

HISTORICAL CONCEPT AND BUSINESS REQUIREMENTS; DISCREPANCIES IN INFORMATION DESIGN

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ABSTRACT

International Accounting Standards applications in Bosnia and Herzegovina mostly deal with automatic data collecting and processing for financial accounting and inventory accounting purposes. Some of accounting functions like managing sales, banking, purchase, manufacturing, budgeting, financial management and customer relations, of considerable importance for business performance management, are not directly implicated. In narrower sense this fact leaves management blind in regard to measuring, planning and strategic decision making. Accountants and financial officers do not manage to create information out of collected data automatically or do so developing own ways of gathering information and preparing for strategic management decisions.

Keywords: IAS, ISA, strategic accounting, advanced software tools, ERP system

1. INTRODUCTION

Taking into account that nowadays accounting is multidisciplinary area comprising financial accounting, managerial accounting, production and cost accounting as well as strategic accounting general definition brings broader impact on running businesses. In narrower sense enabling simply correct information on business performance and business position at certain time point, by far does not suffice in developed economies. On the other hand numerous examples show that Bosnia and Herzegovina private sector even financially sound larger companies are still struggling with proper instalment of accounting system, not solely concentrating on financial bookkeeping, but introducing rules and regulations, internal procedures and internal control system in order to obtain qualitative control and reconciliation of business processes. Own experience in carrying out financial audits of companies financial statements show that no company has fully integrated system of internal controls despite the ownership structure and even employees expertise, organizational charts and continuous controls did not produce optimal results. Most enterprises do not face the problem in complying with the International Accounting Standards directives, but very few show satisfactory level of integrated system components especially relying on:

- Quantifying and pre-definition as well as reconciliation of inventories as set in the International Accounting Standard 2, mostly facing problems in predefinition of cost structures and conduction of standardized production costs overviews,
- Managing accounts receivable and introducing customer relation management tools, in specific introducing system for follow up on open receivables, discounts and credits,
- Business planning in specific does not exist accept in case of foreign equity and/or institutional creditors that request budgetary follow up,
- Reserves relating to employees, unfinished court processes, threatening obligations and taxes, in specific as specified in Standard 19 and 37 seem to be in complete exempted.

These and many other weaknesses in private sector accounting appeal to very low understanding of control issues, but also to great extent miss usage in developing and exploiting business capabilities. It could be concluded that B&H enterprises are lacking strong inputs on conducting internal procedures that will enforce capabilities as prerequisite to introducing applicable software solutions in order to enable automatic information creation and recognition of focal points in business actions relating to its specifics and branch industry elements.

2 STEPS TO AUTOMATED STRATEGIC ACCOUNTING

Observing temporary problems private sector is dealing, low growth potential, lack of strategic business approach, relatively high capital costs, not consolidated internal processes, missing of management warning systems, it can be concluded that enterprises are facing problems in understanding own needs, as well as in recognizing potentials and retrospective risks. These do not allow flexibility and ability to accommodate to market changes. Problem can be detected on multilayered lack of knowledge, communication and recognition of return in investing into raising internal values. Applicable accounting software solutions such as SAP, Sage, Microsoft Dynamics, Syspro, Epikor, encountered among top 20 in the world do provide great solutions in better understanding and grappling internal enterprise values, but on the other hand considering cost-benefit ratio it is rather negative for most companies in Bosnia and Herzegovina. Second problem occurring in simple integration of advanced software solutions lays in lack of developed internal control procedures, whereby it is understandable that enterprise has to fulfil certain requirements in regard to consolidation and employees' specific knowledge prior to procuring complex software for all departments' usage. Further text introduces ERP system and steps towards enabling full software usage.

2.1 ERP System at glance

ERP or Enterprise Resource Planning is a system of processes dealing with consolidation of all enterprises departments and functions into a central computer system integrating and opening applications for each department's specific needs. The idea is much beyond the practice oriented application since each enterprise or in wider sense each branch especially production system, service providing structure or in more general, way of creating added value for certain enterprise, does complex the starting point of integrating actions and processing centrally. The diversity problem appeal that each enterprise should be considered as separate case study that would imply developing consolidation data and processing system every time from scratch. As many times in practice proved, this approach would create significant opportunity cost and oppositely considered gain would diminish. Thereby the idea goes from general integration on four levels when it comes to ERP model (see Illustration 1) or five and more levels in more complex models like Balanced Score Card or SAP.

The ERP four management levels model comprises:

- Manufacturing Resource Planning – grasping input materials flow, engineering, production process etc.,
- Finance Recourse Management – considering liquidity, solvency, periodical needs for short term financing,
- Customer Relationship Management – managing accounts payable, but also customers behaviour in terms of willingness and capability of meetings their debts, discount policy and maximum credits and
- Supply Chain Management – managing orders, claims but also inventories.

2.2 Matching Functions and Responsibilities into Consolidated System

As mentioned afore, whatever model enterprise finds applicable and disregarding what software is chosen, there are numerous pre-requisites to be fulfilled prior to installing software and expecting having fully automatic integrated process consolidation. Major step towards is in establishing business related internal control system and system enabling capturing of all internally set obligations and corresponding rights.

2.2.1. Internal Control System as a milestone towards integration

The International Financial Reporting Standards, within internal control system, foresee as mandatory introduction of

- Book of Rules on Accounting,
- Accounting Policies,
- Book of Rules on Internal Control and Communication.

Thereby country specific legislation additionally introduces obligatory rules on employment protection, price lists and many other documents relating to specific laws and regulations. Considering first two categories, namely book of rules on accounting and accounting policies, reality in Bosnia and Herzegovina shows, that majority of enterprises, disregarding ownership structure and registration as LLC, plc or crafts, have introduced minimum required rules very often integrating accounting policies on one A4 page generally providing excerpt of applicable IFRS directions mainly describing ways of grasping income, calculating inventories, presenting accounts receivable and accounts payable. Terrible fact thereby is that these policies are directly taken from one enterprise and used in another. No business specifics are obeyed and accountancy thereby brought to painful necessity. This approach harms numerous functions accountancy is actually designed for.

2.2.2. Manufacturing and Inventories (IAS 2)

Prior to introducing software, company should in term of managing manufacturing design a process tree recognizing:

1. Inventories on semi and final products by dedicating corresponding costs to conversion, direct and indirect costs in order to establish final value creation assurance. This especially imply to separate products groups and aliquot scheduling of indirect cost. What most enterprises do not have is a Production Calculation Sheet for each product separately that enables better planning and overview of cash centres. More likely reality shows that enterprises are creating inventories on basis of average weighted cost calculations averaging all costs appeared during the production period and for all product categories at once.
2. Managing goods procured for further selling should be defined. Major problem that occur in managing inventories of goods is in transferring from the retail to whole sale, whereby very often added value calculated on one level is not appropriately transferred on the other level. This also appeals to weak supply chain management system.
3. Keeping optimum level of inventories, both products and goods has to be planned in detail. JUST IN TIME and many other approaches determine optimum level of inventories especially aiming in shortening self financing period, whereby basic thought goes from cyclic activities from capital intensive periods to inventories intensive once.

The above mentioned examples do in short present the importance of proper managing production processes and inventories in order to minor the risk on discrepancies between recorded and inventoried status, but also in optimizing financing structure (short term financing for short term assets) towards minimizing borrowed capital costs, as well as in enabling more precise calculation of costs occurring for specific products/goods categories opening room for better decision making in regard to introducing new or withdrawing existing products/goods.

2.2.3. Financing, Supply Chain and Customer Relationship

The enterprise that can at any time ledger its short term assets and short term liabilities is in general in the position to plan and execute financing more efficiently. While considering accounts receivable in practice it can be noted that most enterprises do not possess the ability to automatically check open accounts receivable in term of their existence and payment terms. This obstacle cause's weak ability in processing payments claims upon receivable is due to be paid. Furthermore customers can not be treated equally; discounts policy and other payment enforcing incentives can not be integrated. Third major problem lays in introducing maximum credits certain customer can be granted and that refer to the credit history customer has in the enterprise, if such exist at all. Similar can be found in the supply chain, considering procurement of goods or raw materials meant for conversion into final products. The enterprise unable to record specific terms is much more flexible in producing optimal procurement policies. Correspondingly simple managerial accounting analysis in terms of accounts payable and receivable as well as inventories' return stay to be static as of end of the year not allowing

sub annual analyses and dynamic approach to financial gaps in term of amounts and periods to be covered.

3. CONCLUSION

The article aimed in lightening general temporary integration of accounting functions in private sector in Bosnia and Herzegovina as a transitional economy, introducing recent modules modern accounting software applications rely on. Many software developers are entering the market, offering software packages applicable on micro enterprises, but also designed for conglomerates, whereby prices very often range from EUR 3,000 to 1 million. First consideration owners make while struggelling with the decision on procuring accounting software is the cost-benefit ratio and expected added value creation thereafter. Unfortune for the accountancy at that stage lays on lack in understanding its functions and taking it as mandatory necesstety. It is understandable that Bosnia and Herzegovina with very dinamic changes of applicable laws and regulations set high createria on the necesstety of correct presentation of business position and performance. Thereby developing internal values, internal controls, planning and strategic decision making functions are set very low on the priority list and concerned as a cost instead of investment. Departments are often very badly connected, accounting records do not match with legal and selling department and manufacturing does not create appropriate documentation on inventories. The overview of globalisation trends and accounting position in private sector shows that, prior to integrating 'smart' systems enabling accounting functions in full capacities, there are many pre-requisites to be fullfilled especially in term of employees education on accounting in wider sense, but also in creation of documents, rules and procedures integrating the enterprise as such prior to simple software installation. The enterprise that succeeds in it can expect to consider accountancy not solely as a cost position, but as an investment into own added value creation. An effort standing presents significant challenge.

4. REFERENCES

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