the business managing is recognized in 15th century and has been studied by the positive approach of accounting researches, which emphasize the accounting choices and opportunities which arising from the same. Cognition the accounting role in business management resulted with whole range of studies which attempted to find connection between accounting and others business functions. Following the mentioned studies stemmed and this research with aim to give an answer on following question: which is and what is the accounting role in implementation of financial policy. The answer to this question was obtained by connecting accounting policies choices with financial costs. The obtained results indicate:

- that for the higher level of financial costs is higher probability of choosing the aggressive accounting policies for 159,9% instead of the conservative accounting policies,
- that if the proportion of financial costs increased for 1% is higher probability of choosing the aggressive accounting policies for 23,2% instead of the conservative accounting policies,

what leads to the conclusion of significant accounting role in implementation of financial policies.

REFERENCES

Dechow, P.M., Sloan, R.G., Sweeney, A.P. (1996): **Causes and Consequences of Earnings Manipulations**, Contemporary Accounting Research, Vol.13, No.1, pp. 1-36.

Jelavić, A., Ravlić, P., Starčević, A., Šamanović, J. (1995): **Ekonomika poduzeća**, Faculty of Economics Zagreb, Zagreb.

Ramljak, B. (2011): **Računovodstvene politike – utjecaj na izgled financijskih izvještaja**, Računovodstveno-financijske informacije, br. 9., Udruga računovođa i financijskih djelatnika Split.

Ramljak, B. (1999): **Računovodstvene politike u malim poduzećima**, doctoral dissertation, University of Split, Faculty of Economics Split.