

Sector analysis of the Notes in Northern Great Plain region's enterprises

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.

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.

Accounting system

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).

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., 2015). 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 (Róth 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).

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 fulfils 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 we divided into two large groups. One of them includes the companies publishing simplified annual accounts, while the other includes enterprises, which prepare annual accounts. As for their scope of activity, four of enterprises preparing simplified annual accounts carry out information technology services, while retail and processing industry activities are carried out by 2-2 companies. 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 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 1: 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 1 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.

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.

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. In 2016, 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.

Table 2: 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

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 2*). 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

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 3 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.

Table 3: 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

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 4: 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 4*), 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 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

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 5: 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 5*. 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 objectives 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 two 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.

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