GENERAL ACCOUNTING SYSTEM ADJUSTMENTS TOWARDS ENFORCING QUALITY OF INTERNAL VALUES AND STRENGTHENING INVISIBLE BALANCE POSITIONS

Nino Serdarevic
Faculty of Economy, University of Zenica
Zenica
Bosnia and Herzegovina

SUMMARY
Accounting system in transitional economies generally relates to enabling true and fair picture of enterprises’ financial position and business performance. Great effort is invested in collecting, placing and valuating historical data using static models created in accordance with applicable standards. Complex structures and hard adjustability to strategic impact on business performance create significantly low cost-efficiency ratio. Correspondingly accounting loses on importance and moves towards administrational necessity fulfilling purpose of own existence. Developed economies engage in strengthening dynamic dimensions of accounting system aiming in developing invisible balance positions. Obeying strategy accounting principles author lightens certain focal points to bridge existing gaps.

Keywords: IFRS, BSC, ISA, invisible balance, corporate governance

1. INTRODUCTION

The International Federation of Accountants (IFAC) mission is in serving the public interest, in specific to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence. International Accounting Standards, issued by the IAS Board within the IFAC are fully applicable in entire Southeast Europe governing basis for creating accounting systems in education, private and public sector, supplemented by IPSAS and INTOSAI where applicable.

Concerning accounting functions, as defined in Framework on revised IFRS 2008[1], accounting system is supposed to provide wide information to spectra of final users and stake holders:

(a) *Investors*. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. Shareholders are also interested in information which enables them to assess the ability of the entity to pay dividends.
(b) *Employees*. Employees and their representative groups are interested in information about the stability and profitability of their employers.

(c) *Lenders*. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.
(d) *Suppliers and other trade creditors*.
(e) *Customers*. Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity.
(f) *Governments and their agencies*. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics.
(g) *Public*. Entities affect members of the public in a variety of ways. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities.

Due the wide coverage of final beneficiaries and business areas covered, standards are designed as a guideline toward creating internal policies, internal control systems, measuring means, planning platforms, and in end effect, creating strategic decision in concern to business performance and position based on current and historic data, future potentials and risks. Unfortunately, businesses regularly concentrate on creating financial statements that present true and fair picture of period related business performance and date related position of the enterprise, not determining focal points for caching internal strengths and weaknesses and recognizing potentials and risks.
Modern valuation models consider this segment of extreme importance, especially creation of invisible balance positions and capturing intellectual capital created. General reason lays in disobeying dynamic dimensions of accounting and its strategic management related character.

2. CAPTURING INTERNAL VALUES

2.1. Invisible Balance in General

Nowadays innovative companies in the world implement significant knowledge on developing their services dealing with rather no or some fixed assets of minor value.
Companies like Yahoo do have stock exchange value even two thousand times higher that the assets value.

When the stock market values companies at three, four, or ten times the book value of their assets, it's telling a simple but profound truth: The hard assets of a knowledge company contribute far less to the value of its ultimate product (or service) than the intangible assets – the talents of its people, the efficacy of its management systems, the character of its relationships to its customers – that together are its intellectual capital. There's only one problem: Trying to identify and manage knowledge assets is like trying to fish barehanded. It can be done – the word for it is "to guddle" – but the object of the effort is damnably elusive [2, 3, 4, 5, 6, 7].

This disproportion in asset value presented in financial statements and market value, determined as an *"intellectual capital"*, economists consider as internal enterprise value.
Invisible balance herewith refers to intellectual capital. As such it is pure intangible asset that belongs to soft fact of certain enterprise. Financial performance, future potential and market values of the enterprise are incorporated in this part of balance.

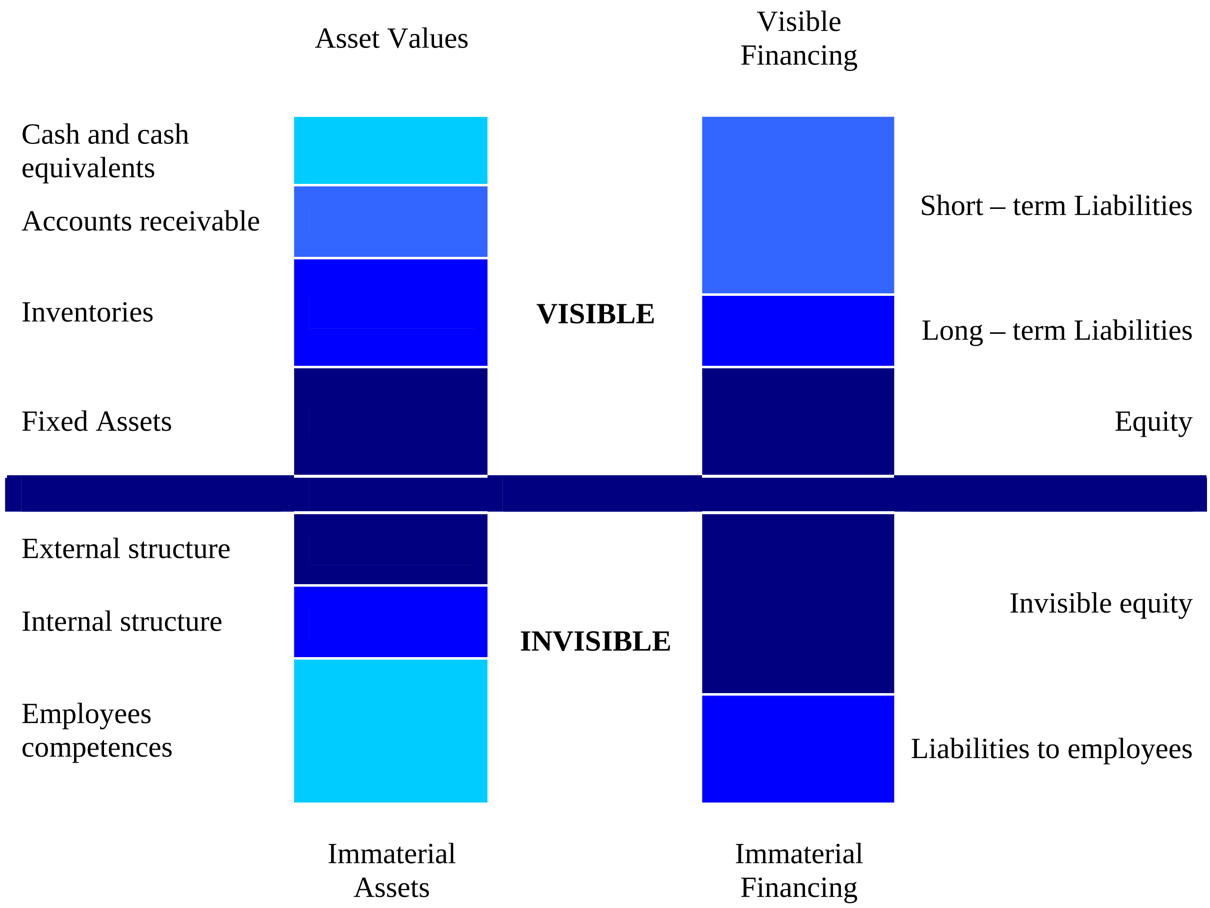

Figure 1. Intellectual organization balance

Taking into account that market value corresponds to total value of the company, intellectual capital, whether negative or positive, represents the difference between book value relaying on total assets versus accounts liable. Though stock exchange is focal point expressing these values, in many cases it is not determined precisely. Some prerequisites for easy expressing of market value contain, but are not limited to

- Well developed capital market
- Listed company
- No rumors on prospective takeovers
- No speculations

Less developed capital markets with strongly limited number of listed companies do not have instruments for expressing values, though this should not limit management to work towards creating and maintaining value. This segment is well known in the theory as 'value based management' and 'fast growth model'.

2.2. Invisible Balance Positions

As afore mentioned, intellectual capital can be negative, in case book value of the company is higher then its market value, opposite would be in case of substantial recognized market value certain enterprise possesses. While considering internal value, management has to be aware of it, strategically dedicated to its creation and enterprises wealth. Once value oriented strategic decision making foresees in this segment recognition of potential values, planning, budgeting, analyzing, but also precise investing in particular segments. In general segments creating value could be seen in separate positions as described below [8, 9, and 30].

2.2.1. Customers Relations

Established relations with existing customers, but also relations to potential customers represent complex process. From the accounting point of view, customer relation can not be processed without prior definition in Internal Control System, internal documentation exchange system; official price lists including discount and credit policies [11, 12, 13, and 14].

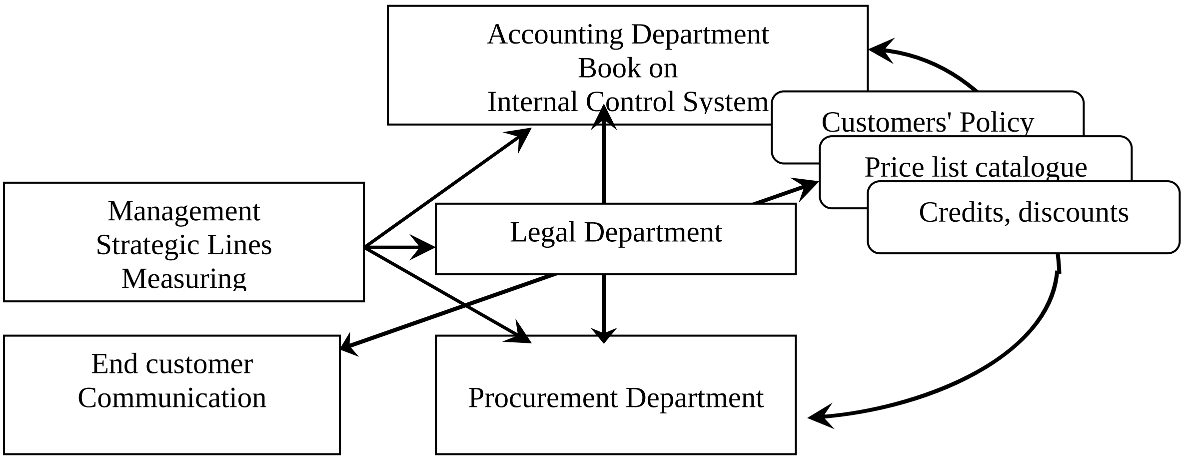

Figure 2. Accounting related customer relation process tree

2.2.2. Employees Profile and Liabilities to Employees

Maintaining employee's value lays in intangibility problem, moreover performance related remuneration in addition to salaries system can detect certain employee's abilities. Though accounting should be set to measure any additional effort and cost accruing in investing into employees, obeying IAS 16, IAS 36, IAS 38 and IAS 40 [21, 23, 24, 25, and 26] as long as costs are measurable and future economic benefit can be expected. Once cost dedication is considered an investment into labor force, enterprise should be enforced to consider each employee as separate 'cash centre' and management enabled to consider strategic decision.

2.2.3. Brand, Negative Image and Market Share (IAS 19, IAS 37)

Branding and negative facets are easily recognizable, but hardly captured. Financial accounting does not recognize clear way on how to capture real investments and provide easily readable return. On the other hand strategic accounting recommends recognizing any cost and/or investment regarding branding as variable cost, lowering gross margins in planning system on one hand, but also avoiding increasing fixed costs and break even point.

2.2.4. Innovation and R&D

Innovation and R&D from accounting perspective are foreseen as clear investment, though in order to be recognized as intangible assets again these have to comply with general requirements set in Standard 38, any innovation or R&D action to be measurable, but also to create potential additional future economic benefit. This can be detected either in increased quality of the product and/or service enabling price increase or in production cost reduction.

Though accounting has additional burden to solve, and despite fix regulations set by tax authorities, approximate future economic benefit jointly with technical staff and dedicate appropriate fair value concerning discounted future economic benefits as well as depreciation period aligned with expected period certain innovation and R&D implies on enterprise's business performance.

3. CONCLUSIONS

Taking into account variety of accounting directions and prospective usage, temporary FBIH Law on Accounting and Auditing as well as Book of Rules on Accounting Policies do not introduce any tool enabling final users to create system for accounting data processing towards enabling strategic management decisions platform.

Figure 3. Strategic Accounting Perspectives

In order to explore accounting goals in wider sense, enterprises should be enabled to access guidelines especially relating to capturing accounting data, processing rules, analyzing among departments, reconciliation, tracing. These guidelines should be offered to wider public, strongly supported with vocational education in strategic accounting both for managers and certified accountants.

Furthermore corresponding software solutions should enable more matrix based automated processing especially in processing accounts liable and payable, short tem debt and inventories status.

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