

# EMPIRICAL STUDY RELATED TO INCREASING THE ACCOUNTING INFORMATION QUALITY AT THE IMPORT-EXPORT COMPANIES THROUGH IFRS IMPLEMENTATION

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**Abstract:** Since the external trading activity accounts for an important source of national economy growth, being the developed states economy driver, the authors considered that at the level of the entities carrying out external trading activities, the own bookkeeping must be organized taking into account the specific of the activity developed. In this context, the authors began the preparation of the study starting from the idea that this category of companies must provide accounting information as qualitative as possible that can be easily comparable at the international level and hereby increase the international commercial exchanges. Meeting this challenge of increasing the external trading activities involves the adoption of specific measures, in line with the real state of performance and with the current needs of the companies from the national economy. A relevant measure is considered to be IFRS (International Financial Reporting Standards) implementation for this category of companies in order to increase the quality of the accounting information provided and implicitly of some new businesses with the abroad.

In order to test the opinion related to IFRS implementation on the companies carrying out external trading activities, the authors prepared a study based on a questionnaire that targeted Romanian companies carrying out external trading activities, of different dimensions. The purpose of this questionnaire was to draw up conclusions related to the content, need and the information usability of the data reported through financial positions by the companies carrying out external trading activities. The questions addressed by the authors, in this respect, have predefined answers, meant to obtain the opinion of the Romanian companies related to the possible IFRS implementation, irrespective of size, of the impact forecasted of IFRS implementation process on the companies' activity, as well as the importance granted to the auditing of collection and payment operations with a view to obtain qualitative financial-accounting information.

## **JEL classification: M40, M42, M21, C10**

Key words: accounting information, IFRS implementation, questionnaire, the usability of the financial positions, harmonization.

### **1. INTRODUCTION**

Every company makes its presence felt on the market through financial reports. The users are interested in the issuer if this data is attractive and qualitative, presenting favourable results. Thus, any qualitative financial reports are a measure of objectivity and transparency. Establishing a set of objectives regarding the accounting data depends on several factors and, moreover, there is no universal set of objectives, valid for all companies, regardless of the implemented accounting system. Throughout the years, in our country, the accounting system had suffered several alterations, aimed to ensure more objective and qualitative financial reports and thus, we are still in the middle of a harmonisation process of the Romanian accounting with the international financial reporting standards.

Thus „the use of IFRS in our country has started from the necessity of ensuring the conformity between the national accounting regulations with the EU norms. The adoption of IFRS by the Romanian companies has opened the access towards international capital markets, has contributed to cost-cutting and a more efficient and easier international transactions”.<sup>1</sup>

Implementing the IFRS at a national level assumes that the financial reports should be viable, thus the companies can compare themselves with similar entities from the international business environment. Another aspect that is aimed for, through the implementation of the IFRS at a national level is an increase in the transparency, the ability to compare one company with the others and in the global communications. In Romania, another focus is a better harmonization with European regulations and the international accounting standards, due to the continuous development of the national accounting system, required by the fast denationalization process, the consolidation of the relationships with the EU, as well as the development of the capital markets and the free market economy.

The financial reports of the Romanian companies must accomplish certain quality conditions, in order for the existing and potential investors, the lenders, external suppliers and other debt-holders interested in the issuing entity to be able to make efficient economic decisions.

Regarding the issue of quality information, there are two different approaches, appeared from the several accounting concepts which are based on both the national accounting regulations and the International Accounting Standards Board (IASB). Thus, the annual financial reports issued according to the national regulations are based on detailed norms and general accounting principles, while the IASB „focuses on the principles and concepts in order for the entity to establish the relevant elements that these reports should contain, as well as the qualitative characteristics of the data and the

<sup>1</sup> C-tin Căruntu, M. L. Lăpăduși, „*Standardele de raportare financiară – viziune de ansamblu asupra adoptării și aplicării acestora la nivelul firmei*”, University „Constantin Brâncuși” from Târgu Jiu Annals, Economics Series, No.2/2011

professional reasoning”.<sup>2</sup> We consider that financial reports based on detailed norms and principles, imposed by the national regulations is desirable for the SMEs with an internal commercial activity, which are not interested in foreign investors or significant financial resources. Through the application of the national standards, it is ensured the condition of credibility regarding the financial information offered by the financial reports, which are, usually, needed by the state.

Through a comparison with the national standards, it has been observed that the implementation and the application of the IFRS could be benefic for the solid entities, which frequently undergo international transactions and whose activities are developed in the conditions of globalization and national economies concentration.

## 2. RESEARCH METHOD

Starting from the works which are lately focusing, quite intensely on the aspects of the implementation and application of IFRS in our country and from our own prior studies on this subject, we have deepened the research through an empirical study that should express the opinion of companies which are frequently undergoing international transactions, regarding the implementation of IFRS and the level in which the process of auditing the international expenses and incomes could be beneficial to the development of business with external partners.

In order to apply this study, we have performed an interdisciplinary research which blends statistics, accounting and auditing knowledge. In order to fulfill our objectives, we passed through several steps in the development of this study:

- ❖ a rigorous documentation of the previous works in this field in order to identify the best model for a survey based study and to identify the main aspects used for the elaboration of the questions, in order to be able to formulate relevant conclusions regarding the IFRS implementation;
- ❖ the formulation of the questions from the survey, according to elements extracted from the previous works in this domain;
- ❖ establishing the sample comprised by companies with international trade activity;
- ❖ conducting the survey through the respondents established through the sample, repeatedly, in order for the answering quota to be as high as possible;
- ❖ the collection and processing of the answers in exact manner, in order for the relevant conclusions to be formulated.
- ❖ the analysis of the data obtained after we had processed the answers
- ❖ the formulation of conclusions, using the information from the previous works in this domain and the data gathered after the analysis and interpretation of the study's results.

## 3. ASPECTS PRIOR TO THE SURVEY BASED STUDY

Starting from the aspects presented in the introduction, we consider that is mandatory to state the fact that for the entities which can opt for the IFRS application, regarding the relationship with the state institution, the reporting base would be the european accounting regulations, as well as for gathering the data needed for establishing the taxes. Consequently, the financial reports obtained through the

<sup>2</sup>C. Drăgan, M. Mihai and V. Brabete, *Contabilitatea afacerilor, înviziune europeană și internațională*, Universitaria Craiova Publishing and Cluj University Press, 2013, p.250

application of IFRS are destined only to the information users, others than the state institutions. Thus, organising the financial accounting while applying IFRS, gains certain particular characteristics, generated by the existence of a general accounting framework, which is a professional guide which encourages the professional reasoning. In the center of this framework, we will find the description of the financial reports objective, which is „offering information regarding the financial position, the performance and the modifications of the financial position of the entity, which are useful for a large set of users in making their economic decisions”(IASB, 2011), which is concurrent with the particular focus of accounting information beneficiaries.

At the same time, the IASB general framework presents a series of limitations which can decrease the quality of the accounting information, even if all the prior stated conditions are fulfilled. In this regard, an enhanced importance is being given to the opportunity, because an out-of-date information will not be relevant, even if it is credible. On the other hand, the cost-benefit assesment is essential in the process of information production, due to the fact that the relevant, credible and comparable information which, through their use, have generated higher costs than the estimated benefits will not be accepted by the users.

We argue that the most frequent question of the economists and business-men would be: „*Why should we adopt IFRS and which will be the advantages of the IFRS application?*”. Once the companies will start applying IFRS, they will adopt a global language regarding the financial reports, which will permit them to be understood correctly, regardless of the users' type. Most of the European companies which are already applying IFRS realised that they have easier access to the international capital markets, they undergo more easily international transactions and can reduce their costs. Thus, the main reason for which the governments are imposing, more and more intensely, the application of IFRS (in some cases they are adopted voluntarily) is the idea according to which financial reporting according to IFS offers the companies new business opportunities or additional capital.

Communicating the accounting data in a singular language ensures the level of confidence needed by the users and leads to an increase of the opportunities to access the capital markets. At the same time, in case of the multi-national companies, it permits the application of common accounting principles in all its subsidiaries, an aspects which optimises the quality of the reports towards the top management and, by default, the internal communication.

In case of the sales and acquisitions processes, applying IFRS facilitates the development of these activities by ensuring a higher level of relevance, trust and consistency of the accounting interpretations. Furthermore, in the sectors with an increasing competitive level, in which we can include international trade, applying IFRS permits the companies to compare themselves to similar other companies from the international environment. In a general sense, we consider that adopting the international financial reporting standards is something more than just a modification of the accounting regulations. This process involves implementing a new system of procedures, a new system of patrimony evaluation in the entier company. From this reason, the accounting professionals find it difficult to implement the standards, and, nowadays, the impact of IFRS upon the taxes, the accounting or the company itself, cannot be, yet, estimated. Presently, in our country, the subsidiaries of the foreign companies, are reporting their financial data both in conformity with the Romanian standards (for the Ministry of Finance) and according to IFRS, for the foreign

shareholders. Thus, we argue that the Romanian companies which have to or desire to adopt IFRS, should prepare for a hard and expensive implementation process.

The council for the International Accounting Standards considers that the benefits of the international reporting will be felt even for the small companies, and because of the reason, they are working for the simplification of the IFRS standards which are intended for the small companies which are not listed on the Stock Exchange. For that matter, 19 member states of the European Union intend to adopt the international standards for the SMEs, having as a main reason the elimination of the differences regarding the accounting information for the companies which are undergoing international transactions and need additional financing.

#### 4. THE SURVEY-BASED STUDY PRESENTATION

The questions which will be analysed during the present paper have been extracted from a complex survey-based study, which aimed to extract the problems which the Romanian companies are facing, regarding accounting and the management of the trade operations with foreign partners. In order to conduct this survey, we started from a database of 2.584 companies with external trade activities, extracted for a specialised website. After a thorough verification on the website of the Ministry of Finance and after the statistical processing, we have reached a sample of 95 companies upon which the survey had been conducted. From the 95 companies, only 66 responded to the survey and these responses were processed, analysed and interpreted in order to extract relevant conclusions. The 66 respondent companies were categorised based on their activity, thus results 22 companies which activate in industry, 5 in construction, 33 in trade and tourism and 6 in services. Moreover, in order to have a clear vision upon the responses, we have grouped the companies based on their sizes, thus resulting 47 small companies, 15 medium companies and 5 large companies

#### 5. THE ANALYSIS AND THE INTERPRETATION OF THE DATA RESULTED FROM THE SURVEY

Through the conducted survey, we aimed to formulate relevant conclusions, regarding the degree in which the current financial reports offer relevant and sufficient accounting information in order for the current foreign partners to continue their relationship with the companies and even to attract new business opportunities. Furthermore, the survey contained questions with pre-defined answers in order to obtain the opinion of the Romanian companies regarding a possible implementation of the IFRS, regardless of their size and of the forecasted impact of the IFRS implementation upon the company's activity.

In the same time, starting from the argument that the accounting information users are interested in the way in which a company generates and uses the liquidities, we targeted the importance that the external-trading companies are assigning to the auditing of their incomes and payments operations in order to obtain relevant financial and accounting data.

In the same time, the information gathered from the respondent companies, regarding the aspect researched in this section are gathered in the following table and figure:

Table no. 1. – The results on the usefulness of financial statements

To what extent do you think the financial statements prepared at your company offers foreign partners necessary information to develop new contractual relations:		
In a highly	no.	0
	%	0%
To some extent	no.	0
	%	0%
Relatively	no.	25
	%	38%
To a small extent	no.	41
	%	62%

Source: own processing

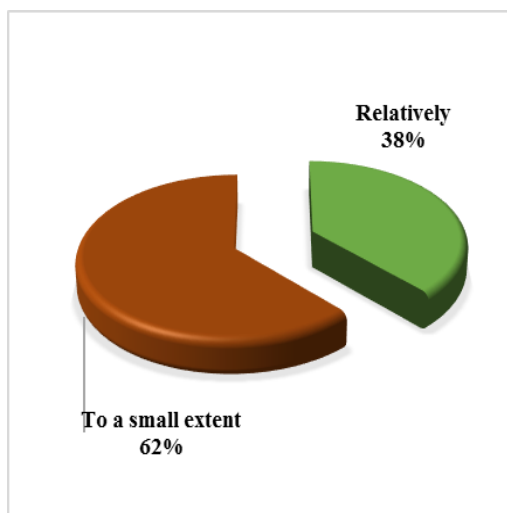


Figure no. 1. – Graphical representation of the results on the usefulness of financial statements

Source: own projection

Based on this data, we have underlined the conclusion according to which the romanian companies think that the data from the annual financial reports is, in a small amount (62%), useful to the foreign partners in order to be able to efficiently make decisions regarding the development of certain contractual relationships. A percentage of 38% of the respondents have a relative opinion regarding the utility of the financial reports.

We appreciate that the lack of responses for the first two answers of the question („in a very large amount” and „in a large amount”) is due to the insufficiency of accounting information specific to the international trade operation among the current financial reports.

A solution for the elimination of these insufficiencies can be the implementation of the IFRS in the companies with an external trade activity, in order for their financial data to become comparable at an international level. Taking into account the fact that, currently, in our country, these standards were implemented only for the financial institutions and for the companies listed on the Stock Exchange, we want to find out the opinion of the companies with external trading activity regarding the possibility of the IFRS implementation, as a way of developing their activity.

Based on the collected answers to this questions, we can state that 64% of the respondents don't think that the implementation of the international standards is relevant for their activity, while 36% of the surveyed companies think that through the implementation of the IFRS their economic activity will grow. In order to find a justification for these responses, we detailed their analysis on the size categories of companies, the results being shown in Table No. 2 and Figure No.2

According to the data from Table No. 2, we can observe that most of the companies which answered negatively (83%) are small companies, which, in the majority of the cases, currently, would not be able to support the costs associated with the implementation of the international standards.

Table no. 2. – The results of the implementation of IFRS

Size	Number companies	YES		NO	
Small	47	8	17%	39	83%
Medium	15	12	80%	3	20%
Large	4	4	100%	0	0%
<b>Total</b>	<b>66</b>	<b>24</b>	<b>36%</b>	<b>42</b>	<b>64%</b>

Source: own processing

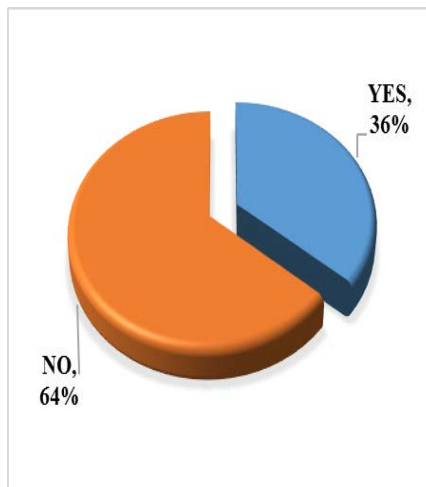


Figure no. 2. – Graphical representation of results of the implementation of IFRS

Source: own projection

Further on, we will see the opinions of the companies that answered positively to the question regarding the IFRS implementation considering the potential impact that process of international standards' implementation will have upon the companies. In order to fulfill this objective, we have stated a question to which the respondents had the possibility of rating positively, negatively or neutral, certain considerations regarding the IFRS implementation, that we extracted from previous works in this field. Thus, from of 66 companies that answered the survey, this question was answered by only 24 companies that thought that the IFRS implementation could increase the financial performance of their business. The answers are analysed in both absolute and relative values in Table no. 3

Analyzing the results of the previous question, we notice that the majority of the respondents rated positively the fact that the IFRS implementation could lead to the development of new business oportunities (96%), the detraction of the trade barriers and the ones related to the international currency flows (88%), and the promotion of a global language of financial communication (67%). On the other hand, the companies rated negatively (50% of them) the consideration according to which the IFRS could assert in a mandatory fashion the realization of the statutory audit.

Regarding the neutral responses we can see that 58% of the respondenst avoid a categoic answer regarding the development of the specialized informatic systems, perhaps due to the lack of understanding related to the possible modifications of the informatics systems.

Table no. 3. – The results on the impact of IFRS implementation on companies

<i>How would you rate the following considerations regarding the implementation of IFRS impact on companies? (answers number/percentage of total responses)</i>						
	Positive		Negative		Relatively	
<b>The attunement of the accountable and fiscal reglementations</b>	12	50%	3	13%	9	38%

<b>How would you rate the following considerations regarding the implementation of IFRS impact on companies? (answers number/percentage of total responses)</b>						
	<b>Positive</b>		<b>Negative</b>		<b>Relatively</b>	
<b>Developing information systems profile</b>	4	17%	6	25%	14	58%
<b>The organization of periodic training courses for the staff</b>	5	21%	9	38%	10	42%
<b>The simplification of the reports done by the subsidiaries of the foreign companies</b>	12	50%	4	17%	8	33%
<b>Developing new business opportunities</b>	23	96%	0	0%	1	4%
<b>Reducing trade barriers and those of the international monetary flows</b>	21	88%	0	0%	3	13%
<b>Promoting global financial communication language</b>	16	67%	1	4%	7	29%
<b>Implementing a period of at least 2 years</b>	11	46%	5	21%	8	33%
<b>The incumbency of having a statutory audit</b>	7	29%	12	50%	5	21%

*Source: own processing*

Due to the heterogeneous nature of the responses, we thought that distributing them in categories depending on the size, would be highly relevant. Therefore, in order to reduce the size of the graphic design of the results, we have chosen to code the nine considerations increasingly from 1 to 9 keeping the order from the chart (e.g: Consideration no. 1 - the attunement of the accountable and fiscal regulations, consideration no. 9 - the incumbency of having a statutory audit).

We believe the distribution of the responses in categories depending the size of the respondent companies necessary because in our sample, the majority is represented by the small companies that currently are not completely familiar with the phenomenon of harmonisation and implementation of the IFRS, reason for which, certain negative or neutral answers could belong to this category. For a more clear analysis of this situation we can see the data from Figure no.3.

From the graphic representation, we can see that the responses of the large and medium companies were much more decisive as far as the impact of the IFRS implementation is concerned. This way, all of the four large companies rated positively the 4th, 5th, and 6th consideration, according to which the IFRS implementation could have as a result the simplification of the reports done by the subsidiaries of the foreign companies, the development of new business opportunities and the detraction of the trade barriers and the ones related to the international currency flows. At the same time, it can be noticed that these three considerations are rated positive by companies from the other two categories as well.

The negative answers of the SMEs regarding the incumbency of having a statutory audit after the IFRS implementation (consideration no. 9) can be justified by the fact that currently they do not have audited annual financial situations, and such measure could lead to additional costs for the company. The possible additional costs can also be the cause of the negative responses regarding the consideration no. 3 – the organization of periodic training courses for the staff.



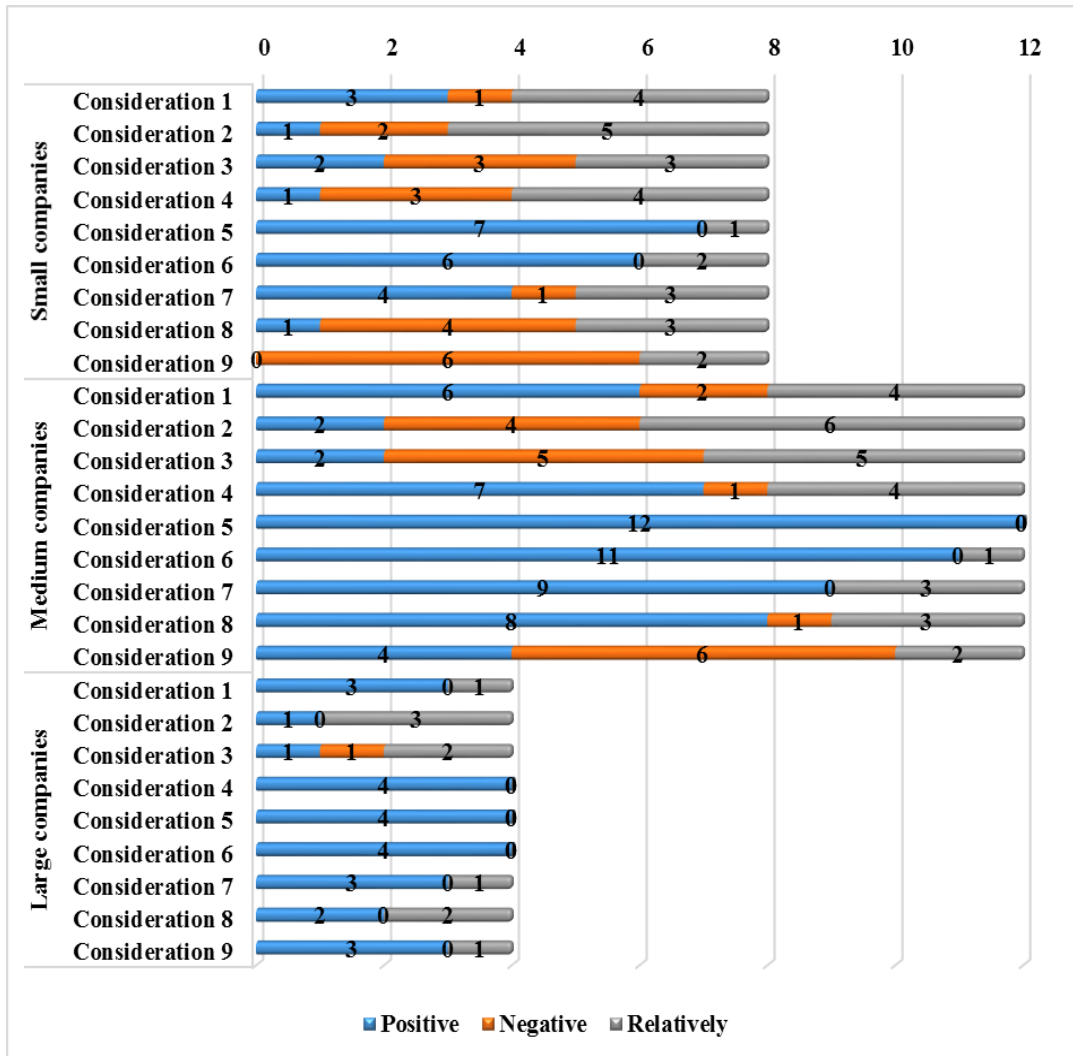


Figure no. 3. – Graphical representation of the results based on the size of the companies related on IFRS implementation impact

Source: own projection

Taking into consideration the positive responses regarding the consideration no. 4 – the simplification of the reports done by the subsidiaries of the foreign companies, we can say that four large companies, seven medium and a small one are placed in the category of the companies having a foreign capital that belong to a group. These are companies which presently have to carry out financial situations according to the national reglementations for the tax authorities from Romania, and financial situations according to the International Standards of International Reporting for the mother-company to which they belong, and a mandatory process of IFRS implementation would reduce significantly their workload.

The last aspect, through which we wish to prove that is highly necessary for the Romanian companies that have external trade activities to offer qualitative and relevant

financial and accounting information, especially for the potential foreign partners and investors, targets the opinions of the respondents regarding the importance of *auditing the international incomes and payments operations over the increase of the quality of the information in financial situations*. We consider this aspect to be very important, because often the external partners are interested in the liquidity and solvability indicators of the companies along with which they are developing affairs, and auditing represents a process through which could be avoided the communication of mistaken information.

In this context, we stated the question from the next table to which we thought all the companies could answer no matter the size, because a part of the respondent companies can have foreign capital, and therefore may experiment the process of auditing as a component of the process of consolidation of the financial situation in the country of the plant company. The results according to the questionnaire are presented in the table below.

Table no. 4. – Results of the importance of audit of receipts and international payments

<i>How important is the audit of receipts and payments with international partners to increase the credibility of accounting information requested by them:</i>		
High	nr.	21
	%	32%
Medium	nr.	30
	%	45%
Low	nr.	15
	%	23%
No importance	nr.	0
	%	0%

Source: own processing

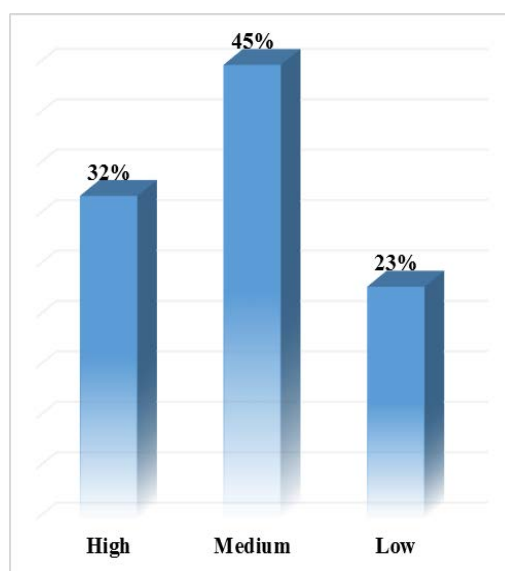


Figure no. 4. – Graphical representation of the results on the importance of audit of receipts and international payments

Source: own projection

From Figure no. 4, we can observe the fact that 45% of the respondents considered that auditing the operations of international incomes and payments operations has a medium importance as far as the increase of the credibility of the accounting information, 32% think that it has a high importance and 23% a low importance. Without distributing them in size categories, we can state that the large and medium companies are positioned among the 21 respondents that gave a high importance to the point of view we illustrated through this question.

Therefore, after analyzing the results from the last part of the survey we can state that the mandatory IFRS implementation in external trade companies could represent the solution for the realization of qualitative and objective financial situations

which could ensure international compatibility, and thus the occurrence of new opportunities of international businesses.

## 6. CONCLUSIONS

Through the empirical research based on questionnaires we observed the way in which is reflected the position of the responsive companies in comparison to the availability of the actual financial situation realized by them, as well as the importance of the IFRS implementation and of auditing the operations of encashment and international payments in order to have qualitative and credible accountability information. Such research helped us understand the role and the importance of using IFRS by the entities having external trade activities.

Researching the previous works in this field, completed by an in-depth and time analysis of the main accounting regulations ensured us the basis of realizing this survey and thus of consolidating the conclusions of the study.

We believe that through the selection methods of the theoretical sources and through the results of the research, we have managed to identify a few research directions that may contribute to the improvement of the quality of the process of IFRS implementation in our country, as well as of the way of understanding of the opportunity and utility of such project by the entities involved in the study.

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