

Received: 14.04.2014.

Accepted: 18.04.2014.

Original scientific paper

UDC 657.3

EFFECT OF ACCOUNTING POLICIES ON FINANCIAL POSITION OF SMALL AND MEDIUM-SIZED ENTERPRISES

Đurdica Jurić, PhD;

RRiF College of Financial Management, Zagreb, Croatia

ABSTRACT

The application of the corresponding accounting policies, especially the selection of the allowed alternative procedures in accordance with the Croatian Financial Reporting Standards may have a significant effect on valuation of assets, liabilities and capital and consequently on the financial position of small and middle-sized companies. The results of the research have shown that the accounting policy on amortization and revaluation of long term tangible assets may have a considerable effect on the financial position of small and medium-sized enterprises. However, the policies regarding long term intangible assets, reserves and deferred items are also of great importance. The effect of accounting policies on the financial position of enterprises becomes more important in the case when the items of assets, liabilities, income or expenditure which the particular accounting policy refers to become important, especially in the conditions when it is possible to consciously affect the value of balance sheet positions - by choosing an alternative procedure.

Key words: *financial position of enterprises, accounting policies, CFRS, financial reports, small enterprises, middle sized enterprises.*

1. INTRODUCTION

The selection and application of the appropriate accounting policies, particularly the alternative methods in accordance with the Croatian Financial Reporting Standards (CFRS), can have a significant effect on the valuation of assets, liabilities and capital, and thus on the financial position of the enterprise,

which is based on the data from the financial statements, particularly from the balance sheet. To confirm this view, a research was conducted on the presence of certain accounting policies in small and medium-sized enterprises, based on the data from the annual financial statements on the sample of 180 SMEs starting with the period of the beginning of the application of CFRS in Croatia. The research used statistical correlation methods. It starts from the basic premise that the financial position of the enterprise is most significantly affected by those accounting policies that allow the use of alternative methods and are related to the evaluation of significant items in the balance sheet. Consequently, based on the connection between the balance sheet and profit and loss account, the effect of these policies is evident on the business performance of enterprises.

2. PRESENCE OF ACCOUNTING POLICIES IN SMALL AND MEDIUM-SIZED ENTERPRISES

The results of researching publicly disclosed financial statements for the year of 2010 on a random sample of 180 enterprises showed that most commonly present domains of application of accounting policies for income, expenses, long term tangible and intangible assets and inventories. The differences are noticed in the share of enterprises that disclosed the equally ranked policy. For example, in the observed sample the highest ranked policy on revenue was disclosed by 95.56% of medium-sized and 90% of small enterprises. The research results are expressed through the ranks of meaning and are shown in the table.

Table 1 .: Rank of presence of accounting policies for small and medium-sized enterprises according to their publication in the Register of Annual Financial Statements

No.	ACCOUNTING POLICY	Medium-sized enterprises		Small Enterprises	
1	Long term intangible assets	Rank - 2	94.444%	Rank - 4	82.222%
2	Long term tangible assets	Rank - 2	94.444%	Rank - 3	85.556%
3	Investments into real estate	Rank - 9	83.333%	Rank - 11	48.889%
4	Financial assets	Rank - 5	87.778%	Rank - 5	78.889%
5	Inventories	Rank - 3	93.333%	Rank - 3	85.556%
6	Biological assets	Rank - 13	23.333%	Rank - 16	2.222%
7	Investments in subsidiaries and associates	Rank - 11	48.889%	Rank - 15	14.444%
8	Impairment of assets	Rank - 10	75.556%	Rank - 12	47.778%
9	Transactions in foreign currency	Rank - 8	84.444%	Rank - 13	45.556%
10	Reservations	Rank - 6	86.667%	Rank - 6	75.556%
11	Employee's income	Rank - 10	75.556%	Rank - 14	35.556%

No.	ACCOUNTING POLICY	Medium-sized enterprises		Small Enterprises	
		Rank	Share	Rank	Share
12	Income	Rank - 1	95.556%	Rank - 1	90.000%
13	Expenses	Rank - 4	92.222%	Rank - 2	88.889%
14	Leases	Rank - 7	85.556%	Rank - 7	71.111%
15	Receivables	Rank - 5	87.778%	Rank - 4	82.222%
16	Liabilities	Rank - 8	84.444%	Rank - 5	78.889%
17	Accruals	Rank - 9	83.333%	Rank - 9	66.667%
18	Profit tax	Rank - 8	84.444%	Rank - 10	56.667%
19	Equity (and reserves)	Rank - 6	86.667%	Rank - 8	67.778%
20	Adoption of new standards and amendments to standards	Rank - 12	25.556%	Rank - 16	2.222%
21	Events after Balance Sheet Date	Rank - 14	17.778%	Rank - 16	2.222%
22	Discontinued operations	Rank - 15	8.889%	-	0.000%

Source: Author, results of research

The results of the research show that in the sample there is almost an insignificant presence of disclosing extraordinary revenues and expenses within the accounting policies which apply to them. They were disclosed by only 3.57% of medium-sized and 4.65% of small enterprises. On the level of SMEs the policy on long term tangible assets is highly ranked. It is present in 94.44% of medium-sized and 85.56% of small enterprises, despite being the third-ranked accounting policy in small enterprises. The research has proved that the reason for that are small enterprises included in the sample according to the criterion of being the enterprises that have achieved the lowest positive financial results (or loss) and have a very low share of long term tangible assets in the balance sheet structure and expressed a strong correlation between the disclosed accounting policies and balance sheet items.

After observing almost even results of the highest ranked accounting policies, the differences in the presence of certain policies among SMEs are beginning to show. Thus, for example, the rank 5 was assigned to the policy on transactions in foreign currencies in medium-sized enterprises with their relatively high presence (84.44%), while the rank 10 was assigned to the same policy in small enterprises, whereby it is evident that its application was disclosed by 45.55% of small enterprises from the sample. The lowest ranked accounting policy refers to terminated business operations - it was disclosed by only 8.89% medium-sized enterprises, while it was not present in small enterprises from the sample.

Based on the research on the presence of accounting policies in small enterprises it can be concluded that the lowest-ranking policies comprise biological assets, the events after the balance sheet date and the adoption of

new standards and amendments to the standards. Each of these policies was disclosed by only 2.22% of small enterprises. The policy of investing into subsidiaries and associates is also scarce (14.44%). The cause of the poor presence of the policy referring to the events after the date of the balance sheet should be sought in the traditional approach to accounting by small business owners whose decisions are closer to the tax regulations rather than accounting regulations. For example, the events after the balance sheet date in these enterprises are presented in the profit and loss account and not directly on the account of increase or decrease of equity.

The comparison of the disclosed accounting policies of each enterprise with the data from their balance sheet, income statement and the information presented in the notes to the financial statements, leads to the conclusion that enterprises mostly publish the policies they apply due to the nature of their business. This particularly refers to small enterprises. Medium-sized enterprises have a significantly greater presence of the disclosed accounting policies. The qualitative analysis of their content leads to the conclusion that they cover almost all the areas of activity which the enterprise can perform with regard to its formal legal form. Accordingly, they represent only an accounting framework in one part and not the actual implementation of all the disclosed policies. The presence of discrepancies between the proclaimed and the applied accounting policies has been observed in one part.

The research has confirmed that the sample of small enterprises also comprises those which have not disclosed their accounting policies or whose policies have formally been declared but are not applied or are not applied consistently. In such cases there is no possibility to compare the financial statements from the previous periods and the data presented in such statements are regarded as unreliable for external users, regardless of whether they use them to estimate the enterprise, its goodwill, for statistical purposes or scientific research.

Based on the qualitative analysis which includes the method of comparison of disclosed accounting policies and their actual application apparent from the notes to the individual positions of the balance sheet and income statement, it has been realized that the relation of businesses to the accounting policies led to the definition of three basic modalities resulting in:

- a) lack of accounting policies in terms of organization of the complete set of principles, rules and procedures to be applied in accounting transactions and in the preparation and presentation of financial statements,
- b) disclosure of accounting policies and their consistent application, taking into account the changes determined by the CFRS, and

- c) disclosure of accounting policies from the formal point of view, while applying significantly different procedures to achieve the objectives defined by the management or the owner of the enterprise, usually with the aim of maximizing profit.

In the case of medium-sized enterprises the process of adopting accounting policies is much more complex compared to small enterprises due to the fact that it involves a larger number of experts in the fields of accounting and management, in order to include accounting policies in the system of the overall business policy. Furthermore, a large number of them subject to the auditing procedure, which in a certain way establishes the quality standards in the adoption and application of accounting policies in accordance with the requirements of the CFRS. Nevertheless, the research has shown some imperfections in these companies, which may affect the reliability of the information in the financial statements. For example, in view of the policy on inventories, the notes sometimes do not state the reasons for value adjustment of inventories, which could provide the traceability of the consistency of applying this policy through several periods. Similar is the policy on receivables, where a very small number of enterprises have disclosed the criteria on performing value adjustment, partial or complete write-off of receivables. Accordingly, such a situation leads to the dilemma whether this is a tax or accounting policy.

In view of the effect of accounting policies on the financial position of enterprises, the accounting policies that allow the use of alternative procedures are especially important. Such policies comprise long term intangible (CFRS 5) and tangible assets (CFRS 6), investments into real estate (CFRS 7), financial assets (CFRS 9) and deferred items (CFRS 14) which include the deferred taxes that are, in some cases, recorded as a part of the policy on income tax. As for small enterprises, the policy on deferred items mostly relates to prepaid expenses and accrued collection of income, as well as calculated expenses and deferred income (89.06%), while only 10.94% of small enterprises included deferred taxes in this policy. The selection of the appropriate alternative procedure may affect the results of their operations.

3. ASSESSMENT OF SIGNIFICANCE OF EFFECT OF ACCOUNTING POLICIES ON FINANCIAL POSITION OF ENTERPRISE

Based on the presence of certain accounting policies, choices of alternative procedures and balance sheet items whose valuation they affect, the research comprised the accounting policies related to long term tangible and intangible assets, investment in real estate, inventories, receivables and

accruals.¹Using the weighting procedure, each accounting policy acquired a corresponding importance in terms of its effect on the financial position, i.e. valuation of an enterprise. In addition to the above stated basic criteria, the degree of importance was determined by the parameters that are pre-set by the requirements of individual CFRS which determine the implementation of a certain accounting policy.

In the policy on long term intangible assets, the importance factor is determined on the basis of the share of these assets in the total value of long term assets of each unit of the sample, the quality of the initial valuation of the assets, the subsequent measurements using the method of depreciation expense, taking into consideration the estimates of useful lives, the applied depreciation rates and the frequency and intensity of their changes and impairment losses of these assets, which has a direct effect on the value of these assets in the balance sheet.

The accounting policy on long term tangible assets is divided into the policy on depreciation and the policy on revaluation. These policies are important due to the fact that the alternative procedures are most common upon their application, which has been proven in the previous research. These assets do not include long term tangible assets which are classified as investments in real estate. In the policy on depreciation the factor of importance is determined according to the initial evaluation, which defines the basis for depreciation, the treatment of borrowing costs acceptable for capitalization, the estimates of the useful life, the choice of depreciation method and its rate, the consistency of their application i.e. the frequency and intensity of their changes, based on the ratio of gross and net book value i.e. the amount of the value adjustment and the value of these assets in use. In the policy on revaluation the factor of importance is determined according to the subject of the revaluation, the frequency of revaluation and increases or decreases in book value arising from the revaluation. The importance factor of revaluation policy applies to all prior periods (from the beginning of implementation of the policy), according to the data presented in the notes.

In the policy on investments in real estate the factor of importance is assigned on the basis of subsequent evaluation in terms of choosing the cost method or the fair value method, in correlation with the primary purpose of this investment (preservation of the value or rent). The importance factor of the policy on inventories is determined on the basis of the share of these as-

¹ Based on the previously conducted research on presence of certain accounting policies in small and medium-sized enterprises, from the sample of 180 enterprises, 36 (20.00%) were eliminated due to incomplete financial statements. Sixty-two enterprises (43.06%) were selected randomly from the remaining sample, including equally small and medium-sized enterprises. The number of units in the sample is considered statistically significant.

sets in the total value of the short term assets at each unit in the sample depending on their activities, the quality of recognition of purchase costs and the subsequent evaluation according to the estimated net realizable value and its effect on the cost of operations, presenting the fair value of inventories and the effect on the recognition of deferred tax assets. In the policy on receivables the importance factor is determined according to the quality of the subsequent measurement of receivables as at the balance sheet date in terms of value adjustments and impairment losses with the existence of the objective evidence of impairment or the targets for tax evasion. The factor of importance assigned to the policy on accruals and deferred items is determined by the quality of the implementation of accruals with preference of prepayment of expenses, which points to the *fair* reporting, based on the quality of the implementation of deferred items with the special assessment of deferred income and qualitative and quantitative relationship of accruals and deferred items for the current and the prior period. The policy on deferred items includes deferred taxes that are the subject of a special investigation.

The correlation analysis proves the connection between the individual accounting policies (independent variable) and the financial position of the enterprise (the dependent variable). From the viewpoint of the individual enterprise, the importance of accounting policies is measured by the size of the weights with an independent variable, and therefore, according to the assumption of the model, the closer the sum of the weights is to 1, the greater is the importance of these policies. The results of the research are shown in Table 2.

Table 2 .: Assessment of significance of influence of accounting policies on financial position of enterprise

No.	Enterprise	Accounting policy						Total	
		Long term intangible assets (CFRS 5)	Long term tangible assets(CFRS 6) (0.40)		Investments into real estate (CFRS 7)	Inventory (CFRS 10)	Receivables (CFRS 11)		Deferred items (CFRS 14)
			depreciation policy	revaluation policy					
		0.150	0.200	0.200	0.150	0.100	0.100	0.100	1.000
1	M1	0.000	0.040	0.000	0.000	0.001	0.001	0.010	0.051
2	M2	0.100	0.180	0.000	0.100	0.035	0.010	0.000	0.425
3	M3	0.000	0.040	0.000	0.000	0.085	0.050	0.000	0.175
4	M4	0.050	0.200	0.200	0.000	0.085	0.010	0.030	0.575
5	M5	0.120	0.200	0.000	0.000	0.000	0.050	0.030	0.400
6	M6	0.075	0.200	0.000	0.000	0.095	0.060	0.000	0.430
7	M7	0.000	0.060	0.000	0.000	0.035	0.020	0.000	0.115
8	M8	0.075	0.125	0.000	0.000	0.020	0.065	0.030	0.315
9	M9	0.050	0.180	0.180	0.000	0.000	0.030	0.030	0.470

No.	Enterprise	Accounting policy							Total
		Long term intangible assets (CFRS 5)	Long term tangible assets(CFRS 6) (0.40)		Investments into real estate (CFRS 7)	Inventory (CFRS 10)	Receivables (CFRS 11)	Deferred items (CFRS 14)	
			depreciation policy	revaluation policy					
		0.150	0.200	0.200	0.150	0.100	0.100	0.100	1.000
10	M10	0.140	0.190	0.190	0.000	0.080	0.050	0.000	0.650
11	M11	0.130	0.180	0.000	0.000	0.050	0.030	0.060	0.450
12	M12	0.075	0.190	0.000	0.100	0.030	0.045	0.030	0.470
13	M13	0.100	0.150	0.000	0.120	0.000	0.040	0.050	0.460
14	M14	0.095	0.190	0.190	0.120	0.100	0.080	0.000	0.775
15	M15	0.100	0.180	0.000	0.000	0.090	0.030	0.020	0.420
16	M16	0.090	0.190	0.000	0.000	0.000	0.020	0.040	0.340
17	M17	0.000	0.160	0.000	0.100	0.000	0.090	0.050	0.400
18	M18	0.130	0.150	0.000	0.000	0.000	0.020	0.010	0.310
19	M19	0.020	0.120	0.000	0.000	0.000	0.020	0.000	0.160
20	M20	0.080	0.150	0.100	0.000	0.000	0.050	0.010	0.390
21	M21	0.000	0.190	0.000	0.000	0.070	0.030	0.080	0.370
22	M22	0.100	0.200	0.200	0.000	0.090	0.050	0.060	0.700
23	M23	0.075	0.120	0.000	0.000	0.080	0.030	0.000	0.305
24	M24	0.000	0.000	0.000	0.000	0.000	0.040	0.000	0.040
25	M25	0.075	0.010	0.000	0.000	0.060	0.010	0.010	0.165
26	M26	0.000	0.000	0.000	0.000	0.020	0.010	0.000	0.030
27	M27	0.000	0.150	0.150	0.000	0.040	0.010	0.000	0.350
28	M28	0.000	0.200	0.000	0.000	0.000	0.000	0.000	0.200
29	M29	0.000	0.075	0.000	0.000	0.000	0.000	0.000	0.075
30	M30	0.100	0.200	0.000	0.000	0.000	0.090	0.040	0.430
31	M31	0.050	0.090	0.000	0.000	0.030	0.030	0.000	0.200
32	S1	0.075	0.100	0.095	0.000	0.050	0.000	0.095	0.415
33	S2	0.000	0.125	0.150	0.000	0.100	0.080	0.050	0.505
34	S3	0.060	0.150	0.000	0.000	0.055	0.010	0.030	0.305
35	S4	0.120	0.180	0.000	0.150	0.000	0.100	0.100	0.650
36	S5	0.130	0.200	0.000	0.000	0.085	0.040	0.080	0.535
37	S6	0.000	0.150	0.000	0.000	0.090	0.090	0.080	0.410
38	S7	0.120	0.200	0.200	0.120	0.035	0.050	0.050	0.775
39	S8	0.150	0.180	0.000	0.000	0.100	0.090	0.050	0.570
40	S9	0.000	0.200	0.200	0.150	0.100	0.100	0.070	0.820
41	S10	0.100	0.200	0.000	0.000	0.035	0.090	0.080	0.505
42	S11	0.075	0.200	0.200	0.000	0.080	0.080	0.070	0.705
43	S12	0.150	0.200	0.200	0.150	0.100	0.040	0.095	0.935
44	S13	0.130	0.190	0.200	0.000	0.090	0.040	0.050	0.700
45	S14	0.000	0.180	0.000	0.100	0.060	0.080	0.040	0.460
46	S15	0.150	0.200	0.000	0.000	0.090	0.060	0.070	0.570

No.	Enterprise	Accounting policy							Total
		Long term intangible assets (CFRS 5)	Long term tangible assets(CFRS 6) (0.40)		Investments into real estate (CFRS 7)	Inventory (CFRS 10)	Receivables (CFRS 11)	Deferred items (CFRS 14)	
			depreciation policy	revaluation policy					
		0.150	0.200	0.200	0.150	0.100	0.100	0.100	1.000
47	S16	0.150	0.190	0.200	0.150	0.020	0.020	0.020	0.750
48	S17	0.100	0.180	0.000	0.000	0.035	0.050	0.100	0.465
49	S18	0.000	0.200	0.200	0.000	0.100	0.060	0.080	0.640
50	S19	0.120	0.190	0.000	0.000	0.100	0.060	0.050	0.520
51	S20	0.130	0.200	0.200	0.120	0.085	0.040	0.070	0.845
52	S21	0.050	0.100	0.000	0.000	0.000	0.000	0.100	0.250
53	S22	0.150	0.200	0.200	0.120	0.090	0.080	0.040	0.880
54	S23	0.000	0.180	0.200	0.000	0.020	0.020	0.010	0.430
55	S24	0.120	0.200	0.200	0.000	0.090	0.040	0.095	0.745
56	S25	0.075	0.200	0.200	0.000	0.090	0.060	0.050	0.675
57	S26	0.120	0.040	0.000	0.000	0.010	0.040	0.050	0.260
58	S27	0.000	0.019	0.190	0.000	0.080	0.050	0.000	0.339
59	S28	0.120	0.190	0.000	0.000	0.100	0.030	0.050	0.490
60	S29	0.120	0.190	0.190	0.000	0.060	0.040	0.050	0.650
61	S30	0.100	0.100	0.100	0.000	0.000	0.090	0.050	0.440
62	S31	0.120	0.180	0.000	0.000	0.080	0.070	0.060	0.510
	r	0.593300212	0.752530493	0.693955199	0.529487612	0.515516338	0.509948796	0.524872	
	R²	0.352005141	0.566302142	0.481573819	0.280357131	0.265757095	0.260047775	0.275491	
	p	p<0.01	p<0.01	p<0.01	p<0.01	p<0.01	p<0.01	p<0.01	

Source: Author. Research results

Note: M = Small enterprise; S = Medium-sized enterprise

3.1. ANALYSIS OF RESULTS OF RESEARCH ON EFFECT OF ACCOUNTING POLICIES ON FINANCIAL POSITION OF ENTERPRISE

A statistically significant effect of the observed accounting policies on the financial position of the enterprise ($p < 0.05$) has been determined on the selected sample included in the research. From the viewpoint of the selected sample, 35.20% of the variance of the financial position of the enterprise is conditioned by the accounting policy on long term intangible assets. The explanation of this is in the structure of long term intangible assets and the related policy on depreciation. In addition to the fact that all enterprises in the sample applied a straight-line method of depreciation and the annual rates according to the corresponding tax regulations, in those where the structure of long term intangible assets are mostly computer programs (*software*), often

used an accelerated depreciation rate, which means that the policy on depreciation is strongly influenced by tax regulations which determine their book value, and not the period in which the benefits from such assets are expected.

From the viewpoint of the selected sample, 56.63% of the variance of the financial position of an enterprise is conditioned by the accounting policy on depreciation of long term tangible assets. Based on the analysis of the use of policy on depreciation explained in the entrepreneurs' notes presented in the sample the following conclusions have been drawn:

- a) The capitalisation of borrowing costs of long term tangible assets that is in the process of construction according to the CFRS 6 and CFRS 16 was observed only in two companies while in other ones, whose investments are financed from loans, borrowing costs are directly included in the expenses of the period, and thus affect the decrease of financial results during the period of investment. Accordingly, the value of these "investments in progress" is undervalued in the balance sheet.

This freedom of choice in respect of borrowing costs in the period of investment until asset is ready for use, confirmed the non-compliance between CFRS and IFRS, since the enterprises that apply IFRS are obliged to capitalize these costs;

- b) Despite the fact that CFRS 6 allows the use of linear, digressive and functional method of depreciation, all enterprises apply the linear method regardless of the group of assets, which negatively affects the financial position. For example, the functional method would be more appropriate for means of transportation or the regressive method would be better to use for investing in used equipment due to the expected increase in maintenance costs in future periods, which affects equal debiting of overall expenditures for individual periods.
- c) Entrepreneurs determine depreciation rates according to their own estimates ranging up to the highest tax deductible rate. In a number of small enterprises the notes show the change of depreciation rate for the same group of assets compared to the previous period, indicating the intention of tax evasion. This is the proof that the estimates of useful life and consequently depreciation rates affect the valuation of assets and thus the financial position of the enterprise. Therefore in the process of assessing these values it is necessary to compare these values with market prices for the same or similar items.

The selected sample has proven that 48.16% of the variance of the enterprise's financial position is conditioned by the accounting policy on revaluation of tangible assets. Revaluation is applied to land and buildings. The re-

search has shown disregard for the requirements of the CFRS 6 (Section. 6.38) on cancelling revaluation reserves on the account of retained earnings. It has been determined that 8% of enterprises (M9; M46; S3; S15; S24; S26) record the decrease of revaluation reserve on the profit and loss account and in the case of the realized revaluation reserve directly recognize revenue. This substantially deteriorates the structure of liabilities as well as the reliability of financial statements. The policy on revaluation is significantly more common in medium-sized enterprises.

The policy on investment in real estate is rather new. Its implementation in small and medium-sized enterprises began the introduction of the CFRS. Its significance to the financial position of the enterprise lies in the fact that by choosing the method of *fair* value of real estate on the balance sheet date shows the book value that is equal to *fair* value. In view of the selected sample, 28.03% of the variance of the financial position is conditioned by the accounting policy on investment in real estate. All investments are related to investments in buildings. The *fair* value method was chosen by 42.85% of medium-sized enterprises, while others apply the method of depreciation. Based on the insight into the structure of income, which shows the lease income, the correct choice of this method has been confirmed, due to the fact that in these circumstances the depreciation expenses match with the lease income. The depreciation method applied to investment in real estate is linear and the rates are set by the tax regulation which results in the underestimated value of such property items in the balance sheet. The research has proved that the policy on investment in real estate affects the valuation of these assets and accordingly its financial position.

The research results show that 26.57% of the variance of the financial position of the enterprise is conditioned by the accounting policy on inventories. Especially a high-quality policy on inventories is led by manufacturers, medium-sized enterprises, where the notes show their structure, the use, the effect on the cost of production and the cost of the period and the implementation of the policy on value adjustment. The research results on the basis of the available data presented in the notes prove equal frequency of using the FIFO method and the method of weighted average prices. Although the research demonstrated the presence of statistical significance, the importance of this policy is lower in comparison to the above stated policies.

The selected sample has proven that 26.00% of the variance of the enterprise's financial position is conditioned by the accounting policy on receivables. Similar to the application of the previous policy and its effect on the financial position of enterprises, the policy on receivables, despite the presence of statistical significance, does not have such a strong effect on the financial

position, compared to the policy on revaluation. The research leads to the conclusion that the policy on receivables is aimed at determining the policy on income i.e. the definition of the tax base. Upon the analysis of the causes and the criteria of value adjustment of short-term receivables from the available sources it could not be concluded whether the requirements of CFRS 11 were met. Those requirements determine that the impairment of receivables is used if there is objective evidence about it. In this case the loss is measured as the difference between the book value and the estimated future cash flows and is recognized in the profit and loss account.

From the viewpoint of the selected sample, 27.55% of the variance of the enterprise's financial position is conditioned by the accounting policy on accruals and deferred items. Based on the research results of applying these heterogeneous accounting policies on the selected sample, the following can be concluded:

- a) Within the framework of recognized accruals, 77.78% refers to prepaid expenses and represents a "quasi-asset" that should be neutralized in the process of assessing the net book value of the enterprise because it is a cost that will in the future affect the reduction of the financial results, while in the current period it had a characteristic of the concentric balance sheet changes. The calculated income on the account of accruals was recognized by 22.22% of the sample as an asset item that will in the future be transformed into a receivable and then result in a cash flow i.e. the receipt of cash or cash equivalents. This part of accruals and deferred items should be included in the 'assets' item when estimating the value of the enterprise. However, if the notes are not well prepared, the estimate may be incorrect.
- b) In view of deferred items, in the sample data from the balance sheet, the deferred income refers to 21.95% of accruals and deferred items and is a part of the liabilities which, when determining the net book value of the enterprise, should be neutralized from the liabilities, because in the future periods this will directly affect the increase of income. Other deferred items (78.05%) in the sample are related to accrued expenses and represent a kind of obligation resulting in the recognition of expenses in the current period and directly affecting the financial result. They directly affect the financial position of the enterprise.
- c) Deferred taxes relate to deferred tax assets (40.32%) which were recognized on the basis of temporary differences and tax losses. A deferred tax liability based on the revaluation reserve of long term tangible assets was recognized by 16.13% enterprises.

This is to prove that the policy on accruals and deferred items has an effect on the financial position of the enterprise by direct influence on the increase (or decrease) in assets through accruals and through deferred tax assets and the increase (or decrease) in liabilities through deferred items and deferred tax liabilities.

3.2. ASSESSMENT OF SIGNIFICANCE OF INFLUENCE OF ACCOUNTING POLICIES BY ACCOUNTING EXPERTS

As a part of a comprehensive approach to the research on the effect of accounting policies on the financial position of the enterprise, after analyzing the results of the research conducted on secondary sources of data (financial statements), the research also involved the primary sources of information by interviewing accounting experts.² The qualitative analysis of the results seen in the synergy, provided the quality conclusions on the significance of the effect of certain accounting policies on the financial position of the enterprise, which is based on the data from the financial statements.

Based on the results obtained from the survey, the respondents (experts) determined the importance of the effect of accounting policies on long term intangible and tangible assets, inventories, financial performance and finally expressed their view. It should be noted that every expert evaluated the importance of the effect from the viewpoint of accounting policies applied in the enterprise involved in the representative research sample through survey. The results of this research were presented by the ranks of significance and are shown in Table 3.

² The selected approach to evaluation of knowledge of experts is known in the field of descriptive i.e. creative models of decision making. It is well known that the expert systems, aimed at solving specific problems in different areas of activity, use a special expertise and experience of experts, in order to solve various problems (Brajdić, I.: *Models of Decision-Making*, University of Rijeka, Faculty of Hotel Management Opatija, Opatija, 1998, p. 291). To simulate experts in decision-making, expert systems, through their knowledge base, have to incorporate the expertise of professionals who have a vast amount of knowledge, information and less-known facts that they use (along with their own, through experience developed rules of rational reasoning) for analyzing and solving problems in the particular area (Sikavica, P.: *Business Decision Making*, II. ed., Informator, Zagreb, 1999, p. 314). The stated facts were aimed at indicating the need to appreciate the knowledge of experts in the field of accounting and thus within the research, directly involve chartered accountants who acquired the title according to the program of the "Croatian Accountant", so that the results of this research, based on the opinions and estimates of experts in the field of Accounting, would be considered relevant.

Table 3: Ranks of significance of effect of accounting policies in SMEs

EFFECT OF ACCOUNTING POLICY	in small enterprises	in medium-sized enterprises	TOTAL in SMEs
valuation of long term intangible assets	Rank 1 – 2.94 % Rank 2 – 70.59% Rank 3 – 14.71% Rank 4 – 11.76%	Rank 1 – 5.36% Rank 2 – 73.21% Rank 3 – 21.43% Rank 4 – 0.00%	Rank 1 – 4.03% Rank 2 – 71.77% Rank 3 – 17.74% Rank 4 – 6.45%
valuation of long term tangible assets	Rank 1 – 80.88% Rank 2 – 14.71% Rank 3 – 2.94% Rank 4 – 1.47%	Rank 1 – 87.50% Rank 2 – 12.50% Rank 3 – 0.00% Rank 4 – 0.00%	Rank 1 – 83.87% Rank 2 – 13.71% Rank 3 – 1.61% Rank 4 – 0.81%
inventory valuation	Rank 1 – 7.35% Rank 2 – 27.94% Rank 3 – 35.29% Rank 4 – 29.41%	Rank 1 – 12.50% Rank 2 – 51.79% Rank 3 – 32.14% Rank 4 – 3.57%	Rank 1 – 9.68% Rank 2 – 38.71% Rank 3 – 33.87% Rank 4 – 17.74%
financial result (profit / loss)	Rank 1 – 82.35% Rank 2 – 16.48% Rank 3 – 1.47% Rank 4 – 0.00%	Rank 1 – 83.93% Rank 2 – 16.07% Rank 3 – 0.00% Rank 4 – 0.00%	Rank 1 – 83.06% Rank 2 – 16.13% Rank 3 – 0.81% Rank 4 – 0.00%
effect of application of different accounting policies on financial position of enterprise	Rank 1 – 85.29% Rank 2 – 10.29% Rank 3 – 0.00% Rank 4 – 4.41%	Rank 1 – 87.50% Rank 2 – 7.14% Rank 3 – 1.79% Rank 4 – 0.00%	Rank 1 – 86.29% Rank 2 – 8.87% Rank 3 – 0.81% Rank 4 – 2.42%

Source: Author, research results based on survey

Meaning of ranks: Significant = Rank 1; Low = Rank 2, Insignificant = Rank 3 and No effect = Rank 4

The highest ranked importance of the effect of accounting policies by accounting experts on the level of the entire sample that represents small and medium-sized enterprises is the effect of accounting policies on valuation of long term tangible assets and their effect on the financial performance of the enterprise. Out of the total sample 83.87% of respondents believe that the effect of accounting policies on the evaluation of long term assets is significant, and 83.06% consider that accounting policies can have a significant effect on the financial result. Such a result can be explained as follows: in the enterprises in whose balance sheets the property items make up the largest part of long term tangible assets, particularly real estate, using the revaluation method can directly increase the value of assets and capital (through revaluation reserves) without additional investments and thus bring these properties to the level of *fair value*. Furthermore, the use of the appropriate assessment method which defines the annual depreciation rates for the straight-line method (which is present in the whole sample), creates the possibility of the effect of depreciation expense on the “shaping” of the financial results, despite the fact that frequent changes of depreciation rates should not be an instrument of adjustment of the financial results with the aim of tax evasion.

The effect of accounting policies on inventories is not highly ranked. Only 9.68% of the sample believes that they have a significant effect on the valuation of inventories, while 38.71% think that their influence is weak. It is particularly significant that 29.41% of small business owners think that the effect does not exist. 71.77% of respondents rated the effect of accounting policy on long term intangible assets as weak.

The survey results did not absolutely confirm the results of the research from the secondary sources of data related to the financial statements of the selected sample. However, it depends on the interpretation of the obtained results. The previous research has proved that long term intangible assets are depreciated using the straight line method at the rates set by the tax legislation and assumes for this type of property a life span of only two years. The previous research demonstrated the importance of accounting policies on long term intangible assets. Such an importance exists but in the way that the policy on depreciation underestimates its book and *fair* value in the balance sheet. A different policy on depreciation would improve the financial position of the enterprise, which represents the field in which should be acted in the future. Therefore, such a survey result confirms the results of the previous research.

The effect of applying the appropriate accounting policies on the financial position of the enterprise, based on financial statements, was considered significant by 86.29% of the sample. The above stated opinions are almost equally present in small and medium-sized enterprises.

4. CONCLUSION

The application of the appropriate accounting policies, in particular the choice of the allowed alternative procedures may have a significant effect on the valuation of assets and liabilities as well as the financial result, resulting in the increasing value of equity i.e. the yield on equity. Based on the results, the research on the effect of significant accounting policies on the financial position of enterprises by means of the correlation method, has demonstrated a statistically significant effect of certain observed accounting policies on the financial position, including the assessment of their importance. The results of the correlation analysis and the use of the empirical-inductive method have proved that the accounting policy of depreciation of long term tangible assets has the most important effect on the financial position of an enterprise, and consequently on its financial results. However, other important policies are also those related to the amortization and revaluation of long term tangible assets. Last but not least, important are also the policies regarding long term intangible assets, inventories and deferred items. It has been concluded that

the more significant the assets, liabilities, revenues and expenses are, which a certain accounting policy refers to, the more significant is the effect of accounting policies on the financial position of an enterprise. This is especially the case when it is possible to affect the value of the specific balance sheet positions by means of an alternative procedure.

.....

REFERENCES

1. Antony, Robert N. i Reece, James S.: Računovodstvo – Financijsko i upravljačko računovodstvo, RRiF plus, Zagreb, 2004.
2. Baker, Richard E.; Lembke C. Valdean; King E. Thomas; Jeffrey G. Cynthia.: Advanced Financial Accounting, VIII. Edition, McGraw-Hill, Irwin, New York, 2009.
3. Belak, Vinko: Računovodstvo financijske imovine raspoložive za prodaju – kod svih poduzetnika, Računovodstvo, revizija i financije, XIX (2010.), br. 9. (17-24).
4. Bendeković, Jadranko i Lasić, Vladimir: Vrednovanje imovine i poslovanja poduzeća, Ekonomski institut, Zagreb, 1991.
5. Brkanić, Vlado (ur.): Hrvatski računovodstveni sustavi – službeni i pročišćeni tekstovi za Hrvatsku, HSFI, MSFI, MRS, Tumačenja, VI. naklada, knjiga III. RRiF plus d.o.o., Zagreb, 2010.
6. Cerović, Ljerka: Funkcionalno povezivanje odrednica kvalitete temeljnih financijskih izvještaja (doktorska disertacija), Sveučilište u Rijeci, Ekonomski fakultet, Rijeka, 2005.
7. Crnković, Luka i Mijoč, Ivo: Perspektive financijskog izvještavanja malih i srednje velikih trgovačkih društava u Republici Hrvatskoj, Hrvatska zajednica računovođa i financijskih djelatnika, Zbornik radova, Zagreb, 2009. (165-182)
8. European Commission: European SMEs under Pressure, Annual Report on EU Small and Medium-sized enterprises 2009., dostupno na: [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr annual report2010 100511.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr%20annual%20report2010%20100511.pdf)
9. FINA, Analiza financijski rezultata poduzetnika RH u 2010. godini, ISSN 1847- 5434, Zagreb, lipanj 2011.
10. Guzić, Šime: Računovodstvene politike malih i srednjih društava, Računovodstvo, revizija i financije, XVIII. (2008.), br. 8. (23-34)
11. Jurić, Đurđica: Procjena vrijednosti malih i srednjih poduzeća u uvjetima primjene različitih računovodstvenih politika (doktorska disertacija), Sveučilište u Osijeku, Ekonomski fakultet, Osijek, 2012.
12. Jurić, Đurđica: Oblikovanje računovodstvenih politika u procjenama i vrijednosnim usklađenjima kratkotrajne imovine, Računovodstvene politike i odgovornost uprave za njihov odabir te primjenu MRS-ova u maksimaliziranju dobitka, Udruga Hrvatski računovođa, Zagreb, 1999., str. 109 – 119.
13. Kolačević, Stjepan: Učinci procjene dugotrajne materijalne imovine i vrijednosti iskazanih u financijskim izvješćima, Ekonomski pregled br. 1/2 (2005.)
14. Lasić, Vladimir: Procjena ekonomske vrijednosti potreba za primjenu MSFI-a, Računovodstvo, revizija i financije, XIX. (2009.), br. 9. (66-71).

UTJECAJ RAČUNOVODSTVENIH POLITIKA NA FINANCIJSKI POLOŽAJ MALIH I SREDNJIH PODUZETNIKA

SAŽETAK RADA

Primjena odgovarajućih računovodstvenih politika, posebice izbor dopuštenih alternativnih postupaka prema Hrvatskim standardima financijskog izvještavanja (HSFI), može imati značajan utjecaj na vrednovanje imovine, obveza i kapitala, a time i na financijski položaj malih i srednje velikih poduzetnika. Rezultati istraživanja ukazuju kako u malom i srednjem poduzetništvu značajni utjecaj na financijski položaj poduzetnika ima računovodstvena politika amortizacije i revalorizacije dugotrajne materijalne imovine. Međutim, važnost je prisutna i kod politika u vezi s dugotrajnom nematerijalnom imovinom, zalihama i politikom vremenskih razgraničenja. Utjecaj računovodstvenih politika na financijski položaj poduzetnika značajniji je što je značajnija stavka imovine, obveza, prihoda ili rashoda na koju se računovodstvena politika odnosi, posebice u uvjetima kada je moguće izborom alternativnog postupka svjesno utjecati na vrijednost pojedinih bilančnih pozicija.

Ključne riječi: *financijski položaj poduzetnika, računovodstvene politike, HSFI, financijski izvještaji, mali poduzetnici, srednje veliki poduzetnici*