THE THEORY OF INTERNATIONAL AND NATIONAL ACCOUNTING AND ITS PRACTICAL USEFULNESS TO BUSINESS EXECUTIVES AND INVESTORS

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Summary

Accounting statements are not always suitable as bases for business analysis and valuation. Accounting measurements require careful practice in usage, especialy-ly when used to support management decisions for perfoÍmance measurement or planning. Accounting indicators are based on accounting data, which only serve to comply with reporting obligations legally ordained. Numbers are not designed for performance measurement, and reports may be rather different, even within their legal framework. These problems show up all the more serious when we try to compare intemational accounting data. In our days, enterprise valuation might be necessaryi n a number of situatíons;it can be categoriz ed as separatev aluation, valuation for transaction, and continuous valuation. Continuous valuation can be done to manage corporate value, to maximize shareholder value, and to choose between different investment outlets, while separate valuation is usually performed when raising capital. A number of different methods are used in different situations of valuation to analyse enterprises and to their perforrnance analysis. A certain common agreement exists in economic literature, that the one and only way to measure company performance is to measure value-creation; enterprises performing better will create more value for each group of interest (shareholders, creditors. management, employees, clients/suppliers, social environment of the enterprise), than those performing weakly.

Key Words: *accounting, investment, accounting standards*

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Nemzetközi és nemzeti számvitel gyakorlati hasznosítása az üzleti vezetők és a befektetők számára

Összefoglalás

A számviteli kimutatások nem mindig alkalmasak az üzleti elemzésre és értékelésre. A számviteli mérésekhez gondos gyakorlatra van szükség a használat során különösen akkor, ha az a menedzsmentdöntéseket is támogatja a teljesítménymé-réshez vagy a tervezéshez kapcsolódóan. A számviteli mutatók olyan könyvelési adatokon alapulnak, amelyek csak a törvényben elrendelt jelentési kötelezettségek teljesítésére szolgálnak. (Lukács 2009) A számokat nem a teljesítményméréshez tervezték, és a jelentések meglehetősen eltérőek lehetnek, még a jogi kereteken belül is. Ezek a problémák komolyabban jelentkeznek, amikor megpróbáljuk összehasonlítani a nemzetközi számviteli adatokat. Napjainkban a vállalati értékelés szükségessé válhat számos helyzetben, különböző területeken. Folyamatos értékelést lehet végezni a vállalati értékek kezelésére, a részvényesi érték maximalizálására és a különböző befektetési üzletágak közötti választásra. Számos különböző módszert alkalmaznak az értékelési helyzetekben a vállalatok elemzéséhez és a teljesítményelemzéshez. A gazdasági szakirodalomban létezik egy közös megállapítás arról, hogy a vállalat teljesítménymérésének egyetlen módja az értékteremtés mérése; a jobb teljesítményt nyújtó vállalkozások több értéket fognak létrehozni minden egyes érdekcsoport számára (részvényesek, hitelezők, menedzsment, alkalmazottak, ügyfelek/beszállítók, a vállalkozás társadalmi környezete), mint azok, akik gyengén teljesítenek. (Zéman et al. 2011)

Kulcsszavak: *számvitel, befektetés, számviteli standardok*

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Introduction

Accountancy is a special branch of economy within the larger category of social sciences. Fundamentally, accountancy is a means of documenting, recording, reflection and monitoring of financial processes. It follows the various elements of the changing economic trends and records them separately and in conjunction with each other as well. In its contents, it keeps reflecting the live economic pÍocesses' applying the categories and notions deducted from them. Though historically known under different names, accountancy is just as old as the separation of economic activities on the basis of the division of labour, and of their growing into distinct entities.

The subject of accountancy is to study the assets and their change within the enterprise.

The change of assetsi ncludes: firstly, the whole process of operating (business) activities (purchasing, production, marketing), and secondly, the financial transactions and operations of extraordinary events. Economic events are the elements of operating (business) and other activities which can be expressed by means of some unit of measure. Accountancy, therefore, is an objective accounting and information system, which means the organizational study, quantitive description, measurement, systematic documentation and recording of economic operations (events) embodying the business activity. An express objective of accountancy is an unbiased reflection, monitoring and summary of the results of the processes of the operating (business) and other processes. Accountancy records actual data, by which it reflects the past and the present, however, these data can be utilized with perspectives for the future.

Functions of accountancy include exhibiting the assets and protection of equity, and by this, the assessmento f the actual and real equity situationo f the company. It is a means of company administration and management, which continually provides information for internal and external company analyses, for the evaluation of activities and for the examination of effectiveness; also, it serves as a database foundation for business decisions. (Abdel-Kader et al. 2006)

With this feature, accountancy is more than a tool of registration of past (factual) events. By assisting the analysis and evaluation of present, it helps determine future goals, preparation of decisions and operational (business) plans. The principles of accountancy are determined in accordance with the directives of the European Economic Community and the Council of the European Union, also taking their amendments into consideration. The accounting policy of an enterpriseis set up on the basis of the accounting philosophy of the entrepreneur, with regard to the principles, in order to receive a full, true and fair view of the company. (Asbaug et al. 2001) The general parts of the accounting policy are:

- the choice of the method of accounting,
- the specification of the system of accounting: the chart of accounts,
- the choice of the method and procedures of valuation of assets and liabilities,
- the choice if the method of depreciation,
- the choice of the from of financial statements and the profit and loss statement,
- determination of the time of preparátion of financial statements etc.,
- the preparation of the chart of accounts,
- and the preparation of a document protocol.

Material and methods

The theory of international and national accounting and its practical usefulness to business executives and investors

An investor may not know every information about the enterprise, and even the information accessible may be subject to misinterpretation. Wherever a lack of information occurs, investors are apt to prefer more optimistic scenarios, and to substitute facts with expectations.

An investor with funds has the choice to invest in securities, land and buildings or in an operating company. A rational investor's choice, supposing the availability of true and fair information about the possibilities, is based upon the principle of the highest return of capital.

A classical form of investment is when the owner of funds invests the money in (the activity ofl a company either being established for a particular activity or already having existed, with the expectation of receiving a retum of capital or profit. This kind of investment is usually considered more difficult to handle and more risky than govemment securities or securities dealt in on a stock exchange. It is not necessarily true (not impossible though) that higher risk will result in higher investment returns. The retum in this case depends on multiple factors. Only a part of these multiple factors can be accessed by the investor; a majority of these are related to reasons andprocesses beyond his powers (e.g. changes intherange of competitors, market requirements, product substitutions, economic regulations, the activity of the management etc.). These factors can be managed (though not fundamentally influenced) by obtaining and properly using the necessary information. Venture capital investors find themselves in a challenging situation when they wish to get relevant information about the economic organization that they intend to invest in, as no up-to-date computing information system is available about it. In such cases investors may turn to the following sources of information:

- Information from employees of the company to be financed.
- Information from the Hungarian Central Statistical Offrce.
- Special information and statistical data.
- Information from other investors.
- Valuation reports and surveys by the company.
- Reports of auditors and consultants.
- Information included in the business plan (e.g. balance sheet, profit and loss
- and plan data.
- Sales and marketing information.
- Information about production technologies and utilisation of capacities.
- Biographical details of executives.
- Information about competitors.

Information from co-investors is considered less relevant as they may contain exaggerative elements. Investors consider the information about products less relevant, and publicly available statistical data arc also considered less useful as basis of investment decisions.

Surveys show that investors ranked their own experience as of highest importance, the second in importance was the information from consulting agencies, and investors also consider sales and marketing information as significant. In this way, the importance of market information takes precedence in importance over balance sheet data, profit and loss data and plan data contained in the business plans of the companies. Accounting statements are not always suitable as bases for business analysis and valuation'. (Ball et al. 2000)

Accounting measurements require careful practice in usage, especially when used to support management decisions for performance measurement or planning. Accounting indicators are based on accounting data, which only serve to comply with reporting obligations legally ordained. Numbers are not designed for performance measurement, and reports may be rather different, even within their legal Íramework.

These problems show up all the more serious when we try to compare international accounting data. In our days, enterprise valuation might be necessary in a number of situations; it can be categorizedas separate valuation, valuation for transaction, and continuous valuation. Continuous valuation can be done to manage corporate value, to maximize shareholder value, and to choose between different investment outlets, while separate valuation is usually performed when raising capital. A number of different methods are used in different situations of valuation to analyse enterprises and to their perforrnance analysis. A certain common agreement exists in economic literature, that the one and only way to measure company performance is to measure value-creation; enterprises performing better will create more value for each group of interest (shareholders, creditors, management, employees, clients/ suppliers, social environment of the enterprise), than those performing weakly. If shareholder interests are prioritized, then this, indeed, is the best way to take due account of the interests of all stakeholder groups. Nevertheless, there is no general agreement upon which method should be used to measure value creation. It would be a mistake to think that one method of measurement or analysis is suitable for supporting all kinds of financial decisions. In fact, every method can serve well, but the aims they serve to achieve might well be different. In many cases, the methods differ even in the axioms they rely on, therefore, they will give different answers to questions about the performance and prospects of an enterprise.

The focal question is whether we are able to choose the method which supports the given aim to the highest extent, and whether we possess the quantity and quality of information needed to feed into the chosen method. When studying the literature on the methods of value measurement, we encounter an intricate mass of procedures set up by various consultants and academic schools. Information about the effrcacy of various methods are rather limited, as the original authors have strong financial interest in the results of their research, as far as the efficacy of the method is concerned. Each author insists that their method should be used, though they hardly differ from the methods of measurement of other competitor scholars. To show up the multitude of value creation measurement methods, some of the most well-known and important can be seen on Figure 2 (ananged in groups for easy understanding). The methods difÍ.eri n a number of factors: they calculate with different cash flow, there may be differences in the way they interpret the cost of capital used for discounting, or they may differ in the used indicators of profit and loss or assets. Accounting indicators were developed for reporting and controlling purposes, even in our days, this is their main field of utilisation. Accounting indicators provide a good deal of information about past business performance, and besides that, they are often used as decisive criteria when setting up plans for various spans of time. Indicators serving the accounting measurementsin clude, among others, categories of accounting earnings, Eamings per Share (EPS), Price/Eamings (P/E), and different rates of retum.

By an estimation of multipliers, we can use as the basis of valuation, among others, the sales revenue, the accounting value, or the eamings before taxes, and when doing so, the value is settled as a multiple of the given indicator, primarily, by using comparative market data.

The main advantages of accounting indicators is easy calculation and that the necessary data are readily available, all open to public, and easy to communicate. Due to the fact that they are easy to communicate, accounting indicators are often used both internally in management reporting and externally in investor's reporting. Accounting indicators give a detailed description of facts and provide information about past performance and the present state of the enterprise. A ccounting indicators focus on past and short periods, and disregardr isk or the time value of money. Many accounting data focus, primarily, on the profit and loss statement, and does not take into full account the cash flow deduced from the balance sheet. Those enterprises which concentrate on the net earnings of the current year, take a short view, and are apt to neglect the potentials displayed in the balance sheet and the capital elements, such as circular capital economy, or the efficacy of capital expenses.

The driving forces to maximize accounting earnings and accounting rates of return may easily lead to unwanted consequences. Furthermore, accounting indicators show little correlation with the current market value of the enterprise, both empirically and theoretically. As a result of the systematic categorizations of the differences, the literature, taking the national peculiarities into consideration, divides the accounting practices into two basic type models. The division categories appear in the literature under various names.

Obviously, this does not mean that some features of either model cannot appear in the other, on the contrary, there are countries where the name „mixed system" is the one that best describes the regulation practice and the resulting accounting practice. In our opinion, the similarities and differences reflect the fundamentals of the theoretical approaches. Several scholars agree that the factors influencing the applied accounting practice include the national culture, the circle of capital investors, miscellaneous influencing factors, national practices of accounting, the system of taxation and legislation. (Barth et al. 2008)

The formation of accounting standards, the factors affecting their introduction, and the hypotheses used to elaborate a given accounting standards were subject of studies in many cases. This matter was in the core of interest of a scholar who, on the basis of the principle of maximization of profit, argued that company executives make their business decisions between accounting alternatives with regard to the question whether applying them would be an economic advantage or disadvantage during the accounting practice. It is pointed out that the lobbying activity at the regulating bodies has its traces in the process of establishing the accounting standards. (Pál et al. 2006)

Consequently, any accounting regulation which subordinatest he possible ways of representations, accounts, valuations, to the lobbying activity of various interest carriers (bv propagating accounting methods which aÍe economically more advantageousf or certain interestg roups), may lead to the distortion of the objective view. If we observe global accounting practices in national systems, we can study their effects in terms of macro- or micro-economic orientation.

Macro-oriented regulation is better known as the continental (European) model, and it focuses on accountancy-related legislation and codified law, whereas micro-oriented regulation is in accordance with common law and is known as Anglo-Saxon or Anglo-American model. In our opinion, the administration system, the philosophy and the willingness of investors and the cooperation of the management and the shareholders are equally determinant in a given national economy.

In addition to the extensive legal requirements of disclosure, Anglo-Saxon countries have recently witnessed a certain decline of prudential norms, which is a sign of the secondary regulating power of direct intervention of the authorities besides the primary regulating effect of the market, while in the continental (European) model the primary fund-raiser is the state and sovernment bodies.

The word-ofJaw nature and conservatism of regulation aims at the protection of creditors and at long-term stability of the companies, therefore, the principle of prudence plays a dominant role in accounting regulations.

Definitive characteristics	Anglo-America'n model	Continental-European model
Legal system	– Common law – Micro-orientedresulation – Limited number of regulations The regulation focuses remedying various legal case	– Codified law – Macro-orientedresulation – Regulations within acts of different levels – Bindins standards
Financing system	– Shareholder dominance – Capital funding through many small investors is important	– Dominance of government – bodies
Accounting reporting system	– Shareholder- and investor-oriented reporting system – Primary need for reporting in terms of capital, assets and their changes	– Authority-orientedreporting – system – Primary need to enforce the principle of prudencet, o protect creditors
Administration system	– Statement of capital change in shareholders' equity	– Presents adherence to prudential regulations
System of taxation	– Self-reporting system – Link to accountancy is negligible	– Multiple links to the system of financial reporting – Determinant on accountancy in terms of accounting, valuation and reporting
Auditing	By auditors and stock exchange	Auditors, fiscal auditors
Philosophy	To sive a true and fair vrew.	True, fair, full, legal

Table 1: Summary of the features of the two systems

Source: own compilation. Based on Nobes 1997.

Results

The features described above are also determinant on how the two models are macroeconomically related to the economic policy of a given country. The English model concentrates on supplying the operators with relevant information, therefore the system of taxation is separate from the accountancy requirements. In contrast, in the continental (European) model, in many cases, taxation laws determine the mode of accounting and valuation of business transactions and the presentation requirements of reporting. The elaboration and maintenance of international accounting standards is in the hands of the Intemational Accounting Standards Board, seating in London. International Accounting Standards, as in the Anglo-Saxon practice, contain problem-solving, technical regulations. Bank financing is more common in European states, which resulted in the fact that protection of creditors plays a prominent role in legislation. Accounting and taxation laws are closely intertwined, therefore, the law on taxation of companies plays a dominant role in the preparation of financial statements. Having reviewed the international regulation practices it can be argued that the primary requirements of compilation of the Íinancial statements include the publishing of information, presentation of assets and the presentation of the elements of financial and income situation, which the Hungarian regulation of accountancy is presently well suited to. As a result of the foregoing, there are three main accounting rule units which serve as the basis of the global regulation of accountancy. (IFAC 2002) The framework of the European accounting regulation was established by EU directives (directive 4 and 7), which also serve as basis to Intemational Accounting Standards (IAS/IFRS), whereas the third pillar is the United States Generally Accepted Accounting Principles (US GAAP). The Intemational Accounting Standards Committee (IASC) was founded in 1973 in London, in order to elaborate Intemational Accounting Standards (IAS) harmonized with general interests. The founders were Australia, France, Canada, Germany, Japan, Mexico, the Netherlands, United Kingdom, Ireland and IJSA. IASC was reformed in March 2001; a new constitution was put into effect by the trustees, and a non-proÍit company' the IASC Foundation was established, so that it supervises the work of the International Accounting Standards Board (IASB). The naming of standards was changed from 2001.

The standards elaborated by IASC are called International Accounting Standards (lAS), while those elaborated by IASB are called InternationalF inancial Reporting Standards (IFRS). The objectiveso f IASC, according to the revised constitution. (IFAC 2005) are:

- „to develop, in the public interest, a single set of high quality, understandable, enforceablea nd globally acceptedf inancial reporting standards [... that]r equire high quality, transparent and comparable information in Íinancial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions.
- to promote the use and rigorous application of those standards
- to promote the convergence of national accounting standards and IFRS".

The objective of establishing the Hungarian accounting standards was to prepare a unified accounting practice, by bringing the Hungarian accounting legislation, the accounting regulations of the European Union and the International Financial Reporting Standards in accordance. National legislation is not replaced by standards-based regulation, but it includes, by supplementing it, detailed regulations, methods and procedures. The international development of accounting indicates the emergence of national and international standards. (Becker et al. 2009)

Reporting under unified standards helps the investors to be informed with clarity, so a numberof member countries in our region have broadened the circle of companies which are obliged to IFRS-compliant reporting. The enterprises facing the phenomenon of globalization experienced accounting difficulties in certain areas. Firstly, when they tried to compare enterprises in different counties, in terms of establishingb usinessa nd investmentc onnections; secondly, at the compilation of consolidated statements of multinational enterprise groups, and thirdly, on the creation at stock exchanges of other countries. (Beke J. 2013)

In Hungary, the main national regulations of valuation at fair rate are contained in Act C of 2000 on Accounting, and further details are elaborated in Act 250 of 2000. (XII. 24.) about special requirements of reporting and accounting obligations of credit institutions and financial institutions. The primary legislative will for the Hungarian adaptation was a gradual adaptation of the intemational rules of financial instruments, as the relevant standards were under fundamental reworking and Hungary had a more closely intertwined accounting and taxation practice, and as executive authorities were not yet prepared to a full conversion. IAS standard 1 divides financial reports into the following types: balance sheet, income statement (which presents any changes in equity and any changes in capital which are unrelated to shareholders), cash flow statement, accounting policy, and the supplement of other explanatory notes. Accounting standards in the global economy have elements with strong influence on accounting policies.

The efforts of the participants of global economy to ensure unity of accounting to provide comparable financial statements are influential on the standards established. It is essential for the regulation of those small and medium-sized enterprises which do not fall under IFRS reporting obligation, to have a system of rules based on professional grounds. Theoretically, the anomaly of uncertainty in the preparation of the accounting statements is dissolved by the introduction of standards. The introduction of intemational standards is in process in Hungary, though their home elaboration is not yet finished.

The Hungarian Accountancy Act includes provisions about accounting standardizationa, lso providing its limits. As it is known, only companiesw ith stock exchange presence are obliged to prepare lFRS-compliant annual report in Hungary. (Böcskei E. 2016) Considering that only a negligible proportion of Hungarian companies have stock exchange presence, IFRScompliant reporting is only required of a tiny segmento f companies.T hose enterprisesw hich prepare non-IFRS-compliant statements take the principles within the standards into account.

Preparing fully IFRS-compliant reporting would put an unreasonable burden on small and medium-sized enterprises, consequently, very few of them opt to prepare such reporting. The national standards are primarily intended to provide solutions for those companies which do not compile their financial statements according to IFRS, but of course, these standards are also applicable by those obliged to comply with IFRS. There is an international effort to establish standards which provide a simplified regulation for small enterprises, without involving further administrative burden. This matter is within the competence of IASB, who, however, do not hold out the prospect of a full-fledged solution in the short run.

Conclusion

In summary, we can say that the main objective of standardization in Hungary is the harmonization with international accounting standards, which is done with regard to the existing IAS/IFRS standards. Ou. .er.urch, in this regard, is focused on accounting policy, and this is the segment which is to be analysed to receive a full view. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, being in effect in Hungary, is most influential and determinant on the main elements in our financial researches. This will, in due course, be replaced by the Hungarian accounting standard, which, being a theoretical conception, is under elaboration. Until it is fully elaborated and introduced on the level of practice, IAS 8 international standard will be determinant in terms of accounting policy. The objective of the standard is the harmonization of the Hungarian accounting legislation with international financial reporting systems. Accounting policy is the solid choice of rules, regulations and methods founding business decisions that are necessary for the enterprise to meet their obligations under the accounting legislation, with regard to the particularities of the enterprise. The requirements necessary to meet the aforesaid obligations are presented within the framework of the accounting policy. Such factors are the numerical assessment of the accounting entries important/unimportant, significant/insignificant, in terms of valuation. The final goal always must be to ensure a most optimal view of the company to external operators.

In our research, we will introduce the notion of subjective and fair view. This notion indicates the external, distorting effects that appear during the evolution of the accounting policy. It is not only the distortions resulting from assessment or lack of information which are meant here, but also the entirety of factors affecting the logic of decisions of the financial management. A number of subjective elements which affect the accounting policy can also arise within the state of interest of management, such as bonus priorities, the will to saving tax, the emergence of potential acquisition, dividend maximization etc., which may all influence the possibility of true and fair view. IAS 8 is an accounting standard which regulates the processes of financial assessments and error corrections within the enterprises.

Thereby, it contributes to the presentation of financial statements in terms of relevance and reliability and to the comparison of time bases of the statements. In addition, it ensures comparability to other enterprises. Accounting policies and financial assessments have a correlativer elation with the notion of error, as principles, fundamentals, conventions and rules improperly chosen and applied are often the sources of errors in financial assessments. IAS 8 includes provisions for the interpretation and proper handling of financial assessment errors discovered within the enterprise. It also provides guidance on accounting policy choices and implementation, and sets up standard requirements against the accounting policy.

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