

CONTROLLER INFO STUDIES II.



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Analysis of the information content of the notes on the accounts through the examples of enterprises carrying out different activities

Every business entity must provide a realistic image of its wealth, financial and income status within the annual accounts. The Accounting Act provides the background for this unified information provision system. In the case of 15 companies, the authors of present article examined and analysed the parts of the Accounting Act – amended as of January 1st, 2016 – regarding the information content of the notes on the accounts. The enterprises – providing simplified and normal annual accounts – involved in the analysis were selected by means of expert sampling, from the food retail, service and processing industries.

INTRODUCTION

The primary objective of the establishment and operation of business organisations is to maximize the wealth of owners, which can be achieved by increasing performance, creating value, increasing revenues and reducing costs and expenditures, the main requirement of which is knowledge. Accounting approached from one side is an internal information system, while observing it from another perspective its main task is to provide information towards external environment in accordance with the legal requirements. The Accounting Act defines bookkeeping and reporting obligations of entities to which it applies, the principles to be obligatory enforced during bookkeeping and the assembly of annual accounts, the rules that are built upon these principles, and obligations regarding publication, disclosure and auditing. These ensure that market participants are provided with reliable information that reflects a realistic image about the wealth situation, assets and liabilities and their changes, financial and profitability situation, and plans of the company. (Böcskei, 2014; Musinszki, 2016)

The main purpose of this study was to examine whether a crucial part of the published annual accounts, namely the notes on the accounts properly includes the data and information stipulated by the Accounting Act and which are required by the relevant external or internal actors, stakeholders.

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ACCOUNTING SYSTEM

Accounting can be defined in numerous ways; however, the most widespread definition is the following: “Accounting is an objective information system that monitors, measures, and systematically records economic transactions” (Kozma, 2001). The primary task of accounting is to continuously keep track of the changes in the financial and income situation of businesses during the given financial year and to monitor, measure and record the economic processes taking place at the business entities by means of a specific toolset. (Tóthné, 2012). Additionally, accounting can be interpreted as an information system based on a specific methodology, which is also a tool of information and an activity requiring special knowledge (Sztanó, 2013).

CHANGES IN THE ACCOUNTING ACT

Besides the numerical data of balance sheet and profit and loss account which are published as part of the annual accounts, the data required for the evaluation and comparison of enterprises based on annual reports as well as for investments are provided by the notes on the accounts which include textual information as well. The Accounting Act defines the compulsory data content of the notes on the accounts; however, this cannot be uniformly indicated therefore many companies do not provide properly detailed information to market participants. The reason for the actuality of the topic is that due to the amendment of the Accounting Act on January 1st, 2016, sections regarding the obligatory content of the notes on the accounts have also been modified.

The following major changes occurred as of the 1st January 2016:

- Limiting value concerning the provision of the simplified annual accounts and the consolidated annual accounts
- Decision concerning dividends and payment of dividends
- Accounting management of goodwill
- Changes in the form of balance sheet and profit and loss account, extraordinary profit or loss, termination of balance sheet earnings, definition of non-independent parties
- Changes to the notes on the accounts
- Modification of the auditor’s report (Homor, 2016)

PURPOSE AND STRUCTURE OF THE NOTES ON THE ACCOUNTS

Beyond the balance sheet and the profit and loss account, the notes on the accounts is an obligatory, supplementary, explanatory and evaluative component of the annual accounts, the simplified annual accounts and the consolidated annual accounts. For the examination of the annual accounts, well-assembled notes on the accounts are essential for external actors (Böcskei et al., 2015a). Thus, the notes on the accounts is an indispensable tool for compiling a reliable and true overall picture of an enterprise, therefore it contains numerous textual explanations in addition to numerical data. Part

of the information contained in the notes on the accounts is based on legal regulations, while the other part depends on the specific nature of the enterprise. It is important that it includes relevant information for owners, investors and creditors to provide a reliable and realistic image of the wealth, financial and profitability situation of the company (Roth et al. , 2008).

The detail of the information contained in the notes on the accounts of different annual accounts is not the same (Fenyves et al., 2015). While the notes on the annual accounts is detailed, as its compulsory content is stipulated by the Accounting Act and it also includes the cash-flow report, notes on the simplified annual accounts is less detailed, more vague and its source of information is limited (Kardos, 2009).

The change of the Accounting Act in 2016 also increased the role of the notes on the accounts; therefore, business entities are required to provide information that is more detailed. General supplements to the notes on the accounts prepared for the financial year of 2016 shall include the following:

- Amount and nature of revenue, costs and expenditures of exceptional size or occurrence as defined in the accounting policy.
- Average statistical number of staff, wage costs, other staff-related expenses and wage contributions of staff employed only during the financial year in question, broken down to groups.
- Data and explanations related to the balance sheet and profit and loss account in the order in which the items appear within the balance sheet and profit and loss account.
- Items related to capital operations, transformation, mergers, and divisions, regardless of the ceiling. (Sallai, 2016)

General content elements are listed in the Accounting Act from Sections 88 to 90, which are among others – the following items:

- In addition to the textual explanations necessary for the presentation of a reliable and realistic picture, information required for specific activities, as required by other legislation.
- Assessment of the wealth, financial and profitability situation of the company.
- Key elements of accounting policy, their changes and the impact of these changes on financial results.
- The system of rules applied to compile the annual accounts.
- Applied appraisal procedures and information related to the accounting process of depreciation.
- The impact of significant errors detected during the audit in an annual breakdown.
- Indication to statutory audit, auditing fee, other fees.
- Details of the person responsible for managing the bookkeeping service.
- Company seat and internet address of the entrepreneur.
- Value of subordinated assets broken down by legal title.

notes on the accounts is based on legal regulation. The name and company seat of any business entity that is or is jointly controlled by the subsidiary of the enterprise or is an associate or are in any other shared relationship with each other.

Health, financial and profitability situation. Relevant data on foreign company premises broken down by premises (Jogtár, 2017)

mentioned in the notes on the accounts of the company: the amount due for the activities for the business year of executive officers, the members of the board of directors and members of the supervisory board.

Compulsory content is stipulated by the Accounting Act: amount of retirement obligation towards senior executive officers, members of the board of directors or supervisory board.

In the simplified annual report, notes on the simplified annual accounts and its source of information is limited (Kármán and residence of the person signing the annual accounts and being the authorised representative of the company).

Notes on the average statistical number of staff, salaries and other personal payments of employees of the current financial year.

Since 2016 also increased the role of the notes on the accounts. Companies are required to provide information that is not included in the notes on the accounts prepared for the first time.

Additional requirements of additional data regarding the balance sheet are the following:

1. Premised indication and justification of non-comparable data.

2. Demonstration of the numerical impact of changes due to classifications and assessments.

3. Justification of the change of balance sheet format.

4. Contents of new balance sheet items and introduction of the reasons for separation.

5. Details of combined balance sheet items and reasons for their combination.

6. Detailed explanation of factors causing permanent change and their quantified impact.

7. Description of differences arising from the evaluation of the deviation from the general rule of foreign exchange assets and liabilities if they are of significant impact. (Róth et al., 2008)

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- In the case of a profit and loss account classified of expenses by function, the details of the value of capitalised own performance, expenses broken down by nature, with sufficient detail and value data recorded in the closed system of double entry bookkeeping.
- Off-balance-sheet items detailed by the amount of contingencies and commitments, as well as the details of futures, options and swap transactions, which are presented in Table 3. (Jogtár, 2017)

New requirements related to the specific part of the notes on the accounts related to the profit and loss account are the following:

- Recommendation for the use of after-tax profits, regardless of what is approved by the shareholders at a general/member meeting that accepts the annual accounts.
- Amounts that are modifying items for the calculation of corporate income tax due to valuation and if it is temporary, its future effect.
- The significant, quantified effect of significant amount of other income and expenses as well as income and expense of financial transactions on corporate income tax.
- Significant items of the costs of purchased services by title. (Orbán, 2016)
- Amounts accounted against affiliated entities, parent company and subsidiaries from the items of net sales revenue, other income and deferred income included by other income and income of financial transactions. (Sallai, 2016)

MATERIAL AND METHOD

In the scope of the research, 15 enterprises have been selected, which carried out information technology services, food retail and food processing activities (5-5-5). Residences of the selected companies are located in the North Great Plain Region. Amongst the examined companies, 7 prepare annual accounts while 8 of them prepare simplified annual accounts. Their annual accounts for 2016 were accessed via the Electronic Accounts Portal. We attempted to find answers to the questions set as an aim of present study by means of the processing and analysis of these accounts. Namely, whether the notes on the accounts properly fulfil its task due to which it is being published, whether it includes every information which reflects a reliable and realistic image of the company, and whether the information requirements of external parties are adequately met.

RESULTS

As already mentioned previously, enterprises have been divided into two large groups. One of them includes the companies publishing simplified annual accounts while the other includes enterprises, which prepare annual accounts. *Table 1* contains the main figures of the eight economic entities preparing simplified annual accounts including the data of net sales revenue, after-tax profit and balance sheet total

of expenses by function, the expenses broken down by nature in the closed system of double-

of contingencies and commitment swap transactions, which are

notes on the accounts related to

regardless of what is approved by the company, it accepts the annual accounts. The amount of corporate income tax due

amount of other income and expenses on transactions on corporate in-

by title. (Orbán, 2016)

parent company and subsidiaries and deferred income included in the accounts. (Sallai, 2016)

been selected, which carried out food processing activities (5-5-5). The North Great Plain Region. 1 accounts while 8 of them prepared for 2016 were accessed via the answers to the questions set as an aim of the analysis of these accounts. Namely, the task due to which it is being carried out reflects a reliable and realistic requirements of external parties

been we divided into two large groups: simplified annual accounts and annual accounts. Table 1 contains examples of simplified annual accounts, profit and balance sheet total

Table 1: Main data of enterprises preparing simplified annual accounts

Company name	Net sales revenue (thousand HUF)	After-tax profit (thousand HUF)	Balance sheet total (thousand HUF)
TUX Ltd.	296,267	3,687	144,666
OZEKI Ltd.	132,497	51,754	127,823
WEB-SERVER Ltd.	83,967	7,632	83,069
UnicoopDrink Ltd.	58,614	274	25,671
GLOBAL SOFTWARE Ltd.	31,925	6,621	36,917
LANSOFT Ltd.	7,200	19,179	77,423
„Szatmár Sütő” Ltd.	1,417	595	13,170
HÚS-TEAM Ltd.	120	48	13,579

Source: Own editing based on the annual accounts

As for their scope of activity, four of these companies carry out information technology services, while retail and processing industry activities are carried out by 2-2 companies.

Table 2: Main data of enterprises preparing annual accounts

Company name	Net sales revenue (thousand HUF)	After-tax profit (thousand HUF)	Balance sheet total (thousand HUF)
IT Services Hungary Ltd.	55,088,647	2,163,588	21,764,076
MASTER GOOD Termelő és Kiskereskedelmi Ltd.	45,968,038	1,057,538	25,077,185
Hajdú Coop cPlc.	5,108,067	129,531	1,858,760
AGRI-CORN Malomipari és Gabonaforgalmazó Ltd.	2,485,473	70,731	6,429,736
Zsáka Coop cPlc.	820,313	1 313	284,933
Balmaz Coop cPlc.	626,287	-1,490	307,208
ABO MIX takarmányipari cPlc.	166,002	20,826	1,010,561

Source: Own editing based on the annual accounts

Table 2 shows the most important items of companies preparing annual accounts. One of the companies dealing with information technology service produces annual accounts, while in the case of companies with processing industry and retail activities 3-3 are included in our sample.

In the course of the analysis of the notes on the accounts, we collected all the items that are stipulated for enterprises by the Accounting Act in order for them to present a reliable and realistic image. Our intention was to compare the lines of the notes on the accounts of the companies to legal requirements. The main emphasis was placed on the presentation of items not included by the notes on the accounts and deficiencies. Problems have arisen in the case of both groups (companies preparing annual accounts and simplified annual accounts) regarding the inadequate detail of their notes on the accounts.

DEFICIENCIES RELATED TO THE PUBLICATION OF GENERAL INFORMATION

The first major part of the notes on the accounts are general information and characteristics about the given company. The following items can be highlighted for the analysed 15 companies, where significant deficiencies have been detected:

1. The total amount of remuneration payable for the financial year to the executive officers, members of the board of directors and the supervisory board, the amount of advances and loans disbursed, the guarantees given on their behalf, and the total pension liability for the former members accumulated by groups.
2. The key elements of accounting policy, their significant changes and their impact on profits. Form of the annual accounts, balance sheet, profit and loss account, and reporting period. Different employee evaluation procedures, depreciation, impairment, value adjustments.
3. The name and address of authorised representative of the company.
4. Name and main details of the accountant / auditor.

Table 3: Deficiencies related to general information

Name	Notes on the simplified annual accounts	Notes on the annual accounts
Item 1	7	4
Item 2	3	0
Item 3	6	1
Item 4	4	1

Source: Own editing

Table 3 shows the deficiencies of the items mentioned above in the scope of the analysed companies. It can be seen that the notes on the accounts, which was analysed as part of the simplified annual accounts does not present much more elements in the general section. The biggest problems in both groups are related to the first item; they were completely out of compliance with the Accounting Act, while in the case of the second item, the most important problems occurred in relation with the indication and presentation of value adjustment of smaller companies.

DEFICIENCIES RELATED TO THE PUBLICATION OF OTHER DATA OF INFORMATIVE NATURE

Problems occurred in relation with other information and evaluations in the case of the following items:

1. Analysis of the real wealth, financial and income situation.
2. Derivation of after-tax profit, presentation of modifying items.
3. Recommendation for the utilisation of after-tax profit.
4. Tangible assets related to environmental protection, hazardous waste, liabilities, provisions.
5. Average statistical number of staff employed, wage costs and contributions per group.

INFORMATION

general information and characteristics can be highlighted for the cases that have been detected:

financial year to the executive supervisory board, the amount given on their behalf, and the accumulated by groups.

significant changes and their impact on the balance sheet, profit and loss account, and the accounting procedures, depreciation,

value of the company.

Additional information

	Notes on the annual accounts
	4
	0
	1
	1

mentioned above in the scope of the analysed accounts, which was analysed as follows: present much more elements in the notes than are related to the first item; they are related to the Accounting Act, while in the case of the analysed companies, in relation with the indication and the companies.

DEFICIENCIES OF INFORMATIVE NATURE

analysis and evaluations in the case of the analysed companies.

financial situation.

modifying items.

tax profit.

depreciation, hazardous waste, liabilities.

costs, wage costs and contributions per employee.

It is very important to analyse the wealth, financial and income situation, which was more or less done by every company. However, the underlying content of the index numbers, the significant changes in balance sheet and profit and loss account items and their reasons should be highlighted here with special emphasis. Smaller companies do not carry out this at all, while companies preparing annual accounts do this only partly. As part of the amendment of 2016, after-tax profit became the final line of the profit and loss account. Therefore, there is no line for approved dividend, share. Thus, paid and received dividends must be accounted in the year of the decision; which are deducted from the after-tax profit. As a result, we can only provide information on the payment of dividends in the notes on the accounts. In the analysed sample, suggestions for deriving and using after-tax profit show a large number of deficiencies in the case of companies preparing simplified annual accounts and 40% of the enterprises with annual accounts do not comply with this obligation (Table 4).

Table 4: Deficiencies of other data of informative nature

Name	Notes on the simplified annual accounts	Notes on the annual accounts
Item 1	3	1
Item 2	5	2
Item 3	8	3
Item 4	1	1
Item 5	4	3

Source: Own editing

In the case of the last item, approximately 50-50% of both groups comply fully with the provisions related to the employed staff. It is important to note that the cash-flow statement is a mandatory component of the notes on the annual accounts and it has not been prepared by 2 of the 7 analysed companies.

DEFICIENCIES RELATED TO THE PUBLICATION OF THE BALANCE SHEET

According to the stipulations of the Accounting Act, the various items relating to the balance sheet and the profit and loss account must be presented in notes on the accounts in the order in which they are included in the balance sheet and profit and loss account. Consequently, we first evaluated the publication requirements related to the balance sheet, in particular its assets side has been introduced first.

1. Assets analysis of intangible assets, tangible assets, investment chart
2. Assets analysis of the planned depreciation of intangible assets and tangible assets.
3. Assets analysis of the accelerated depreciation of intangible assets and tangible assets.
4. Assets analysis of value adjustment by title
5. Evaluation of stocks.
6. Development of significant amount prepayment and accrued income as well as accruals and deferred income.

Table 5: Deficiencies related to the assets side of the balance sheet

Name	Notes on the simplified annual accounts	Notes on the annual accounts
Item 1	6	0
Item 2	6	1
Item 3	4	3
Item 4	6	2
Item 5	4	4
Item 6	4	2

Source: Own editing

Companies are obliged to publish numerous information related to intangible assets and tangible assets, which are included by fixed assets. Such information are the introduction of their assets analyses, planned depreciation and accelerated depreciation as well as value adjustment. *Table 5* perfectly illustrates that similarly to general information and informative data, in this case mostly companies preparing simplified annual accounts are the ones that do not meet the requirements of the Accounting Act. Examining current assets, we considered the stocks the most important to be highlighted. Observing the balance sheet, stocks were included in 4-4 businesses for the 2016 financial year, but no relevant information about them were included in their notes on the accounts. In addition, the last item in the table is accruals. Regarding them, it can be said that there were 4 enterprises in the case of smaller companies, and 2 amongst the larger ones that had accruals in the given financial year but did not publish anything related to them.

Following the examination of the assets side, the next is other side of the balance sheet, requirements related to liabilities:

1. Changes in the elements of equity during the financial year and the causes of these changes
2. Presentation of committed reserves broken down by title.
3. Establishment of provisions and its utilisation by title.
4. Liabilities secured with right of pledge or similar right of more than five years.

Table 6: Deficiencies related to the liabilities side of the balance sheet

Name	Notes on the simplified annual accounts	Notes on the annual accounts
Item 1	5	6
Item 2	4	2
Item 3	8	0
Item 4	8	1

Source: Own editing

Examining the liabilities side of the balance sheet (*Table 6*), it can be established that the ratio of deficiencies between the two groups has not changed. The change in terms of equity components is to be highlighted from amongst the items, since the least amount of information is published here in the case of both annual accounts types. This is a considerable problem, since the proper size of equity is essential for a stable

of the balance sheet

Notes on the annual accounts
0
1
3
2
4
2

on related to intangible assets
such information are the intro-
nd accelerated depreciation as
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t important to be highlighted.
4 businesses for the 2016 finan-
included in their notes on the
als. Regarding them, it can be
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r but did not publish anything

ext is other side of the balance

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right of more than five years.

de of the balance sheet

Notes on the annual accounts
6
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1

able 6), it can be established that
not changed. The change in terms
longst the items, since the least
e of both annual accounts types.
of equity is essential for a stable

situation of an enterprise; therefore, it is indispensable to present this as well. Observing the rest of the items, we found that the notes on the annual accounts almost fully complies with the Accounting Act, while given items are not mentioned at all in the case of the notes on the simplified annual accounts.

DEFICIENCIES RELATED TO THE PUBLICATION OF THE PROFIT AND LOSS ACCOUNT

Finally, the last part of the annual accounts is the profit and loss account and the related publishing obligations, explanations that are typical of the companies and are stipulated by the Accounting Act:

1. Net revenue of sales in main activity breakdown, if the activities are significantly different from each other.
2. Revenue of export sales broken down by product/service export.
3. Cost of research and experimental development in the current financial year.
4. Significant items of purchased services.

Table 7: Deficiencies related to the liabilities side of the profit and loss account

Name	Notes on the simplified annual accounts	Notes on the annual accounts
Item 1	8	2
Item 2	7	5
Item 3	6	0
Item 4	8	2

Source: Own editing

There is quite a large difference regarding the publishing deficiencies of the profit and loss account of simplified annual accounts and annual accounts during the analysed period, as more than three-quarters of the businesses have not presented them correctly in their notes on the accounts in terms of each analysed item. All of this is illustrated in Table 7. It is important to highlight the presentation of the last item – purchased services – as one third of the involved companies deal with information technology service, where the highest proportion of costs and expenditures are supposed to be purchased services used. 4 of the 5 analysed companies prepare simplified annual accounts, therefore none of them presented these items in their notes on the accounts.

CONCLUSIONS, SUGGESTIONS

It can be established regarding the 15 analysed enterprises, that they have been able to adapt more or less to the amendments of the Accounting Act that took effect as January 1st, 2016. The lines of the balance sheet and the profit and loss account which are integral parts of the annual accounts include these changes all over them, however there are a number of deficiencies in terms of the provisions related to the notes on the accounts. This is true for both types of companies in terms of their practice of preparing their annual accounts. However, the balance in the case of the analysed companies is tipped towards the ones preparing simplified annual accounts. One of the key ob-

jectives of the amendment was to expand the mandatory elements of the notes on the accounts in order to increase its information content. This objective has so far not been fully achieved.

We have four suggestions regarding the analysed issues:

- 1) There is no unified template for the notes on the accounts; therefore, each enterprise prepares it with the help of the software that is generally utilised by them. Consequently, every notes on the accounts is different in terms of content and structure. This raises difficulties in terms of their comparability and transparency. We suggest setting up a single, unified software for the preparation of the notes on the accounts. It should specify the items requiring the disclosure of negative information.
- 2) The companies should be urged by means of more frequent, comprehensive audits, to meet the criteria of the Accounting Act in terms of the preparation of their notes on their accounts. Such inspections could even be carried out randomly by the Hungarian Competition Authority. Larger companies are usually obliged to have audits; they work with an integrated corporate governance system, operate a controlling unit or carry out controlling activities, which allows more possibility for supervision, and a simpler and faster way of providing information towards the internal stakeholders. This does not exist in the case of small businesses. However, the notes on the accounts is intended to provide specific information, which is not included in the balance sheet and profit and loss account towards the external stakeholders. Currently there are only a few legal provisions for the detailed elaboration of this and practice shows the same. As long as there is no legal consequence for a particular company, which provides its notes on the accounts improperly, we cannot expect it to improve, unless it has specific interest in it.
- 3) For this reason, it is important for us to promote a change of attitude among enterprises, namely that the detailed and realistic presentation of the notes of the accounts is not just an additional burden to them, but its company-specific, sufficiently detailed preparation is as essential tool for the fulfilment of the requirements of external stakeholders and investors. Therefore, although indirectly, it also has an impact on the competitiveness of the given company.
- 4) Finally, we suggest that the term "significant amount" receives a more accurate legal definition and it would be of the utmost importance for servicing companies to specify the items of the costs of purchased services by title, irrespective of the type of the annual accounts.

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andatory elements of the notes on the accounts. This objective has so far not been achieved.

and issues:

the accounts; therefore, each enterprise that is generally utilised by them is different in terms of content and their comparability and transparency are for the preparation of the notes requiring the disclosure of negative

of more frequent, comprehensive and in terms of the preparation of the notes could even be carried out randomly by larger companies are usually obliged to incorporate governance system, operating activities, which allows more possibility of providing information towards the public. In the case of small businesses, they are obliged to provide specific information on profit and loss account towards the public. Only a few legal provisions for the disclosure of the same. As long as there is no legal requirement, each enterprise provides its notes on the accounts on the basis of its own choice, unless it has specific interest in it. This does not mean a change of attitude among enterprises towards the presentation of the notes of the accounts, but its company-specific, subjective approach to the fulfilment of the requirements. Therefore, although indirectly, the information content of the given company.

the "net amount" receives a more accurate and more important importance for servicing companies and their services by title, irrespective of the

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