



Faculty of Economics, University of Niš
18 October 2018

49th International Scientific Conference
**QUANTITATIVE AND QUALITATIVE
ANALYSIS IN ECONOMICS**

IMPLICATIONS OF QUALITY FINANCE REPORTING TO THE COMPETITIVENESS OF THE ECONOMY OF THE REPUBLIC OF SERBIA

Jovana Stojanović*

***Abstract:** The final product of the financial reporting are financial statements and they represent the basic means of communication of a company with existing and potential investors, creditors and other users. Based on the information contained in the published financial statements, the users tend to make numerous important economic decisions. With regards to the fact that the quality of these decisions may affect the condition of the national economy, financial statements should have quality, i.e. the corresponding qualitative features. Apart from that, the application of the adequate series of global accounting standards provide comparability of financial statements prepared within different legal systems. The paper analyzes the impact of the quality financial reporting to the development of companies and economy as a whole, with special emphasis on the Republic of Serbia. Even though the Republic of Serbia initiated the process of modernization of the financial reporting in the mid-nineties of the last century, there is still room for improvement of the quality application of the standard, all with the aim of the improvement of financial statement' quality and creation of conditions for attracting domestic and foreign investments.*

***Key words:** financial reporting, financial statements, quality features, harmonization, IFRS*

1. Introduction

Observed through professional reference books and legal regulations, in the long history of existence of companies, financial reporting has always been their faithful companion. It may be said for the financial reporting that it represents the best manner for the representation of the economic reality of one economic society. The accounting as a profession and as the accounting system should pay adequate attention to financial reporting of the business operation of companies and to representing quality information system adjusted to the language of business.

* PhD student, Faculty of Economics, University of Niš, Serbia;
✉ jovana.stojanovic992@gmail.com
UDC 657.375(497.11)

According to the current Conceptual framework for Financial Reporting of the International Accounting Standards Board (IASB) revised in 2010, the goal of financial statements is a true and objective presentation of the financial position, the result of business operations and the change of the financial position of a company. Since the statements represent indispensable basis for drawing conclusions depending on the success of a company in the past, but also for making rational economic decisions related to the future development. The company management is expected to prepare and present them within the a priori determined deadline period (Škarić – Jovanović, Spasić, 2014).

The quality of financial statements represents the assumption of their efficient use. “Not even the best applied analysis at bad information basis shall provide the drawing of quality conclusions” (Malinić, 2016, p. 9). The transparency of financial statements, regularity of their preparation, and also the exposure to the external audit are nothing but a few features of quality financial statements relevant for internal and external users. The quality of information in financial statements is very important since the users able to estimate the capability of a company to create value, estimate company’s security, its readiness to pay dividends, etc. Bushman & Smith (2001) state that quality financial reporting increases the investment efficiency apart from the fact that it reduces the information asymmetry and choice of negative selection. Thus the expectations of investors, as primary users, with regards to the relevance and credibility, which represent fundamental features of information in financial statements, are quite understandable and justified.

The establishment of the global market raised the requests for quality financial reporting from national and regional to the international level (Škarić – Jovanović, 2011). With respect to the main goal of the financial reporting there is a consent of the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) as two most influential regulatory frameworks of the financial reporting on the global level. The uniformity, with respect to the primary goal of the financial reporting, is the result of one phase of convergence of the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) in the USA.

The paper shall primarily consider the importance of quality financial statements since they are important for existing and potential investors and other users. The subject of the second part of the paper refers to the importance of the harmonization of the financial reporting for the quality of financial reporting. Since the transparent financial reporting is relevant for the stable functioning of the capital market and the recovery of the national economy, the third part of the paper will indicate its importance from the aspect of the improvement of the competitiveness of the national economy. Finally, it will be indicated to the current state of the quality of financial reporting in the Republic of Serbia and to some flaws of the system of financial reporting which should be removed, all with the aim of attracting capital and economic recovery of the country.

2. Qualitative features of financial statements

Contemporary conditions of working, combined with dynamic changes of the business environment have major impact on contemporary companies imposing the permanent fight for the acquisition of competitive advantage to them with ever increasing challenges in the conditions of business negotiations at the market. The environment in which companies operate nowadays is complex and dynamic. In these conditions of

Implications of Quality Finance Reporting to the Competitiveness of the Economy of the Republic of Serbia

business operations it is necessary to have an efficient accounting - information system, whose final product – financial statements (with relevant information content) should indicate to the results accomplished by the management using the trusted resources. The regular reporting on the financial position, success and financial flows represents an imperative in the economy and business world and it is the condition of good functioning of the market economy.

In defining the goal of financial statements with general purpose, it is specified that the financial statements are used for making business decisions on the use of resources by the existing and potential investors, creditors, management, buyers, suppliers, employees, state, regulatory bodies and public. Therefore, they are based on the information past decisions whether they will invest the funds in a specific company, keep the existing investment or retrieve the already invested funds, if it depends on investors or creditors whether the company will be approved some sort of a loan (Škarić – Jovanović, 2011). Regardless of the number of users of financial statements, their requests referring to the quality of information presented in them will be equal (Botosan, 2004).

With the aim of good functioning of the market economy it is necessary to review which features should be possessed by the quality financial statements. In order to determine the concept of the quality of financial statements, the starting point are quality features of financial reports given in the Conceptual framework for Financial Reporting. “According to the Conceptual framework, the quality of financial statement is determined by primary relevance and credibility of the information contained in them as the basic quality features of financial statements” (Škarić – Jovanović, 2011, p. 12). The basic characteristics of the statements are the most important ones and they determine the content of the information in financial statements (Beest et al., 2009).

In financial statements, an item is relevant if it is expected to influence the decisions of users of financial statements. “Based on the relevant information, it is possible to estimate the effects of past events, but also to predict the effects of current and future activities and their impact on the financial position, financial success and cash flows created by the company” (Jablan – Stefanović, 2011, p. 180). The capability to make predictions based on financial statements is increased by the manner in which the information on past transactions and events are presented (Kothari & Barone, 2006). The relevance is closely connected to the materiality of the information. The omission or wrong interpretation of the information may produce the negative influence on the maker of the business decision, depending on the size of the item and the gravity of the mistake which was made.

The information must accurately present the transactions and other events, so as to be reliable. In order to accomplish the credibility of the information, it is necessary for the presented information to be complete, neutral and without mistakes. In order for the information to be neutral, it is necessary to present the events in accordance with their content and economic reality, not just with its legal form. Furthermore, it is necessary to include a certain level of caution during the statement execution. Since the financial reporting is combined with different forms of assessment, it means that that all substantially relevant pieces of information should be taken into consideration, so as to avoid wrong assessments which would result in providing inadequate value to some type of property or obligation. Todorovic & Pantelić (2014) emphasize that the principle of caution is a necessary opponent of excessive optimism, which is “difficult to suppress”. The goal of capital owners is to

accomplish the greatest result as possible at the end of the year. “Famous German balance theorist Schmalenbach emphasized that one excessively high value of the calculated profit for the company and owner is far more dangerous than one calculated income with too low value” (Ranković, 2010, p. 174, according to: Todorović & Pantelić, 2014, p. 1564). In this manner, the calculated profit which is too high may leave the company, which is not the interest of either the owner or stakeholders. The information contained in the financial statements must be neutral, or in other words, must not influence the decision-making, so as to accomplish the outcome designated in advance. A financial statement cannot be neutral if there is a conscious influence on the conclusions and decisions of individual users, or if there is an influence on the blurring or falsifying of the report. In order to accomplish even higher level of quality in financial reports, it is requested that they should be comprehensive and to contain all accounting categories and changes which occurred to them during the calculation period. If there is a mistake, it may cause many consequences since the information are not correct and statements are with shortcomings.

The professional activity of a person in charge of balancing refers to the respect for other qualitative features which, according to the Conceptual framework from 2010, are designated as contributing to the improvement. These are intelligibility, timeliness, verifiability, and comparability and they are in the function of relevance and credibility, so that their absence may endanger the quality of the report, regardless of the consistent adherence to its basic qualitative features. The essence of the quality information contained in financial statements means that the users who possess the knowledge on business operations of the company, on accounting and financial reporting, understand the identified information and realize the meaning it should communicate. Likewise, it would be wrong to exclude some information which refers to complex and demanding questions with regards to the matter in question, just because individual users do not find such information understandable. The relevance and professionalism of reporting comprise the submission of information about the business operation of the company until certain, legally prescribed deadline. The basic means for making decisions in future time period must be available to their users on time. If the publishing of the statements is postponed without justified reasons, the information may lose the feature of importance for their users. “The information is confidential if it provides the credibility and objectivity, because it requires that independent professionals come into their possession, or into the possession of similar conclusions that the information is not biased, nor contain substantially important errors while the acknowledgements and selected methods of assessment are applied without substantial mistakes and partiality” (Lalević – Filipović & Lakićević, 2011, p. 75). With the aim of the identification of the development in the financial position and success of the business operations of the company, the users should be able to compare financial statements of the reporting with the flow of time. Also, they must be able to compare the statements of different companies. Therefore, the presentation of the financial position and success in business operations must be consistent during a longer period of time. The adjustment with the accounting standards, including the publication of accounting policies consistently used by the companies, may contribute to this important qualitative feature of financial statements.

3. The importance of the harmonization of the financial reporting for the quality of financial reporting

The information in financial statements, based on the Conceptual framework for Financial Reporting represent an important criterion for the assessment of the value of

Implications of Quality Finance Reporting to the Competitiveness of the Economy of the Republic of Serbia

financial statements, if they fulfill the basic qualitative features. However, apart from that, before the reporting entities, there is a request with regards to the application of quality standard which refers to the financial reporting in the context of convergence of accounting practices of different countries.

The creation of the global market of goods, services and capital had the implications to numerous aspects of financial reporting within the time period somewhat shorter than two decades. The process of globalization of economic activities imposed the need for adjustment of financial reporting with regulatory bases of reporting accepted globally. Thus reliable information is provided for users of financial statements around the world, since there are certain differences in financial reporting of different countries (differences in legal systems, sources of financing, taxes, level of economic development, level of development of the accounting theory, etc.). With the aim of overcoming the stated differences, the process of harmonization of the accounting and audit practice was implemented. The harmonization reduces the differences which emerge during the execution and presentation of financial statements, but also the differences in concepts and terminology. It is necessary for all countries to create and publish the financial statements which will be comparable and understandable on the global level (Hajnrh & Suljović, 2010, according to: Leković & Arsenović, 2013).

Harmonization represents the forming and implementation of the set of accounting standards which are applied in the practice of financial reporting. The regulatory frameworks of financial reporting, which have the dominant role at the global level, are the International Financial Reporting Standards (IFRS) and the US Generally Accepted Accounting Principles (US GAAP). Apart from that, in Europe the regulatory framework of financial reporting comprises the Directive European Union (Directive EU), whose goal is the harmonization of the process of financial reporting at the European market. With regards to the set volume of work, further in the text, the International Financial Reporting Standards (IFRS), will be discussed.

International Financial Reporting Standards, as only one element of the infrastructure of financial reporting are used for overcoming problems in accounting – financial communication between various companies from different parts of the world. The application of the stated standards means that the financial statements are public and that the approach of the management is greatly changed and reflected in passing internal accounting regulations, accounting policies and publishing of financial statements (Stojanović, 2016).

The acceptance of IFRS is, primarily, a political decision, and then the decision with serious implications to the national system of financial reporting. “The decision about the use of IFRS, as a mandatory or allowed basis for the execution of financial statements, has the features of a political decision because the state renounces a part of its sovereignty in the creation of the system of financial reporting. Namely, it accepts that the standards of financial reporting and their interpretation passed by the International Accounting Standards Board should become an integral part of the national normative basis of financial reporting” (Škarić – Jovanović, 2011, p. 20). For the introduction of IFRS in most of the countries it is necessary to have a serious legislative intervention and the adjustment of laws and regulations. Owing to the introduction and application of these standards, the uniformity of financial statements of companies is accomplished and it enables better understanding and communication of reporting subjects, regardless of the country they

come from . IFRS are created in order to be, as their name says – international, since certain national specificities, especially in the countries which were not included in the transition process, were not processed. In order to avoid the collapse of the existing practices, the IFRS were carefully introduced with the aim of facing the challenges for increasing the quality of financial reporting (Šević et al., 2017). The responsibility for the implementation of IFRS is reflected in a great number of pages and in increase of the number of standards of financial reporting, as well as in the revising of previously passed standards, all with the aim of reducing the space for free will of balance professionals.

“The importance of the application of IFRS lies in the fact that ever increasing number of countries in the world obliges or encourages their companies to use the internationally acknowledged standards” (Spasić, 2016, p. 404). Table 1. presents the analysis of the use of IFRS in jurisdictions classified according to regions:

Table 1. The use of IFRS in the world

| Number of jurisdictions | | | | | |
|-------------------------|-----------------------------|--|---|--|---|
| Region | Jurisdictions in the region | Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities | Jurisdictions that require IFRS Standards as % of total jurisdictions in the region | Jurisdictions that permit or require IFRS Standards for at least some domestic publicly accountable entities | Jurisdictions that neither require nor permit IFRS Standards for any domestic publicly accountable entities |
| Europe | 44 | 43 | 98% | 1 | 0 |
| Africa | 38 | 36 | 95% | 1 | 1 |
| Middle East | 13 | 13 | 100% | 0 | 0 |
| Asia-Oceania | 34 | 25 | 74% | 3 | 6 |
| America | 37 | 27 | 73% | 8 | 2 |
| Totals | 166 | 144 | 87% | 13 | 9 |
| As % of 166 | 100% | 87% | | 8% | 5% |

Source: IFRS Foundation, 2018

Based on the data presented in Table 1, it may be said that 144 jurisdictions (87 % of the profiles) require IFRS Standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets. All but one of those has already begun using IFRS Standards. Bhutan will begin using IFRS Standards in 2021. Some comments on the remaining 22 jurisdictions that have not adopted (according to IFRS Foundation):

- 12 jurisdictions permit, rather than require, IFRS Standards: Bermuda, Cayman Islands, Guatemala, Honduras, Japan, Madagascar, Nicaragua, Panama, Paraguay, Suriname, Switzerland, Timor-Leste;

Implications of Quality Finance Reporting to the Competitiveness of the Economy of the Republic of Serbia

- One jurisdiction requires IFRS Standards for financial institutions, but not listed companies: Uzbekistan;
- One jurisdiction is in process of adopting IFRS Standards in full: Thailand;
- One jurisdiction is in process of converting its national standards substantially (but not entirely) with IFRS Standards: Indonesia; and
- Seven jurisdictions use national or regional standards: Bolivia, China, Egypt, India, Macao SAR, United States, and Vietnam.

The standards should contribute to the reduction of the volume of insider information, as information relevant in order to assess the perspective of a company (Obradović & Karapavlović, 2016). “The adoption of IFRS at the level of a state reduces the information asymmetry among companies, since IFRS leads to the increase of transparency of financial statements, comparability of companies and countries and facilitation of financial informing process” (Bae et al., 2008; according to Spasić, 2016, p. 405). Verdi (2006) states that the reduction of the information asymmetry may be executed either by the reduction of the information asymmetry between the company and the investor, or by the reduction of the information asymmetry between the investor and the management and thus influence the reduction of costs of the shareholders for control and monitoring of the management. Soothing of the information asymmetry makes the capital market more efficient, reduces the risk of the investment and increases the liquidity of securities (Bartov et al., 2005).

4. Quality financial reporting in the function of the development of the national economy

“The end of the last and the beginning of the new century were marked by great corporate scandals in the USA and the most developed countries of the European Union. In professional reference books, the case of the company *Enron* represents a paradigm for financial-accounting affairs. It showed that the form of fraud comprises the existence of the organized criminal support at company management – internal control system – financial statements – external audit relation. Apart from that, the consequences of *Enron* and auditor company *Arthur Anderson* bankruptcy were of frightening proportions. Namely, the market value of the company *Enron* before bankruptcy amounted to 60 billion dollars. Its property was overrated, the obligations underrated and the high level of debt covered with the help of so-called entities of special intentions. Despite that, one of the top 5 auditor companies *Arthur Anderson*, was giving positive opinions about the financial reports of *Enron* for years, being realistic and objective, which is why it went bankrupt together with *Enron*. The “Enronization” of financial reporting, greed and irresponsibility of corporate management, unethical conduct of professional accountants and auditor companies, at the turn of two centuries made great damage to investors, employees and national economies” (Stojilković, 2016, p. 56).

Based on the stated event, it may be noticed of how great importance is the quality financial reporting for the economic activity in the broadest sense. The information located in financial statements is prepared for the existing and potential investors, as well as other internal and external stakeholders. Nevertheless, the needs of investors for the information are more complex in comparison to the information and financial interests of other

stakeholders. Based on the information in financial statements, the stated interest group makes decisions when to buy, keep or sell some capital instrument, evaluate the security of the invested capital, designate profits which may be gained, evaluate the management performance, etc. According to Biddle et al. (2009), quality financial reporting represents the precision of a company's transferring of the information about its business operation, especially about the expected financial flows, with the aim of satisfying the information needs of the investors. FASB states that financial statements should provide information useful to current and potential investors in the creation of rational investment decisions and in the estimation of the amount, time and uncertainty with regards to future cash income.

Quality financial statements are in the function of attracting investments, which are of utmost importance for companies in order to accomplish and keep competitiveness. Contemporary business conditions impose companies a constant competitive fight and adjustment to newly-emerged conditions of business operations at the market. In order for the company to achieve the best possible position, one of the manners may be to apply certain growth strategies, where mergers and acquisitions, as strategies of external growth, play a dominant role. This is why investors rightfully demand an organized system of financial reporting within which the financial statements of great quality of all economic participants are prepared (Stojilković, 2016). "It is completely natural and logical that investors direct their capital to companies which are competitive or have the potential to become competitive at the world or domestic market, and also, simultaneously, that they will retrieve the capital from the companies which are not competitive" (Obradović & Karapavlović, 2016, p. 395).

Transitional economies in Europe, which include Serbian economy too, aim at joining world economic flows. In order to increase the competitiveness of the domestic economy and its adjustment to the rules which are prevailing at the global market, it is necessary to adjust the policies and regulations, so as to promote the development of the private-owned sector. Investors rightfully prefer directing the capital towards the economies in which they find the institutional environment attractive. Therefore, it is necessary to remove the uncertainty to the greatest possible extent, especially those types of uncertainty referring to laws and other legal regulations. The risk of investment in one country, as a natural companion of certain activities, requires a detailed analytical approach in the assessment of various factors which influence it.

Since the competitiveness of a company in attracting domestic or foreign capital is defined by factors related to the field of financial reporting (apart from other factors), it is exceptionally important for investors to gain security with respect to the level of comparability of accounting information and the application of high criteria in their generating (Shallimova & Kuzmenko, 2016). If investors have doubts about the quality of the financial reporting system of one country, then the risk of investing they assess will grow. The uncertainty brings the risk for investors who, in that case, demand higher rates of value on securities of the company because it is the only way for them to accept that kind of investment.

In order for investors to have a sufficient level of trust in the quality of financial reporting, it is necessary to have a certain level of trust in the quality of the financial reporting standards which are adhered to in that country. Due to the volume of work, in previous studies, we dealt only with the International Financial Reporting Standards as one of the element of the financial reporting infrastructure. We may say that one of the advantages of the IFRS application in one country is that investors, whether domestic or foreign, mainly have a positive attitude toward that country and may take into consideration the investment in it.

Implications of Quality Finance Reporting to the Competitiveness of the Economy of the Republic of Serbia

“Blurred accounting flows seem rather repellent, especially for investors coming from highly-regulated and organized markets. Similarly, IFRS application enables companies to have access to foreign capital and money markets because it is easier to accomplish the adjustment with the regulation of the local market. IFRS enables comparability, so it is possible to compare referent values of one company with another and perform necessary designation of priority projects. The advantages of the IFRS application are many, since the country applying them is the country which may enter the main flows of the economic growth” (Šević et al., 2017, p. 21). If companies adhere to the national standards, which foreign investors are not sufficiently informed about, they will have difficulties in understanding financial statements and thus the assessment of their perspectives.

According to Obradović & Karapavlović (2016) investors should have a sufficient level of trust in 1) the quality of authoritative standard of financial reporting, 2) professionalism and professional responsibility of the financial statement makers and auditors and 3) institutional mechanisms which should force the financial statement makers and auditors to act in a responsible manner. However, one possible reason why foreign investors unwillingly invest lies in high costs of obtaining and processing information on the company where they want to invest their capital, which is the consequence of information asymmetry (Chan et al., 2005, according to: Spasić, 2016). Spasić (2016) states that, in that case, domestic investors are in more convenient position than foreign investors, not only because of better understanding of business environment and preferences of domestic companies, but also because of the possibility of better expectations of future economic policies of the government.

If accounting practices are compared, the IFRS application and their impact on the quality of financial statements between different countries, some differences will be noticed. Contexts of countries in which these standards are applied are different because of their specific features. Even though in these countries there is the tendency to attract the capital via quality financial reporting and thus to increase the competitive advantage of economy, nevertheless, the comparison and study of experiences in other countries may be useful, but it cannot provide a complete answer which is sought for certain national context.

5. The analysis of the quality of financial reporting in the Republic of Serbia

The legislative framework of financial reporting in the Republic of Serbia consists of the Law on Accounting (Official Gazette of RS, no. 62/13) and the Law on Audit (Official Gazette of RS, no. 62/13) from 2013 and accompanying bylaws. According to Đukić & Pavlović (2014) there are no justified reasons for regulation of financial reporting in two laws – the Law on Accounting and Law on Audit. The accounting is the basis, while the audit is just one of the elements of financial reporting system upgrading. In the period of almost three decades, the separation and joining together of these laws into one have become a regular phenomenon, without a logical explanation. If the legal framework of financial reporting in the Republic of Serbia in the period between 1989 and 2013 is taken into consideration, its cyclical character may be noticed, since the laws were changed six times in the period of twenty-four years (Stojilković, 2016). In the country such as Serbia, where each dinar given to the economic development is important, spending money with the aim of passing even worse legal solutions should alert responsible persons that there are major problems in the system of regulating financial reporting (Novičević, 2015).

The reporting fundamentals based on which companies in Serbia prepare financial statements include: The International Financial Reporting Standards, The International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), the Rulebook on the manner of acknowledgment, assessment, presentation and disclosure of positions in individual financial statements of micro and other legal parties, cash basis of accounting used by budget users and single-entry bookkeeping system which may be used by entrepreneurs, who are classified now as micro companies. According to the Law on Accounting from 2013, the complete version of IFRS application should be adhered to by all companies classified as large, according to the number of employees during the year, value of the income accomplished during the year and average value of funds during the year. These standards should be adhered to by financial institutions as well, companies which prepare consolidated financial statements (parent companies), companies whose securities are quoted at the market and companies which are in the process of preparation for quoting, regardless of their size. The Law on Accounting from 2013 introduced the application of IFRS for SMEs while for micro companies the bylaw was introduced – the Rulebook which represents a domestic standard. It practically means that micro companies, which make up approximately 91 percent of all financial statement making abiding parties, are not obliged to apply even the shorter version of IFRS for SMEs, but they are offered the option of applying the act of the Minister of Finance which does not regulate in details all important issues, which refer to the positions in financial statements. Therefore, apparently, the comparability of information with all reports is disturbed. “However, there is still a risk that the majority of legal parties in Serbia – micro companies, in the realization of their aims to increase their activities and therefore income, assets and number of employees, may decelerate the attainment of that goal if they abandon the option of the application IFRS for SMEs, but choose to primarily adhere to the Rulebook or the use of the system of single-entry bookkeeping” (Spasić, 2015, p. 578). “Likewise, the exemption of more than 90 percent of the reporting abiding parties from the obligation of the application of the international regulation and focusing on the national (incomplete) regulation with regards to financial statements bring Serbia in the position of certain isolation and the country where there is no trust in financial statements which narrows the space of intensifying of domestic and foreign investments, i.e. the potential for the capital flow is narrowed down” (Stojanović, 2016, p. 96).

What can also be taken as the flaw of the regulatory framework of the financial reporting of Serbia is the excessive parsing of balance positions in financial statements. It results in their opacity and reduced utility of the information contained in them. It should not be forgotten that the transparency of financial statements is based on the principles of clarity and consistency. The advocates of IFRS emphasize the importance of their application, so as to improve the comparability of financial statements (McCreevy, 2005, according to: Spasić, 2016), which reduces the costs of investors of information obtaining, which finally leads to the increase of their investments into foreign companies (Kang & Stulz, 1997, according to: Spasić, 2016). In Serbia, within the period of ten years, there were five different forms of financial statements, which are presented in Table 2, while the Illustration no. 1 shows illustrations of these values.

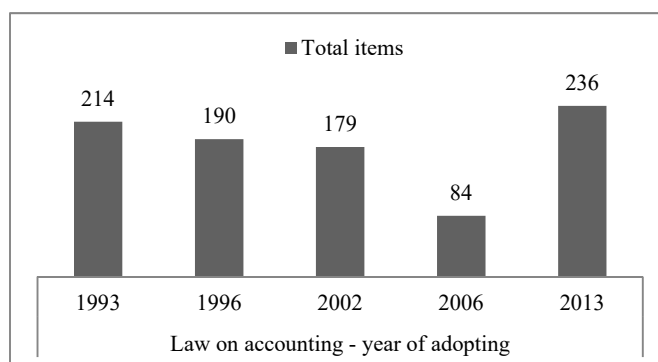
**Implications of Quality Finance Reporting to the
Competitiveness of the Economy of the Republic of Serbia**

Table 2. The comparative analysis of the number of items in balance sheet and in income statement according to five Serbian laws on accounting in the period from 1993 to 2013

| Financial statements | The year of adoption | | | | |
|---|----------------------|------------|------------|-----------|------------|
| | 1993 | 1996 | 2002 | 2006 | 2013 |
| Balance sheet | 135 | 102 | 104 | 50 | 137 |
| Income statement (including Statement of other comprehensive income since 2013) | 79 | 82 | 75 | 34 | 71+28 |
| Total items | 214 | 190 | 179 | 84 | 236 |

Source: Malinić, 2015, according to: Spasić, 2016

Illustration 1. The comparative analysis of the number of items in balance sheet and in income statement according to five Serbian laws on accounting in the period from 1993 to 2013



Source: The calculation of the author based on the data from Table 2.

It is apparent that based on such form of financial statements we cannot talk about comparability or their consistency. Financial statements in Serbia with totally 236 positions have greater scope than it is requested by IFRS (67) or the Directive EU (88), and it is clear that the excessive size of financial statements leads to the decrease of their readability and utility. All this leads to the conclusion that financial reports lack understandable parsing of balance positions, so that the names match the content, as well as consistent forming into groups and subgroups in compliance with certain rules with the aim of increasing the expressive power of financial statements (Stojanović, 2016). What is paradoxical is that, fifteen years ago, Serbia had better executed systematization of financial statements than today.

Furthermore, financial statements which are prepared for statistical purposes and which comprise balance sheet, income statement and statistical statement on business operation are submitted by February of the current year for previous year. The deadline for the submission of regular financial statements is 30th June of the current year for previous year. According to the Law on Accounting from 2013, they are published at the website of the competent state body within 60 days since their submission or not later than until 31st

October of the current year for the previous year. “The stated deadlines are not adequate in terms of utility of financial statements, since they are not available for users ten months of the next year for the previous year, when many transactions have already taken place without having the information from the financial statements, which contain potential detrimental consequences” (Stojanović, 2016, p. 92).

Even though Serbia accepted the application of IFRS and thus created the precondition for the development of quality practices of financial reporting, however, the creating of quality basis of financial reporting is questionable since during the previous period new or altered IFRS have not been translated, then some translations of IFRS were not adequate and the translation of some key standards lacked. Therefore, the problem of incomparability of financial statements of companies in Serbia with the statements of companies of these countries where new or altered IFRS were timely translated emerges again (Obradović & Karapavlović, 2016). If Serbia strives to create of the system of high-quality and transparent financial reporting, it should work on the removal of stated problems which represent the limitation of functioning of financial reporting system.

According to Đukić & Pavlović (2014), the reasons for the existence of only some of the flaws of financial reporting in Serbia are lack of the developed awareness about the importance of financial reporting, as well as the lack of responsibility toward the public. In Serbia, the preparation of financial statements is seen as nothing but the fulfillment of a legal obligation. Also, according to the Law on Accounting from 2013, the companies are allowed to define the conditions which should be fulfilled by the person in charge of the preparation of financial statements which are concerned with the length of work experience and level of education. The required knowledge, experience and professional skills of persons keeping the business books and preparation of financial statements are not legally defined. The neglected competences of a professional accountant in the current Law on Accounting are unacceptable, taking into consideration the fact that the profession of an accountant is the profession of public importance.

“The most prominent consequences of the current legal regulatory framework refer to the deprivation of investors from objective and quality information on business operation of the entity; the presence of uncertainty of the operation; the increase of the risk for investments; financial statements are inadequate basis for determination of the tax base and contribute to the loss of trust in financial reporting” (Stojanović, 2016, p. 97). The investors, as important interest group, need reliable and accurate information about the financial position, as well as the income position of the company about which it is reported. However, the system of financial reporting in Serbia is susceptible to frequent alterations and amendments, which makes it very complicated. In such conditions, it is aggravated for domestic and foreign investors to make business decisions, especially because of the lack of patience and understanding for administrative barriers and expenses which occur because of frequent changes of legal regulations (Stojilković, 2016), which has a negative impact on the competitiveness of the national economy.

The stated shortcomings of financial reporting in Serbia are just some of the problems of financial reporting which could be labeled as alarming and serious. If the ignoring of their solving continues, the field of financial reporting will become gradually poor in quality.

Implications of Quality Finance Reporting to the Competitiveness of the Economy of the Republic of Serbia

6. Conclusion

At the beginning of this millennium, there were some radical changes in the practice of financial reporting. Even though it is apparent that the modernization of financial reporting has its advantages, this paper presents some of the difficulties which the countries that entered the process of modernization in an unorganized manner face, which is the case with the Republic of Serbia. The imposition of the immediate application of International Financial Reporting Standards is just one of new moments which the insufficiently prepared national regulator of Serbia is facing.

The possession of fundamental and improving quality characteristics of information of financial statements is not enough for financial statements to be useful for making business decisions. If the standards of financial reporting are not adhered to adequately in a country, then financial statements cannot be expected to have sufficient level of quality, which makes them useful for making economic decisions by internal and external users. Since investors are some of the most important users of financial statements, it is of utmost importance that they have trust and confidence in the quality of financial reports which are prepared and published in a country. The investment of domestic and foreign capital is necessary for the investment in the recovery of the national economy and it can be accomplished by the creation of an incentive business environment.

With the aim of the increase of trust in financial reporting in Serbia and taking into consideration the current state of the system of financial reporting in our country, it is necessary to have the reform of accounting which may be successful if good cooperation of activities of state bodies, accounting organizations, accounting academic community and users of financial statements is established. If we take into account the public character of financial statements and their importance for investors, it is clear how great the responsibility of the regulators in the development of quality system of financial reporting is, and how dangerous the improvisations in this field may be.

References

- Bushman, R. & Smith, A. (2001). Financial Accounting information and corporate governance. *Journal of Accounting and Economics*, vol. 32, pp. 237-333.
- Botosan, C. (2004). Discussion of a framework for the analyses of risk communication. *The International Journal of Accounting*, vol. 39, pp. 289-295.
- Beest, F., Braam, G. & Boelens, S. (2009). Quality of Financial Reporting: measuring qualitative characteristics, *NiCE Working Paper*, 09-108, Retrieved from: <https://www.ru.nl/economie/onderzoek/nice-working-papers/>, Accessed on 26 July 2018.
- Bae, K.-H., Tan, H., Welker, M. (2008) International GAAP differences: The impact of foreign analysts. *The Accounting Review*, vo. 83, iss. 3, pp. 931-948. (Quoted in: Spasić, D. (2016). Recent changes in regulatory framework for financial reporting in Serbia – a step backward in internationalization of business? Proceedings of the 1st International Conference Contemporary Issues in Theory and Practice of Management. Czestochowa: Czestochowa University of Technology, Faculty of Management, pp. 403-409).
- Barstov, E., Goldberg, S. & Kim, M. (2005). Comparative Value Relevance Among German, US and International Accounting Standards: A German stock market perspective. *Journal of Accounting, Auditing & Finance*, vol. 20, iss. 2, pp. 95-119.

- Biddle, G., Hilary, G. & Verdi, R. (2009). How Does Financial Reporting Quality Relate to Investment Efficiency? *Journal of Accounting and Economics*, vol. 48, iss. 2-3, pp. 112-131.
- Chan, K., Covrig, V., Ng, L. (2005). What determines the domestic bias and foreign bias? Evidence from mutual fund equity allocations worldwide. *Journal of Finance*, vol. 60, pp. 1495-1534. (Quoted in: Spasić, D. (2016). Recent changes in regulatory framework for financial reporting in Serbia – a step backward in internationalization of business? Proceedings of the 1st International Conference Contemporary Issues in Theory and Practice of Management. Czestochowa: Czestochowa University of Technology, Faculty of Management, pp. 403-409).
- Dukić, T. & Pavlović, M. (2014). Kvalitet finansijskog izveštavanja u Republici Srbiji. (Quality of financial reporting in the Republic of Serbia) *Ekonomске teme*, vol. 52, iss. 1, pp. 101-116.
- IASB, (2010). Conceptual Framework, Statement of Financial Accounting Concepts, No. 8, September 2010, Available on:
<https://www.fasb.org/resources/ccurl/515/412/Concepts%20Statement%20No%208.pdf>
- Hajnrih, J. & Suljović, E. (2010). Kvalitetno finansijsko izveštavanje kao pretpostavka funkcionisanja finansijskih tržišta. (Quality financial reporting as a assumption for the functioning of financial market) *Anali Ekonomskog fakulteta u Subotici*, no. 23, pp. 187-198. (Quoted in: Leković, M. & Arsenović, S. (2013). Uloga i značaj kvalitetnog finansijskog izveštavanja, (The role and importance of quality financial reporting) *Bankarstvo*, vol. 4, pp. 78-95).
- IASB, (2010). *Conceptual Framework for Financial Reporting*.
- IFRS Foundation, (2018). Jurisdiction Profiles, Retrieved from: <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis>, Accessed on 01 August 2018.
- Jablan – Stefanović, R. (2011). Računovodstveno – informacioni sistem kao faktor kvaliteta finansijskih izveštaja. (Accounting and information system as a quality factor for financial statements) In: *Kvalitet finansijskog izveštavanja – izazovi, perspektive i ograničenja*. Proceedings of the 42. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 180-201.
- Kothari, J. & Barone, E. (2006). *Financial Accounting – an international approach*, London: Pearson Education Limited.
- Lalević – Filipović, A. & Lakićević, M. (2011). Uticaj tržišta kapitala na kvalitet finansijskog izveštavanja. (Impact of the capital market on the quality of financial reporting) In: *Kvalitet finansijskog izveštavanja – izazovi, perspektive i ograničenja*. Proceedings of the 42. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 68-88.
- Leković, M. & Arsenović, S. (2013). Uloga i značaj kvalitetnog finansijskog izveštavanja, (The role and importance of quality financial reporting) *Bankarstvo*, vol. 4, pp. 78-95.
- Malinić, D. (2015). Kritički osvrt na strukturu i sadržinu zvaničnih finansijskih izveštaja. (A critical overview of the structure and content of the official financial statements) In *Aktuelni problemi i perspective računovodstva i finansija*. Proceedings of the 46. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovodja i revizora Srbije, pp. 30-59. (Quoted in: Spasić, D. (2016). Recent changes in regulatory framework for financial reporting in Serbia – a step backward in internationalization of business? Proceedings of the 1st International Conference Contemporary Issues in Theory and Practice of Management. Czestochowa: Czestochowa University of Technology, Faculty of Management, pp. 403-409.)

Implications of Quality Finance Reporting to the Competitiveness of the Economy of the Republic of Serbia

- Malinić, D. (2016). Mogućnosti i rizici ocene performansi privrede Srbije na osnovu analize finansijskih izveštaja. (Possibilities and risks of assessing the performance of the Serbian economy based on the analysis of financial statements) In: *Implikacije finansijskog izveštavanja na ekonomsku aktivnost u Republici Srbiji*. Proceedings of the 47. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 7-37.
- McCreevy, C. (2005). IFRS-No pain, no gain? Speech to the Federation de Experts Comptables Européens, Brussels, October 18, 2005 [online]. [cit.2015-11-24]. Available: http://europa.eu/rapid/press-release_SPEECH-05-621_en.htm?locale=en. (Quoted in: Spasić, D. (2016). Recent changes in regulatory framework for financial reporting in Serbia – a step backward in internationalization of business? Proceedings of the 1st International Conference Contemporary Issues in Theory and Practice of Management. Czestochowa: Czestochowa University of Technology, Faculty of Management, pp. 403-409.)
- Novićević, B. (2015). Uzroci i posledice nekvalitetnog finansijskog izveštavanja u Republici Srbiji. (Causes and consequences of poor financial reporting in the Republic of Serbia) In: *Aktuelni problem i perspective računovodstva i finansija*. Proceedings of the 46. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 7-29.
- Obradović, V. & Karapavlović, N. (2016). Kvalitetno finansijsko izveštavanje kao faktor unapređenja konkurentnosti privrede Republike Srbije. (Quality financial reporting as a factor in improving the competitiveness of the economy of the Republic of Serbia) In: *Unapređenje konkurentnosti privrede Republike Srbije*. Kragujevac: Univerzitet u Kragujevcu, Ekonomski fakultet, pp. 391-402.
- Ranković, J. (2010). *Teorija bilansa*. (Balance theory) Beograd: Ekonomski fakultet. (Quoted in: Todorović, M. & Pantelić, M. (2014). Od tradicionalnog ka modernom finansijskom izveštavanju – kolika je cena modernizacije? (From traditional to modern financial reporting - what is the price of modernization?) *Teme*, vol. 4, pp. 1559-1572.)
- Spasić, D. (2015). Harmonizacija finansijskog izveštavanja kao pretpostavka međunarodnih investiranja – dostignuća na globalnom nivou i u Republici Srbiji. (Harmonization of financial reporting as a assumption of international investment - achievements on the global level and in the Republic of Serbia) In: *Regionalni razvoj i demografski tokovi zemalja jugoistočne Evrope*. Niš: Univerzitet u Nišu, Ekonomski fakultet, pp. 569-582.
- Spasić, D. (2016). Recent changes in regulatory framework for financial reporting in Serbia – a step backward in internationalization of business? Proceedings of the 1st International Conference Contemporary Issues in Theory and Practice of Management. Czestochowa: Czestochowa University of Technology, Faculty of Management, pp. 403-409.
- Stojilković, M. (2016). Finansijsko izveštavanje u Republici Srbiji – otvorena pitanja i strategija razvoja. (Financial reporting in the Republic of Serbia - open issues and development strategy) In: *Implikacije finansijskog izveštavanja na ekonomsku aktivnost u Republici Srbiji*. Proceedings of the 47. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 55-72.
- Stojanović, R. (2016). Divergencija računovodstvene regulative u Srbiji u odnosu na globalnu regulativu. (Divergence of accounting regulations in Serbia in relation to global regulation) In: *Implikacije finansijskog izveštavanja na ekonomsku aktivnost u Republici Srbiji*. Proceedings of the 47. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 73-100.

- Shalimova, N. & Kuzmenko, H. (2016). Qualitative characteristics and principles of financial reports in the context of disclosure of information about the enterprise as a subject of tax relations. *Economics & Education*, vol. 01, iss. 02, pp. 30-35.
- Todorović, M. & Pantelić, M. (2014). Od tradicionalnog ka modernom finansijskom izveštavanju – kolika je cena modernizacije? (From traditional to modern financial reporting - what is the price of modernization?) *Teme*, vol. 4, pp. 1559-1572.
- Škarić – Jovanović, K. & Spasić, D. (2014). *Specijalni bilansi*. (Special balances) Beograd: Univerzitet u Beogradu, Ekonomski fakultet, Centar za izdavačku delatnost.
- Škarić – Jovanović, K. (2011). Nosioci odgovornosti za kvalitet finansijskog izveštavanja. (Responsibility for the quality of financial reporting) In: *Kvalitet finansijskog izveštavanja – izazovi, perspektive i ograničenja*. Proceedings of the 42. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 7-30.
- Šević, Ž. & Škobić, Z. (2017). Značaj i prednosti primene IFRS u Republici Srbiji. (Significance and benefits of applying IFRS in the Republic of Serbia) In: *Novine u MSFI za MSP; Poslovanje javnih preduzeća i drugih entiteta*. Proceedings of the 48. Symposium of the Serbian Association of Accountants and Auditors. Zlatibor: Savez računovođa i revizora Srbije, pp. 7-21.
- Verdi, R. (2006). Financial Reporting Quality and Investment Efficiency, Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=930922, Accessed on 26 July 2018.
- Zakon o računovodstvu. “Službeni glasnik Republike Srbije” (Law on Accounting. “Official Gazette of the Republic of Serbia”), 62/13.
- Zakon o reviziji. “Službeni glasnik Republike Srbije”, 62/13 (Law on Auditing. “Official Gazette of the Republic of Serbia”), 62/13.

IMPLIKACIJE KVALITETNOG FINANSIJSKOG IZVEŠTAVANJA NA KONKURENTNOST PRIVREDE REPUBLIKE SRBIJE

Rezime: *Krajnji produkt finansijskog izveštavanja jesu finansijski izveštaji i oni predstavljaju osnovno sredstvo komuniciranja preduzeća sa postojećim i potencijalnim investitorima, poveriocima i ostalim korisnicima. Na osnovu informacija sadržanih u publikovanim finansijskim izveštajima, korisnici nastoje da donesu brojne važne ekonomske odluke. S obzirom na to da kvalitet tih odluka može uticati na stanje nacionalne ekonomije, finansijski izveštaji treba da budu kvalitetni, tj. da poseduju odgovarajuće kvalitativne karakteristike. Pored toga, na kvalitet finansijskog izveštavanja utiče primena adekvatnog seta globalnih računovodstvenih standarda koji obezbeđuju uporedivost finansijskih izveštaja pripremljenih u različitim pravnim sistemima. U radu se analizira uticaj kvalitetnog finansijskog izveštavanja na razvoj preduzeća i privrede u celini, sa posebnim osvrtom na Republiku Srbiju. Iako je Republika Srbija počela sa procesom modernizacije finansijskog izveštavanja sredinom devedesetih godina prošlog veka, postoji prostor za unapređenje kvalitetne primene standarda, sve u cilju poboljšanja kvaliteta finansijskih izveštaja i stvaranja uslova za privlačenje domaćih i stranih investicija.*

Ključne reči: *finansijsko izveštavanje, finansijski izveštaji, kvalitativne karakteristike, harmonizacija, MSFI*