Novi Ekonomist
Vol 11(1), Year XI, Issue 21, january - june 2017.
ISSN 1840-2313 (Print) 2566-333X (Online)
DOI: 10.7251/NOE1721057M

Submitted: 07.06.2017.
Accepted: 30.06.2017.
Review paper
UDK: 330.341:005.915

HARMONIZATION OF FINANCIAL REPORTING AS A CATALYZER OF ECONOMY GROWTH

Prof. Dragan J. Mikerević, PhD
Full professor at the Faculty of Economics
University of Banja Luka

Paper presented at the 5th International Scientific Symposium „EkonBiz: Development trends and changes in new economy of the countries in transition“, Bijeljina, 22-23rd June 2017

Abstract: *In the conditions of the new economy, there is a need for harmonization and improvement of financial reporting. The new concept of business and corporate governance in the context of sustainability implies a number of changes, among which we highlight the changes in business priorities and the adoption of the corporate social responsibility concept. In such business conditions, the design of the existing traditional financial reporting model can not fully respond to challenges related to the realistic assessment of the economic and social value of the company. When it comes to reporting on sustainable business, the comprehensive and the most widespread guide for the report compiling on a global level are the guidelines adopted by the Global Reporting Initiative (GRI). Efficient financial markets are an important factor of economic growth, and in order for these markets to be efficient, there is a need for reliable, relevant, comparable and understandable information. In addition, there are two concepts in the world of finance: IAS / IFRS and US GAAP, among which there are similarities and differences that are primarily conceptual. Within the region of the Western Balkans there are certain accounting solutions that are not in line with IAS / IFRS or EU directives, which makes comparing regional economies difficult.*

Keywords: *harmonization, financial reports, international standards, IAS/IFRS, US GAAP, sustainable business report.*

INTRODUCTION

In contemporary business environment, characterized by rapid information exchange, the implementation of information and telecommunication technologies in the decision-making process, as well as the mobility of knowledge, capital, products and services, the accounting profession must develop and adapt in continuously. The main purpose of compiling and disclosing financial statements is to inform various stakeholdersthus enabling them to make appropriate decisions. The harmonization of financial reporting implies incorporating all positive experiences and theoretical achievements in countries with an accounting tradition into national regulations. Global processes and institutions, especially in the markets of goods and services and financial markets, have been trying to harmonize financial reporting rules for years. Emergence of large financial scandals (Enron, Parmalat and others) contributed to these tendencies, which were typical examples of fraud in order to impose interest of one group of stakeholders over the other and over the public interest. But not only that, changes in the structure of the economy that led to the growth of the share of knowledge-based economy have opened up the problem of reporting on intellectual capital. The new concept of business and corporate governance in the context of business sustainability also implies a number of changes, from changing business priorities to the adoption of the concept of corporate social responsibility. In such business conditions, the design of existing, traditional financial reporting model can not fully respond to challenges related to the real assessment of the economic and social value of the company. When it comes to reporting on sustainable business, the comprehensive and the most widespread guide to the compilation of this report on a global level are the guidelines adopted by the Global Reporting Initiative. The process of change also affected developed countries with a rich accounting

tradition, as well as developing countries and countries in transition that do not possess real capacity for developing their specific national regulations, which would be a completely irrational process, since these regulations would certainly have to be harmonized with the international ones. The harmonization of financial reporting should also be seen as a process in which state institutions lose some of their absolute sovereignty, leaving themselves to international professional bodies. Therefore, the orientation to the International Financial Reporting Standards is a valid process, which should preserve the public interest and practice from the influence of different stakeholders. This orientation to global accounting standards is publicly supported by various international institutions: the G20, the World Bank, the International Monetary Fund, the Basel Committee, the International Organization of Securities Commissions and the International Federation of Accountants (IFAC). There is no doubt that comparable financial statements, which are understandable for investors, based on the same rules, reduce the costs of their preparation, while increasing the transparency of the processes in the financial markets and reducing the risk for investors in making their business decisions. Characteristic for all Western Balkan countries, which are in the process of joining the European Union, is that, in addition to normalizing professional and legislative accounting regulations with the IAS/IFRS, they are also obliged to harmonize their national legislation with the acquis communautaire - EU Directives, and in particular Directive 2013 / 34 / EU, which replaced the Fourth and Seventh Directives. Although the equalization process is also present globally between the European Union's IAS/IFRS Directive, there are differences between these two regulatory frameworks, which naturally complicates the harmonization of national regulations.

A similar case is with the problems of harmonizing IAS / MSFIs and GAAPs globally, which complicates accounting practice and requires additional knowledge and skills in order to respond to public-interest protection requirements.

1. Accounting Frameworks for Financial Reporting

The process of harmonization of financial reporting has crossed national borders long time ago, primarily due to the development of financial markets within national and regional economies, and then the development of the global financial market, which necessitated the need for standardization and harmonization of financial reporting.

In the world of finance, there are two accounting frameworks for financial reporting, and they are based on:

- International Accounting Standards and International Financial Reporting Standards (IAS / IFRS),
- US Generally Accepted Accounting Standards (USGAAP).

It seems interesting here to point out the similarities and differences between US GAAP and International Financial Reporting Standards (IFRS). International Financial Reporting Standards, which are applied (compulsory or voluntary) in more than 130 countries and US generally accepted accounting principles, which form the basis for financial reporting of companies in the world's most powerful economy, are similar in many ways, which makes their convergencepossible. Similarities are based on the circumstances that the conceptual frames which they are built on are very similar. They contain the same financial reporting objectives, the same assumptions - business continuity and accounting basis, prescribe the same characteristics of financial statements as well as almost the same basic financial statements.

The fundamental difference between US GAAP and IFRS is at the conceptual level. US GAAP is based on **rules**, while IFRS are built on **principles**. Basing US GAAP on the rules does not mean that FASB does not use the principles in their formulation, but only that the rules play a major role in implementing the standards. They try to anticipate all problems, or most of them, and to propose appropriate accounting solutions in this regard, which would later be resolved in a similar way if they were repeated. As a result, the US GAAP contains about 17,000 pages. Hence, US GAAP is often referred to as a set of accounting guides and procedures used by companies in the preparation of financial statements.

International Financial Reporting Standards have been built on the basic assumptions and rules contained in the conceptual framework in order to ensure that the users of the financial statements receive timely reliable, relevant, understandable, comparable and verifiable information. They are presented on around 2,500 pages.

When it comes to IFRS, since they are based on principles, there might be various interpretations of similar transactions. For this reason, there are guidelines for the application of standards published by the International Financial Reporting Standards Committee, which clarify possible

unclear areas of application. Although the International Accounting Standards Board (IASB) and the Financial Acccounting Standards Board (FASB) have made efforts to bring these accounting frameworks closer together and reduce differences in the last decade of the 20th century, they are still present. Thus, for example, IAS / IFRS are still not permitted by the SEC (the US Securities and Exchange Commission), but they are studied at US colleges in puprose of examining the underlying differences between IAS / IFRS and US GAAP, and their various effects on the financial statements.Insisting on these differences seems to be linked to the fate of Transatlantic Trade and Investment Partnership (TTIP) negotiations between the European Union and the United States. This proposed agreement on the establishment of a free duty zone from Hawaii to Latvia of about 850 million inhabitants should have lead to the abolition of customs duties on goods and restriction of services, enabling better access to public markets and thus making investment easier. In order to establish a new model of cooperation in the global market, fifteen rounds of talks have so far been held, so that the 11th round of negotiations on harmonization of industry standards and investment rules was held in Miami on October 19, 2015, and after that harmonization reaching a higher level of harmonization between the IASB and the FASB regarding the approximation of the accounting frameworks should have been natural, but it did not happen. While advocates of the conclusion of this agreement argue that this would result in multilateral economic growth, critics of this agreement argue that it would disproportionately increase the power of corporations and thus make it difficult for governments to regulate national markets for the purpose of general (public) benefits.The biggest stumbling block about this agreement is the establishment of the so-called ISDS (Investor state dispute settlement - Dispute resolution program between the investor and the state) system that would allow multinational companies to bypass local judicial institutions and even challenge laws, rules and court rulings of sovereign states in international arbitration commissions if they have a negative impact on their profits. Thus, in such cases, investors would be able to obtain compensation for loss of expected profits if that loss arises due to a new commercial law regulation, even if it is for the purpose of protecting human health. These provisions are not exactly accidentally copied from the trade agreement US recently concluded with 11 Pacific countries.

Through this agreement, the United States implemented an economic equivalent of the strategy of "curbing" the military expansion of the Soviet Union during the Cold War. This time, the goal was to limit the economic expansion of China, generally allowed to access the Pacific pact, but essentially disabled by US standards of the liberalized market and the protection of workers' rights and the environment.In this way, Washington has succeeded in slowing down China's economic ties with natural partners in the surrounding countries. However, Beijing does not stand still either because it is preparing to enter economically and thus politically enter the field where the United States has so far been inviolable, which is the Middle East. It is expected that the free trade agreement between China and the six Gulf States (Saudi Arabia, United Arab Emirates, Bahrain, Qatar, Kuwait and Oman) will be concluded. Some signed agreements for individual countries and continents already "produce" negative consequences.

For example, tobacco company "Philip Morris" has sued Australia for having legally imposed duty to place a warning about the harmful effects of smoking on cigarette boxes and to ban the use of the logo of cigarette brands. A similar fate has also happened to Uruguay, so Canada, faced with the threat of similar process,abandoned the plans for introducing similar warnings on cigarette boxes, which are, for example, quite common in Europe.

In this regard, Norbert Lamert, President of the Bundestag, expressed his opinion in October 2015 that prior to any decision all relevant documents, in particular the results of the negotiation process, should be made available to the governments and parliaments of all EU members, adding that the members of the German Parliament can read about this only at one of the embassies in Berlin for now, while protests against this have already taken place on Berlin's streets. Some German commentators have warned that TTIP is a political, not an economic problem, whereas, according to Spiegel's commentary and Fraitag's editor Jakob Agustain, TTIP suffers from "disease rooted in bureaucracy and ideology called neoliberalism", which can destroy democracy and the TTIP could become a maelstrom of illiberalism that would ruin the welfare state in Europe and ultimately contribute to the loss of European identity and further complicating the European issue.

If we add willingness of the official Berlin and Paris to relax and renew good relations with Russia in all of this, the situation indeed become complicated globally.

Globalization without borders in cooperation with **liberalization, deregulation and privatization**, especially in countries in transition, weakened the power and independence of national states and

skillfully transferred it to multinational corporations. Despite the fact that most of us have a narrow choice of where to live and work, we still pay taxes and we have institutions that serve more private interests than public needs, while public goods are not transparently sold to private companies, thereby eliminating workers' bonding and retirement benefits, funds and budgets at all levels of government in Bosnia and Herzegovina are getting thinner and bring the citizens in an increasingly uncertain situation. On the other hand, multinational corporations, some of which are larger than most of the nation-states, despite appropriated power, did not take on the simultaneous obligation to address the social demands of citizens, leaving that obligation to the weakened statewhich is less and less able to solve them.

In such a situation of limited possibilities of the state, the question is *whether we can live without the state*. It seems that the answer to this question is very simple. Here, we are already living, and it's just a matter of whether we want to continue (Joseph , 2014, p.57). The path to serfdom is "irreversible and inevitable," Francis Fukuyama (Fukuyama, 1992, p.89) also claimed, as he believes that the liberalization of the global economy has not led to a greater, but, on the contrary, to the less democracy. Any world power that would now lower its scientific and technological level risks being certainly defeated or otherwise dominated by a nation that has not done so. All those who are wandering and investing with the heart, not with their heads, will inevitably suffer losses on the market and become slaves soon. According to Robert Lukas Junior, it is undeniably proved that global economic integration is not a choice, but a de facto inevitability (Licas, 2004, p.99). In this regard, it can be noted that both Fukuyama and Lukas base their arguments on the inevitable global acceptance of neoliberal economic policy and the elimination of the Keynesian or non-colonial welfare state. Therefore, representation of private interests of their sponsors is more expected from state officilas than representation of public interests and using state instruments (fiscal, monetary, legal, technological, military and police) to improve their private and personal growth (Lough, p.57) is expected too, hoping that corporations can replace their freedoms and organize more effectively their needs than some countries do (Lojpur, 2011, p. 426). Belief in the great power of corporations is a consequence of the globalization process that created a "monster" that not only serves its founders (shareholders), but for some time irresponsibly behaves towards consumers and the environment (Enron, the case of Volkswagens, and before that, Toyota, as well as the case of Agrokor).

*

* *

According to a report issued by the SEC in July 2012, it is unlikely that the full scope of IFRS adoption in the United States will occur in the foreseeable future (Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, and the IASB's response in IFRS Foundation Staff Analysis of the SEC Final Staff Report—Work Plan for the consideration of incorporating IFRS into the financial reporting system for U. S. Issuers, October 2012). However, understanding of IFRS is crucial for US businessmen and for financial information users, since most countries outside of America, as well as many foreign entities of the United States companies, require their use. In today's global economy, which continues to expand, it is highly likely that authorized accountants in the United States will take measures to improve knowledge of IAS / IFRS. In fact, some case studies have an intention to further help these goals. Therefore, as far as knowledge of IAS / IFRS is significant for United States businessmen, it is also importantfor business people in continental Europeand regions where the IAS / IFRS concept applies to know the US GAAP concept. This need is increasing because globalization and internationalization of business bring with them the acquisition of companies and the need to convert the balance sheet to compile consolidated financial statements. The need to translate the balance is also in a situation where European companies want their securities to be quoted on US stock exchanges, as well as in other cases. Thus, for example, companies owned by the Arab Emirates make a conversion of the profit and loss account created by the method of total costs to the profit and loss account created by the method of sold effects. In the Western Balkans, capital owners from China who are increasingly present, run two parallel accounting, according to the national regulations of the host country and within the concept of accounting according to the regulations of the People's Republic of China.

2. Significance and role of financial statements

In the world of more advanced administrative and accounting culture and corporate governance, a well-regulated financial reporting system greatly contributes to:

- developing confidence in financial reports on the status and performance of economic actors at the level of national economies,
- reducing information asymmetry between internal users and creators of financial reports and external users of these reports to a tolerable extent,
- Increasing the tendency of savings and investment and thus the development of financial markets,
- the inflow of foreign direct and portfolio investments,
- encouraging the external growth of successful companies and banks through mergers and acquisitions,
- creation of reliable information for the conception of macroeconomic policies, strategies and plans of the state, along with the socially sustainable economic growth and development of the country,
- information needs of reporting and regulatory bodies, etc.

This system, due to the previously mentioned benefits of quality financial reporting, deserves the highest attention of all stakeholders.

However, management, as an internal stakeholder, is in the most delicate position because they are responsible for a true and fair, i.e.objective financial reporting of the status and success of the reporting entity.

The delicacy of the management position is reflected in the fact that, on the one hand, there are information needs and requirements of investors, creditors, customers, suppliers, the state and the public whose financial interests are heterogeneous, and on the other hand, there are operational managers, employees, accountants, internal auditors, which also have heterogeneous interests and demands, and also the management's interest in achieving the bonus should not be ignored.

In the context of poor financial reporting, it often happens that self-managers, in order to create the prerequisites for exercising the right to a bonus, intend to increase current profits, but , on the other hand, the goal of holders of majority ownership rights packages is to draw dividends.

This is the reason why independent auditing plays an important role in quality financial reporting. However, since economic and financial history constantly reminds us on the problems of the audit, the European Commission has, through the Directive[3], instigated public oversight of the quality of the audit of the financial statements they conduct in their respective countries. Of course, this practice is also present in the countries that are intending to join the European Union, and it should be in the function of improving the quality of financial reporting, as foreign direct investments would not repatriate an unjustifiably increased proportion of profits that often affect the substance.

The power of this financial-reporting instrument also provide the possibility of insight into:

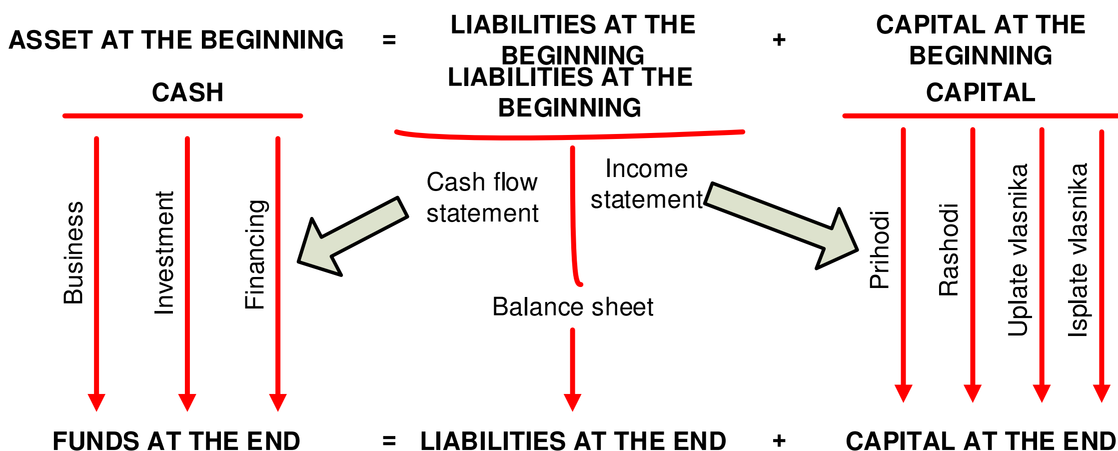
- **the status of the resources** the company has at its disposal, the financial structure, liquidity, solvency and elasticity (flexibility) of adjusting to the changes in the environment in which it operates and provide information on the **financial position** of the company, which is presented in the **balance sheet**;
- the **performance** of the company that is included in the return on the resources that the company controls, which is presented in the **income statement**;
- **cash flows** that are useful for developing additional thinking of users of financial performance reports by indicating the volume and maturity of inflows and outflows of cash, as presented in the **cash flow statement**;
- **changes in equity** between the two accounting periods;
- **notes**, which include an overview of accounting policies and other information explanations.

The analysis of financial statements uses standard techniques, i.e. rational analysis (Ivanisevic, 2012, p. 21) [4], which assumes knowledge of the essence and methodology of the accounting system, accounting practice and international financial reporting standards (IAS / IFRS).

Although the information in the financial statements is useful for the entire financial community, first of all that it should be noted that all the components of the three financial reports are interconnected, as shown in the following graphic (Mikerević, 2016, p. 193).

[3]Instead of the Fourth and Seventh Directives, at the end of June 2013, the European Commission adopted the European Union Directive 2013/34 / EU in order to improve the quality of financial reporting. It is in line with the "Europe 2020 Strategy" for smart, sustainable and inclusive growth, whose main goal is to reduce administrative burdens and improve the business environment.

[4]According to the design method, the raids are divided into: the coverage of the coverage, the yield rate, the rate of turnover and the percentage of the percentage participation, while from the standpoint of the general characteristics, the numbers are grouped into: liquidity ratios, activity ratios, debt raising (ie raises showing the financial structure) , A profitability (profitability), ie a return on assets and a market share. Often, the Du Pont analysis system is particularly considered.



Basically, the previous graph expresses close conceptual links between the same transactions from different aspects and justifies the following questions:

- Does knowing the performance of a company from the previous period can be a "guide" or a performance benchmark in the future?
- What is the effect of disclosing information about the current results of a company's business?
- What is the possibility of the capital market to disclose which financial statements are designd to create an objective impression of the company, from the many designed information from the financial statements?

It should be kept in mind that understanding financial information is not an innate ability that we have or do not have, but a set of skills that must be mastered in order to successfully manage the company's business, whether the business is organized as an entrepreneurial partner, a limited partnership, a limited liability company or corporation. The assumption for this is the appropriate quality of the financial statements that basically depends on the true and fair financial reporting which should be characterized by: the intelligibility of information for the users, the relevance of the information for those who make financial decisions, the reliability of information, i.e. that their users can rely on them when presenting the situation and success and their evaluation and comparison in time and space between business and financial entities.The quality of financial reporting so far was influenced by the cooperation in two important financial reporting systems: Anglo-Saxon and Continental European. Both concepts are valid for exemplary financial reporting systems, but this second enabled greater international comparability of financial statementsby the emergence and development of the IAS / IFRS. There is also a special role of the IRS / IFRS Conceptual Framework. Namely, the first Conceptual Frameworkwhich all reporting entities had to respect was adopted in 1989., and the new one was adopted at the end of 2010. In the previous Conceptual Framework of 1989, the primary objective of financial reporting was to inform a wide range of useres (owners, creditors, employees, suppliers, customers, the state, and others) about entity's yield and financial position. In order to make the presented information useful and in line with the objectives of the 1989 Conceptual Framework, their qualitative characteristics meant that:

1. **Relevant**, which influence the making of business decisions of the beneficiaries, helping them to assess past, present or future events, confirm them or correct their previous estimates;
2. **Reliable**, i.e. that the informations should be credible, should not contain material errors and prejudices and that are faithfully represents the true image of the company;
3. **Comparable**, which implies that the financial statements in a series of successive periods can be compared to identify trends in financial position and performance. In addition, it provides the possibility of comparing the financial statements of different companies, which is achieved through the disclosure of accounting policies;
4. **Understandable**, meaning that the published information is understood by internal users in order to be able to study information and make the appropriate decisions based on them.

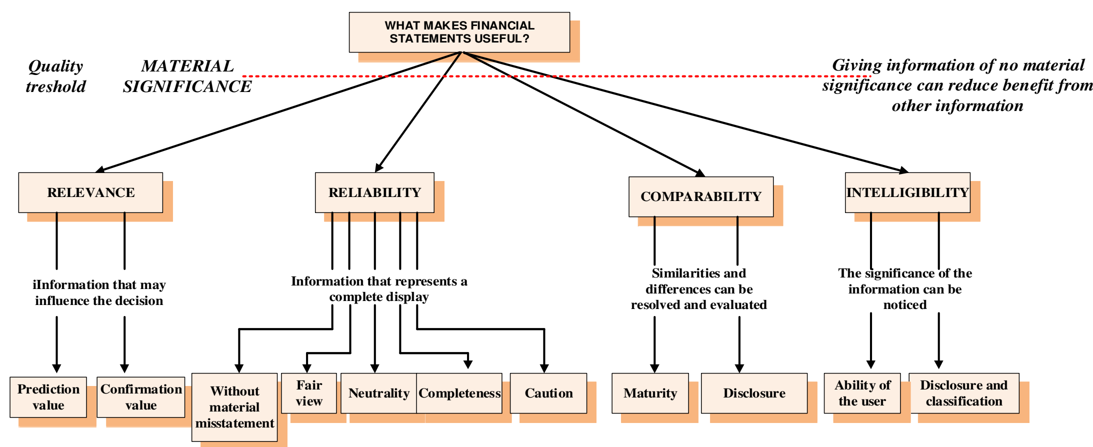


Figure 1: Qualitative characteristics of the financial statements of the 1989 Conceptual Framework (ACCA: Pripremanje finansijskih izvještaja, Savez računovođa i revizora Srbije, Beograd, 2008, p. 199)

The strong *development of the world financial market* and the emergence of new forms of assets and liabilities have provided sufficient incentives for the harmonization and standardization of financial reporting globally by concluding a Memorandum of Understanding between the International Accounting Standards Board (IASB) and the US Financial and Accounting Standards Board (FASB - Financial Acccounting Standards Board) (Prof. dr Kata Škarić Jovanović: Konceptualni okvir MSFI, Finrar, 2/11, Banja Luka, 2011, p. 4).

While the growth and development of the global financial market highlighted the information needs of *investors and creditors*, the emergence of new forms of assets (primarily *financial instruments*) led to a review of the similarity of the existing rules for the recognition and valuation of assets and liabilities. These were sufficient reasons for both regulatory bodies (IASB and FASB) for launching a joint project in 2004 to revise the Conceptual Framework, which would achieve two goals: harmonization of the Financial Reporting Framework adopted by the IASB and the FASB, and their improvement by removing the inconsistencies, contradictions and gaps that existed in these Frameworks. In this way, the revised Conceptual Framework should have been a good basis for obtaining high-quality, applicable global financial reporting standards, which were to be further developed on the basis of principles, rather than rules.The first phase of the revision of the conceptual framework was completed by 2010, which concerned the definition of the financial reporting objectives and the qualitative characteristics of the financial statements.

According to the revised Framework,the purpose of *financial statements for general purpose* is to provide information on the reporting entity that would be useful to primary and *potential investors, creditors and creditors in deciding on the placement of entity capital*. These differences in defining the objectives of financial reporting significantly influenced other issues in the Conceptual Framework, which concern:

- Primary groups of users of financial statements, where existing and potential investors and creditors are favorized in comparison with other users of financial statements. These are informations that are necessary for these users to make decisions about whether to invest capital in a reporting entity, to retain the existing stake or to withdraw it. In the case of creditors, they need information to be able to make decisions about granting loans or some other type of loan;
- the information that financial statements should provide to beneficiaries, bearing in mind that the financial reporting objectives are the same for all reporting entities in the private sector, regardless of whether they are present in the financial markets. In doing so, the contribution of financial stability is not mentioned as a specific objective of financial reporting, since it is considered that the credible presentation of information on the reporting entity contributes to building trust among the users, and thus to financial stability (Ibidem, p. 5)

It also seems interesting here to point out the fact that the changed financial reporting objectives in the revised Conceptual Framework resulted in differences in defining the qualitative characteristics of the information contained in the financial statements that are basically classified to: **basic (fundamental)** and those that should contribute to the **improvement** basic (fundamental) characteristics.

Under the basic, or fundamental characteristics, are meant:

- **Relevance**, in almost the same sense as in the previous Framework of 1989, where the relevant information implies confirmation of certain facts or states, or / and represent a good basis for their forecasting. In a word, relevant information is information on which users base their decisions and whose ignorance would lead them to make a different decision;
- **A credible presentation** that corresponds to the reliability of the information as a feature of the 1989 Framework. In fact, this feature points out that informations shoud be credible to represent economic change and, in this regard, be complete, neutral and free from material errors.

Improved characteristics, which are more promising, make the second group of qualitative characteristics, and their are for a reason separated from the basic (fundamental) characteristics. Namely, relevance and credible presentation of information should improve:

- **Confidentiality**, as a new concept, should ensure the credibility of the information by providing professional and independent entities with an agreement, which does not necessarily have to be complete, that the information does not contain material errors, nor is it biased, and that the recognition and the selected assessment methods are applied without material errors or bias;
- **Timeliness**, which as a characteristic of information has a significant impact on decision-makers. Namely, since informations have a low use value afterwards, they should be available before making business decisions;
- the **intelligibility** of the information so that users can examine them based on their mental abilities;
- **Comparability** of the information on which basis it would be possible to analyze and identify trends in the financial performance of the company (Ibidem, p. 6. to 7).

The previously described basic and improving characteristics of the financial statements can be presented graphically in the following way:

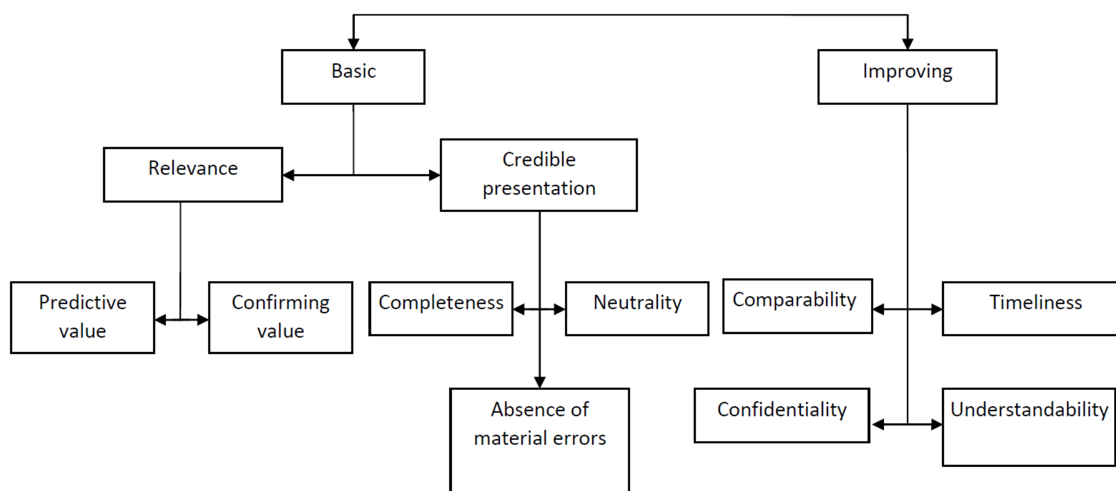


Figure 2: Qualitative characteristics of the financial statements of the 2010 Conceptual Framework (Škarić Jovanović, Finrar, Banja Luka, 02/2011, p.4)

It is worthwhile to ask here whether knowledge of past results can contribute to a better projection of cash flows in the future. Namely, in addition to the fact that information about the financial strength and its growth potential in the future draws up from the financial statements, the market also has additional sources of information: from press, magazines, interviews, investment analysts and even rumors in the public about companies. All this informations are useful, especially to investors whose actions are valued on the basis of expected future performance of the company. Investors can determine whether their expectations have been achieved only after the publication of the financial statements. Although it does not always have to be the case, it is possible that the price of the shares follow the company's annual profits. Many empirical analyzes deal with the question how the capital market responds to the presentation of financial statements. In this regard, there is compelling evidence that changes in the profit level have a strong impact on the change in the

price of shares. Hence there is a need to consider another issue. Namely, the financial statements of the company's status and success are prepared on an accrual basis, and financial estimates are mostly based on cash flows, and in that case profit or profit per share is not the same as the net cash flow per share.If the analysis examine the yield and financial position of the company, it is necessary to consider the mutual ratio of the rate of growth of the business profit and the rate of growth of the cash (cash) flow,since that in the long run should move about the same trend. However, trends in these rates around the same trend are valid for the average of industries, branches and groups, but there are individual cases of companies where these two growth rates can be clearly distinguished in the short term.

3. Interrelation between the quality of financial reporting and the success of the financial system

To enable the company to function, survive and grow in a global environment, composed of demographic, sociocultural, political, legal, technological, economic and global factors, it is necessary to build an appropriate adaptable financial system that basically has very complex tasks. Therefore, it should:

- enable mobility of limited financial resources,
- ensure stable business conditions,
- reduce the risks of managing financial resources,
- obtain financial resources for appropriate projects,
- ensure optimal use of resources by the corporate governance system,
- enable smooth functioning of payment transactions between its participants.

Under the financial system of one country it should be understood that "the totality of the supply and demand of cash, financial instruments, various financial institutions, cash flows and financial techniques flows, which are integrated in the legal regulations, allow trading in money and capital determining the prices of financial products, primarily interest rates and expectations in the future ", as shown in the following picture (Rosse, 1998, p. 20):

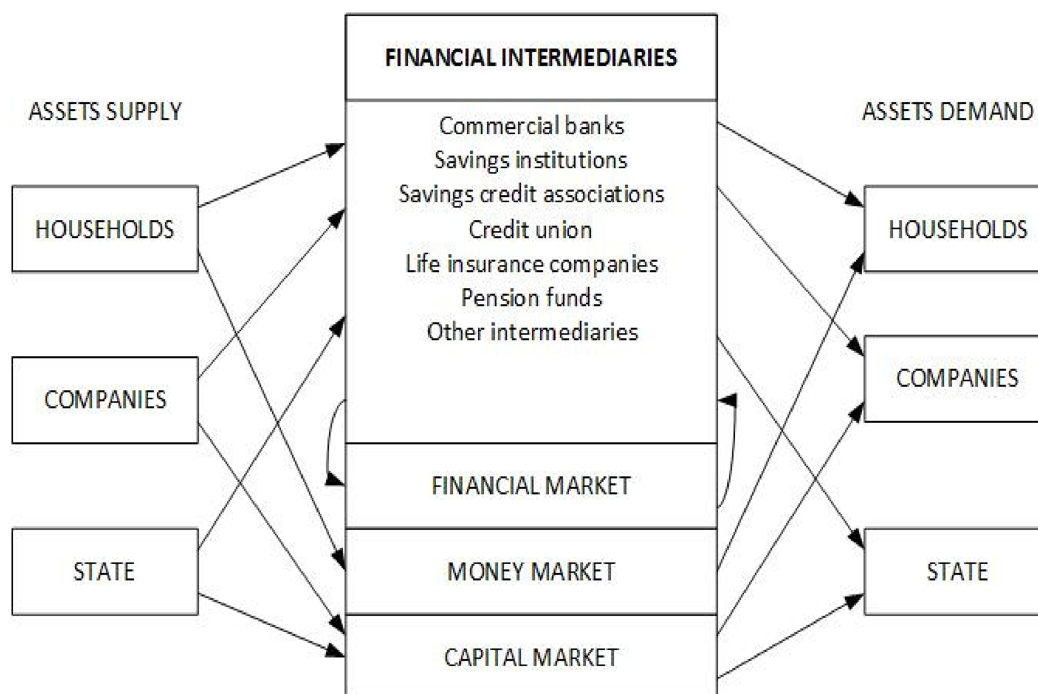


Figure 3: The complexity of the relationship between supply and marketing of money and capital

The role of the financial system in business and other activities is mainly to facilitate the flow and allocation of investment funds. In doing so, the financial system increases the efficiency of the real economy by encouraging the flow of funds for productive use. Thus, the financial system is one of the most important parts of the economic system with which it must be a coherent whole, and this can be illustrated in the following way:

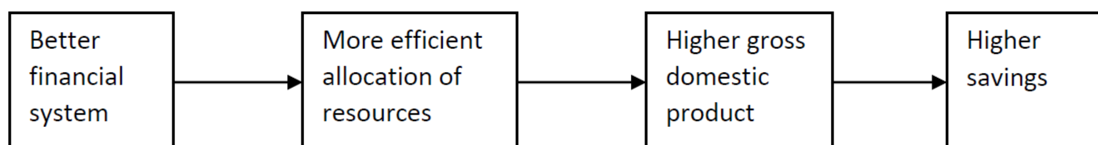


Figure 4: Algorithm for the functioning of the economic system

isorders in its functioning are rapidly and strongly transferred to the whole economyjust like its stable functioning is felt not only in the economy, but also in the overall life of the country. Therefore, the state and effects of this system are closely monitored not only by the state and economic entities, but by the wider public as well. By collecting monetary savings, the country's financial system enables the concentration and transfer of capital to entities with ideas and projects, and that is the basic function of the financial system. As the financial system is more efficient, the country's economy is more effective because many individuals (legal and physical) are provided with an opportunity of financial investments and efficient use of money and capital. In addition to providing sufficient capital volume, the financial system also has an important task of allocating capital to projects that significantly affect the economic growth and development of the country, i.e. it should prevent the use of capital in economically unjustified projects (with a negative net present value).

According to the dictated views of the Washington Consensus and neoliberalism, the rules of the game globally are dictated by large countries, the United States being first, adapting them by their own needs, where the winners are those who manipulate these rules. Therefore,protectionism in foreign trade occurs, regardless of membership in the World Trade Organization, where large countries and developed economies see almost everything through the magnet of their own interests. Such an approach by the "big players" during 2008 crisis, and even today, is in the spirit of the Macchiavelli passage that the goal justifies the means, because the strategy and interests are, as they consider, transcending the principle. In this way, since the 1970s, the globalized economy has become the dominant feature of modern capitalism and one of the most significant social and economic changes since the industrial revolution. Globalization itself does not have to be bad, but when it comes to less developed countries, it certainly is still unknown in the sense that they have not yet found a valid "recipe" for long-term success (Lojpur and Peković, Ima li nade za „male“ ekonomije u uslovima globalizacije, Acta economica, 16/12, p. 13). It is quite certain that, as Joseph Stiglitz claimed, neoliberal fundamentalism has always been a political doctrine that was in the service of certain interests, although it has never been confirmed in economic theory (stiglic: Kraj neoliberalizma, http://www.projectsyndicate.org). If this attitude is accepted, the question is how to achieve economic growth (development) and full employment in such a situation. Obviously, this requires a completely new framework, that is, a new economic paradigm that will completely differ from the existing one. In establishing this new economic paradigm, one should bear in mind the key factors that will shape the next period of development in the global world, namely: the Fourth Industrial Revolution (4IR) (Domazet, 2016, p. 80)[5] and the geoeconomics that imposes completely new global solutions. Small economies, quite certainly, will not be able to resist these global trends, but will have to adjust to them, willingly or not.

However, in order for these countries to develop successfully, it is not enough just to adapt, but also to anticipate future events and processes. What we are facing is a new repositioning both globally and in Europe itself. Germany obviously will no longer have a "comfortable" position as a leader, especially after the "Brexit", since it did not have to take responsibility and oppose the most important geopolitical issues. Since the debate about the goals and character of Europe is almost permanently open, it is obvious that Germany is committed to economic governance through the European Central Bank and the European Commission, while France has asked, at least so far, that economic decision-making returns to the political framework, where the heads of states and governments make key economic decisions that the European Commission should only implement. In doing so, the French want a fiscal union, and Germany fiscal discipline. On the other hand,

[5] In addition to the Fourth Industrial Revolution, the preceding three are:
- The First Industrial Revolution (1760-1840) - includes a steam engine and railroad,
- The Second Industrial Revolution (1880-1920) - includes electric current and assembly lines,
- The Third Industrial Revolution (1960-2000) - Includes computers and the digital age

France will seek to revive the union for the Mediterranean and put emphasis on co-operation on the countries of North Africa and the Middle East, while Germany will focus on Eastern Europe, as many times before in history. The foregoing indicates that, regardless of which vision will prevail, it becomes clear that all this will have dramatic consequences for the Balkans, which can nevertheless become an important link between Central Europe and the Mediterranean, as well as between Western Europe and Asia Minor.

Regardless of whose vision prevails, for the smooth functioning of the economyefficient financial system will be needed, and for it to flawlessly function, relevant, reliable, comparable and understandable information will be necessary. This information is provided through the financial reporting system, which is an essential component of the success of the functioning of the financial system and the stable economic growth of each country.

Basically, the financial statements are the transmission mechanism between the applicants and the users of the financial statements. It is therefore important for them to be in the function of true and fair financial reporting under the responsibility of the accounting and other related professions (internal and external audit, evaluators, experts, etc.). In other words, the only true and fair financial reporting can contribute to reducing information asymmetry between those who are in a more favorable position and are located at the source of information (management), and those who are in an inferior position (investors and owners).

Reducing information asymmetry is important to achieve because the financial statements are the basis for the assessment of income, property and financial position, assessing the exposure of the company short-term and long-term business and financial risks, assessing risk exposure of bankruptcy, assessing the competitive position of its own and competing companies, the assessment of the financial strength of customers and Suppliers, assessment of early warning signals, design of financial structure, identification and assessment of investment opportunities, etc.

From the aforementioned it is possible to establish that quality financial reporting in the public interest is achieved through good legislative and professional regulations.

Therefore, determining the appropriate content and structure of the financial statements is a very responsible activity, which does not tolerate improvisation, which in some countries in the Western Balkan region almost became a rule, and not an exception. If so, then financial reporting, which should primarily be focused on investors' interests, can not positively affect the performance of the financial system. Under such conditions, investors can not assess the chances or risks that accompany certain investment alternatives, which may result in an inadequate allocation of limited capital, which ultimately has a negative impact on economic growth. If an additional caution is needed in reading the balance, the investors and all other stakeholders (employees, the state, the capital market, the national economy and others) are affected.

4. Balancing the results - the unity of interest or the unity of opposites

In the financial reporting process, balancing the results is a matter of the greatest importance because the chosen method of balancing the results (the method of total costs or cost of sales method) largely determines the form, structure and content of the performance report, and thus its demonstration power.

The amount of revenue and expenses when applying the cost of sales method is determined according to the values:

- **income from the sale of finished goods**, are valued at the realized selling price,
- **revenues from activation and consumption of goods**, are valued at the purchase price of goods,
- **revenues from activation and consumption of finished goods**, are determined at the cost price,
- **expenses on the basis of goods sold**, are valued at the purchase price of goods,
- **costs of goods sold**, are valued at the actual cost price,
- **costs of the period**, are valued at the actual costs of functions whose costs are not included in the cost of the effects,
- **surplus stock**, they are valued at the purchase price (surplus stock of goods and materials) or at the cost price (surplus stock of products),
- **revenues from reversing long-term provisions** arise when the long-term provision is greater than the actual liabilities for which the long-term provision was formed, i.e. expenditures that are covered by long-term provisions,
- **write-offs and shortages of inventories of materials, small inventory and packaging** are valued at the purchase price, while the shortage of goods and finished products, if it is paid by the responsible person, is

calculated in the amount of the selling price and registered as a sale, only that instead of the customer's account, account of other receivablesis debited. However, if the responsible person could not prevent the creation of a shortage of finished goods, so the decision of the management to reduce the burden is at the expense of the company, their inclusion is done at the cost price or the purchase price.

a) Basic characteristics of this method

- Operating costs (excluding the purchase value of goods sold) are presented in the form of costs of sales (costs of production of sold products) and by places of origin (management costs and costs of sales). This means that on the expense side of the income statement, only investments related to sold goods are reported as an expense.
- Excesses, write-offs, inventory shortages and revenues from reversing long-term provisions in the prescribed income statement are reported under other income and other expenses. However, when determining a true business result, surplus, write-off, and short-term inventory effects and revenue from the abolition of long-term provisions should be included in operating income and expenses as they result from the performance of business functions.

b) Total cost method

The essential difference between the cost of sales method and the total cost method is that the total cost method, in determining the business result, takes into account the total investments made in the given accounting period expressed as costs by type and opposes the effects that have arisen from them.

The effects of investment in production companies depend on the relationship between production and sales. If in the given accounting period the production was equal to sales, there would be no change in the amount of inventories of unfinished production and finished products in relation to the initial balance. In this case, the effect of the investments made is the proceeds from the sale of finished products, because everything that was produced in that period, including the investments made, was sold in its entirety.

If production in a given accounting period is higher than sales, this means that although investments were made in a given billing period and converted into finished products, not all finished products were sold, which is why, on the day of reporting, part of the finished products is in stock, as a result of which stocks at the end of the period are higher than those of the initial ones.

The investment effect is the income from the sold finished products and the increase in the value of stocks of finished products and unfinished production if the assumption of full production completion started during that period is not met. In periods in which sales are higher than production, and this is possible only when there are inventories of unfinished production and finished products at the beginning of the accounting period, then not only the products that are the result of investments made in the given accounting period will be sold, but also the part of the products that existed at the beginning of the year and were the result of investments in the previous period.

As a result, inventories of unfinished production and finished products at the end of the year are lower than the initial inventories. Sales revenue is therefore not entirely a consequence of the investment in a given accounting period, so that the effects of investment in the current period are considered income from sales minus the reduction in inventories of unfinished production and finished products. And sales revenue is reduced by the value of inventory reduction. If the stock is lower than the initial one, the sales were higher than the production.

In the income statement, the increase and decrease in inventory of finished goods (incomplete production and finished products) and revenues from activation and consumption of inventories and goods can be reported within operating revenues or within operating expenses.

Therefore, there are two variants of balancing the business results by the method of total costs:

Variant 1 - the correction of operating income with revenues from activation or consumption of inventories of finished goods and with the increase or decrease in inventory of finished goods;

Variant 2 - a correction of operating expenses with revenues from activation or consumption of finished goods and with the increase or decrease of inventory of finished goods.

The structure of revenues and expenditures when determining the operating result by the method of total costs is:

	Variant	
	1. Correction of revenues with a change in the value of the stock of finished goods (1.1 do 1.4-1.5)	2. Correction of expenditures with a change in the value of the stock of finished goods (1.1 + 1.2)
1	2	3
	(1.1 do 1.4-1.5)	(1.1+1.2)
1. Operating income	**174.000**	**170.000**
1.1. Revenue from the sale of goods	20.000	20.000
1.2. Revenue from the sale of finished goods	150.000	150.000
1.3. Revenues from activation and consumption of finished goods	5.000	xxx
1.4. Increase in inventories of finished goods **1.5. Decrease in inventories of finished goods**	1.000 2.000	xxx xxx
	(2.1. do 2.8)	**(2.1. do 2.8+2.11-2.9-2.10)**
2. Operating expenses	**158.000**	**154.000**
2.1. Cost of goods sold	18.000	18.000
2.2. The cost of materials	70.000	70.000
2.3. Salary and wage costs	40.000	40.000
2.4. Costs of production services	12.000	12.000
2.5. Depreciation costs	10.000	10.000
2.6. Provisions	5.000	5.000
2.7. Intangible costs without taxes and contributions	1.000	1.000
2.8. Taxes and contributions without tax gain	2.000	2.000
2.9. Revenues from activation and consumption of goods and učianaka		5.000
2.10. Increase in inventories of finished goods		1.000
2.11. Decrease in inventories of finished goods		2.000
OPERATING PROFIT (1-2)	**16.000**	**16.000**

The important difference between the method of calculating total costs and the cost of sales method is as follows:

- The method of calculating total expenses in the framework of operating expenses shows all costs incurred by type, both for those related to sold and those that relate to unprofitable finishes goods, which is not the case with the cost of sales method. However, even when applying this method, expenditures are investments that relate to sold products, since total investments are reduced to investments that relate to the sold finished goods taking into account changes in inventory value. If the inventory at the end of the accounting period is higher than the initial one, it means that a portion of the investment is contained in unsold or unfinished products. When total investments are reduced by increase in inventory, the difference in that case shows nothing other than the expenses related to the products sold. In the case where inventories of unfinished production and finished products at the end of the accounting period are lower than the initial ones, investments related to the products sold are calculated by increasing total investments in the current period for reduction of inventories, since during that period the

inventories made in previous periods were sold.
- The method of calculation of total costs does not show write-offs and the lack of inventory of finished goodson the special position because they are contained in the increase or decrease in the value of the stock of finished goods.

The change in the value of the stock of finished goods is determined as follows:

1. the final stock of finished goods,
2. initial stocks of finished goods,
3. increasing the value of the stock of finished goods (1 - 2); 1> 2,
4. reducing the value of the stock of finished goods (2 - 1); 2> 1.

Making a balance sheet at the total cost requires the keeping of two general ledgers:

- The general ledger of financial accounting, and
- The general ledger of the calculation of costs and effects.

The general ledger for the calculation of the costs and effects are kept by the production companies in order to record costs by location of origin for accountability and by the cost carriers to determine the cost of the incomplete production and the finished product (Rodić and Filipović, 2011). The write-offs of uncompleted production and finished products, as well as their surpluses and deficits, are recorded in the general ledger for recording the costs and effects of recording. In the general ledger of financial accounting, the actual inventory of the finished goods is transferred and the profit and loss statement shows the increase or decrease in the stock of finished goods, while no write-offs, surpluses or performance deficiencies are recorded, as they are included through increase / decrease in inventories. Revenues from activation or consumption of finished goods are accounted for at the purchase price of goods or at the cost of the finished goods. Stating the revenues from the activation or consumption of finished goods, increasing or decreasing the value of inventory of finished goods in income statement, whether within operating income or in operating expenses, does not change the operating result (operating profit or operating loss). However, if revenues from activation or consumption of goods, increase or decrease in the value of inventory of finished goods are stated within operating expenses, it is impossible to sort operating expenditures into variable and fixed when analyzing the yield position. Frequent changes in the form, structure and content of the financial statements are at the expense of the comparability of information over time. It is, therefore, important that solutions at the national level are not in conflict with IAS 1 - presentation of financial statements (paragraphs 45 and 46) as well as with Article 9, paragraph 1 of Directive 2013/34 / EU, relating to the principle of consistency of the presentation. In a word, it is necessary to make efforts to ensure that solutions at the local level are comparable to the relevant international regulations, especially with solutions in countries with rich accounting traditions and countries in the region. The following illustration provides insight into the consistency or representation of particular solutions in the application of balancing methods.

	European Union	**IFRS**	**United States**	**UK**	**France**	**Germany**	**Federation of BIH**	**Republic of Srpska**	**Croatia**	**Macedonia**	**Montenegro**	**Slovenia**	**Serbia**
Total cost method - inventory value adjustment													
Revenue adjustment	√	√		√	√	√		√		√	√	√	
Expenditure adjustment							√		√				*
Cost of sales method	√	√	√	√		√						√	

Figure 5: *Comparative analysis of the application of the methods of balancing the results (Malinić, 2015, Kritički osvrt na sadržinu i strukturu zvaničnih finansijskih izveštaja, Savez računovođa i revizora Srbije, p. 43)*

All the countries of the former Yugoslavia are more oriented towards the experiences of the countries of continental Europe, and they all decided to apply the method of total costs, except for Slovenia, which offers the possibility of choosing between methods of total costs and cost

of sales method. The analysis shows that Croatia, Serbia and the Federation of BiH apply a deformed method of total costs. We say "deformed" because the shifting of the inventories value adjustment from the revenue to the expenditure side deformed the income statement and seriously questioned its stated power, first of all, because (Malinić, p. 40-44):

- **There is insufficient theoretical foundation**, as it deviates from the basic goal of balancing the results using the methods of total costs, that is to confront the total incurred expenditure of a single period with the total value of the finished goods produced in that same period. Moving the inventory value adjustment to the expenditure side, total expenditures are reduced to a level that corresponds to the cost of sale method. In this way, the expenditure side is non-homogeneous because the expenditures and finished goods are mixed so that the expenditure side no longer shows the total effort invested in a single accounting period, since they are mixed with the efforts that have been invested in other periods. This deformed expenditure-side structuring prevents an effective cost structure analysis and makes it difficult to control it, which calls into question the benefits that this method has. On the other hand, the revenue side remains incomplete, because instead of reflecting the overall finished goods of the period, it is reduced to their realized portion (when production is higher than sales) or mixes the effects of different periods (when sales are higher than production). The only thing remaining the same is the amount of the operating result (profit) which, however, is not the default goal.
- **Distorts the comparability of information**, both with the prevailing practice in the world, as well as in the Western Balkan region, but in some countries (Serbia), the link with previous balance sheets has also been broken, because the adjustment was made on the revenue side. In this way, the qualitative comparability for different foreign companies, branches and areas is madeimpossible, whileconsolidation of foreign investors' balance became problematic, and is contrary to IAS1-Presentation of Financial Statements under paragraphs 45 and 46, as well as with Article 9 paragraph 1 of Directive 2013/34 / EU related to the principle of consistency of the presentation.
- **It is incomparable with relevant international practice**, even though this is one of the key objectives to be achieved in the process of accession to the European Union and in this regard the Directive 2013/34/EU. Also, the general tendency and prescribed obligation to use the IAS / IFRS and the commitment of BiH and other Western Balkan countries to implement such practices imposes the need to respect the solutions prescribed in IAS 1 Presentation of Financial Statements.

Regarding the transparency of the prescribed financial statements, it seems that in many countries of the former Yugoslavia the solutions differ from the requirements of the said Directive, except for Montenegro, which has a degree of disaggregation of balance positions similar to the requirements of the Directive, and this is shown by the following data:

Financial reports	European Union	Montenegro	Slovenia	Croatia	Macedonia	Republic of Srpska	Federation of BIH	Serbia
Balance Sheet	67	48	102	110	112	127	135	137
Income Statement	21	34	42	60	93	127	144	99
Total	88	82	144	170	205	254	279	236

Notes
• The review contains information that corresponds to a balance sheet that is presented in the form of a two-sided review and the income statement based on the total cost method and is displayed in the form of a list.
• The income statement includes both its parts in Croatia, Macedonia, the Federation of BiH, the Republic of Srpska and Serbia.

Figure 6: Comparative analysis of the degree of breakdown of positions in the balance sheet and the balance of success in countries in the environment (Malinić, 2015, p. 49)

We can establish that the transparency and the quality of reporting do not depend on the increased number of positions in the income statement and balance sheet, since a large number of positions can objectively jeopardize transparency as an important element of the quality of the financial report. Obviously, the number of positions in the balance, especially in Serbia, the FBiH and the Republika Srpska, deviates considerably from the requirements of Directive 2013/34/EU, as well as in comparison with countries with rich accounting tradition, which negatively affects the quality of financial reporting. Of course, in the Western Balkans, the principle of formal continuity and comparability of the balance in longer periods, as well as between individual national economies, is also questionable, as is shown by the differences in:

- balancing the loss above capital,
- balancing the share premium.

4.1 Balancing the loss over capital

In a situation where Bosnia and Herzegovina's economy is the least competitive in the Western Balkans, loss-making is something that is not an exception, and it does not surpise neither the management, nor owners, nor other interest groups. Regardless of the fact that losses represent an unpleasant situation which, as a rule, leads to financial problems, in accounting literature in countries with a developed accounting tradition it is not presented as a problem and the solutions are well known.

Our solutions are different. One possibility is to balance the loss in the assets after the operating assets of the company and to add up to the assetof the balance. The second solution, which is more present in accounting practice, is the balance of loss in liabilities within the capital of the enterprise, where it appears as a corrective position. However, given our subheading, the question arises as to what is and how the loss above capital is balanced. In developed countries with market economy this issue is not in the discussion, because it is well known that such companies can not exist in normal market conditions. In a word, this state of enterprise is incompatible with the logic of the functioning of a market economy. Since such companies operate in a completely legal manner in our conditions, we can establish that the market economy has not yet come into existence, but the quasi-state or "vouchers" economy is at work. Considering the aforementioned, it is quite understandable why the balance of losses above capital in developed countries is not being discussed.

In fact, in this case owners and creditors have already lost some of their investments or receivables. Hence only in the economy of the Republic of Srpska in 2016, of the total losses of 6.3 billion convertible marks, 1.8 billion are losses above capital and they are only increasing in time. In such business conditions, accountants must find a way of balancing such a loss above capital, although Directive 2013/34 / EU does not explicitly foresee this, given the previously already expressed view on the unsustainability of such companies in the market. Since Article 9, paragraph 2 of the Directive has left the possibility of adding new positions (items), this provision could also imply a balance above the amount of capital. When a company begins to make losses, it is reasonable to reduce the own equity by their value, since the owners bear the highest risks and any losses incurred are covered in proportion to their share in the capital. In the event of a loss of total equity, the loss over that amount is not logical to balance within equity, since equity either exsist or does not, so it is not possible to express its negative value. In other words, it is illogical and unacceptable to balance the loss over the capital in the balance sheet liabilities. It is true that such a balance essentially shows that creditors will not be able to recover a portion of their claims, but at the moment of balancing, it is not known in what amount certain creditors will bear the burden of loss. Unlike the owners, where it is known in advance that they will share this burden proportionally to their share in ownership, in the case of creditors, such information is not known in advance, since this issue is regulated by the Bankruptcy Law. By this law, creditors settle to the payment order they belong to (disconnected and outgoing creditors), and equality exists only within the same payline. When the final list of creditors' claims and their payment order is determined, it becomes binding for the insolvent debtor and for all bankruptcy creditors. Because of the above, therefore, there is no high level of correlation between the reported liabilities and the loss over capital, as in the case between loss and equity. Therefore, the minimum amount of total liabilities should correspond to the amount of total liabilities of the company, which excludes the possibility of balancing the loss above the amount of equity in the liabilities. If the liabilities are greater than the assets, it means that the enterprise is indebted. The practice of almost all Western Balkan countries, except for Serbia, is that the loss above equity is balanced in the assets of the balance sheet.

Loss above the value of equity is in fact a creditor accounting loss, regardless of whether it is stated on the assets side or on the liabilities side in the

balance sheet. The actual creditor loss is stated in the closing liquidation balance sheet on the assets side. The actual creditor loss is lower than the carrying amount of the long-term provisions, and is greater for the amount of the difference between the carrying amount of the asset and the realized value of the assets and for the amount of liquidation costs. Since the actual creditor loss in the final liquidation balance is disclosed on the asset side, it is natural that the loss above the value of equity is disclosed on the assets side as part of the lost business property.

4.2 Balancing share premiums and capital structure

The issue premium is reported to the stock companies in the amount of the positive difference between the value of the share capital that shareholders entered into the company and the share capital calculated at the nominal value of the share. The share premium is incurred at:

- the transition of the limited liability company into a stock company based on the difference in the value of the share in the capital and the value of the share capital at the nominal value of the capital,
- sale of a new series of shares in the amount of the difference between the realized selling price and the nominal value of the action, and
- when merging two or more stock companies based on a share exchange rate (Rodić and Andrić, 2014, p. 56).

The share premium can be used to cancel the purchased shares for the amount of the difference between the paid price and the nominal value of the share.

The capital structure is:

1. Share capital/equtiy,

2. Unpaid subscribed capital,

3. The emission premium,

4. Reserves (legal and statutory),

5. Revaluation reserves,

6. Unrealized gains on the basis of securities available for sale,

7. Unrealized losses on securities available for sale,

8. Unallocated profit from previous years,

9. Unallocated profit for the current year,

10. Loss to the amount of capital,

CAPITAL (1 to 6 + 8 + 9 - 7 - 10)

Capital is a guarantee for creditor, sinci it protects the creditor's claims, creditors may at any time charge their claims until the loss equals capital.

The higher the borrower's capital, the creditors are more protected, and have no reason to seek special security for their claims (stock of immovable property or a third party guarantee). Indebtedness is measured by financial leverage from the ratio of liabilities (long-term and short-term) to equity.

This ratio shows how many monetary units are burdening a single monetary unit of capital. When the financial ratio is lower, then the indebtedness is smaller and vice versa.

It is useful to pay attention to the following:

Subscribed unpaid capital is not available until it is paid. In order for this capital to be available with a capital subscription contract, it is necessary to determine the payment deadline, which should not be longer than one year from the date of enrollment.

Revaluation reserve is the difference between the fair value and the carrying amount of the asset. If the subsequent estimate of the fair value of the same asset determines that the fair value is lower than the carrying amount, the fair value loss that accrues the previously made revaluation reserve to the amount of that reserve is realized, and if the loss from the fair value increases the difference is charged to the expense.

When the asset from which the revaluation reserve is withdrawn cease to be used, the revaluation reserve of that asset is transferred to the unallocated profit of the previous years. The revaluation reserve is essentially the protection of the real value of capital. For that reason, it would be more useful to use a revaluation reserve acquired from an asset that is no longer used in a capital reserve that prevents the revaluation reserve from being transferred to the unallocated profit of previous years using for a dividend of the owner of the capital or bonus for a management.

Reserve capital is formed from the distribution of the net profit and has the function of maintaining the nominal value of the share capital. Reserve capital is used in the annulment of repurchased shares and stakes.

Repurchase and cancellation of shares and stakes is made when an entity has excessive fixed capital in order to reduce dividends to equity holders. If the paid purchase price of the stakes or shares higher than their nominal value when canceling the difference between the redemption and the nominal value, the reserve capital is charged.

CONCLUSION

Different categorization and treatment of individual balance sheet positions and income statements positions between US GAAP and IAS / IFRS may result in different effects that are often reflected in the yield and financial position of the companies. Thus, for example, banning the use of the LIFO method of inventories according to IAS / IFRS has the corresponding implications for paying taxes. In terms of price rises, the total profit of a business entity will be higher using the IAS / IFRS, against the allowed use of the LIFO method according to US GAAP, resulting in a higher cash expense based on taxes.

Since the economies of the Western Balkans have not so far exploited the possibility of globalization and the availability of new technologies, if they want to develop faster, they will have to recognize as soon as possible the possibilities of using new technologies and knowledge. New technologies and knowledge come with investors in these areas, and for this is needednew knowledge of accountants. That is why the task of the academic community and professional associations in the region is to recognize all the traps of the US GAAP, as this knowledge will increasingly be required of clients who have a duty to consolidate the balance to the US GAAP.

Finally, frequent changes to national regulations endanger the comparability of information over a longer period, and different treatment and diverse solutions to record individual balance sheet items, such as loss over capital and emission premiums, which analysts should take into account when making comparative analysis when expressing attitudes and conclusions .

SOURCES

[1] Fansan, M. (2013). Anual Reports, Sustainability Reports and Intergrated Reports: Trends in Corporate Disclosure. In C. Busco, M.L. Frigo, A. Riccaboni, & P. Quattrone (eds.), Integrated Reporting: Concepts and Cases that Redefine Corporate Accountability. Cham (CH): Springre, 41–57.

[2] Gray, R., Owen, D., & Adams, C. (1996). Accounting & Accountability: Changes and callenges in corporate social and enviromental reporting. New Jersey: Prentice Hall.

[3] Nolan, J. (2007). Corporate Accountability and Triple Bottom Line Reporting: Determining the aterijal Issues for Disclosure.

[4] Dejan Malinić (2015). *Kritički osvrt na sadržinu i strukturu zvaničnih finansijskih izveštaja*, Savez računovođa i revizora Srbije, Zlatibor.

[5] Dragan Mikerević (2016). *Korporativne finansije*. Ekonomski fakultet u Banjoj Luci i Finrar d.o.o. Banja Luka.

[6] Milorad Ivanišević (2017). *Poslovne finansije*, Ekonomski fakultet, Beograd

[7] Tihomir Domazet (2016). *Preko modernog jubileja duga do održivog ekonomskog rasta*, 11. simpozijum o korporativnom upravljanju, Banja Vrućica

[8] Maja Stojanović-Blab, Daniel Blab i Dejan Spasić (2016). *Sustainability reporting – a challenge for Serbian companies*, TEME, Univerzitet u Nišu

[9] Jovan Rodić (2015). *Stvaranje dobrog i održivog privrednog ambijenta*, Finrar, Banja Luka

[10] Dragan Mikerević (2016). *Korporativne finansije*, Ekonomski fakultet Univerziteta u Banjoj Luci i Finrar, Banja Luka

[11] Jovan Rodić i Milovan Filipović (2011). *Računovodstvo troškova i učinaka*, FINRAR, Banja Luka

[12] Jovan Rodić i Mirko Andrić (2014). *Specijalni bilnsi i konsolidovani bilans stanja i uspeha*, FINRAR, Banja Luka

[13] Jovan Rodić i Radomir Božić (2017). *Stvaranje i ocena boniteta preduzeća*, FINRAR, Banja Luka.