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## **ACCRUAL BASED RATIOS IN THE FUNCTION OF DETERMINATION OF ACCOUNTING MANIPULATIONS IN THE FINANCIAL STATEMENTS OF COMPANIES**

Received: September 6, 2018

Accepted: October 1, 2018

*Preliminary communication*

### **Abstract**

*The financial statements of general purpose are important source of information for the business decision-making. The subject of this paper is the research of the impact of accrual-based ratios on the determination of accounting manipulations in the financial statements of companies. The main objective is to identify the accrual-based ratios that contribute to the determination of accounting manipulations in the financial statements and an analysis of the value characteristics of identified accrual-based ratios, due to the level of accounting manipulations in the financial statements of companies in the Federation of BiH. The research was conducted on a sample of companies from the capital market in the Federation of B&H in the period from 2010 to 2014. The collected data were analysed using the descriptive and inferential statistics methods, and obtained results are presented by graphics and tables. The application of parametric and nonparametric statistical tests at a significance level of 5% resulted in determination of the accrual-based ratios that are significantly different between companies with detected accounting manipulations and companies without detected accounting manipulations in the financial statements. Those ratios are Quick ratio (QLiq), Total debt - the number of years (FqSol), Turnover coefficient of total assets (QtTA), Turnover coefficient of current assets (QtCA), Duration of receivables payment (DRec), Earnings per share (EPS) and Earnings and price ratio (E/P). Research results also indicates that companies with detected accounting manipulations in the financial statements have, on average, "weaker" values of accrual-based ratios in relation to companies without detected accounting manipulations in the financial statements. Thus, it is evident that accrual-based ratios have a positive impact on determination of accounting manipulations in the financial statements of the companies.*

**Keywords:** *financial statements, accounting manipulations, accrual-based ratios*

**JEL:** M41, M42

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## THE APPLICATION OF BENFORD'S LAW IN PSYCHOLOGICAL PRICING DETECTION

Received: September 26, 2018

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*Preliminary communication*

### Abstract

*This paper presents the application of Benford's law in psychological pricing detection. Benford's law is naturally occurring law which states that digits have predictable frequencies of appearance with digit one having the highest frequency. Psychological pricing is one of the marketing pricing strategies directed on price setting which have the psychological impact on certain consumers. In order to investigate the application of Benford's law in psychological pricing detection, Benford's law is observed in the case of first and last digits. In order to inspect if the first and last digits of the observed prices are distributed according to the Benford's law distribution or discrete uniform distribution respectively, mean absolute deviation measure, chi-square tests and Kolmogorov-Smirnov Z tests are used. Results of the analysis conducted on three price datasets have shown that the most dominating first digits are 1 and 2. On the other side, the most dominating last digits are 0, 5 and 9 respectively. The chi-square tests and Kolmogorov-Smirnov Z tests have showed that, at significance level of 5%, none of the three observed price datasets does have first digit distribution that fits to the Benford's law distribution. Likewise, mean absolute deviation values have shown that there are large differences between the last digit distributions and the discrete uniform distribution implying psychological pricing in all price datasets.*

**Keywords:** *Benford's distribution, first digit, price endings, psychological pricing*

**JEL:** C46, D91

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## **CAN GOOGLE TRENDS DATA ENHANCE FORECASTING RETURNS ON ZAGREB STOCK EXCHANGE?**

Received: September 19, 2018

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***Preliminary communication***

### **Abstract**

*Successful portfolio management presents a huge challenge nowadays. Today, investors have available a greater amount of investment possibilities, as well as information, mathematical and statistical tools, models and methods. This research seeks to give an overview how to include online search volume on the most popular search engine Google in modelling and forecasting return and risk on the Zagreb Stock Exchange. Based upon monthly data from January 2004 until September 2018, several specifications of ARMA-GARCH models have been estimated: without and with included search volume regarding stocks and Zagreb Stock Exchange. The results of the analysis have shown that models with included search volume are more successful in forecasting. Moreover, the results are confirmed by simulations of investment strategies out of sample, where portfolios based on forecasting with included Google search volume resulted with greater portfolio values. This was confirmed with the inclusion of transaction costs as well. However, there still remain many research possibilities in this area in order to achieve investment goals more quickly and successfully.*

**Key words:** *Google search engine, return forecasting, Zagreb Stock Exchange, search volume*

**JEL:** C58, D53, G1

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## **CONNECTION OF ORGANIZATIONAL CULTURE AS A KEY FACTOR OF BUILDING THE LEARNING COMPANIES AND THE PERFORMANCE OF ENTERPRISES**

Received: June 27, 2018

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**Review**

### **Abstract**

*Obviously, today there is a even more need for companies to continue to work on their excellence through the adjustment process. In achieving this goal it is necessary to initiate all the knowledge resources in the enterprise. Permanent competitive advantages are achieved exclusively through knowledge. This claim is especially true in cases where a knowledge of an enterprise is difficult or even possible to copy. This is particularly true of organizational culture that encourages cooperation and exchange of knowledge. Enterprise's ability to learn and its ability to use relevant knowledge in its business and the mentioned not to be forgotten, has great significance in the knowledge-based business age. Knowledge and learning thus become rare and valuable sources of competitive advantage, and among other things, for these reasons, it has become extremely difficult today to find a manager who at least declaratively ignores the importance of organizational climate and the construction of a learning enterprise. In order for a company to be successfully transformed into a learning enterprise, as a first step it should identify in that process the level of culture it belongs to, and then identify the weak points that need to be changed. The transformation of companies whose internal culture is "negative" or as some authors still call it "pathological" or "bureaucratic" should change into a company with positive-generative internal organizational culture. All mentioned should ultimately have a positive impact on organizational performance.*

**Keywords:** *organizational culture, enterprise learning, business adaptation, performance*

**JEL:** M14

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**EMPLOYEES MOTIVATION AND EFFECTIVENESS OF SERVICE PROVIDING IN THE  
PUBLIC SECTOR – THE ATTITUDES OF EMPLOYEES OF THE MUP OF  
SREDNJOBOSANSKI CANTON F BH**

Received: September 1, 2018

Accepted: September 30, 2018

*Review*

**Abstract**

When the effectiveness of public sector begins to stagnate or fall, the logical question is "Why is this happening?". The answer lays in the fact that an increase of number of employees in the public sector, together with the social changes that have arisen, has not coincided with the process of improving the human resources management system and the motivation system within it. Causes of a certain people's behaviour are internal psychological drivers that drive them to some activity, and the effectiveness of an employee depends not only on his ability but also on his motivation. The task and obligation of a manager is to understand human complexity and personality, motivational theories, and depending on the specific circumstances in which the public sector works, to choose and apply adequate motivational techniques.

The objective of the paper is to establish the status and the characteristics of the relationship between the motivation and the effectiveness of service providing in the public sector.

**Keywords:** *motivation, effectiveness, public sector*

**JEL:** M12, M52

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## **COMPARATIVE ANALYSIS OF ADEQUACY AND SUSTAINABILITY INDICATORS IN THE PENSION SYSTEMS OF THE UNITED STATES OF AMERICA AND THE EUROPEAN UNION**

Received: August 31, 2018

Accepted: October 2, 2018

**Review**

### **Abstract**

*Demographic challenge of continued population ageing significantly impairs the sustainability, and thus the adequacy of pension systems. The United States of America pension system in comparison with the conditionally observed European Union pension system, perfectly depicts challenges and responses of developed countries on the pension system issues. Conditions, causes and consequences between particular indicators of adequacy and sustainability have been analysed. By selection and division according to significance of indicators, conclusions and explanations of the research results are indicated with certain restrictions. Ultimately, based on conclusions, reform guidelines in both systems are stated as responses to the growing demographic, economic and social challenges with purpose of balancing the adequacy and the sustainability at an acceptable level.*

**Keywords:** *adequacy and sustainability, pension systems, pension reform*

**JEL:** H55, J32

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## **ACCESSION OF WESTERN BALKAN COUNTRIES TO THE EUROPEAN UNION – CURRENT STATE AND POTENTIAL ECONOMIC EFFECTS**

Received: June 26, 2018

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**Review**

### **Abstract**

*Faced with the unfavorable economic and social situation, which has emerged as a direct consequence of previous war events and political turbulences, Western Balkan countries have identified the realization of the full EU membership as the most important economic and strategic goal. The aim of the conducted research is to examine the current position of this group of countries in the European integration processes by examining the theoretical and historical insights on integration trends in Western Balkan countries and analyzing the economic situation. The purpose of the research is to determine the potential effects of the full EU membership on achievement of economic and social progress in Western Balkan countries. The conducted research found a significant lag behind of this group of countries toward the EU average, which is a challenge in the implementation of effective structural reforms. With the full EU membership, this group of countries will be able to operate on the EU Internal Market and be available to use the EU financial instruments, which will present the basis for significant acceleration and improvement of economic performance and an increase in international competitiveness.*

**Keywords:** EU, IPA, Copenhagen criteria, enlargement policy, Western Balkan

**JEL:** F15, F63

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## **EVALUATION OF THE VOLUNTARY TAX COMPLIANCE IN SLOVENIA: TAX AUTHORITY PERSPECTIVE**

Received: July 17, 2018

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***Preliminary communication***

### **Abstract**

Since 2015, certain taxpayers may apply for the special status in order to promote voluntary compliance at the Tax Authority of Republic of Slovenia (FURS), after the horizontal monitoring pilot project was successfully finished in 2010. The theoretical background of the status is based on the idea of co-operative compliance, which can be described as the monitoring, predicting and preventing problems in the tax authority and taxpayers relationship. The purpose of the section is to analyse the instrument, which should establish cooperation based on transparency, understanding and mutual trust between taxpayers and tax authority. The research methodology was focused on survey among tax experts participated in drafting the legislation implementing cooperative relationship as well as experts empowered for monitoring the institute. The main objectives of the study have focused on the current activities identification, the assessment of expectations, the gaps, constraints and potential changes of the instrument identification and the evaluation of the long-term effects of the institute.

**Keywords:** voluntary tax compliance, taxpayer, tax authority, cooperative relationship

**JEL:** M41

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## **IMPLEMENTATION OF OPTION ON SPECIFIC REQUIREMENTS OF AUDITING PUBLIC INTEREST ENTITIES FROM THE REGULATION (EU) NO. 537/2014: APPLICATION IN EU MEMBER STATES**

Received: July 6, 2018

Accepted: September 24, 2018

**Review**

### **Abstract**

*The audit framework of the each EU country should be harmonized with the Directive 2014/56/EU and Regulation (EU) No. 537/2014 relating to the specificity of performing a statutory audit of public interest entities. EU member states shall adopt appropriate provisions to ensure the effective application of the Regulation. Within the Regulation, EU member states are given numerous options for selecting options available for use in their local implementation. The aim of the research is to make a comparative analysis between the EU Member States with regard to the implementation of options on special requirements for auditing of public interest entities from the Regulation (EU) No. 537/2014 to identify key differences and similarities between EU Member States, using the following benchmarking criteria: definition of public interest entities in EU member states, rotation of auditors or audit firms and major partners, provision of non-audit services, structure of auditing fees received from public interest entities and audit reporting. Using desk research method, we analyzed the inspection frame of 28 EU member states and for the application of that used options on the specific requirements of the audit of public interest entities in the Regulation (EU) No. 537/2014. Based on the audit framework analysis of EU member states, it can be concluded that the Regulation transposition has resulted in regulatory differences.*

**Keywords:** *Audit Framework, Regulation (EU) No. 537/2014, Public Interest Entities, Audit Rotation, Non-Audit Services, Audit Fees, Audit Reporting.*

**JEL:** M42

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## **ANALYSIS OF INTERDEPENDENCE BETWEEN THE CASH FLOW AND INDEBTEDNESS IN HOTEL INDUSTRY IN CROATIA**

Received: September 1, 2018

Accepted: November 30, 2018

**Review**

### **Abstract**

*Companies in the contemporary business environment are exposed to strong competition, they are constantly in a certain type of contest, so in order to survive they have to expand and improve their activities, services and products on which they generate growth and profitability. Growth needs to be financed, and the key question is how cash flows and debts affect each other. The business goal of all companies is to provide sufficient cash to settle the liabilities (debts) of the company to suppliers, employees, creditors and others, as well as for the new investments. If a company fails to meet its due obligations, it can face with liquidity and solvency problems. The company should not retain significant financial resources, but it should beam on profit-maximizing activities. Accordingly, companies should base their cash management policy on the fulfilment of its debts to the external sources of finance, while a certain amount of money should be invested in projects and activities that would generate future cash flows and improve the company's profitability. The aim of this paper is to analyze the interdependence between the cash flow from operating activities and the indebtedness of companies in the hotel industry, and to determine the financial coverage of total liabilities for companies from the hotel industry in Croatia.*

**Keywords:** cash flow, indebtedness, hotel industry, Croatia;

**JEL:** M40, M41

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## **DEVELOPMENT AND NECESSITY OF CHANGES IN THE FOCUS OF MANAGEMENT ACCOUNTING**

Received: August 28, 2018

Accepted: September 24, 2018

**Review**

### **Abstract**

*Over the past two decades, the environment in which a management accounting has been playing its role begins to change rapidly. In line with changes that have taken place in the environment, businesses and management, accountants had to redesign the existing accounting information system. Considering that management accounting is the most dynamic part of this system, according to expectations, it has had most of the changes. The aim of the research in this paper is to demonstrate the evolution of management accounting, its current position and future directions of development. Starting from the above, the methodological procedures and techniques related to social sciences will be applied, that is qualitative methodology based on the study and descriptive analysis of the defined goal of the research. The most important conclusion is that management accounting changes more its focus towards the strategic dimension of business and the concept of sustainable development, as well as that there is imbalance between the theory and practice of management accounting.*

**Keywords:** *management accounting, strategic management accounting, environmental management accounting, activity-based costing*

**JEL:** M41

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**THE INFLUENCE OF OWNERSHIP STRUCTURE ON ACCOUNTING  
CONSERVATISM AND EARNINGS MANAGEMENT**

Received: August 24, 2018

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**Review**

**Abstract**

*This paper examines relations that exist between structure of the ownership, accounting conservatism and manipulation of earnings. As one of the forms of manipulative accounting, the management of earnings increases the risk of investing by new external investors (outsiders) and potentially leads to informational asymmetries in relation to managers and existing shareholders (insiders), which ultimately results in reduced investment efficiency. The aim of this paper is to investigate to what extent the ownership structure influences the selection of conservative accounting policies and management of earnings in the financial statements, and whether, indirectly, accounting conservatism can be used as a means of reducing the possibility of manipulation of earnings. The survey was conducted on a sample of 59 BH companies listed on the Sarajevo and Banja Luka stock exchange in the period from 2012 to 2016. Applying the regression analysis, it was concluded that the ownership structure has a significant impact on selection of conservative accounting policies and management of earnings. Regression models emphasized the role and importance of some forms of ownership in both aspects of research. Using available data, correlation analysis shows that the increased index of conservatism, as a rule, means a reduced level of profit and vice versa. Different effects of these relations are evident on these two stock exchanges, which opens possibilities for additional analysis.*

**Keywords:** *ownership structure, ownership concentration, accounting conservatism, earnings management*

**JEL:** M41, M49

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**DEVELOPMENT PERSPECTIVES AND CHALLENGES OF INTERNAL AUDIT  
FUNCTION IN DIGITAL BUSINESS TRANSFORMATION ERA**

Received: August 24, 2018

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**Review**

**Abstract**

*Modern digital economy era is characterized by new concepts and trends, that are completely changing business models, tasks and transactions performance, making business decisions and overall business management of companies' governance structures and other stakeholders, which are connected with the process of digital business transformation. In that sense, process of company's digital business transformation should be appropriately planned and implemented by governance structures and conducted by all company's employees. In that process, the key role has internal audit function, so, today, internal auditors had become important advisory partners of governance structures in the process of ensuring an effective, efficient and successful business management where beside the traditional, mandatory engagements of internal audit function, assurance services, growing significance are getting non-mandatory, consulting services and providing insights.*

*The goal of this paper is to give a review of the most important new and innovative information and communication technologies, connected concepts and trends in companies' business that have or, in the near future, will have greater impact on internal audit function's work. In that sense, technology should be looked at two aspects, as a part of the system in which internal auditors are conducting their activities and as an instrument and tool by which they are performing their assignments. In this paper is also analysed and shown how these new information and communication technologies are changing the internal audit process and improving its effectiveness, so it can innovate and establish enhanced audit approaches in regard with providing risk based assurance, consulting services and providing insights.*

*Thus, the impact of technology on internal audit activity has double effect, because, on the one side, technology affects on digital business transformation of a company where the object and subject of internal audit are changed, and on the other side, new technologies change the operation mode and the process of internal auditing. In order to accomplish all tasks, be effective and contribute in the process of digital business transformation, the imperative is that internal audit function must digitally transform its process, educate and train internal auditors. However, this is not a simple process, because relevant studies have shown that majority of internal audit functions are still followers or observers who are taking notice and following evolvers in technology adoption at a slower pace or do not still use new technologies in any sense in their process. Causes for this situation can be found in audit resources limitations, governance structures misunderstanding of the importance of*

*digital business transformation for their company and internal audit function. Thereat, the key problem is the lack of internal auditors 'digital' knowledge, skills and abilities in the industrial revolution 4.0. In the end, it can be concluded that in front of modern internal audit functions around the world are set numerous challenges that are constantly evolving. In order to accomplish its assurance and advisory role and become strategic partners of governance structures, internal auditors need to be proactive leaders in the whole company with the emphasis on their professional education and training.*

**Keywords:** *internal audit function, internal audit process, information and communication technologies, digital business transformation*

**JEL:** M15, M42

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## AUDIT COMMITTEE AS A FACTOR OF EXTERNAL AUDIT QUALITY

Received: August 24, 2018

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**Review**

### Abstract

*The European Union statutory audit Directive and Regulation require that public interest entities must have an organized audit committee. Audit reform, initiated by the new regulatory framework at the European Union level, has introduced new rules that, among other things, strengthen the role of audit committee in terms of its composition and competences of its members. Accordingly, the majority of the audit committee members should be independent, while committee members as a whole must possess knowledge of the sector in which the audit subject operates. In addition to the tasks of supervising the process of conducting the statutory audit of financial statements, its findings and conclusions, the audit committee is now responsible for the election procedure and the nomination of a certified auditor or audit firm. In addition, the audit committee informs the board of directors or the supervisory board of the statutory audit outcomes, as well as examines and monitors the auditor's independence. Therefore, it is evident that the audit Directive gives significant responsibility to audit committees in terms of overseeing the auditor's independence. The main objectives of this paper are: 1) to outline and summarize key responsibilities of the audit committee in the context of achieving corporate governance goals, 2) to investigate the results of previous research on the contribution of the audit committees to the quality of external audit, 3) to examine whether auditors and audit users perceive audit committees as important factor of external audit quality. The presented findings of the primary research conducted on a sample of respondents in Croatia show that all respondents on average evaluate the impact of the existing active and expert audit committee, as well as its timely communication with auditors, positive from the aspect of its impact on audit quality. This is particularly emphasized at the level of internal audit users as employees of audited entities. Accordingly, audit committees may be considered as an important factor in the quality of external audit.*

**Keywords:** *corporate governance mechanisms, audit committees, public interest entities, external auditing, audit quality*

**JEL:** M41, M42