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CONTENT

<i>Preliminary communication</i>
Ivana Barišić The importance of senior management support for internal audit function – research in Croatian companies
Ivana Dropulić, Marko Čular The effect of cybernetic controls on annual reports quality: the case study of Croatian listed companies
Mirjana Hladika Engagement of accounting profession in management structure and its role in achievement of company's objectives
Review
Željana Aljinović Barać, Slavko Šodan, Tina Vuko Is fair value accounting really fair?
Mira Dimitrić, Dunja Škalamera- Alilović, Davor Vašiček The effects of the application of contemporary cost and management accounting methods in the public sector of the Republic of Croatia and the Republic of Slovenia
Martina Dragija, Maja Letica, Bobana Čegar Comparison of accounting framework and financial reporting of higher education institutions in republic of Croatia and Bosnia and Herzegovina
Jagoda Osmančević, Ivana Družić Lutilsky Calculation model of the medical services cost price in the activity accounting
Ana Ježovita Profitability ratios as an instrument for the indebtedness quality assessment
Novak Kondić, Jelena Poljašević Adequacy issues which are diverting attention in the auditor's opinion in the Republic of Srpska
Iris Lončar The importance of accounting information for modern business decision-making, the case of Croatian hotel industry
Ivana Mamić Sačer, Dijana Vuković, Comparative analysis of supreme audit institutions of Croatia and Bosnia and Herzegovina

<p>Selma Novalija Islambegović, Nedim Islambegović</p> <p>Model disclosure of "big-bath accounting" with special emphasis to write-off receivables in the financial statements</p>
<p>Hrvoje Perčević, Marina Mićin</p> <p>Model of accounting report on the cost of quality based on the application of the ABC method</p>
<p>Duško Šnjegota</p> <p>Accomplishments and limitations in the development of external public audit in Bosnia and Herzegovina</p>
<p>Boris Tušek</p> <p>Relationship between audit committees and internal audit - current situation and challenges in Croatian enterprises</p>
<p>Vesna Vašiček</p> <p>Compliance of the financial statements and budget and budget users in the Republic Croatia with International public sector accounting standards</p>
<p>Davor Vašiček, Ivana Družić Lutilsky, Tatjana Jovanović</p> <p>Comparison of accounting system of public health of the republic of Croatia, Slovenia and Bosnia and Herzegovina</p>
<p>Lajoš Žager, Danimir Gulin</p> <p>Do we have a new approach to calculation of working capital and liquidity ratios?</p>
<p>Katarina Žager, Sanja Sever Mališ, Nikolina Dečman,</p> <p>The importance of the Code of professional ethics for accountants and auditors' performance</p>
<p>Igor Živko, Zora Marijanović, Josipa Grbavac</p> <p>Business risks - finance and accounting approach management</p>

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THE IMPORTANCE OF SENIOR MANAGEMENT SUPPORT FOR INTERNAL AUDIT FUNCTION – RESEARCH IN CROATIAN COMPANIES

Preliminary communication

Abstract

The real usefulness of internal audit is possible through the full realization of its potential and purpose, and some of the assumptions are supportive environment in which it operates and cooperation with the management that recognizes its importance and supports the work of internal audit. The relationship with management can significantly affect the effectiveness of the internal audit function. The adequacy of relationship with management is important for facilitating the internal audit activity through availability of all the necessary resources and information. Internal audit provides objective assurance and consulting activity to management so its support to internal audit function is in the mutual interest.

This paper analyses whether the interaction with the management and support of senior management to internal audit is related to internal audit effectiveness, and what kind of management support in this respect is the most relevant. Empirical research was conducted on a sample of companies in the Republic of Croatia. It was found that the interaction with the management and management support to internal audit function is significantly associated with the internal audit effectiveness and that a better interaction with the management and support to the internal audit generated the greater chance that the internal audit would be effective. Also, according to the survey results, in companies in which the chief audit executive had a more direct access to the senior management and where senior management ensured internal audit largely unhindered access to all departments and sectors as well as direct communication with other levels of management (lower and middle,) internal audit was more effective meaning that its recommendations were accepted to a greater extent.

Keywords: *internal audit, management support, internal audit effectiveness*

JEL: M420

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THE EFFECT OF CYBERNETIC CONTROLS ON ANNUAL REPORTS QUALITY: THE CASE STUDY OF CROATIAN LISTED COMPANIES

Preliminary communication

Abstract

Managerial control is the target management of company with basic function of setting corporate objectives and ensures their implementation. Effective integrated systems of management control, which foster collaboration and creativity of employees in discover and exploitation of new business opportunities, are the basis for long term and successful company performance. Cybernetic controls (CC) are an integral part of the management control system and in this paper are designed through four dimensions: budgets, financial measures of performance, non-financial measures of performance and hybrid systems performance measurement. On the other side, annual reports quality is analyzed and the quality index of annual reports is calculated (QIAR). The annual report aims to communicate with all stakeholders and provides timely, reliable and relevant information of past, current and future activities of the company. This paper researches the impact of cybernetic control on the annual reports quality and assumes that higher level of cybernetic control will affect annual reports quality. The main aim of this research is to analyze degree of connection between cybernetic control and annual reports quality. Also, it is analyzed how and to what extent cybernetic controls, which are applied in company, impact on annual reports quality. Empirical research was conducted on sample of 40 Croatian listed companies, using questionnaire method and reading companies annual reports. Also, the index of cybernetic control and the quality index of annual reports are calculated and used. Using the relevant quantitative and statistical analysis, the results of empirical research show that Croatian listed companies have a high level of cybernetic control application while the annual reports are of average quality. Furthermore, the results showed that there is a positive and significant relationship between cybernetic control and annual reports quality and company with a higher level of application of cybernetic control creates annual reports with higher quality.

Keywords: *annual reports quality, management control systems, cybernetic controls, joint stock companies*

JEL: M41, M49

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ENGAGEMENT OF ACCOUNTING PROFESSION IN MANAGEMENT STRUCTURE AND ITS ROLE IN ACHIEVEMENT OF COMPANY'S OBJECTIVES

Preliminary communication

Abstract

In joint-stock companies the function of ownership (shareholders) and management is usually separated. In modern business conditions which are characterized by the global financial and economic crisis it is necessary to make further efforts and attention in decision-making in order to set companies goals in rationale and achievable framework. The realization of company's goals is a prerequisite to company's managers additional achievement. Business objectives can be different – from revenue maximization, cost minimization or achievement of the highest possible rate of return on investments. In any case, all objectives should be quantitatively expressed. In that segment of quantitative expression of the company's goals the role of accounting profession is dominant. By the application of appropriate accounting principles accountants have the possibility (it can be said that accountants have also a power) to influence directly on the sizes presented in financial statements. The adoption and application of fair value has led to implementation of the estimated values of assets and liabilities in the financial statements. The result of fair value implementation is questionable quality of financial statements. Also, the result of these estimations is increasing gap between the business results as accrual category and cash flow as financial category. The effects of the financial and economic crisis are robust. Accounting profession reduce the negative effects of the crisis through the application of the accepted accounting principles. Studies in developed countries are showing that there is an increasing proportion of the accounting profession in the management structures and an increasing number of accountants who are chief of executive or chief of finance respectively. The representation of the accounting profession in management structures is increasing every day, both in profit sector and in non-profit sector. The need for involvement of the accounting profession in management structures is unquestionable and it arises from the knowledge and skills of the accountants. Regarding the importance of the accounting profession and the involvement of the accountants in management structures, its active role in achieving company's objectives is evident. The aim of this paper is to examine the relevant secondary literature sources relating to basic accounting principles, about the impact of fair value for the evaluation of economic categories on the quality of financial statements, and the importance of the accounting profession and the ways of its participation in achieving the company's goals. The goal of this paper is through primary research establish the participation of the accounting profession in management structures of companies in Croatia.

Keywords: *accounting profession, management structure, IAS/IFRS, fair value, the quality of financial statements*

JEL: M40, M41

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IS FAIR VALUE ACCOUNTING REALLY FAIR?

Review

Abstract

Even though it is often considered that the fair value concept is the main basis for measurement in financial reporting, the current model of financial reporting is actually a combination of several bases for measurement: historical cost, current cost, net realizable value, fair value and the recoverable amount. The adequacy of accounting measurement basis and the qualitative characteristics of information based on fair value are still open research issues. Discussion on this topic among professional accountants, researchers and regulators is old as accounting profession. Furthermore, it amplifies simultaneously with emergence of financial instability or crisis. Considering all the mentioned above, the objectives of this research are: (1) to provide a brief summary of the historical development of accounting measurements; to identify reasons that have led toward the increasing use of fair value paradigm; and consequently to find out practical problems that could result from greater application of the fair value accounting model in the future; (2) to classify and analyze the application of fair value in International Accounting Standards/International Financial Reporting Standards; (3) to analyze the quality of fair value information and to compare its characteristics with other bases for measurement in accounting; and (4) to examine the adequacy of fair value application and its role in occurrence and strengthening of the financial crisis.

Keywords: *fair value, financial reporting quality, financial crisis*

JEL: M41, M48

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THE EFFECTS OF THE APPLICATION OF CONTEMPORARY COST AND MANAGEMENT ACCOUNTING METHODS IN THE PUBLIC SECTOR OF THE REPUBLIC OF CROATIA AND THE REPUBLIC OF SLOVENIA¹

Review

Abstract

Cost and management accounting covers a substantial area of New Public Management, which is an unavoidable concept in reforming the modern public sector. Competences of New Public Management are closely associated with the use of modern methods of cost and management accounting within various operational functions: control and reduction of costs, performance measurement, capital budgeting, program evaluation, pricing and reimbursement of public services and others. These methods are of strategic importance to both: mostly traditional, cost-focused management model and to the contemporary model of continuous and comprehensive performance measurement, with the main objective - successful and efficient management of public resources, increased satisfaction of public services customers and the reduction of public expenditure.

The paper presents the results of empirical research of the implementation of cost and management accounting in the public sector of the Republic of Croatia and the Republic of Slovenia, in the field of cost management, capital budgeting, and performance measurement, and of the connection between competences in the application of these methods and the performance of cost and management accounting in the public sector.

Keywords: *public sector, cost and management accounting*

JEL: H83, M41

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COMPARASION OF ACCOUNTING FRAMEWORK AND FINANCIAL REPORTING OF HIGHER EDUCATION INSTITUTIONS IN REPUBLIC OF CROATIA AND BOSNIA AND HERZEGOVINA²

Review

Abstract

Higher education institutions are of great importance for every country. The above is especially evident in times of recession when higher education institutions are viewed as one of the main "drivers of the economy." Higher education institutions are crucial for social and economic development of the country through the strengthening human capital, building a base of knowledge, the dissemination and exploitation of new knowledge and to maintaining the level of knowledge. In the context of the aforementioned issues, in the current conditions when most European countries are faced with economic and financial crisis, higher education institutions are confronted with growing expectations both in teaching and research activities. Therefore, the higher education institutions have entered a wide range of financial and institutional reforms that mostly relate to financial sustainability, strengthening of institutional autonomy and quality assurance. In this paper we examine the specifics of the financial reporting of higher education institutions in the Republic of Croatia and Bosnia and Herzegovina, which is due to differences between the entities observed separately through the Federation of Bosnia and Herzegovina and the Republic of Srpska. The primary goal of the paper is to compare the legal accounting framework of higher education institutions in mentioned countries as well as to highlight the specifics regarding accounting and tax regulations. Furthermore, the authors will explore, in addition to external reporting, the application of management and internal reports in the context of the reform processes at the higher education institutions.

Keywords: *accounting, financial reporting, higher education, Republic of Croatia, Bosnia and Herzegovina*

JEL: I23, M41

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CALCULATION MODEL OF THE MEDICAL SERVICES COST PRICE IN THE ACTIVITY ACCOUNTING³

Review

Abstrac

This work aims to define a model of calculating the cost of medical services in activity accounting, taking into account the fact that management costs can be expressed in two ways: striving for continuous reduction and the pursuit of control (review) costs. The model is based on the primary level, namely at the level of the Health Centre in Bosnia and Herzegovina and is considering the service of first general medical checkups. Cost management is not indiscriminate "cutting" (lowering) of all costs, "which are not essential" (without which it may be). Healthcare facilities in underdeveloped countries around the world use the traditional system of costing, which uniformly distributes costs on the carriers (of medical services), which results in underestimation and overestimation of the cost of individual services. The same monetize the losses from business activities that result from the impossibility of identifying the actual cost of services provided, the inability of eliminating meditation services and activities, failure to follow the efficiency of performing activities or the quality of performed activities. Cost management based on activities is aimed at providing information to the management of the health institution for optimal business decisions, related to an increase in business success, by providing answers on two key questions: "How is the price of medical services formed?" and "Why do the medical services cost so much?" Researches in this work have shown that the implementation of activity accounting in health facilities would have a positive impact on increasing business performance, because it allows the combination of the same aspect of cost control and point of decision support. The aspect of cost control requires a continuous review of aspects of the benefits and cost, while the aspect of decision support enables you to identify the activities that do not add value (non-value added activities) and to eliminate them in order to increase performance. The same proved that activity accounting provide quality information on the actual cost of certain medical services based on the elimination of activities that do not add value to that service.

Keywords: *cost price of medical services, activity accounting, underestimation and overestimation of costs, management of cost price, i.e. costs*

JEL: M40

³ This work is financed by Croatian Science Foundation in the context of project No.8509 Accounting and financial reporting reform as a means for strengthening the development of efficient public sector financial management in Croatia.

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PROFITABILITY RATIOS AS AN INSTRUMENT FOR THE INDEBTEDNESS QUALITY ASSESSMENT

Review

Abstract

Recent economy situation in Croatia has resulted with negative trends of all important macroeconomic indicators, including GDP growth rate and unemployment rate (Croatian Bureau of Statistics, 2015). Number of active companies in Croatia from 2009 to 2013 decreased over 33.000 or more than 18% (Croatian Bureau of Statistics, 2015). Those trends requires more comprehensive and more detailed analysis of financing of company's business operations. To conduct analysis of business operations external stakeholders have at their disposal data available only from annual financial statements. In that context financial statement analysis represents important instrument. To finance their business operations companies are able to use internal or external sources of financing. Sources of financing structure evaluation can be conducted by using static indebtedness coefficients like debt-to-assets ratio, equity-to-assets ratio, or debt-to-equity ratio. Analyzing those indicators represents starting point, or first level, of comprehensive assessment of indebtedness quality. Second level of indebtedness quality assessment includes evaluation of dynamic indebtedness by using interest coverage ratio. That ratio shows coverage of interest expenses by earnings before interests and taxes. Finally, to evaluate benefit of using external sources of financing, profitability ratios, as return on assets and return on equity, should be used. Return on assets explains ability of the company to efficiently generate returns for internal and external owners of sources of financing. Related to that, return on equity is directed to ability of the company to achieve earnings for shareholders. By analyzing both ratios, and including debt-to-assets ratio, it is possible to make conclusions on efficiency of using external compared to internal sources of financing.

Keywords: *indebtedness, profitability, financial leverage, return on assets, return on equity*

JEL: M40

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ADEQUACY ISSUES WHICH ARE DIVERTING ATTENTION IN THE AUDITOR'S OPINION IN THE REPUBLIC SRPSKA

Review

Abstract

When the financial statements are even more complex and with the aim of their better understanding, one way to improve communication between auditor and user is to auditor in his report emphasise certain questions to the users. Emphasising auditor points to the users on some events that have impacted at certain information in financial statements or that could have influence on the future performance of the company and could be important for decision making. Aim of this work is to determine if the auditors in Republic of Srpska draw attention on those questions that are in accordance with International Auditing Standards and what those questions are. Research is conducted through questionnaires sent to auditing firms and through analysis of audit reports of the companies from Banja Luka stock exchange. Results shows that auditors often draw attention to the questions that are not in accordance with International Auditing Standards and that could lead to modified opinion. In the most cases those are auditing firms that have only one employee, one auditor and don't have regulated quality control system.

The most frequent pointed question, that is in accordance with standards, is going concern. However, it is not possible to detect if the management appropriately reveal information about threat to the emergence of companies and therefore if the auditors have convinced that there is management plan to overcome this threat. Drawing attention is very important part of audit report whereas in more than half auditing reports attention is drawn on certain questions and according to analysed audit reports of the companies listed at Banja Luka stock exchange official market. Therefore adequacy of these questions impacts on the quality of audit reports and trust in audit profession.

Keywords: *draw attention, auditor's opinion, going concern, quality control*

JEL: M40

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THE IMPORTANCE OF ACCOUNTING INFORMATION FOR MODERN BUSINESS DECISION-MAKING, THE CASE OF CROATIAN HOTEL INDUSTRY

Review

Abstract

In accordance with its definition, accounting should represent a major source of financial information about business activities occurring in the business systems and associated environment. One of the key prerequisites of managers' decision-making process is an appropriate organization of accounting function, whose main task is to supply exactly all interested users with relevant information. However, international practices, that are evident from the published scientific studies, indicate the absence of necessary accounting support in management decision-making processes, particularly in strategic decisions. Therefore, the objective of this paper is to determine inherency of the described processes in Croatian business environment. Research was conducted on Croatian hotel industry, due the high level of importance that this extremely propulsive branch has for the affirmation of the national economy, particularly due its significant effects on the level of employment and national income.

The empirical research, presented in this paper, examined the involvement of accounting, as a source of information, in managerial decision - making processes. The research was conducted on those business systems that can be classified, in accordance with the existing regulation, in the category of "Hotels". Data obtained from the survey were analysed applying appropriate statistical methods. Considering the respondents who have participated in the study: hotel managers, the research will define the existing level of accounting practices in Croatian hotel industry. The results will enable the improvement of the quality of accounting reporting system and create a platform to achieve higher sensitivity of accounting to changes in environment, and to encourage flexibility in its reactions. The final contribution will be realized if the results are going to be used as a guideline in making adjustments of accounting to the management needs in terms of a turbulent and uncertain global environment, as well as the platform for "production" of more valuable information.

Key words: *accounting information, managers' needs, Croatian hotel industry, guideline for adjustments*

JEL: M40, M43

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COMPARATIVE ANALYSIS OF SUPREME AUDIT INSTITUTIONS OF CROATIA AND BOSNIA AND HERZEGOVINA

Review

Abstract

Supreme audit institutions are inevitable for audit of financial statements in public sector. They assess whether subjects in public sector spend budgets in compliance with regulatory framework and operate in accordance with applicable authorities. These institutions contribute to the improvement of effectiveness, economy and efficiency of public activities, projects and/or operations in public sector. The benefit from supreme audit institutions can be seen in the form of cost savings which can be achieved through their findings and recommendations. Since there are several organizational approaches to supreme audit institution organization, and similarities and differences from their operation, the main goal of the paper was to conduct comparative analysis of organization, regulatory framework, subjects of audit and the volume of conducted financial and performance audit of Croatian and Bosnian supreme audit institutions.

Keywords: *Bosnia and Herzegovina, the Republic of Croatia, state audit, supreme audit institutions*

JEL: H83, M42

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MODEL DISCLOSURE OF "BIG-BATH ACCOUNTING" WITH SPECIAL EMPHASIS TO WRITE-OFF RECEIVABLES IN THE FINANCIAL STATEMENTS

Review

Abstract

Creative accounting was originally conceived as a way to realistically show the real state of the financial position and performance of a company and with historical account value provide a real account of the current (market) value of the assets, liabilities and equity. Over time, the creative accounting assumed different forms. The forms in which most often creative accounting is: "earnings management", "agresive accounting", "income smoothing" and "fraudulent financial reporting", while the most frequently applied techniques of creative accounting techniques in the literature are cited following: "big-bath accounting", "cooke-jar reserves", recognition of revenue in advance, delay recognition of costs, capitalization of costs of tangible and intangible assets and others.

The purpose of this paper is to point out the importance of hiding profits, as a form of earnings management, and technology creative accounting "big-bath accounting ", as an instrument for the implementation of that procedure. In this regard, the goal of the work will be creating a model for disclosure of "big-bath accounting " in the financial statements, with a special focus on the segment of aggressive write-off of receivables. The work consists of five parts. The first part discusses the development of creative accounting and forensic investigations. The subject of the second part is the development of theoretical aspects of analytical processes, techniques and models inherent in forensic accounting investigations. The third section discusses the "big-bath accounting ". The subject of the fourth part is creating a model for detecting "big-bath accounting " in the financial statements, while in the fifth part subject is conducting test of the model on a case study.

Keywords: *creative accounting, techniques "big-bath accounting ", aggressive write-off receivables, data mining, Benford's Law*

JEL: M41, M49

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MODEL OF ACCOUNTING REPORT ON THE COST OF QUALITY BASED ON THE APPLICATION OF THE ABC METHOD

Review

Abstract

In present more demanding market conditions, quality of products and service is one of the key factors of generating income and achieving an acceptable level of profitability of businesses. This is why the process of quality management of products and services is one of the key prerequisites of successful growth and development of business entities in modern business conditions. Product quality ensurement is achieved by introducing an adequate quality monitoring system wherein the process of implementation and maintenance of an effective quality monitoring system results in certain costs. By identifying, monitoring and analysing the quality costs management of business entities can generate relevant information on the quality and functionality of products and services. The accounting function in this context has the purpose to ensure the quality monitoring system and reporting of quality costs. For the purpose of accounting monitoring and reporting of quality costs, quality costs are divided into four basic groups and those are prevention costs, inspection costs, and internal and external costs of failure. The basic goal of this paper is to present an existing model of accounting reporting on the quality costs based on the ABC method application. That model enables a deeper insight into the structure and distribution of quality costs for the purpose of determining the acceptability of the products quality of the business entities.

Keywords: TQM, quality costs, ABC

JEL: M41

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ACCOMPLISHMENTS AND LIMITATIONS IN THE DEVELOPMENT OF EXTERNAL PUBLIC AUDIT IN BOSNIA AND HERZEGOVINA

Review

Abstract

Development of function of external public audit, as part of the overall external audit, it is necessary to observe as long-term, continuous process that has to go through various development phases. It is best recognized in the inevitably gradual building of the necessary capacity for audit, particularly high-quality personnel, a gradual entry into the various forms of external public audit, gradually increase of the level of understanding the real role and scope of external public auditors, etc. In terms of the economic and financial crisis, particularly when there is a strong perception of high-level corruption and other illegal phenomenon in the public sector, in the the public is strongly articulated the need of establishing effective persons' responsibility (especially criminal) who manage the activities of public sector entities. From the perspective of the real possible impact of external public audit on the legality and regularity of the operations of the public sector entities, compliance audits comes to the fore. However, real results of compliance audits are one of the biggest challenges faced by external public auditors, because this type of audit is undoubtedly the most distant from the original principles and standards of the external audit and the most compared to other forms of external audit approaches areas for which traditional external auditors, by their nature, do not have, nor they can have sufficient professional knowledge and skills.

On the other hand, the greatest contribution to the improvement of the system of management of public funds in a legal entity public external auditor can give through the performance of high-quality, cost-effective performance audit, as one of the three forms of external auditing recognized by the relevant global framework of international auditing standards. The focus of this audit is assessing the economy, efficiency and effectiveness in the functioning of public sector entities and only these audits can demonstrate whether, otherwise missing public funds, are used to actually justified purposes and in accordance with established strategies and programs on different levels of government.

Keywords: *external public audit, compliance audit, performance audit, economic and financial crisis, corruption*

JEL: M420

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RELATIONSHIP BETWEEN AUDIT COMMITTEES AND INTERNAL AUDIT - CURRENT SITUATION AND CHALLENGES IN CROATIAN ENTERPRISES

Review

Abstract

The internal audit function is an irreplaceable resource and source of information for the audit committee. In other words, the achievement of numerous obligations and responsibilities of the audit committee is not possible without appropriate communication with internal auditing. On the other hand, one of the key factors for the successful internal audit operations in a certain organization is the support that the audit committee offers to the internal audit function and its activities. The audit committee can have a key role in supporting the activities of the internal audit function in a company which can, at the same time, have a positive influence on the quality of the information foundation which internal auditing offers to the audit committee for the purpose of achieving its supervisory roles. Activity of the internal audit function and audit committee in a company is of exceptional importance for good practice of corporate governance. This paper analyzes the relevant theoretical features of the connection between the audit committee and internal audit function including the results of selected empirical studies.

Keywords: *audit committee, internal audit function, corporate governance*

JEL: M42, G34

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**COMPLIANCE OF THE FINANCIAL STATEMENTS AND BUDGET AND BUDGET
USERS IN THE REPUBLIC CORATIA WITH INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS**

Review

Abstract

The research deals with the comparison of the structure and the content of financial statements that are prepared in accordance with national legislation and prescribed by accounting and reporting framework and the structure and contents of financial statements according to International Public Sector Accounting Standards (IPSAS). Author has taken in the consideration standards which are directly related to financial reporting, unconsolidated, and these standards are: IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements.

The aim and purpose of this research is to determine the level of compliance of prescribed accounting and reporting framework with IPSAS. The relevance of the research stems from the fact that the membership of Republic of Croatia in the European Union has assumed, among other things, the obligation of harmonization of national government accounting and financial reporting and national statistics with the EU requirements. On the one hand, identification and analysis of the difference between reporting at the national level and the international and European level is a prerequisite for taking actions to reduce the difference in the context of a more successful harmonization of the reporting system, which became obligation for the EU membership country. On the other hand, the relevance of the research results from the fact that the improvement of governmental accounting and financial reporting is in the function of forming a quality basis for the development of the internal accounting as an information base for decision making and the effectiveness of the new public management.

Moreover, this is a qualitative research and it is based on an investigation of the relevant sources (the legal framework, IPSAS) as well as on a research of significance of announcement according to both the sources. But the research also has quantitative character by investigation of the similarities and differences by using the formula that puts in the relation the number of elements defined by national legislation in compared to the number of elements defined by IPSAS. Additionally, through this research we can see the publication of financial statements under IPSAS that are demanding for implementation at the national level and for what reasons.

Keywords: *budget financial statements, harmonisation, International Public Sector Accounting*

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COMPARISON OF ACCOUNTING SYSTEM OF PUBLIC HEALTH OF THE REPUBLIC OF CROATIA, SLOVENIA AND BOSNIA AND HERZEGOVINA⁴

Review

Abstract

The high share of public expenditure, the specifics of financing and complexity of activities in public health require a high quality accounting model and system of financial reporting. The paper presents the results of a comparative analysis of regulatory frameworks, information capabilities and limitations of the current system of accounting and external financial reporting of public health institutions in the Republic of Croatia, Slovenia and Bosnia and Herzegovina. The general conclusion of the research is that analyzed systems in their normative preferences give relatively reliable information basis for external reporting. This conclusion stems from the fact that health care institutions in the Republic of Slovenia and Bosnia and Herzegovina are used to track business events under accrual basis while in the Republic of Croatia a modified accrual basis is used. Croatian model, because of applied modifications in the recognition of income and expenditure part does not fully reflect the actual financial results and financial position, but certain reclassifications to the information deficiency can be removed.

As for the relevance of accounting information and financial statements in monitoring public health expenditure and making economic, social and political decisions at the macro level, observed is low level because to the ministries and funding sources (local and central government) further reporting is on the basis for adoption of the budget (cash basis or on a modified accrual basis or on both grounds). So, in terms of key external users of accounting information, the prescribed accounting and reporting systems show some limitations in providing complete information that enables effective control over public goods and the development of financial management by introducing standards of accountability. The paper summarizes the development and assessing the situation and desirable directions of development of accounting systems for monitoring business activities in public health sector.

Keywords: *accounting system, accounting information's, financial statements, public health sector*

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DO WE HAVE A NEW APPROACH TO CALCULATION OF WORKING CAPITAL AND LIQUIDITY RATIOS?

Review

Abstract

For years the calculation of working capital as well as current ratio is disrupted. Accounting practice has confirmed unrealistic expression of current ratio. This revision of working capital calculation as well as current ratio calculation is important for at least two reasons : (a) proper calculation of current ratio is important assumption for the better decision making process of the entrepreneur, and (b) relevant calculation of those ratios is important because of relevant investments estimations of investors and creditors. This research doesn't consider the impact of difference of old (cost) and new (fair value) balance sheet positions measurement model on the calculation of working capital, liquidity ratios and other relevant ratios. However, problem of measurement at fair value is always important to have in mind as determinante of input quality for ratios calculation. The purpose of this research is to make conclusion if the difference in balance sheet expression at traditional model (MSFI) and non-standard model (not in accordance with MSFI) implies some other (new) approach to calculation of working capital and liquidity ratios.

Keywords: *working capital, liquidity ratios, new approach;*

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THE IMPORTANCE OF THE CODE OF PROFESSIONAL ETHICS FOR ACCOUNTANTS AND AUDITORS' PERFORMANCE

Review

Abstract

In the business world, especially nowadays, great attention has been placed to business ethics. Different laws, regulations and codes of professional ethics are designed and adopted for the purpose of protecting professional activities. The fundamental beliefs and the system of values that accountants and auditors apply influence their performance and consequently the confidence in the results of their work. The accountants and auditors are responsible for true and fair presentation of financial information. In that sense the ethical rules that they apply in their performance influence the creditworthiness and the quality of their conduct. This paper identifies the features of Code of Ethics for professional accountants adopted by the International Federation of Accountants (IFAC). It can be assumed that adoption and application of international code of ethics contributes the quality and unification of activities performed by the accountants and auditors around the world. However, it is not irrelevant the attitudes of students (future accountants and auditors) on fundamental ethical questions. Future progress of accounting and auditing profession depends on the level of awareness and the application of ethical principles among the students (future accountants and auditors). In this regard, paper presents the results of empirical research of students' perception on the moral and ethical principles in the field of accounting and auditing. Results of the study show a relatively high level of awareness among the students on the importance of applying the highest standards of ethics. These results encourage and inspire confidence in strengthening the integrity of the accounting and auditing profession in the future.

Keywords: *Code of Ethics for Professional Accountants, quality of performance, accountants, auditors*

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BUSINESS RISKS - FINANCE AND ACCOUNTING APPROACH MANAGEMENT

Review

Abstract

In the more uncertain and dynamic business environment reasons for environment change are in constant change of business conditions, innovations, globalisation and IT application in the business activities. Risk management system represents system that helps companies to develop capacities for anticipation and preparation for changes that could have negative consequences on business. The special interest are on financial risks and their management in companies. The necessity of financial risks and their management to be subject of the research is especially emphasised by financial crisis in 2008. It is especially important to analyse the risk monitoring through a risk management system and its recording in accounting as well as reporting on business risks all for internal and external users and forms of those reports.

Key words: *companies, risks, management, reporting*

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