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The Realization Environment of the True and Fair View in National and International Accounting Regulation

Theses of Doctoral Dissertation

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1. Justification of Topic Choice and Research Objectives

The 1990s brought along significant changes and transformations in Hungary's accounting regulations (as well). Economic transformation was obviously accompanied by establishing new foundations for the regulatory environment, a key area of which lied in developing standardized frameworks for the rules of financial accounts and reports. By the beginning of the 1990s, it was impossible to disregard the fact that by then community level accounting regulations had already emerged and international accounting standards comprehending the entire globalizing world were undergoing dynamic development. By the Millennium, the process resulted in spectacular achievements: an increasing number of countries agreed to accept reports completed in harmony with the standards, what is more, the European Union even drew up a regulation to prescribe the application of these standards in the case of completing certain consolidated reports.

It becomes obvious from the above, that the operation of accounting information systems, the application of their results and interpretation of related data can only prove successful if we understand the regulatory environment of accounting.

The constantly changing cycle of interest representation articulates an increasing number of new needs in terms of the data base generated by accounting information systems that follow the continuous changes of the economic environment, since decisions require information, while right and fast decisions demand accurate and up-to-date information. However, we must realize that in the course of generating (this means mapping reality by using accounting means) of the necessary data base (the report), the rules and regulations can produce certain modifications and in some cases „distortions", changes sometimes difficult to understand for outsiders, that information users can only interpret and handle with the necessary caution.

Reports are the essential means of communication between economic and interest representation cycles providing *standardized information about operations, property status, financial and income situation developed in regulated frameworks*. Reports disclose data compiled by the accounting system in another dimension. Regulations of different levels establishing clear frameworks play a key role in data representation, limiting – although to different extents – the definition of events considered „useful" for accounting information systems, the process of accounting transformation and, as a result of all this, the emerging report.

By accounting transformation I mean the process that converts the data entering the system into useful content from the aspect of the report. The phenomena identified as the inputs of the system (that manifest in the data bulk generated by economic events) are necessarily changed and sorted in the course of accounting transformation, what is more, certain phenomena are even eliminated from the transformation's sphere of operation. Therefore, the task assumed by accounting information systems lies in the most complete realization of accounting transformation possible.

The present paper analyses the process of mapping, also discussing its various steps, and the related international and Hungarian regulations. The analysis basically concerns the system known as financial accounting, introducing how financial accounting systems can meet new challenges in order to make sure that accounting transformation comprehends the biggest possible portion of reality.

The basic philosophy of all systems of accounting rules lies in providing a *reliable and realistic overall picture* of the economic entity. A reliable and realistic overall picture primarily means regularity; however, deviation is possible in every system of rules, although such deviation is presumed a highly rare and exceptional case. However, regularity does not necessarily mean a set of rigid and direct rules, since detailed stipulations are complemented by a certain space for decision making that varies from narrow to wide.

Consequently, information may only be regarded as reliable and realistic within the frameworks of the given system of rules, so in my view, it is essential for accounting information users to be clear on its production process, understand and correctly interpret the accounting transformation process.

One constant dilemma of accounting is presented by the accuracy of property versus result. Accuracy also includes completeness, numericality and transparency.

The ***hypotheses of the research*** are summarized as follows:

1) Accounting transformation cannot be realized completely; its main reason is that accounting stipulations interpret property representing the object of transformation in a restricting manner.

2) The accounting system cannot be expected to provide an up-to-date statement of the values displayed in the balance sheet for the whole range of property.

3) The parts of accounting reports built on and complementing one another largely contribute to the development of a reliable and realistic overall picture.

2. The Objective, Structure and Methodology of the Paper

The objective of the paper is to

- introduce the factors influencing and shaping the accuracy of information provided by accounting information systems,

- introduce the three fundamental sub-processes of accounting information systems: identifying, evaluating and publishing the phenomena to be examined,

- highlight the factors that must definitely be taken into account during the application of the data provided by the accounting system with different objectives,

- call attention to the different content of the reliable and realistic overall picture at the level of small and medium-sized enterprises and large companies.

International standards (IAS/IFRS system) and the rules of Hungarian accounting regulations effective in 2006 constitute *the fundamental basis of the research*. The paper focuses on the comparison and confrontation of these systems.

The dissertation consists of six chapters.

The *first chapter* offers a brief review on the general and theoretical questions of accounting information systems: their definition, structure, tasks and regulation. The *second chapter* looks at the input side of accounting information systems, showing how the range of meaning processed by accounting transformation can be defined. The *third chapter* discusses evaluation, representing the most important sub-process of accounting transformation. This discussion also includes the definition of cost and the system of value corrections tied to the life cycle of assets. The *fourth chapter* gives an overview of the presentation of identified and correctly evaluated assets and events. I analyze the means that enable accounting information systems to communicate with the members of the cycle of interest representation. The *fifth chapter* introduces the results of a questionnaire survey that summarizes the experiences drawn from the practical application and operation of the subject areas discussed in the first four chapters.

Finally, the *sixth chapter* articulates the statements that summarize the results of the research.

<u>Thesis 1:</u> *Accounting regulations based on both codified and customary law consider property to be the object of accounting transformation, which they tend to interpret by articulating stipulations on financial solvency and restricting content, therefore, balance sheets cannot be complete.*

<u>Thesis 2:</u> *In the course of evaluating the property shown by the balance sheet, the realization principle seems to dominate, although further evaluation models may also be realized within regulated frameworks. The majority of accounting standards concerning evaluation are based on the cost model, while the composition of balance sheets applies the revaluation model based on the going concern principle and the fair value model with only a complementary profile.*

<u>Thesis 3:</u> *The structural development of reports is regulated to different extents by accounting standards. The need for clear representation and direct comparison makes it necessary to develop the standardized requirements of the formal representation of reports, however, this must not lead to over-detailed minor assets, and the possibility to combine major assets with other elements. The non-standardized parts of reports contribute to the expansion of the narrowing interpretation of financial solvency and the realization of a reliable and realistic overall picture as much as possible.*