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Do Croatian quoted companies satisfy IFRS disclosure requirements of accounting estimates for investment property?

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Abstract

Accounting estimates occur because a large number of items in financial statements cannot be measured precisely but can only be estimated. Significant accounting estimates are disclosed in the notes to the financial statements. The aim of the paper was to identify whether Croatian quoted companies disclose all information about accounting estimates related to the Investment property, as required by IAS 40. The research included 132 quoted companies in Croatia that apply IFRSs. The research results showed that investment property has a relatively small share in the structure of total assets of quoted companies in Croatia, which is probably one of the reasons why related accounting estimates published in the notes are brief and incomplete. The general conclusion is that the notes regarding accounting estimates on investment property are composed of definitions set in the standard, instead of providing more transparent information for investors and other interested users of financial statements. As expected, the companies with the higher share of investment property have shown greater level of transparency, providing additional information which is not required by the standards.

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1. Introduction

Accounting estimates, along with accounting policies, are very important in achieving comparable financial statements. If applied in accordance with generally accepted accounting principles, standards and procedures, they contribute to the quality of the disclosed information. Accounting estimates occur because a large number of items in financial statements cannot be measured precisely but can only be estimated. According to the IFRSs, accounting estimates are judgments based on the latest available reliable information. They represent an important part of financial statements and should not reduce the reliability of information about companies' financial health and efficiency. An entity has to disclose significant accounting estimates as well as the nature and amount of change in the accounting estimate that has an effect on the current period or which is expected to have an effect on the future periods. The aim of the paper is to identify whether Croatian quoted companies disclose all information about accounting estimates related to the recognition and measurement of Investment property, as required by the accounting standards (IAS 8 and IAS 40). The research includes 132 quoted companies in Croatia that apply IFRSs. The data source for the research is based on financial statements available on the website of Financial Agency, which is in charge of the publication of financial statements in Croatia. The first goal of the research is to identify the companies that publish the item Investment property in their balance sheets. The authors explore whether those companies disclose all the required information about accounting estimates of such assets in the notes to the financial statements. IAS 40 allows Investment property to be measured subsequently at cost or fair value. If a company applies a cost model, it is obligated to assess the useful life of Investment property and specify it in the notes to the financial statements, together with the fair value of the investment. If the fair value of an item Investment property cannot be measured reliably, the entity shall disclose an explanation for not estimating the fair value. If possible, the range of estimates within which fair value is highly likely to lie should be indicated. The notes to the financial statements of quoted companies in Croatia are analyzed according to the mentioned criteria. Descriptive statistics is used to organize the collected data. The research results point out that quoted companies in Croatia do not disclose all the required information about accounting estimates. Therefore, there is a plenty of room for further improvement of transparent financial reporting regarding accounting estimates. Thus, a positive impact on informing capital market participants about business performance of the quoted companies in Croatia would be established.

2. The role of accounting estimates in valuation of investment property

2.1. Investment property

Companies acquire properties from different reasons. From the accounting's point of view the purpose of the acquired asset is very important for the determination of accounting standards authority. The accounting treatment of a property which some company uses when performing its basic activities is within the competences of IAS 16 – Property, plant and equipment. However, a property which is held to earn rentals or for capital appreciation is regulated by IAS 40 – Investment property. It should be noted that in cases where the conditions for its sale are met in accordance with IFRS 5, the property can be classified as Non-current assets held for sale. This kind of assets should be classified as current assets in the balance sheet by the criteria of liquidity. Under the current IAS 40 *“Investment property is property (land or building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes, or (b) sale in the ordinary course of business.”* The standard clearly states that a property which is used in the normal course of business, covered by IAS 16, should be distinguished from the property obtained for the purpose of acquisition, generation of revenues from operating lease with no intention of its permanent disposal, or because of earnings due to capital appreciation. Property can also be classified as inventories (IAS 2 – Inventories) if intended for sale in the ordinary course of business. Therefore, it is expected from management to clearly define the intention of holding the property in order to choose and apply adequate accounting standard for the accounting treatment of the property.

An accounting standard that represents a sort of precursor to IAS 40 is IAS 25 – *Accounting for Investments*. This standard covered not only tangible assets but also financial assets. IAS 25 was issued in 1986 and abandoned in

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