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TOWARDS FINANCIAL SUSTAINABILITY OF COMPANIES: ISSUES RELATED TO REPORTING ERRORS

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Abstract. The aim of the paper is to analyse the opinion of enterprise representatives upon the risk of errors occurrence in selected areas of accounting. Research presented in this paper explains the view of enterprise accountants upon the risk of errors occurrence, both unintentional and intentional, aimed towards the creation of so called „creative accounting". The research itself, done on a sample of 232 Czech enterprises, was based on questionnaire investigation which focused on perception of problematic areas influencing the quality of accounting information. The obtained set of data was evaluated using descriptive method and mathematical/inference statistics. Special testing was done at hypotheses on concordance of two mean values and at the Friedman test. Evaluation of problematic rates of individual areas of accounting revealed that practically each observed area of accounting is connected with specific difficulties. The major causes of problems are tax impacts, namely in the area of the cost, time differentiation and of revenues and also difficulty in pricing, especially in the area of inventories and fixed and financial assets. High respondents´ concordance on rating individual accounting areas as to the risk of an error occurrence was detected. It stemmed from the research that the risk of formation of unintentional errors is subjectively rated as the highest in the areas of conjectural and adjusting items and the lowest at asset and depreciation classification. Rating the space for intentional distortion of accounting statements indicates a very reserved attitude of the respondents. The results have proved that in the respondents´ opinion practically all areas of accounting give space for occurrence of errors. The results of the research provided a somewhat different perspective on the issue of accounting errors in comparison with results published by other authors who used objective assessment of error rate as a departure point.

Keywords: financial sustainability, accounting, financial statements, creative accounting, information quality, errors

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1. Introduction

Financial sustainability of any company is influenced by accounting performance. As in all other areas of human activity, keeping accounting records is accompanied by the emergence of errors. The aim of our research is to provide information on the risk of the emergence of accounting errors from the perspective of business accountants.

Accounting provides data on the company's performance, finance flows, and this information is used to evaluate the company's performance, to make management decisions and future plans (Večerskienė et al., 2008). The fundamental objective of accountancy is to provide a fair and true view of the entity and its financial position. One should take into account the fact that accountancy occupies an important place in the informal enterprise system and is a strong source of information, as pointed by Dumitru (2012).

Accountancy should be used not only as a source of information that allows us to calculate the amount of tax liability and assemble the required statements. Accountancy, along with other instruments of financial management, should be a source of complete data for both internal and external users. Financial performance is seen as a stake in the company's internal and external relations, its partners being affected by the level and quality thereof (Grosanu et al., 2011). Porter & Norton (2015) add that external users such as investors and creditors often do not have access to detailed business records. The quality of accounting information affects the decision-making of investors and the interest creditors (Li et al., 2017). Beatty, Liao & Weber (2010) examined how different sources of financing affect the importance of accounting quality on firms´ investment cash flow sensitivity. It is therefore evident that accountancy can fulfil its informative function only if the accounting data is processed at a high level of quality.

It is obvious that the quality of accounting information is determined by applied accounting principles, methods and by the degree of legislative regulation. The accuracy of the application of accounting methods and of bookkeeping itself is verified by an audit. Šindelář & Müllerová (2016) analyzed the market concentration of audit services in the Czech Republic and indicated their high concentration in the Czech Republic.

It is important to realise that accounting data processing can be connected with some difficulties and mistakes in their subsequent transfer to financial statements. When processing accounting information, we can see purposeful or unintentional manipulation, which reduces the quality of accounting information. The main areas that could influence the quality of accounting information are data falsification, accounting methodology and information systems (Vlčková & Friebel, 2015). One of the reasons for falsifying data is the reduction in tax liability for entities (Stangova & Vighova, 2016).

The final accounts may either contain errors that have an impact on the explanatory power of the financial statements, or errors that do not affect their explanatory power.

Errors that do have an impact on the explanatory power:
- Balance sheet and income statement also contain zero-value items
- Poor distribution of equity values
- Definition of items in the annex to the final accounts (Kolářová, 2013).

Generally, an accounting entity is able to influence these factors and it is therefore important to pay attention to them.

The paper focuses on the identification of areas where accounting errors particularly arise and on determination of accounting areas where the largest space for application of creative accounting can be found.

2. Creative Accounting and Risk of Errors

Accounting ensures certain types of quantitative information for decision making and management of an enterprise. Accounting information ranges among the crucial sources of information on an enterprise for the majority of interest groups (Otrusinová & Šteker, 2013). In order to provide relevant information, the accountant should follow the rules and principles on which accounting data processing is based (Puican et al., 2011). In Oprean & Podoaba´s point of view, the best quality accounting information urgently requires the best organization of its system (Oprean & Podoaba, 2016).

3. Quality of accounting information

Accounting information should be collected in such a way so as to be able to respond both to the enterprise requirements, as regards the decision fundamentals, and also to informal needs of its partners. In this way the quality of the information offered by the financial positions, becomes a purpose in itself and it should bring an added value to the financial report frame sustaining the financial system and economic increase in this way. The benefit of the accounting information, offered through financial reports, is proven in the conditions in which the users make use of it in order to understand the economic reality of the enterprise, and in order to make suitable decisions. Thus the accounting information benefit cannot be defined in another way, but only through its quality (Dumitru, 2012).

The need for ensuring the quality of financial information was felt in the United States of America after the economic, financial and stock market crisis of 1929-1933. The Financial Accounting Standards Board (FASB) recognizes a wide range of quality characteristics: usefulness for decision making, relevance, reliability, timeliness, predictive value, retrospective value, verifiability, neutrality, representational faithfulness, prudence (conservatism), continuity, materiality, balance between benefits and costs, completeness, no elements leading to misinterpretation, intelligibility, and comparability. According to the IASB´s Framework for the Preparation and Presentation of Financial Statements, the analysis of the qualitative characteristics of accounting information is carried out around four vectors, namely understandability, relevance, reliability and comparability (Rusu, 2012).

The quality of information is characterized by Puican, Avram & Dutescu (2011) as:
- Speed – sets the time necessary for information to reach from the issuer to the receiver;
- Frequency – represents the number of information of the same type in a time unit determining information rate;
- Accessibility – depends on the communication means, on the personnel training degree, of storage means, etc.;
- Actuality – represents the information capacity to present recent events;
- Intelligibility – indicates the property of some information to be understood by the users;
- Reliability – represents the capacity of the information to provide a real and certain image of an event/object;
- Pertinence – indicates the quality of information to give answers in a given situation;
- Age – it is expressed by the time between collecting the information until the enforcement of decisions taken on their grounds.

According to Krištofík, Lament & Musa (2016) the scope and quality of information and reporting disclosures play an important part in building socio-economic relations of an enterprise and its environment and are addressed by systemic theories, referred to as open system theories.

High-quality accounting information enables measurement of an enterprise´s performance, financial position, assesses costs and revenues, income and expenses, and profit. This information is necessary for the management and decision making of the enterprise (Baba, 2009). The number of cases where accounting plays an important role is gradually increasing, as is the number of published opinions on this topic. Performance information is argued to assist managers of enterprises in making more informed decisions on control of the production process (Romolini, Gori & Fissi, 2015).

The research of Cascino, Pugliese, Mussolino & Sansone (2010) focuses on ownership structure and its effects on financial reporting quality. They show that the quality of accounting information of family businesses is on average higher than at non-family businesses.

Qualitative characteristics of accounting information are significant in connection with setting of accounting rules by enterprises. The role of qualitative characteristics of financial information in management´s decisions was investigated by Nobes & Standler (2014).

Porter and Norton (2015) investigate what qualitative characteristics make accounting information useful. In their opinion, the information should be understandable, relevant, faithful, representative, comparable and consistent. Similarly, Puican, Avram & Dutescu (2011) claim that relevance, credibility and comparability are the main accounting quality characteristics.

If the accounting information is to be relevant it has to be prompt. Information that is unavailable when required or is available much later loses its value (Puican, Avram & Dutescu, 2011).

Baba (2009) argues that the needs of accounting information users have to be met permanently. It is evident in many enterprises that a high-quality information system and particularly a sophisticated system of management accounting contribute to their successful management significantly. These enterprises know that only those who are able to manage their businesses effectively will survive in competitive environment. The importance of quality of accounting information system is confirmed also by other experts, e.g. Susanto (2015) or Alamin et al. (2015). Alamin et al. (2015) examined the factors (perceived technology fit, effort expectancy, etc.) that influence accounting information system.

4. Aspects affecting the quality of accounting information

Accounting errors are further transferred into financial statements. Chaney, Faccio & Parsley (2011) assert that some enterprises require only a mechanical application of accounting rules while others rely on the judgment of the enterprise´s management and accountants. These decisions include errors – both intentional and unintentional. However, with regard to the quality of information, the source of these errors is irrelevant, as both reduce the quality of accounting information.

The aim of the study by Holtz & Sarlo Neto (2014) was to investigate the effects of the board's structural and compositional characteristics on the quality of accounting information of enterprises listed on the Brazilian Securities, Commodities, and Futures Exchange. This study shows that stronger governance structures have a positive effect on the quality of reported accounting information.

The evidence that regulatory interventions seeking to improve accounting information quality can reduce the mispricing of securities in the capital market was provided by Chan, Lee & Lin (2009).

Baba (2009) notes that unskilled employees, errors in application of accounting principles, manipulation of results, inflation, contravention of the law, etc. are potential sources of poor-quality information. Further, Laptes (2009) adds that poor information quality can occur on all levels. The quality of accounting data influences the enterprise throughout its lifecycle. Much depends on the acquisition thereof, insofar as a company can achieve the greatest improvement in quality by using appropriate sources.

Primary data sources are records as such that describe certain economic transactions. For this reason, attention has to be paid to the requirements of the records.

Accounting errors unfavourably affect the quality of financial reporting. Burks (2015) states that stakeholders react negatively in cases deficiencies are disclosed in financial reporting of non-profit organisations. This often results in a decrease in donations which are significant for these organisations. He analysed accounting errors disclosed by public charities between 2006 and 2010 and ascertained that public charities disclose errors at a substantially higher rate than U.S. publicly traded firms.

Türkmen (2016) claimes that general mistakes are made especially in accounting areas such as financial accounts, e.g. cash and bank accounts, cheques, bank loans and trade payables and receivables.

Deaconu, Crisan & Buiga (2016) show frequent use of replacement cost, gross or net, to the detriment of book value in their study.

Vlckova & Friebel (2015) divide facts that have a negative effect on the quality of accounting data into three groups. The first group covers misrepresentation of data, errors and fraud and includes creative accounting, accounting frauds carried out by the management or employees and accounting errors arising from lack of knowledge. The second group represents accounting methodology, which is connected with mistakes in the

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method of calculating depreciation, asset valuation etc. The last group concerns the influence of the information system, where an error can be caused by lack of information and accounting legislation changes in the information system. The research results showed that the most important aspects that influenced the quality of accounting data were creative accounting, valuation, internal control, accounting fraud carried out by the company management, lack of information and poor internal communication.

Likewise, it is important to emphasize that there are some factors which influence the accountants´ activities.. Oprean & Podoaba (2016) divided them into two categories: quantifiable factors and unquantifiable factors. Quantifiable factors are the number and structure of the employed personnel, needs for information resources, computers, informatics programs, financial and unquantifiable factors are professional knowledge and skills of accountants, competence and integrity of accountants, the quality of management, the trust granted to accountants.

5. Creative accounting

References to creative accounting were made for the first time in 1494 in the famous treatise by Luca Paciolo "Suma de Arithmetic, Geometric, Proportion et Proportionality." It refers to creative accounting techniques used in Venice in terms of a highly developed foreign trade. In those times, relations among traders were written in ink, based on accounting principles, in the main and secondary registers. When inconsistencies appeared among them, the ink bottle was often poured over them, not by chance but so as to render the records illegible (Cernusca et al., 2016).

The term creative accounting exists in connection with handling of accounting information. In essence, there is a wide definition applied in the USA and narrower definitions practised in the UK. Whereas the UK definition views creative accounting as using flexibility within the regulatory system excluding frauds, the US definition views creating accounting as a fraud (Jones, 2011). Creative accounting is a useful instrument for managers to promote the enterprise image and select information so that the data offered will maintain the interest (Marilena & Corina, 2012).

From Popa´s point of view (2012), creative accounting is one of manipulative practices strongly enhanced in the field of accounting as time has passed. Although accounting information is determined by the degree of legislative regulation, creative accounting creates a fake image of the enterprise.

Baba (2009) views creative accounting as a technique that allows one to present the outcome and the balance sheet in a new and favourable image. Jones (2011, p. 32) defined it as "using the flexibility in accounting within the regulatory framework to manage the measurement and presentation of the accounts so that they give primacy to the interest of the preparers not the users". Even if it is not illegal, it simply utilises accounting flexibility to misrepresent the overall situation in an enterprise.

Accounting misrepresentation of the data has been confirmed by other authors such as Türkmen (2016). Türkmen (2016) states that enterprises may intentionally manipulate accounting data in order to present financial statements that are more than standardly credible in the interest of acquiring more and cheaper credit facilities.

Identification of manipulative behaviour on the part of preparers of financial statements was searched by Gowthorpe & Amat (2005). They specified two principal categories of manipulate behaviour: macro-manipulation presented as lobbying of regulators to produce rules that are advantageous to the interests of the preparers, and micro-manipulation described as engagement in the entity level manipulation in order to present a biased view of economic reality. In this context the quality of the business environment for SMEs is an important precondition for the successful development of this business segment (Ključnikov, Belás, Kozubíková & Paseková, 2016).

Creative accounting in financial reporting was investigated by Tassadaq & Malik (2015). They focused on fac-

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tors like the role of auditors, the role of government regulations or international standards, impact of manipulative behaviours and also impact of ethical responsibility. Likewise, Milesi-Ferretti (2003) examined if fiscal rules encourage the use of creative accounting. They developed a model in which governments circumvent these rules by reverting to creative accounting. Hagen & Wolff (2006) tested the model by Milesi-Ferretti. They confirmed the prediction that the use of creative accounting varies over the business cycle. Moreover, Maltritz & Wüste (2015), inspired by findings of Hagen & Wolf (2006), examined how creative accounting influences the fiscal budget and interacts with fiscal rules in particular. They found a significant influence upon fiscal rules and stock-flow adjustments.

Likewise, Reischmann (2016), examined whether electoral motives influence creative accounting as measured by stock-flow adjustments. The results show that stock-flow adjustments increase before election and that governments strategically use stock-flow adjustments before regular elections. In a similar way, Melo, Pereira & Souza (2014) investigate the impact of political competition on the governors´ decision to make use of creative accounting. They demonstrated a positive influence of the turnover on states levels of creative accounting.

6. Objective and Methods

The research is based on a questionnaire investigation (Tab. 1) in which 232 respondents participated. The selection of respondents depended solely on selections by students who had visited enterprises which they had selected by themselves. Then each student completed, together with a business representative, an online questionnaire form prepared in the Google document environment. The questions in the questionnaire aimed at ascertaining fundamental characteristics, such as the business field of activity and further, how the enterprise rates the risk of errors in individual financial statement areas and the possibilities of applying "creative accounting" therein.

Table 1. Main characteristics of the questionnaire survey

Research	Quality of accounting information
Data collection and processing	2016, enterprises of the Czech Republic
Form of data collection	Questionnaire survey, interviews with respondents
Number of relevant questionnaires	Questionnaire survey, interviews with respondents 232

Source: Author's own

The obtained set of data was evaluated using the descriptive method and mathematical/inference statistics. Special testing was done at hypotheses on concordance of two mean values and at the Friedman test.

7. Results

The introductory questions of the questionnaire focused on ascertaining the field of activity of the enterprise (Fig. 1).

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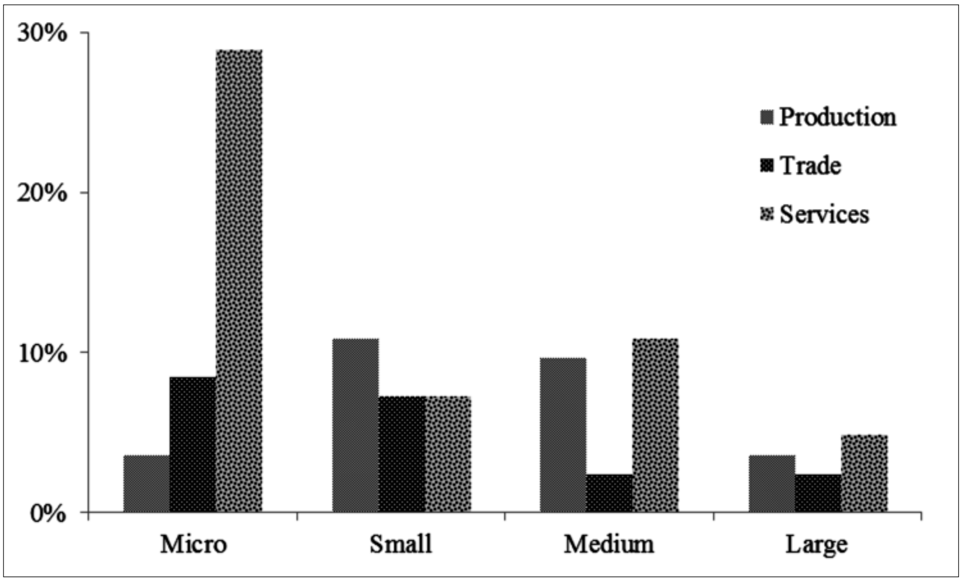

Fig. 1. Relative representation of enterprises according to the size and field of activity

Source: Author's own

Micro enterprises formed the largest proportion in the monitored sample; their number exceeded 40 %. The proportion of small and medium-sized enterprises was approximately the same – around 25 %. The proportion of large enterprises amounted only to 10 %. This structure of the sample of monitored enterprises corresponds approximately to the representation of enterprises according to the size in our country. Furthermore, it is clear from the overview that by far the largest number of enterprises provides services. This is followed by production, with an approximate 28 % proportion of enterprises. Only about a fifth of the enterprises focuses on trade. The dominant proportion of enterprises providing services is evident especially among micro enterprises.

The questionnaire assessed how enterprises evaluate the risk of errors in individual parts of financial statements. Marks within the following scale were used for assessment: 1 = least risky, 2 = slightly risky, 3 = neutral, 4 = somewhat risky, 5 = most risky.

Table 2. Risk of emergence of errors

	Unvalued	Mark	St. dev.
Assets classification	0	2.5	1.08
Depreciation	1	2.6	0.95
Accruals and deferred charges	3	2.9	1.11
Measurement	5	2.9	1.06
Matching principle and accruals	2	3.0	1.06
Provisions	15	3.0	1.08
Impairment of assets	6	3.1	1.07
Estimated items	3	3.2	1.10

Source: Author's own

Table 2 also contains a decisive deviation which provides information as to the concordance among respondents in the assessment of individual areas.

The following chart (Fig. 2) illustrates rating of the risk level of emergence of errors in individual accounting areas.

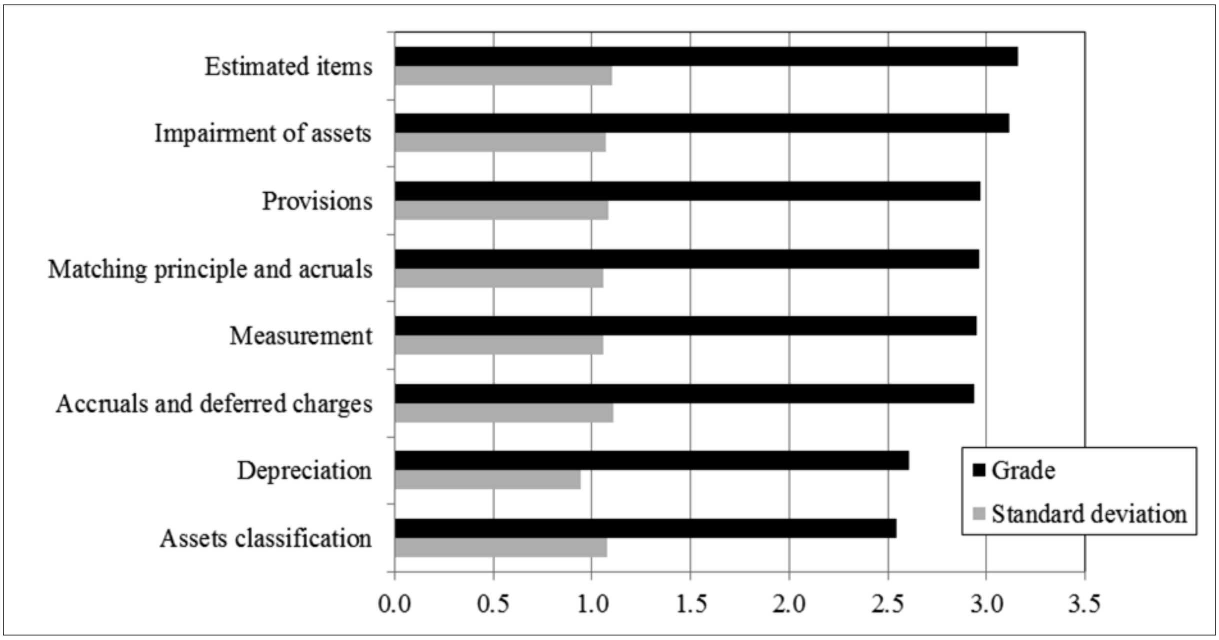

Fig. 2. Risk of emergence of errors in individual accounting areas

Source: Author's own

There is a very low variation in the average rating of risk of emergence of errors in individual accounting areas. Despite this, however, there is a clear perception of lower risk in the areas of asset and depreciation classification. In contrast to this, the areas of conjectural and adjusting items areas are rated the riskiest.

The concordance level of respondents on rating of individual accounting areas is practically identical; the decisive deviation corresponds roughly to one degree of the rating scale. Differences in the ratings of accounting areas are below the decisive deviation value.

The difference in ratings of risks of depreciation and time differentiation is statistically significant. The test of the rating concordance hypothesis in these two areas, as against the unilateral alternative hypothesis of their divergence, gives a test criterion p-value of 0.022, which leads to rejection of a zero hypothesis at the 2.5 % significance level.

The hypothesis on median concordance was tested with the aid of the Friedman test (Kovářík, 2012). A p-value of 0.012 was calculated. The zero hypothesis can thus be rejected only at a high significance level.

The survey further focused on the question of how enterprises rate the possibility of application of "creative accounting" in individual areas of financial statements (Tab. 3). Marks with the following scale were used in assessment: 1 = smallest space, 2 = small space, 3 = neutral, 4 = considerable space, 5 = widest space.

Table 3. Possibility of applying creative accounting in individual areas

	Unvalued	Grade	Standard deviation
Financial statement	10	2.3	1.05
Salaries	9	2.5	1.17
Significant events which occurred between the end of the reporting period and the date when the financial statements are authorised for issue	12	2.5	1.03
Inventories and fixed assets valuation	10	2.5	0.97
Donations and gratuitous transfers	10	2.5	1.12
Corrections of errors from previous years (in income statement, balance sheet)	12	2.5	1.11
The moment of accounting transaction – revenue recognition	8	2.6	0.97
The moment of accounting transaction –transfer of ownership of tangible fixed assets	10	2.6	1.03
The moment of accounting transaction – capitalization of inventory	16	2.7	1.05
Provisions	15	2.8	1.04
Technical improvements and asset repairs	10	2.8	0.95

Source: Author's own

Rating of accounting areas from the perspective of the space they provide for application of "creative accounting" is illustrated in the following chart (Fig. 3).

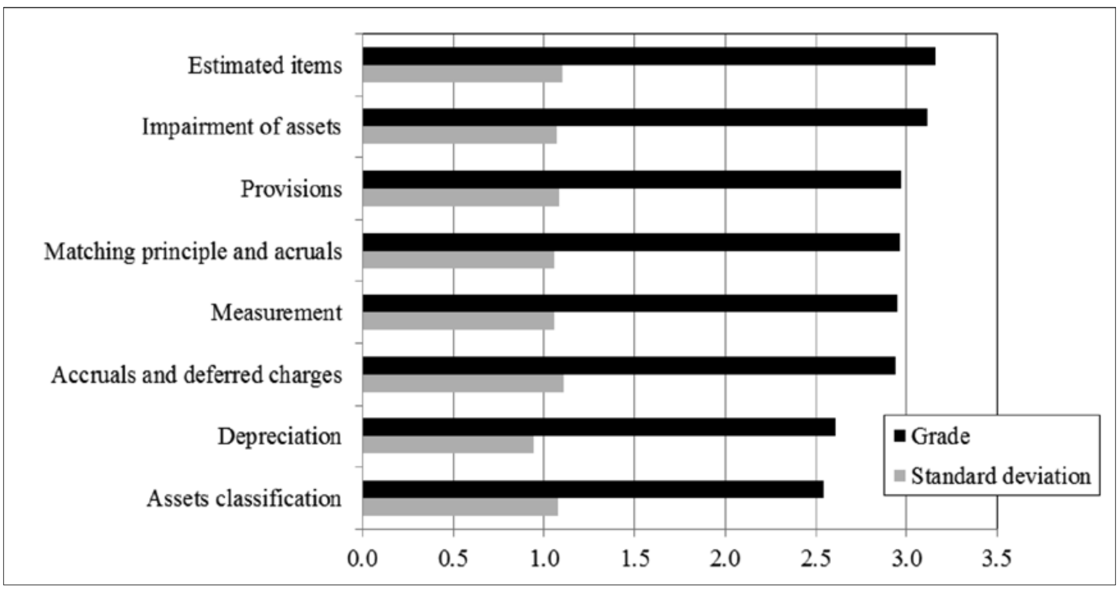

Fig. 3. Space for application of "creative accounting" in individual accounting areas

Source: Author's own

All areas are rated roughly identically as providing a "small space" to "neutral" for the formation of creative accounting. Decisive deviations of individual areas assessments vary very little and are equal approximately to one degree of the assessment scale. One can thereby deduce that the concordance level of business representatives is also approximately the same in all areas. The respondents see a somewhat wider space to apply "creative accounting" in areas of technical assessment of assets and reserves and perhaps also in the area of setting the moment for inventory activation. Respondents consider financial statements to be the area providing the smallest space for "creativity". This attitude clearly stems from the awareness of the existence of strict regulations as to the compilations thereof. However, it has to be stressed that the divergence of responses among individual areas does not appear to be statistically significant. The test of the hypothesis on median concordance led to its acceptance, the p-value = 0.272 value.

8. Discusion

The results of the research were surprising even for the authors of the article, as the majority of their initial expectations were not confirmed; on the contrary, they showed a new perspective on the researched issue and opened space for further investigation.

At the beginning of the survey, based on their long experience, the authors expected the area of valuation, the matching principle and the accrual principle to be the most susceptible to errors. The realized survey did not confirm these expectations. Enterprise representatives consider the areas of adjusting items and of conjectural items the most susceptible to errors.

Türkmen (2016) mentions that errors in accounting occur especially in the areas of financial accounts, i.e. register, bank accounts, cheques, bank credits and in receivables and liabilities from business contact. Our research did not confirm this assertion.

Vlčková and Friebel (2015) claim that error rate in accounting is influenced by the accounting method used in the enterprise. Enterprises may err in the manner of calculating depreciation and in property valuation. Yet our research rates the area of depreciation as being rather less risky.

Accounting distortion of data, so-called creative accounting has been confirmed by numerous authors. For instance, Türkmen (2016) states that firms can intentionally manipulate accounting data with the aim of acquiring more credible (better) financial statements than is standard so as to ensure a larger number of cheaper credits. In our research, respondents noticed the greatest potential for distortion of data in the areas of technical assessment, reserves and activation of inventories. In general the differences in assessment are very small. The set of answers elicits the impression that the respondents' replies were significantly influenced by their reserved attitudes. Thus it is not equivalent to objective assessment of error rate of accounting in individual accounting areas, based on direct verification of the correctness of accounting.

It must, however, be stressed that our research stems from subjective assessments of accounting areas by enterprise representatives. Error rate and creative accounting are generally viewed as negative phenomena, i.e. accountants have to admit that they err, which could be understood as poorly executed work or even fraud where creative accounting is concerned; they are thus highly cautious when rating, which was confirmed by the research. It is necessary to search also for small deviations and statistical significance of answers. Statistical assessment of the research results shows that the sample range of enterprises questioned should be greater. A significant augmentation of the research range would allow monitoring of the dependence of monitored ratings on the size of the accounting unit, on the significant relationship of the enterprise to a foreign subject and, as the case may be, on the type of the main field of activity of the enterprise.

Conclusions

The issue of errors when managing accounting records has been researched and the results published by numerous authors. Accounting errors are fundamentally of two types. There are unintentional errors having arisen by oversight or error and intentional errors deliberately aiming towards distortion of financial statements. Research is usually based on an objective assessment of financial statements. This manner of acquiring data on errors requires considerable effort and carefulness when assessing the sources of accounting information and the resultant financial statements in a monitored sample of accounting units. For this reason, the number of assessed units is relatively small and research is usually focused on a specific accounting area.

Our research attempts to assess the issue of accounting errors from the subjective attitude of accountants in enterprises. Enterprise representatives were asked to evaluate individual accounting areas from the perspective of the risk of formation of unintentional errors and, further, from the perspective of space which such errors provide for the application of intentional errors or distortion. It stemmed from the research that the risk of formation of unintentional errors is subjectively rated as the greatest in the areas of conjectural and adjusting items. The rating of individual areas varies very low – on the border of statistical significance. The subjective rating of the space for intentional distortion of financial statements then suggests a highly reserved attitude on the parts of the respondents. Deviations in ratings of individual accounting areas appear to be statistically insignificant. This fact can possibly be explained by a generally understandable effort (on the parts of enterprise representatives) not to draw attention to their own possibilities of intentional distortion of financial statements. Despite this, however, one can also observe that the respondents notice the widest space for distortion of accounting outputs in the areas of technical assessment of assets and reserves and in the area of fixing the moment of inventory activation.

Surveying in the area of creative accounting appears to be demanding and problematic, which has been confirmed by authors from the University of Arad, Romania (Cernusca et al., 2016). Their research is based on an investigation between students and an instructor in the field of accounting. Such research may provide data that are markedly subjective and not directly connected with business practice; on the other hand, it offers an independent view on the issue of creative accounting. The benefit of involving students as respondents is that they have no reason to cover the possibilities of distortion they sense.

The cited research led to the discovery which corresponds to our research. The authors of the article see room for further continuation of research in the possibility of conducting a similar investigation among students from the field of accounting at our university.

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