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ACCOUNTING POLICIES AND FINANCIAL ANALYSIS INTERDEPENDENCES - EMPIRICAL EVIDENCENino Serdarević¹**ABSTRACT**

This paper presents empirical evidence on applied analysis interdependences with created accounting policies and estimates within Bosnia and Herzegovina (BIH) private commercial entities, in specific, targeting practice oriented relevance of financial indicators, non-financial indicators, enterprise resource planning and management accounting insight frequencies. Recently, standard setters (International Accounting Standards Board and International Federation of Accountants) have published outcomes of an internationally organized research on financial reports usefulness, recommending enforced usage of enterprise relevant information, non-financial indicators and risks implications in assets and liabilities positions. These imply litigation and possible income smoothening. In regard to financial reporting reliability, many authors suggest accounting conservatism as a measure to compose risk assessment and earnings response ratio. Author argues that recently suggested financial management measures involving cash and assets management, liquidity ratios and turns do not directly imply accounting information quality, prior computed within applied accounting conservatism.

Keywords: *Accounting policies, accounting conservatism, COSO guide, income smoothening, Management analysis*

JEL: M40, M41, M42**1. INTRODUCTION**

Financial reporting quality trends in the last decade, bath accounting, income smoothening and sub-prime crises, embody key accounting relevance in detecting accounting information asymmetry reasons. On the one hand accounting information asymmetry is explained throughout discrepancies between free cash flows and business performance (firm's internal asymmetry), while on the other hand asymmetry is encountered while comparing earnings and financial instrument prices (capital market driven asymmetry).

First theories (initiated by Basu, 1996) deal with explaining accruals in assets and fair value measurement methods, grappling price-value discrepancies and potential loss and litigations recognition. Central reference thereby is made to bath accounting, or firms' management acting in recognizing inter annual higher earnings in initial periods against revenue corrections and litigations recognition in later stages. Incentives in postponing "bad news" against immediate recognition of "good news" appeal to management contracted remunerations based on presented earnings. While considering income smoothening and bath accounting, most authors operate with accounting conservatism as a measure presenting firm's ability and perception of conservative approaches towards predicting future cash

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flows. Accounting conservatism thereby aims at immediate recognition of potential latent losses and revenue corrections in the period where it is feasible to judge if revenue will lead to expected cash inflows against accounts receivables corrections and expenditure recognition in later period.

Accounting conservatism is later on expanded to seven possible scenarios (Ball & Kothari, 2007, Givoly and Hayn, 2000, Penman & Zhang, 2002).

Another example can be found in assets revaluation or inventories net realizable value recognition. These theories appeal to immediate financial and internal control analysis, embodied in accounting policies and estimates:

1. DT - Differential Timelines-Asymmetric Timelines of Earnings Measure, (Basu 1997),
2. AACF - Asymmetric Accruals to Cash flow Measure, (Ball & Shivakumar 2005)
3. BTM - Book to Market Ratio Measure
4. HR - Hidden Reserve Measure,
5. NA - Negative Accruals Measure,
6. APC - Accounting Policy Choices Measure.

APC method directly implies evidence on accounting conservatism in applied accounting policies and estimates, and is taken to present highest cause-effect ratio on explanatory basis. Measuring this way, accounting conservatism appeals to discretion in choices and mandatory valuations and as such is used in measuring convergence levels of different accounting standards (FASB US GAAP and IFRS for instance) and its implications on relevant balance positions. Implications can be found in 20F form for

foreign investors listed on US stock exchanges, their accounting principles and financial deviations caused in differences in reporting standards.

AACF measure implies accruals on free cash flows against short-term assets. Hidden reserves measure can be applied in explaining discrepancies in net realizable values against net accounting values. Other measures are mostly based on capital market prices against accounting earnings information asymmetry.

External accounting asymmetry recognition is based on capital market information, stock price and financial instrument market value against presented earnings and earnings forecast. Differential timelines measure is based on ERC, earnings response coefficient providing explanatory note to accountants acting in correcting earnings post festum, or reacting to bad news, i.e. stock prices fall trends, approaching future earnings with increased pessimism and conservatism. Negative accruals measure is based on Basu' measure, approaching timely asymmetry from the perspective that stock prices are influenced in presented earnings.

Disregarding theory to be chosen, this article aims at detecting management's perception on financial reporting quality embodied in an efficient system of internal controls. It is researched if and to what extent management applies accounting policies and estimates that ensure quality financial reporting modeled in specific environment of firm's acting. Special effort is directed to financial analysis against accounting policies correlation, application of non-financial indicators, external consultancy influence and accounting and information system integration.

In 2007 The International Federation of Accountants (IFAC) conducted survey yielded to 341 responses, aiming at figuring out the

results of changes in improving financial statements, in specific, their relevance, reliability and understandability, as well as at determining the future steps. The study resulted in lightening major movements and areas of concern in terms of financial reporting quality (IFAC 2008, p 28):

- Reduced usefulness due to complexity,
- Use of fair value,
- Focus by companies on compliance instead of reporting on the essence of the business,
- Regulatory disclosure overload,
- Difficult and often changing financial reporting standards and
- Lack of forward looking information.

IFAC conducted additional report (IFAC 2009, p 25) in compliance with the study among 74 member respondents in 59 different countries with the results among Business Reporting Project Group, in specific, in terms of usefulness of financial reports stating: “[...] *the usefulness of financial reports: insufficient reporting on non-financial indicators, risks, and sustainability performance; the unclear link between reporting and an organization's environment and strategy and its implementation; and the use of fair value measurements in current market circumstances. [...]*”.

Financial reporting quality in BIH, based on evidenced accounting policies and estimate choices are defined in implied IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors .32: *'As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. [...] For example, estimates may be required of: (a) bad debts, (b) inventory*

obsolescence, (c) the fair value of financial assets or financial liabilities, (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets, and (e) warranty obligations.' and ISA 540.15: *'For accounting estimates that give rise to significant risks, [...] the auditor shall evaluate the following: (a) How management has considered alternative assumptions or outcomes [...] or how management has otherwise addressed estimation uncertainty in making the accounting estimate. (b) Whether the significant assumptions used by management are reasonable. (c) Where relevant to the reasonableness of the significant assumptions used by management [...], management's intent to carry out specific courses of action and its ability to do so.'*

In that regard, COSO (Committee of sponsoring organization), issued a guide for internal control system in 2008, defining internal control as a process, initiated by management and other employees, designed to ensure reasonable assurance within goals achievement in the following categories: effectiveness and efficiency of operations, financial reporting reliability, consistence with applicable laws and regulations (COSO 2008, pp. 9). COSO guide can be used to describe relevant value chain within internal control system that establishes the relevant background for accounting policies and estimates. Goals are to be achieved by conduction of internal five component control system: monitoring, information and communication, risk and environment assessment. The integral framework foresees cyclic process of monitoring and risk assessment within temporary internal control system, employees' competences and established procedures taking into account relevant changes in potential and existing risks and issues recommendations on system improvement. Similarly, cyclic evaluation can be

found in BAS EN ISO 9001:2008 within continuous improvement based on PDCA approach (plan – do – check and act) as in strategic management.

Understanding and priority setting of organizational targets in detecting risks can be considered initiation in process approach. Corresponding risks in the next step are assessed against identified control and information that appeal to internal control system effectiveness. The following step comprises developing procedure in evaluating existing information. Referring to risk assessment and its implications in financial reporting, in accordance with afore mentioned recommendations, while preparing financial reports management should take into account business-driven information and align with internal reporting, assess all relevant risks, estimate predictive indicators for future realization of net cash flows (that is also a part of new fair value measurement system) and apply those on relevant balance positions. This paper investigates the existing methods determining estimates that ensure reasonable assurance on fair and true presentation of business performance and enterprise's position, as well as management capabilities and financial audit requirements in conducting relevant estimates.

2. COMPUTING VARIABLES

2.1. External expertise and auditor's role

Benston (2006) argues that limiting liabilities to auditor's role in preventing 'income smoothening', 'big bath accounting' and/or balance frauds in general, without risk assessment appropriately determined within accounting standards, leaves significant manipulation space for financial reports creators. Taking it into account, ISA 3400.6 determines: *'Prospective financial information can include financial statements of one or more elements of*

financial statements and may be prepared: [...] (b) for distribution to third parties in, for example: • A prospectus to provide potential investors with information about future expectations. • An annual report to provide information to shareholders, regulatory bodies and other interested parties. • A document for the information of lenders which may include, for example, cash flow forecasts. [...]'.

In accordance with recent changes in BIH accounting legislation and mandatory presentation of annual reports in enclosing risk assessment analysis, external auditors are facing new challenges in obtaining sufficient evidence confirming reasonable assurance for recognized risks and its implications on relevant balance positions. Some guidance might be found in ISA 315, A28. *'Examples of matters that the auditor may consider when obtaining an understanding of the entity's objectives, strategies and related business risks that may result in a risk of material misstatement of the financial statements include: Industry developments [...], New products and services [...], Expansion of the business [...], New accounting requirements [...], Regulatory requirements [...], Current and prospective financing requirements [...], Use of IT [...], The effects of implementing a strategy, particularly any effects that will lead to new accounting requirements [...]'.*

2.2. Analysis of financial indicators

Analysis of financial indicators comprises areas in liquidity, profitability and return ratios concerning inventories planning, turns, cost accounting management, business plan and achieved versus planned analysis, cash management, and returns.

Financial analysis is supposed to be used in order to enable relevant information creation as to certain balance positions, such as liquidity calculations and upon accounts

payable relevance or inventories turn over. Once indicators and financial trends imply cash gap increase, management can approach estimates in whether some inventories are set above net realizable value or segmenting accounts payable due to their chargeability.

Ratio analysis, as central financial tool, is often used to express firms' performance and position against benchmarked usual ratios in the market. As such, ratio analysis mostly deals with explaining accruals accounting and in particular deals with residual income or cash flow accruals. Penman (1997) presents the same outcome disregarding valuation model used. For the purpose of this research, financial indicators were set on cash flow accruals basis, due to undeveloped market of financial instruments in BiH. Cash flow analysis relates to operating position explaining accounting value creation and to recent changes in revised IAS 1 that proposes three-level approach to fair values prioritizing valuation at net expected cash incomes and outcomes for all assets and liabilities (Mrsa, 2010).

While researching applicable models, Asymmetric Accruals to Cash flow Measure (Ball & Schivakumar, 2005) as accounting conservatism measure is selected to be relevant method in conducting financial analysis explaining valuation under- and/or overestimations:

$$ACC_t = \beta_0 + \beta_1 DCFO_t + \beta_2 CFO_t + \beta_3 DCFO_t \times CFO_t + \varepsilon_t$$

whereby

ACC_t *accruals Δ Inventories + Δ Accounts receivable + Δ Other short-term assets - Δ Accounts payable - Δ Other short-term liabilities - Depreciation*

CFO_t *Cash flow in period t*

$DCFO_t$ *pending variable value 0 in case $CFO_t \geq 0$, or 1 in case $CFO_t < 0$*

It is known that financial indicators analysis is widely spread in practice (Viducic, 2008) and the most common control established in private commercial enterprises. Mean variable is set against implied accounting policies, enabling direct proposition of financial analysis and ratios in balance position judgments and managers' estimates.

2.3. Non-financial indicators

A considerable disadvantage of financial indicators lays in the lack of forward looking information and its prediction power. While accommodating accounting information to strategic focus, involving system risks and environment specifics, it is found necessary to introduce performance management system. Furthermore, traditional financial management and accounting as a whole, missed to measure relevant performance driven information.

As stated afore, IFAC 2009 foresees insufficient use of non-financial indicators, and it can be a complementary explanation to financial indicators used, especially in terms of expressing enterprise relevant environment, usual industry related charges, due payments, risks and litigations. Non-financial indicators are set using balanced scorecard map (Kaplan & Norton, 2006) by perspectives and included subjective perception on relevant significance level, developed in Likert scale, whereby 1 implies complete disagreement, 5 complete agreement and 3 no relevance. The main proposal appeals to underdeveloped usage of non-financial indicators in evaluating balance position.

NonFinAnalysis" variable is set as follows:

$$NFA = \text{Mean} (\alpha INF + \beta CP + \gamma CG + \delta CA + \varepsilon CM + \zeta R\&D) / 6$$

whereby

αINF level of internal communication (e.g. legal and accounting department)

βCP customer segmentation by profitability and income corrections

γCG cash gap and external short-term financing

δCA cost accounting and inventories adjustment

εCM cash management

$\zeta R\&D$ R&D management and development recognition (intangible assets)

Mean value is computed against level of accounting policies included enabling subjective perception evaluation against financial reporting quality.

2.4. ERP system integration

Enterprise Resource Planning (ERP) systems present accounting information system packages of different modules as human resource management, sales, finances, production etc. In the 1990s, ERP systems became a standard in multinational companies. The pre-requisite to successful ERP system integration is therefore in organizational business model development, involving but not limiting to recognition of business processes. Furthermore, business model bases are developed to process and sub-process interconnections. The model possesses dynamic character and passes through different stages, decision on reconciliation, procurement, implementation, usage and maintenance, evolution and saturation (Adam & O'Doherty, 2000). ERP is thereby meant to make financial reporting cycle more

efficient and to enable firm to quickly demonstrate accounting information [20] external users. Some authors argue that this system enables managers to have higher discretion in comprised accounting accruals. Developed modules function on principal of cross functional integration of organizational data included in business processes (Poston & Grabski, 2001).

ERP systems are expected to collect and disseminate timely information to managers and thus improve their ability to process and analyze accounting information (Hitt et al. 2002). Typical internal control system activities for preventing information time lags required that management conduct certain accounting adjustments at the end of the year. This is especially the case in external accounting offices and rare management – accountant communication. In that regard ERP system is to enable management to operationally use and modify accounting data immediately. In case accounting data is processed immediately, management has an increased ability to apply accounting conservatism with no time lags and correct earnings appropriately. Indirectly, this improves financial reporting, adding to shortening financial reporting cycle and lowering inherent risks.

Enterprise resource planning indicators were set four folded, including inventories resource management (standard costs, target inventories etc.) integrated within procurement and distribution department, finance resource planning, customers' relations and procurement system integration. It is proposed that system integration directly correlates to financial reporting information quality. ERP system uses similar business cycles as international standards on auditing and auditing goals: Completeness, Presentation

and Disclosure, Rights and Obligations, Existence.

In that regard an efficient ERP system foresees optimal internal control.

3. VARIABLE INTERDEPENDENCES – INTERNAL CONTROL SYSTEM

3.1. General overview by level of accounting policies implied

Independent variable AccPolicies is computed in consolidated applied accounting policies used by respondents. Accounting policies researched: revaluation accounts payable and reserves for open court cases (IAS 18), revaluation and fixed assets impairment (IAS 16, IAS 36, IAS 38, IAS 39, and IAS 40), reserves for contingent liabilities and future losses, revaluation of inventories to direct costing method (IAS 2), accounts payables & receivables confirmations on accounts payable and receivable (cut off), capacity utilization - assets amortization recognized in inventories (IAS 2), depreciation highest nontaxable vs. future economic benefits (IAS 2) and interest accrued - capitalization of interest on long-term liabilities.

Index range is $0.50 \leq \text{AccPolicies} \leq 1$, whereby 0.50 implies a total absence of management abilities to estimate uncertainties, and index nearing 1 indicates management awareness of business risks, estimates and satisfactory level of prediction power. Indirectly, it can be concluded that the quality of financial reporting is increasing. Many authors argue that higher level of critical accounting policy choices directly proves management prediction power and that it enables better 'cause-effect' accounting performance. Parallel to investigating critical accounting policy choices, survey aimed at measuring management accounting analysis intensity: inventories management, cost management, annual plan disclosures, receivables management, liquidity and working capital analysis, result to employee ratios.

Initial analysis is conducted approaching mean values of dependent variables (FinAnalysis, ERP, ManAcc and NonFinAnalysis) against independent variable mean growth (AccPolicies). It can be noticed that non-financial analysis presents the highest mean levels (i.e. importance), though with the lowest interdependency against independent variable.

Table 1. Variables mean values by independent variable AccPolicies

Report											
AccPolicies		Fin Analysis	ERP	ManAcc	NonFin Analysis	AccPolicies		Fin Analysis	ERP	ManAcc	NonFin Analysis
.50	Mean	.6308	.5567	.6250	.9798	.73	Mean	.8622	.8262	.8750	.9044
	N	20	20	20	20		N	22	22	22	22
	Stdev	.11999	.07849	.29802	.11783		Stdev.	.15495	.17839	.21478	.09546
.53	Mean	.6930	.6702	.7500	.9227	.80	Mean	.9821	.9212	.7386	.8555
	N	16	16	16	16		N	22	22	22	22
	Stdev	.13151	.17313	.30277	.08873		Stdev.	.06012	.16250	.29355	.05394
.57	Mean	.7833	.7583	.8333	.9380	.89	Mean	.9881	.8869	.8542	.8883
	N	24	24	24	24		N	12	12	12	12
	Stdev	.15956	.15844	.21703	.10049		Stdev.	.04124	.20535	.22508	.12900

Report											
AccPolicies		Fin Analysis	ERP	ManAcc	NonFin Analysis	AccPolicies		Fin Analysis	ERP	ManAcc	NonFin Analysis
.62	Mean	.7174	.8316	.7700	.9793	1.00	Mean	10.000	.9167	.8750	.8801
	N	25	25	25	25		N	6	6	6	6
	Stdev	.16426	.20532	.18985	.11901		Stdev.	.00000	.20412	.20917	.05560
.67	Mean	.8551	.8737	.8065	.9748	Total	Mean	.8167	.8007	.7851	.9339
	N	31	31	31	31		N	178	178	178	178
	Stdev	.14755	.16470	.26386	.14942		Stdev.	.17588	.19977	.25592	.11692

Source: author's calculations

Due to high discrepancies within dependent variables values, each value is verified against the correlation with independent variable.

3.2. Financial indicator analysis and accounting policies

Financial indicators are supposed to be a widespread discipline in verifying financial reporting, including ratios and trends. Correlation coefficient is used to measure to what extent financial indicators are used for accounting policies and estimates creation.

Table 2. Correlation FinAnalysis versus AccPolicies

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.621	.386	.383	.138
The independent variable is AccPolicies.			

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.115	1	2.115	110.763	.000
Residual	3.360	176	.019		
The independent variable is AccPolicies.					

Coefficients						
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
AccPolicies	.861	.082	.621		10.524	.000
(Constant)	.243	.055			4.390	.000

Source: author's calculations

Correlation β and Pearson coefficient r 0.621 imply relatively high interdependences between the level of financial analysis used and quality of accounting policies. It implies that most companies use financial indicators for management estimates.

3.3. ERP and accounting policies

As stated above, level of system integration and approach to business cycles as such (procurement, financing, selling etc.) is to directly correlate to financial reporting reliability.

Table 3. Correlation ERP versus AccPolicies

Model Summary				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
.445	.198	.193	.179	
The independent variable is AccPolicies.				

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.399	1	1.399	43.458	.000
Residual	5.665	176	.032		
Total	7.064	177			
The independent variable is AccPolicies.					

Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
AccPolicies	.700	.106	.445	6.592	.000
(Constant)	.334	.072		4.644	.000

Source: author's calculations

Surprisingly, ERP correlation to accounting policies and estimate quality is partially relevant and that implies prospective further development by using system integration towards financial reporting.

3.4. Managerial use of accounting data in creating accounting policies

Managerial use of accounting data in estimates is measured at its frequency level: daily, weekly, monthly, quarterly and annually.

Table 4. Correlation ManAcc versus AccPolicies

Model Summary				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
.150	.023	.017	.254	
The independent variable is AccPolicies.				

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	.262	1	.262	4.073	.045
Residual	11.331	176	.064		
Total	11.593	177			
The independent variable is AccPolicies.					

Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
AccPolicies	.303	.150	.150	2.018	.045
(Constant)	.583	.102		5.728	.000

Source: author's calculations

A low level of correlation to accounting policies and estimates ($r = 0.150$) can be explained in the way that management is not directly involved and/or competent to create accounting policies and conduct risk assessment within financial reporting. It implies possible weaknesses within internal control system, especially in terms of lack of management engagement.

3.5. Non-financial indicators and accounting policies

It is assumed that usage of non-financial indicators in financial reporting value chain presents the central weakness as in IFAC 2009 report. Enterprises were asked to provide subjective opinion on separate non-financial indicators relevance (using Likert 1-5 scale). Mean value amounting 4.6695 surprisingly shows significant recognition of non-financial indicators by private enterprises.

Table 5. Correlation NonFinAnalysis versus AccPolicies

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
.265	.070	.065	.113		
The independent variable is AccPolicies.					
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	.169	1	.169	13.240	.000
Residual	2.250	176	.013		
Total	2.419	177			
The independent variable is AccPolicies.					
Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
AccPolicies	-.244	.067	-.265	-3.639	.000
(Constant)	1.096	.045		24.156	.000

Source: author's calculations

However, Pearson coefficient 0.265 shows relatively low correlation to accounting policies level. It could be understood that enterprise management recognizes non-financial analysis relevance, but it is not sufficiently competent or lacks relevant guidance to apply it in creating policies and estimates.

4. VARIABLES INTERDEPENDENCES-EXTERNAL EXPERTISE

It is assumed that external expertise is relevant in financial reporting quality -

introduced ISO 9001:2008 standard in documentation flow and control, implemented code of corporate governance in establishing key stakeholders' within enterprise, reporting decision making and transparency and financial audit in terms of reflecting internal weaknesses. Primarily, it is investigated whether and to what extent, external audit influenced risk assessment disclosures and accounting policies improvement. It is suggested that four enterprises having corporate governance are also audited.

Table 6. Mean values external expertise to AccPolicies

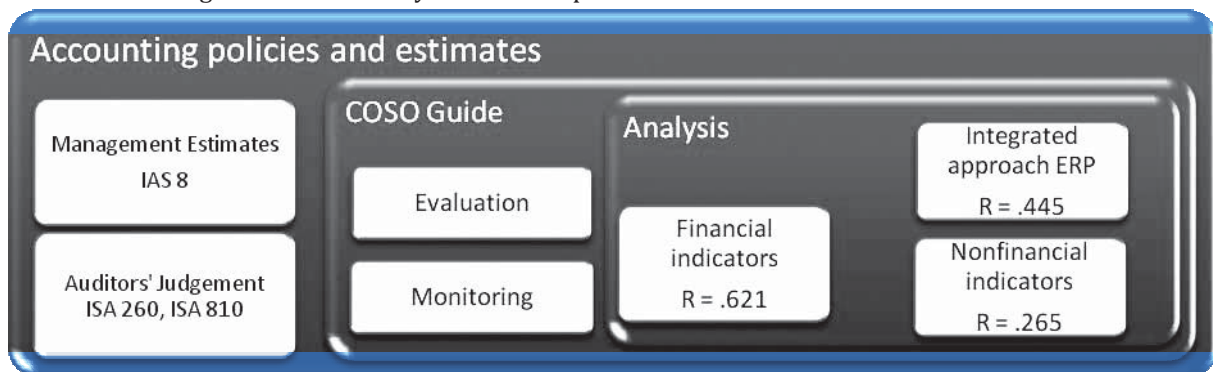
Report			
AccPolicies	Mean	N	Std. Deviation
Financial audit	.7239	77	.12398
ISO 9001	.6934	16	.12627
Corporate Governance	.7889	4	.09162
None	.5997	81	.09587
Total	.6661	178	.12699

Mean values of all external expertise against none show clear improvement in accounting policies. Corporate governance code and financial audit present slightly higher mean value comparing to ISO 9001:2008.

5. PROPOSED MODEL

Modeling financial reporting chain through accounting policy modifications foresees a multileveled approach to firm's business specifics, ensuring specifics are estimated within accounting policies created. The illustration below presents empirical evidence of financial analysis and accounting policies interdependences.

Chart 1. Modeling internal control system interdependences



Source: author's illustration

Ranking by relevance and preparing, process based approach models have the following flow: financial indicators including financial ratios with significant correlation, non-financial indicators explaining qualitative aspects of considered balance positions, analyzed data consolidation, trends development, evaluation and monitoring.

In addition to that, the third level imposes management estimates conducted based on

provided evaluations and trends. Loop and improvements are foreseen within auditor's role concerning ISA 260 and ISA 810 in judging management estimates relevance.

6. CONCLUSION

Improving financial reporting in information value chain enforcement is foreseen to be considerably influential in enabling optimal framework of monitoring and evaluation

procedures within internal control system. In addition to that, relevant matrix of non-financial and financial analysis and trends enables realistic estimates environment. It is presented in the proposed model. The assumptions based on relevant facts in BIH such as high illiquidity, slow and uncertain court cases, and weak consumption measurement, were used in proposing a set of relevant accounting policies. It is evidenced that firms' management uses on average three out of eight proposed critical accounting policies. In addition to that, only 1.4 out of seven management accounting techniques are used in risk assessment processes. It implied that management does not have sufficient capacity to obtain all business risks and that lowers quality of financial reporting.

It is proposed that inherent risk in BIH is rather low and auditors' opinion is affected to great extent in assessment of management estimates. It is evidenced that audited firms on average possess 22% higher sensibility towards uncertainty estimates.

Financial indicators are recently suggested to be relevant background for estimates. It is evidenced that financial analysis strongly correlates to level of applied accounting policies. Applicable theories appeal to numerous disadvantages in using explicitly financial indicators. Financial indicators are not a powerful tool for prediction of future earnings and do not necessary explain performance driven trends. For instance, revenue recognized and turnover of accounts receivable provide average values such as customers' average payment period. Still, if not segmented, bad and good customers and accounts receivables are used consolidated and that does not present relevant background for financial reports readers. On the other hand, indicators and theories such as customer profitability, segments customers

by their share in total recognized gross profits, their relevant ratings (in accordance with abilities and readiness in meeting debts in timely manner) etc. Still, relevant correlation between financial indicator application and accounting policies can be taken as satisfactory towards qualitative financial reporting.

Similarly, the level of information integration measured in enterprise resource planning is also seen to relate to financial reporting quality, especially in hedging inherent risks and balances confirmations. It is proposed that optimal information accounting system is integrated and involves intersectional and cross functional reconciliations. Reconciliations might be considered of extreme importance while valuating litigations and latent liabilities and loss against reserves recognition.

This paper provides evidence on the growing importance of non-financial indicators, previously not sufficiently articulated in domicile accounting profession, but strongly recommended by IFAC. Non-financial indicators are seen to be an unexceptional milestone in analyzing financial reports and accounting data. Non-financial indicators integration in analysis ensures explanation of: qualitative segments in balance positions, future earnings prediction, uncertainties embodied, conservatism applied in earnings disclosure, organizational development, investments not recognizable in tangible assets and hidden reserves in relevant assets positions.

Measured mean values of respondents perception at 4.6695 (whereby 5 is maximum value) and oppositely low Pearson correlation to accounting policies at 0.265, validates the conclusion that there is a need for creating a framework for non-financial indicator usage in financial reporting value chain.

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