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Review paper

ACCOUNTING INFORMATION SYSTEM UNDERPINNING QUALITY FINANCIAL REPORTING

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Radmila Jablan Stefanović, Vladan Knežević

Faculty of Economics, University of Belgrade, Serbia

Abstract. *A company operating in its new business setting, achieves success as a result of interaction of the environment, resources and management i.e. its ability to adequately engage resources taking into consideration all its strengths and weaknesses. It is crucial that the managers, assuming reasonable risks, fully take advantage of numerous challenges of open economy in terms of taking balanced decisions taking into account the organizational changes and possibilities offered by the environment and monitor and assess the strategic and operational development and accordingly contribute to meeting the interests of different stakeholders. This inevitably requires creativity, initiative, sophisticated professional knowledge and skills, as well as the quality information support.*
The role of accounting information system in providing quality information for the needs of financial reporting has been highlighted.

Key Words: *accounting information system, financial reporting, quality of accounting information, audit, internal control system.*

INTRODUCTION

Achieving sustainable competitive advantages in the dynamic and by far uncertain environment will not be possible without creativity, initiative, sophisticated professional knowledge and skills and adequate information system i.e. quality information support. The information is a business resource. Like other business resources (raw materials, capital, labour), information is vital to the survival of the contemporary business organization.

It is simply impossible to discuss management without stressing the role of accounting information system in a company. The fundamental general quality of information related to company accounting is beneficial for business decision making, requiring con-

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Corresponding author: Radmila Jablan Stefanović
Faculty of Economics, University of Belgrade, Serbia
Tel: +381 11 302 1139 • E-mail: rasti@ekof.bg.ac.rs

tinuing revision of its information support and new methods of generating quality information aimed at supporting the up-to-date mechanisms of company management. It is essential that the managers are fully familiar with basic accounting categories and logic and to incorporate it in its process of interpretation and understanding of company operations. In a number of international companies, the Chief Accountant (Controller) is a member of the management team.

1 Accounting Information System – Key Information Core of a Modern Company

An organization is composed of people, resources other than people, and commitments that are acquired and arranged to achieve organizational strategies and goals. The organization evolves from its mission, strategies, goals and managerial personalities. Organizational structure reflects the way in which authority and responsibility for making decision are distributed in an organization. Authority refers to the right (usually by virtue of position or rank) to use resources to accomplish a task or achieve an objective. Responsibility is the obligation to accomplish a task or achieve an objective. A variety of organizational constraints may affect a firm's strategy options. Most constraints exist only in the short term because they can be overcome by existing business opportunities. Three common organizational constraints involve monetary capital, intellectual capital and technology. Environmental constraints also impact organizational strategy. An environmental constraint is any limitation caused by external cultural, fiscal (such as taxation structures), legal/regulatory, or political situations and by the competitive market structures. Because such constraints cannot be directly controlled by an organization's management, they tend to be long-run rather than short-run influences [17, pp. 10 -11].

Under the present conditions, a successful management of a company represents an extremely complex process, considering that the managers face a number of intricate challenges of an open economy. The globalization trends inevitably result in abrupt intensifying of international competition. The customers' requirements have become particularly changeable and increasingly sophisticated – the customers insist on low costs/prices, quality, time and innovations that, along with the intensified application of new production, information and communication technologies, drastically shortened the products life cycle. In the light of such express external and internal complexity, the shareholders have become growingly demanding and strict when it comes to the optimization of corporate financial performance. The dramatic changes naturally brought up the need to introduce new, more flexible organizational and managerial company structures. The requisite shift from mass production of standard products and economies of scope to the strategy of broad company activities is taking place.

Most business participate in the global economy, which encompasses the international trade of goods / services, movement of labour, and flows of capital and information. The world has essentially become smaller through technology advances, improved communication capabilities, and trade agreements that promote international movement of goods/services among countries. Multinational corporation managers must achieve their organization's strategy within a global structure and under international regulations while exercising ethical behaviour. One key responsibility of top managers in organizing their businesses for global competition is the assignment of the authority and responsibility for making decisions [17, p. 7].

Furthermore, a wide range of new managerial approaches and philosophies have been developed in response to the numerous contemporary challenges, unified under a universal concept – to govern the key factors of business success (cost, quality, time, innovations) and deliver superior values to consumers on the market**.** In the last few decades, quality has become an important competitive dimension for both service and manufacturing organizations. Quality is an integrating theme for all organizations. The increased attention to quality is a result of not only increased competition but also increased demands by customers for higher-quality products/services. Improving quality may actually be the key to survival for many firms. Continual improvement and elimination of waste are foundation principles that govern a state of manufacturing excellence which is the key to survival in contemporary world-class competitive environment. A philosophy of total quality management in which managers strive to create an environment that will enable workers to manufacture perfect (zero-defects) products, is replacing the acceptable quality attitudes of the past. Total quality control is an approach to managing quality that demands the production of defect-free products. Reducing defects, in turn, reduces the total costs spent on quality activities. Yet, to achieve a defect-free state, the company is strongly dependent on its suppliers' ability to provide defect-free parts [8].

The key areas of company management activities relate to the disclosure of the status and performance of a company, making business and financial decisions and maintaining the systematic managerial control. Discharging respective managerial activities implies governing the outstanding knowledge, vast experience, creativity and a number of specific skills. It is therefore vital to have access to quality information. Naturally, wrong decisions and business running are quite possible even when disposing with timely, clear, reliable and full information, but it is equally true that having the quality information is a prerequisite for making quality business decisions and their efficient implementation.

Among other, the information system (IS) classification is often being made taking into account the *functional areas* **i.e**. *business functions* they support. Thus, within the particular business IS, it is possible to identify its subsystems: the production IS, the marketing IS, the *accounting* IS, human resources IS, and other [20, p. 3].

The modern trends involve the integration of IS business functions in a company, particularly by using the same databases. The information technologies play a fundamental role in this integration considering that they enable overcoming the limits of the functions in a company (including the borders of a company itself). In a word, the integral approach ensures furnishing adequate information support to each organizational and managerial level (the possibility of maintaining the *horizontal* and *vertical* communication of information).

Strategic management's foundation is the value chain, which is used to identify the processes that lead to cost leadership or product differentiation. The value chain is a set of value-adding functions or processes that convert inputs into products/services for company customers [17, p.11]. Taking into consideration the activities of the value chain, the Accounting Information System (AIS) concurrently representing the subsystem of the business IS i.e. Management IS constitutes the part of company infrastructure – it has been positioned within the infrastructure activities, or more broadly, the support. The accounting (the "language of business"), or company AIS, is basically aimed at creating the quality information base that should in the long run, enable efficient company management. The AIS includes staff, procedures, devices and records used by businesses to create accounting information and present them to decision makers. AIS may be defined as a group of people (lifeware), equipment (hardware), accounting programs (software), data, way and method of their organizing (dataware), communication/network connections (netware) and organizational procedures and methods (orgware) aimed at: collecting the data on recent economic changes, checking their validity and reliability, classifying and processing and/or creating the information, together with appropriate reporting, their analysis, interpretation and sharing with users who make decisions.

Three basic *functions* managed by any accounting system are being focused on when preparing the information on financial standing of a company and its business performance: *recording* the effects of business transactions; *classifying* the effects of similar transactions in the way that allows deriving different amounts and sub-amounts useful for the management and external reporting; *compilation and transfer* of data included in the system in the manner useful for decision makers (accounting information has been summarized in the reports designed to satisfy information requirements of different decision makers). Each AIS (manual/computerized) develops the same basic functions, but the different methods and resources are used in terms of the way and speed of deriving respective functions and the number of details obtained during this process [15; 10].

With respect to the basic *components* (elements) of AIS, different aspects of its structuring are possible (7). Thus, in terms of *information technology (conceptual)* aspect, the core of the modern computerized AIS comprises the following basic components: hardware (material/technical basis, i.e. physical segment); software (non-material/program basis comprising all the programs); lifeware (human resources basis – including both the users and professional and specialist information staff); orgware (organizational activities and methods connecting all the elements into a balanced functional whole)**;** dataware (the concept and organization of the database/data storage and all the available information resources); netware (establishing the communication between system elements to form a balanced whole of information i.e. communication network). It is fundamental that the quality of all elements is equal, that is, that they are balanced among themselves. Otherwise, the IS will not be considered "successful".

From the prospective of the *type of business* conducted therein, the following AIS subsystems could be highlighted: bookkeeping (that is, the bookkeeping including the balance sheet and costing with the calculation), accounting planning, accounting control, accounting analysis. This is the traditional structuring.

Also, in particular in view of *users* or the *purpose* of accounting information, the segments to be focused on are: Management Accounting (MA) and Financial Accounting (FA), including the Cost Accounting (CA) having the essential position within the company's AIS as the whole – it offers information to both the MA and FA being the company's AIS subsystems. The relationship of FA, MA and CA is often illustrated by the following graphical presentation:

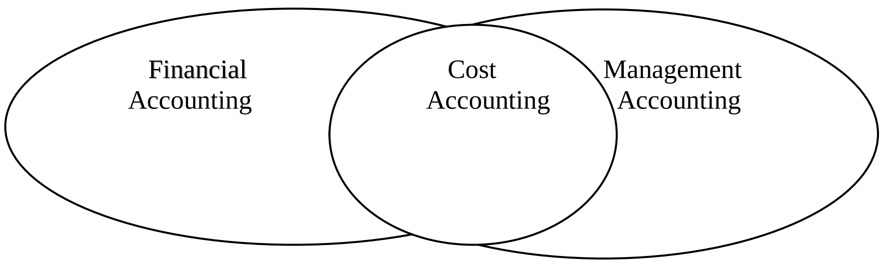

Fig. 1 Relation of FA, MA and CA

Sources: Barfield,Raiborn,Kinney (1998), Cost Accounting: Traditions and Innovations, third ed., p.16
Raiborn, Kinney (2011), Cost Accounting Principles, 8th ed., p. 4

The FA information are primarily focused on external users (potential investors, creditors, government agencies, trade unions etc.), but they are also used by the company management. The respective information are used to assess the achieved business effects, financial standing of a company and the amount and method of settling the tax and other liabilities, etc. The time of reporting has been periodical, within the predefined periods (usually on an annual, semi-annual basis) or as the case may be, depending on received requests. It mainly processes historical data, and the subject matter of FM reporting is principally the company, as a whole. FM evaluates and makes records of business transactions, focusing on external financial reporting. The managers are responsible for respective financial statements, based on the strict laws and professional legislation. As regards the Republic of Serbia legislation, generating the financial statements has been regulated by the Accounting and Auditing Law and the Company Law. According to these regulations, the Financial Statements include [21].

Balance Sheet, Income Statement (Profit and Loss Account), Statement of Cash Flows, Statement of Changes in Equity, Notes to the Financial Statements, Statistical Annex. Aside from the national legislation and as a result of world market globalization, need for a free flow of capital and the wish to join the international trends, starting from 1st January 2004, the International Accounting Standards i.e. International Financial Reporting Standards have been applied in Serbia as well.

Unlike FM, the MA information [1; 9] are primarily intended for the company managers, who use them in the management/planning process, for decision-making and control of operations. They comprise different information/reports for different managers. The reporting is conducted in a continuing period. The MA is more significant oriented towards the future and it has been regulated in accordance with professional regulation requirements. The focus of MA are, in addition to its considering the company as a whole, its segments, individual groups of products etc. the MA evaluates, assesses and generates both the financial information and other types of information primarily intended to assist the management in their decision-making and eventually achieve the company objectives. It is focused on internal reporting, meeting the requirements of both the regular (routine) and specific (non-routine) information requirements of managers. Managers need information to develop mission statements, implement strategy, control the value chain, measure and assess personnel performance, and set balanced scorecard goals, objectives, and targets [17, p. 11].

As regards the CA, it measures, analyzes and reports financial and nonfinancial information relating the costs of acquiring or using resources in an organization [9, p. 26] and has an essential position in the company's AIS as the whole. CA supplies information needed by both MA and FA as the subsystems of company's AIS as the whole. Concerning the information support to FA, this is a traditional task of the CA i.e. to provide information that would satisfy the requirement of presenting the standing and performance of a company, measuring the product costs in compliance with the steady legal and professional regulations. When on the other hand, its information are used for internal purposes, the CA ensures the basis for planning, control and decision-making - meaning that it also provides the valuable information support to the management in conducting the systematic management control, and passing different business and financial decisions. It is known not to apply the policy *"one size fits all"* since different needs often require different details related to costs. The so many times quoted conclusion of author

Clark [23, p.9] *"different costs for different purposes"* has reached its full affirmation in the last couple of decades. Thus, the definitions of product costs reflect this *fundamental principle of cost management,* since they may differ depending on their purpose. In respect with decisions on price determination, product mix, and regarding the strategic profitability analysis, all the expenses that could be designated should be allocated to the product and include costs of main value chain activities: research and development, production, marketing and customer service. The strict laws and professional legislation accordingly lay down that the product cost assessment should be solely based on the production costs, when it comes to external financial reporting. The information support provided to various information requirements of the management regarding *making individual business and financial decisions* has been promoted as the crucial task of CA during the last decades. This in particular refers to the assessment of costs and benefits of individual business alternatives. By using the non-routine cost-benefit analyses, CA creates reports based on the concept of *relevant* information. For information to be relevant, it must possess three characteristics: be associated with the decision under consideration; be important to the decision maker; have a connection to, or bearing on, some future endeavour [17, p.421]. The concept of relevant costs (and relevant revenue) when deciding among alternatives involves discussing expected future costs (and expected future revenues) that differ among alternative courses of action being considered. The analysis of relevant costs, in general, highlights quantitative financial information, but when taking decisions, the managers must also duly consider the quantitative non-financial and qualitative information and occasionally put more focus on the qualitative or non-financial quantitative information.

Modern CA takes the perspective that collecting cost information is a function of the management decisions being made. Thus, the distinction between MA and CA is not so clear-cut and these terms are often used interchangeably [9, p. 26].

In trying to achieve the set objectives, it is necessary to produce the IS that would be comprehensive to users, and to enable its appropriate control. It is equally crucial that it is used in an ethical and socially responsible/acceptable manner. Above all, the company's AIS should be designed in compliance with high quality standards, meaning that it has to comprise [10] : *control* – the managers have to control the operations (otherwise, the company will lose the focus – internal control will protect the property and eliminate excessive spending); *compatibility* – taking into account the staff and organizational structure of a company; *flexibility* – to be adjustable to changes within the organization it supports; solid *cost-benefit* relationship – to be cost-effective. In all this, as pointed out before, the critical factor of success is the human resources, who have to be competent and honest.

The importance of flexibly designed IS of CA is particularly pointed out - as the key information core of entire company's AIS – in generating quality information supporting modern company management mechanisms. It is fundamental that IS of CA is *flexibly* designed, as this is the only way it will ensure adjustment to changes taking place both in the business environment and the company and accordingly respond to numerous and varied information requirements by the company management. Thanks to its relative independence from the stringent legal and professional regulations and given that it is used as a support to company management, it has the capacity to, as required by internal users, generate the fine range of information. The following three points outline the fundamental themes related to designing a new cost system for managerial purposes [12, pp. 71-72]: cost systems should have a decision focus – cost system must meet the needs of the decision makers; different cost information is used for different purposes – what works for one purpose will not necessarily work for another purpose; cost information for managerial purposes must meet the cost-benefit test - cost information can always be improved. However, the benefits of improvements (i.e. better decision making) must outweigh the costs to make the improvements.

Considering the essential significance of CA information system standing as a support to the up-to-date mechanisms of company management, it is necessary continuously to revise its information offer and seek new methods to generate quality information. Today, new requests for changes and continuing improvements have been addressed, so that the management would have adequate information support in managing the company – in particular the key strategic variables. During the last several decades, an increasing number of discussions about cost management and moving a number of boundaries have been increasingly discussed – this is a dynamic process accompanied by intensive efforts towards continuous improvement i.e. improving of existing and discovering new tools and techniques starting with early Activity-Based Costing (ABC) models with most recent moving towards the Strategic Cost Management (SCM) - the use of cost data to develop and identify superior strategies that will produce a sustainable competitive advantage. In the respective period, the most visible trend has been *shift the focus* from determining the product costs applying standard traditional cost models, towards offering support to strategic and operational decisions by using specific forms of activity analysis [13]. The CA capacity to assist the management in reaching the above goals, fundamentally determines its importance i.e. usefulness of its information.

2. Quality Accounting Information as AIS Output

As previously pointed out, each system transforms input into output. The *input* of AIS i.e. the processed matter, are the data (chiefly originating from financial transactions) contained in the accounting documents. The second (central) element of the system is the data *processing* in relation to which the following elements are unavoidably being focused on: accounting principles, accounting standards, accounting policies, accounting methods, legislation, documents, accounts, framework of accounts, chart of accounts, business records. The third AIS element, the *output*, comprises the accounting information prevailingly contained in different financial statements. Moreover, to ensure the high quality of output (accounting information) both the input data and their processing have to be of a high quality as well.

The accounting data, being the neutral accounting facts, constitute the base for accounting information. They represent the transformed accounting data having the meaningful contents and form – the processed, interpreted and directed details about the status, event or trends they reflect. The accounting information are problem-oriented i.e. they are focused on clients, aimed at problem solving. Different types of business decisions imply different types of accounting information, i.e. different way of their presenting or reporting. The accounting information as a notion, are defined as information *useful for business decision making*, having a quantitative character. Although it is possible that qualitative (non-quantitative, descriptive) external or internal non-accounting information eventually become decisive when taking specific decisions, the *quantitative* information undoubtedly prevail. Generally, when the quantitative information is in focus there are more advantageous concerning internal i.e. accounting information. The fact that the accounting information are numerically presented points to higher level of objectivity in decision making, due to which their recognition is also requisite. Numeric disclosures are immanent to accounting as assistance in taking business decisions, justifying its being characterized as the generally accepted "language of business".

Accounting information helps managers to measure dimensions of performance that are important in accomplishing strategic goals. In the past, management spent significant time analyzing historical financial data to assess whether organizational strategy was effective. Today, companies use a portfolio of information to determine not only how the organization has performed but also how it is likely to perform in the future. Historical financial data reflect *lag indicators* or outcomes that resulted from past action. In contrast, *lead indicators* reflect future outcomes and thereby help assess strategic progress and guide decision making before lag indicators are known. Lead and lag performance indicators can be developed for many performance aspects and to assess strategy congruence. The *balanced scorecard* (BSC) is a framework that translates an organization's strategy into clear and objective performance measures (both leading and lagging) that focus on customers, internal business processes, employees, and shareholders. Thus, BSC provides a means by which actual business outcomes can be evaluated against performance targets [17, p. 12].

There are numerous *users* of accounting information. Every business day, vast quantities of information flow to decision makers and other users to meet a variety of internal needs. In addition, information flows out from the organization to external users (customers, suppliers etc.). The level of detail and nature of the information needed to meet diverse objectives differ considerably [7]. The e*xternal* users (state authorities, financial institutions, consumers, creditors etc.) are greater in number than internal ones, but the number and disclosed impact of statements and information created for them by AIS are lesser. Apart from the annual external financial statements of a company, and where there are justifying requests and/or requirements by external users, AIS can generate interim reports. The reports created for external users usually contain aggregate data about the company on the whole, without considering the performance or other indicators per organizational parts or other segments. In spite of having different users and fields of interest, they are all interested in success, growth and development of the company, considering that they could accordingly achieve own interests as well. Unlike external users, *internal* users have access to a wider number of both global and detailed information. To sum up, the range of information and reports generated for internal users is much wider: these are non-standardized statements created by the users themselves. The company management and employees are internal users of data, information and reports created by the company AIS. Both interest groups are interested in the successful performance of a company, since they concurrently reach their own goals: adequate earnings, safe business, bonuses, reputation. Naturally, aside from the information about the company standing and performance, they are also interested in any other information generated by this system – the reason being that they are not only interested in information about company performance, but also the creators of business success. To successfully discharge this function, the management and employees need all the information allowing them to perform their management and operational functions.

Therefore, AIS is expected to ensure different information for the users, i.e. to satisfy the expectations of various interest groups. As pointed out, the *usefulness* for decision-making represents the fundamental *general* quality of company accounting information. This of course assumes that respective information carry concrete individual qualities. Therefore, the qualities that make information useful are recognized as their "qualitative characteristics". Individual qualitative characteristics information should encompass (constituting the base of their general quality – usefulness for decision making) have particularly been tackled by the Financial Accounting Standards Board – FASB [5]. It has been pointed out that concrete qualitative characteristics of information could be viewed as the *hierarchy* of qualities. In particular, the ranking of qualitative characteristics has been conducted taking into account their discrimination between primary and secondary qualities. The fundamental *individual* qualities defining the general quality of information – usefulness for decision making are relevance and reliability.

Relevance, being one of the primary qualities in terms of taking specific decisions, involves the capability of information to influence economic decisions of the users by assisting them in evaluating the past, present and future events, or by confirming or making adjustments to the previous evaluations made by users. Information is considered relevant, if it meets the following qualitative characteristics: predictive value, feedback value and/or timeliness (being relevance components, as the primary quality).

Predictive Value is the qualitative characteristic of information helping the users to increase the probability of accurate forecasting the outcome of the past or present events.

Confirming Role, is the qualitative characteristic of information enabling users to confirm or adjust their earlier expectations/projections.

Timeliness is the quality of information assuming that they are made available to the decision makers before they have lost their capacity to influence them. Information is considered timely when there is sufficiently long time distance from the moment of its dissemination to its use i.e. from the moment of making a decision until taking appropriate actions.

Reliability, being one of the primary qualities, may be seen as the level of information trustworthiness – its being free from any material error or bias, assuring its users that they may rely on its true (impartial) representing the subject matter disclosures. It involves meeting the qualitative characteristics of information in terms of their: verifiability, representational faithfulness, neutrality (components of reliability, as their primary quality).

Verifiability is the information quality ensuring that by way of consensus among measurers, the information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.

Faithful representation (validity), as one of the information qualities, represents the correspondence or agreement between a measure or description on the one hand and the phenomenon it purports to represent on the other. Information is representative when it duly reflects the business transaction covered by such information.

Neutrality, as the information quality, has been complied with when there is no bias – when the information have not been prepared and presented with the intention to attain a predetermined result or induce particular mode of behaviour. This means that there is no biasness that would lead to the expected outcome.

Comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.

Consistency represents the uniformity i.e. steadiness from period to period with unchanged policies and procedures.

Intelligibility is the quality of information that enables users to comprehend its meaning.

As shown above, the presented hierarchy of accounting qualities, in addition to differentiating between the primary and secondary qualities, discriminates among the qualities related to the specific information user on the one hand, from the quality inherent to the very information that are related to specific decision, on the other hand. The typical example of quality related to specific user is intelligibility, given that different users do not possess equal capacity of understanding the information. To make them comprehensible (have their contents used for their intended purpose) the information have to be adequately presented and adjusted to the user's knowledge level. The information is considered to be understandable when its interpretation does not take time, but instead enables the user to comprehend its contents. Thus, information could be useful to one user, but not necessarily to another one. Considering that intelligibility, should also be the quality imminent to the information itself, the comprehensive intelligibility, of information is the result of having combined the quality of user and quality of the very information.

Also, the presented FASB hierarchy comprises, in addition to the qualitative characteristics of information, two *limitations:* the recognition threshold and/or materiality, and the inherent limitation, meaning the cost-benefit analysis. *The recognition threshold* refers to *materiality*. Only the materially significant information essentially crucial for decision making may be useful. These are the information the absence of which or wrongful formulation might affect the users in their process of taking economy-related decisions. *The pervasive limitations* include the *cost-benefit* analysis, making the comparison/assessment of costs incurred for information obtaining and benefits/output expected from them. Relevant and reliable information should be collected and used solely providing that the expected benefits exceed the costs of providing such information.

Qualitative characteristics of accounting information related to financial statements have been laid down by the International Accounting Standards Committee (IASC) i.e**.** International Accounting Standards Board (IASB). The IASB Framework for generating and presenting the financial statements laid down the field of qualitative characteristics of financial statements, including the restrictions. The Framework defined four main qualitative characteristics of accounting information in financial statements that make them useful: [14; 6] intelligibility, relevance, reliability and comparability.

Intelligibility – means that the information from the financial statements takes little effort and time to be understood by users, meaning, among other, that the user has to possess appropriate knowledge to interpret them and use them for decision making.

Relevance – in order to be useful, the information has to be relevant, meaning that it has to "influence economic decisions taken by users by helping them to evaluate past, present or future events, or by confirming or adjusting the former evaluations of users"**.** The predictive role of information and its confirming role are interconnected. It is pointed out that the "relevance of information is influenced by its nature and materiality (importance)" and that an information is materially significant "if its absence or erroneous formulation can influence economic decisions of users made based on the financial statements", while the materiality/importance depends on the size of an item or error assessed in the event of its absence or erroneous formulation."

Reliability – to be useful, information has to be reliable, meaning that it has to be free from any material error or bias and provide assurance that its users may rely on it. Reliable information has to have the following qualitative characteristics: *credible presentation, the essence more important than form***,** *neutrality, prudence, completeness* etc.

Comparability (in space and time) – as the qualitative characteristic, assumes possibility for the users to compare financial statements of the respective company over successive accounting periods including the option to compare financial statements of different businesses.

As mentioned above, the IASB Framework also discusses the four *restrictions* aimed at ensuring *relevant and reliable* information of financial statements, in particular:

Timeliness **–** relevance, as one of the main qualities of accounting information, has, in addition to other components, been determined by timeliness. While seeking to ensure timely information, the management of specific company may face the situation of not having the comprehensive picture about all the aspects of business transactions, which questions their reliability. On the other hand, the management facing such situation may postpone the presentation of respective information and wait for the moment when they will learn about all the aspects of respective business transaction. Any postponement may affect the reliability of information, but it is just as well possible that they fail to be timely and consequentially, fail to be relevant for the users – the decision makers. This applies if meanwhile, they had to react.

Balance between cost and benefit **–** appears as a constraint in terms of considering the cost and benefit evaluation substantially as a judgemental process: moreover, it should be noted that *costs* for providing useful information are predominantly being borne by those who prepare them, while *benefits* and/or effects are enjoyed by both those who prepare them and those who use them.

Balance between qualitative characteristics – in practice, it is often necessary to compromise in order to ensure the requisite balance between the qualitative characteristics of accounting information. Considering that the problem of finding the balance between relevance and reliability as the key qualities of accounting information is often present, it is often pointed out that it is not worth to present an information where no minimum of its relevance and requirements regarding its reliability have been ensured. The reason for this is that only by concurrent providing of minimum of both of the basic qualities of information - relevance and reliability – the general quality of information is achieved and thereby its decision usefulness. Of course, it is being understood that only after achieving the minimum of those individual qualities is it possible to enhance the general quality of information in particular: by increasing the level of relevance quality on accounts of reliability, or raising the level of reliability quality on accounts of relevance. Taking all the above into consideration, the satisfaction and/or providing the minimum level of reliability and relevance is what essentially defines the usefulness of accounting information.

True and fair view/fair presentation – even though the Framework does not deal with these concepts directly, it is pointed out that the preparation of basic qualitative characteristics and appropriate accounting standards usually results in financial statements that convey what is principally considered to be true and fair view/fair presentation.

It is important to note that the aforementioned Framework has been revised, so that the Conceptual Framework for Financial Reporting 2010 calls attention to two *fundamental* qualitative characteristics: *relevance* and *fair presentation* (instead of reliability, while assuming the qualitative characteristics – complete, neutral and free from material errors); including four *advanced* qualitative characteristics (improving the fundamental ones): *comparability, intelligibility, timeliness* (including its constraints as referred to in the previous Framework) and *verifiability.*

The reminder of this paper will briefly discuss the system of internal controls and audit, as specific "tests" of accounting information quality.

3. Controlling Accounting Information Quality

Taking into consideration the importance of accounting information for making business decisions, they are often being manipulated and misused by those who wish to influence the process of decision making. The prerequisite for generating the high-quality accounting information, in addition to complying with accounting standards and competence of accounting staff, is having the internal control system (ICS) in company. The adequacy of the internal control structure is an issue of great importance to both management and accountants.

Basically, internal control (IC) encompasses the expert and systemic monitoring based on examining, comparing and judging the company operations, aimed at preventing negative deviations of actual status from the set rules and norms – it acts preventively, and is conducted exclusively by the company staff (applying the appropriate organization system and as integral part of their assignment). In the broader sense, the ICS includes, i.e. the entirety of IC structure comprises: control environment; accounting system; control activities. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework consists of five components: the control environment, risk assessment, information and communication, monitoring, and control activities [7; 16]. ICS encompasses all the measures taken by the company aimed at: preventing errors; preventing excess costs and frauds; ensuring reliability and completeness of accounting data and accordingly, generating of financial statements; ensuring compliance with management policies. It covers all the measures introduced by the company management and applied by employees, to provide assurance for the management that the overall company activities are being carried out as provided by the adopted plans and policies.

The ICS function is composed from two main categories: the management (administrative) control and accounting control (directly referring to the protection of assets or reliability of accounting information).

The following basic concepts of ICS have been considered as vital [7]:

Management Responsibility - this concept holds that the establishment and maintenance of ICS is a *management responsibility*;

Reasonable Assurance **–** The ICS should provide *reasonable assurance* that the four broad objectives of internal control (to safeguard assets of the firm; to ensure the accuracy and reliability of accounting records and information; to promote efficiency in the firm's operations; to measure compliance with management's prescribed policies and procedures) are met in a cost-effective manner (the cost of achieving improved control should not outweigh its benefits);

Methods of Data Processing – Internal controls should achieve the four broad objectives regardless of the data processing method used. However, the control techniques used to achieve these objectives will vary with different types of technology;

Limitations – Every ICS has limitations on its effectiveness which include: the possibility of error (no system is perfect); circumvention (personnel may circumvent the system through collusion or other means); management override (management is in a position to override control procedures by personally distorting transactions or by directing a subordinate to do so); changing conditions (conditions may change over time and render existing controls ineffective).

Lately, the internal audit has become a logical addition to the internal control, and it has been tasked with monitoring the efficiency and eliminating identified gaps in ICS. Internal audit is a type of control that checks the adequacy and effectiveness of the other controls. Unlike the traditional role of internal audit, the primary goal of modern audit is the identification of all types of risks to which the organization is exposed. All this by analyzing the operation of internal controls, monitoring the acquisition and use of funds, checking the compatibility of business with all regulations. Internal audit evaluates and improves existing method of risk management, control and operation management of processes. Status and independence of internal audit are stemming from its position in the organizational structure. The internal auditors are experts employed in an organization assigned to continuingly monitor/evaluate the internal control structure and report their findings and recommendations to the top management. It is very important for internal auditors to preserve their impartiality in relation to the company management which is responsible for the company's risk management process. Performance of internal auditors includes professionalism, competence, objectivity, confidentiality, and integrity. Certificates received by the internal auditors guarantee the required level of knowledge and skills, and provide continuous professional development program.

However, although the existence of internal control and internal audit is necessary, it is not sufficient for external users to place trust in accounting information disclosed in financial statements.

Certain users, therefore, while checking the segments of accounting information, additionally rely on independent audit involving the examination of financial statements conducted by independent accounting experts – auditors, aimed at expressing the opinion, in the form of Audit Report, about whether these statements are: objective (reliable and complete); in line with generally accepted accounting principles and aligned with accounting standards; and that they are not misleading. Independent auditor expresses professional opinion about whether the financial statements have been presented in a fair and true manner. This in turn contributes to the requisite credibility i.e. trust that the financial statements prepared by the management for interested parties outside the company are reliable. Of course, the auditor provides no confirmation or guarantee but only his/her opinion about whether on the whole, the financial statements provide "true and fair view" of financial standing, business performance and cash flow, taking into account all the material aspects.

The stronger integrity of internal control is, the less work for independent auditor will there be – less independent tests will be required from the independent audit to be disclosed as opinion in the Auditor's Report. The role of independent auditor does not only involve examination of financial statements, but also seeking the way to improve AIS and ICS of a company whose statements have been audited. To assist a company to enhance its AIS and eliminate its shortcomings, an auditor has to be well aware of its operations and basic characteristics – starting from the characteristics of its integral parts (components), all the way through the process of generating financial statements until their being published as a hard copy or electronically.

CONCLUSION

Accounting information is vital to the survival of the contemporary business organization. It helps managers to measure dimensions of performance that are important in accomplishing strategic goals.

The main purpose of the modern company accounting information system, as a whole, is to provide to decision makers the information useful for their business decisions. The focus is therefore on satisfying the needs of different users. Considering that AIS offers information relevant for decision making and management process, it is being promoted as the basic source of information i.e. the core of company information system. It represents the reliable information support for the management in the domain of business and financial decision making. As such, it has to have a high-quality design to provide information support to executives and with a reasonable risk, enable them to handle numerous challenges of open economy to make balanced decisions in the light of organizational changes and possibilities offered by the environment, as well as to monitor and evaluate the operative development and consequentially contribute to achieving the interests of various stakeholders.

The present business environment inevitably requires continuing revision of its information portfolio and seeking new methods for generating the quality information. It is essential that accountants are highly knowledgeable about their duties and systematically seek the ways to add value to their organizations.

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RAČUNOVODSTVENI INFORMACIONI SISTEM U FUNKCIJI KVALITETNOG FINANSIJSKOG IZVEŠTAVANJA

Preduzeće, u novom poslovnom ambijentu, ostvaruje uspeh kao rezultat interakcije okruženja, resursa i menadžmenta odnosno njegove sposobnosti da, imajući u vidu sve prednosti i slabosti preduzeća, uposli resurse na adekvatan način. Izuzetno je značajno da menadžeri, uz prihvatljiv rizik, maksimalno iskoriste brojne izazove otvorene ekonomije odnosno donose izbalansirane odluke u svetlu organizacionih promena i mogućnosti koje okruženje nudi, kao i da nadgledaju i procenjuju strateški i operativni razvoj i, sledstveno, doprinesu realizaciji interesa različitih stejkholdera. Ovo, nužno, pretpostavlja kreativnost, inicijativu, sofisticirana profesionalna znanja i veštine, kao i kvalitetnu informacionu podršku.

U radu je apostrofirana uloga računovodstvenog informacionag sistema u pružanju kvalitetnih informacija za potrebe finansijskog izveštavanja.

Ključne reči: *računovodstveni informacioni sistem, finansijsko izveštavanje, kvalitet računovodstvenih informacija, revizija, sistem internih kontrola.*