
IMPACT OF ACCOUNTING MEASUREMENT ACCORDING TO RELATIVE IMPORTANCE IN THE QUALITY OF FINANCIAL STATEMENTS

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Abstract

Accounting measurement (quantitative and monetary measurement) is the essence of the accounting process because it works to record, classify, relay, and then summarize all the operations and events experienced by the organization and show them in their final form (The outcome of the accounting process), which represents the elements of the financial statements, the latter of which contain credible accounting information. clarity, relevance, accuracy, and comparability. It is useful and important for internal users and external users in the process of making appropriate decisions that differ from one party to another according to their organizations' need for accounting information. Therefore, it is not possible to understand accounting fully and correctly without understanding what is measured and how to measure it.

The accountant must consider the importance of these accounting elements and information contained in the financial statements because their deletion or any error affects the decision-making processes of internal and external users.

Keywords: accounting measurement, financial statements, relative importance, accounting information, internal and external users.

Introduction

Accounting has recently witnessed several developments since its inception. Initially, it worked on recording the financial statements of the organization to determine the net financial position. At present, accounting is an information system where it collects accounting data that is considered as inputs and conducts certain processors to produce accounting information that is considered as outputs for institutions to be presented in financial lists, as the latter is considered one of the most important goals that should be achieved by the institution as it is very important in the decision-making processes for its users, whether internal or external.

We need to be concerned with the relative importance of the elements of the financial statements, as their overlooking and lack of interest may negatively affect the decision-making process of their beneficiaries if an error or misrepresentation of an element of the financial statements occurs.

First: Research Methodology

First: the research problem

Does the accounting information measured and presented in the financial statements meet the needs of internal and external users in rational decision-making processes?

Second: Research hypothesis

Accounting measurement is considered one of the fundamental processes by giving the elements of the financial statements their true value and showing the accounting information that it is characterized by accuracy, reliability, suitability, and clarity for its internal and external users.

Third: Research objective:

Emphasizing the necessity of highlighting the role of accounting measurement because of its great importance in the validity and accuracy of the accounting information contained in the financial statements.

Fourth: The research importance

The importance of research lies in the effective role of accounting measurement by giving a clear and correct picture of external and internal users' financial lists of the accuracy, reliability, relevance, clarity, comparability, and, in turn, a positive picture of enterprise development and increased transparency in their accounting information and outputs.

Fifth: Research tools

The researchers relied on the following tools:

1. The deductive approach in the cognitive aspect.
2. The inductive approach in the practical aspect (Al-Nahrain University).

Sixth: Data collection method

The theoretical aspect:

1. Arabic and foreign books.
2. Thesis and dissertations.

Practical aspect:

Financial statements issued and approved by the Ministry of Finance and the Federal Financial Supervision Bureau of Al-Nahrain University.

Second: Conceptual framework for accounting measurement and financial statements

First: Definition of accounting measurement

The American Financial Accounting Standards Board (FASB) defined accounting measurement as “assigning numbers to events or things according to specific rules. It is also considered a comparative process that aims to obtain accurate information to distinguish between one alternative and another in a decision-making situation.” (Richard et al., 2006: 185).

It is also known as (the process of determining the monetary values of the items that will be recognized in the financial statements and which will appear in the balance sheet and income statement). (Juma, 2010: 61).

The two researchers believe that accounting measurement is determined by the monetary value of the elements of financial statements that are measured quantitatively, such as assets, liabilities, revenues, and expenses.

Second: Components of accounting measurement

Accounting measurement includes a group of components, including: (Larousi, 2014: 9)

1. The property to be measured: The measurement process focuses on a specific property of a specific thing, whatever its type.
2. The appropriate scale for measurement: The type of scale depends on the characteristic being measured.
3. Unit of measurement: The monetary unit is the unit of measurement in accounting. This unit must be fixed and homogeneous so that the measurement result is comparable and compiled.
4. The person conducting the measurement process: The results of the accounting measurement differ depending on the person conducting the accounting measurement process.

Third: Objectives of accounting measurement

The objectives of accounting measurement are as follows: (Larousi, 2014: 11).

1. Measuring the resources that generate income: to be able to identify all changes in income and to cope with any decrease, interest in measuring and conserving its verification has become the sources, uses of resources, and their preservation because resources constitute the subject of measurement itself.
2. Ensuring optimal exploitation of available resources: Measuring the available productive, marketing, and material capacity helps the organization to rationally exploit all available opportunities to avoid wasting them, and the accounting measurement process must take into account the time factor and the current value of money. The two researchers consider that the objective of accounting measurement is to optimize the use of available resources and maintain them from waste and loss so that the enterprise continues to earn its income.

Fourth: Accounting measurement standards

Accounting standards represent a link between the mechanism of measurement, its foundations, and the results and objectives that may lead to it that must be achieved from the accounting measurement process, and these standards can be summarized as follows: (Khaled, 2016: 45-47).

1. **Objectivity standard:** Objectivity in accounting measurement means not being subject to personal estimates, that is, it expresses the facts without any distortion.

The availability of objective conditions for accounting can be verified through the following:

- Some accountants repeat the accounting measurement provided by one of the auditors. When they reach the same results, this indicates the accountant's impartiality and lack of interference with the results.

- Through the extent to which accounting information represents economic facts.

2. **Verifiable:** The accounting information was taken from reliable sources, consisting of a set of documents and written procedures that we can refer to to verify the authenticity of the accounting information and its conformity with the source and thus make it valid in the decision-making process regardless of the identity of the examiner or beneficiary.

3. **Capable of quantitative measurement:** The cash basis is the standard for accounting measurement that is approved by the accountant in preparing the financial statements. This is due to the inability to use other quantitative measurements if accounting changes are measured, data and information are summarized and presented due to the different and asymmetric elements of the financial statements that make up these changes, and as the accountant's commitment to monetary measurement results in the exclusion of useful data and information that address distortions arising solely from the reliance on the cash measurement.

4. **Standard of usefulness:** Accounting is a means of serving users of accounting information in financial statements, so it must be useful to internal and external users to be able to make appropriate decisions that work to achieve their desired goals.

Fifth: Definition of financial statements

Financial statements are considered the final product of any accounting system. They work to reflect the financial position of the institution, expressed in monetary terms. They are considered very important to the parties using them as they help them in the decision-making process.

Financial statements are defined as (the final product of the accounting process, as they are represented in the form of financial statements or reports summarizing the accounting information provided to the benefiting parties, whether internal or external, regarding decision-making) (Al-Kubaisi, 2010: 481).

It is also known as (a complete set of accounts represented by the balance sheet list, the income statement list, and the cash flow list. The goal of these lists is to provide accounting information to users to be able to make appropriate decisions) (Barneto, 2006: 261).

Through the above definitions of financial statements, the two researchers see that they are the final product of the accounting process that the accountant presents to the benefiting parties to make peaceful decisions.

Sixth: Characteristics of financial statements

These are the characteristics that make the presentation of accounting information useful to users, which must have the following: (Al-Zahraa, 2016: 23)

1. **Appropriateness:** The accounting information provided by the accountant must be appropriate in terms of making appropriate decisions for the beneficiaries so that the accounting information helps them evaluate past, current, and future events.

2. Accuracy and reliability: Accounting information is characterized by being free of errors and bias, as it enjoys true representation, substance over form, relative importance, caution, and neutrality. The accounting information provided by the accountant may be appropriate but lacking in reliability, due to the degree of its accuracy and the date of issuance.
3. Comparable: Users of accounting information can carry out a comparison process regarding the lists of the same institution or with other institutions operating in the same field over successive periods, and the performance of an institution can also be compared with another institution in the same period.
4. Clarity: The accounting information contained in the financial statements must be easy to understand and clear so that they can make decisions.

Seventh: Objectives of the financial statements

Financial statements have several goals, the most important of which are: (Khaled, 2016: 13)

1. The financial statements reflect the results of management's work in terms of using available resources.
2. The financial statements reflect the organization's assets and liabilities.
3. Financial statements help users predict future cash flows.
4. Financial statements fulfill the needs of their users in terms of making decisions.
5. Financial statements provide information to external users, whether investors or creditors, to enable them to make decisions in terms of investment and granting loans.
6. Financial statements provide investors and creditors with accounting information so that they can evaluate, compare, and predict cash flows.
7. Financial statements reflect the method of obtaining resources and how they are used to be able to predict future profits.
8. Financial statements indicate the right to own property and the rights of others and additionally its obligations and any operations that may affect these rights.

Eighth: Users of financial statements

There are many users of the accounting information contained in the financial statements, as well as their needs due to the multiplicity and diversity of its decisions. The categories used can be identified, including: (Al-Qadi and Al-Rishani, 2012: 71)

1. Investors: They need accounting information about risks and returns to enable them to make appropriate decisions regarding buying and selling, and shareholders also need it because it helps them evaluate the institution's ability to distribute due profits.
2. Employees: Employees who work in the organization are interested in accounting information that reflects its stability and profitability in the organization's ability to pay their salaries and compensation.
3. Lenders: Lenders are interested in accounting information to know the institution's ability to pay debts and interest.
4. Creditors and suppliers: suppliers are interested in accounting information that enables them to determine the enterprise's ability to recover creditors promptly.

5. Customers: Customers are interested in accounting information that reflects the continuity of the enterprise in the performance of its services and the production of its products.

6. The State: The State and government agencies are interested in the accounting information presented by institutions to determine the tax imposed, reserves, national income, and various census operations.

Ninth: The concept of relative (material) importance

Relative importance is considered one of the restrictions on the accounting information contained in the financial statements, which affects the organization's overall financial statements. Items are material when their inclusion in the financial statements affects the decisions of internal and external beneficiaries (Al-Ani and Al-Saadi, 2018: 36).

The Financial Accounting Standards Board (FASB) considers the materiality of the size of omissions and distortions in accounting information that is likely to affect the decisions of beneficiaries in light of this omission (Taylor & Getzon, 1999: 471-474).

Relative importance is also defined as (incorrect accounting information that may affect the decision-making process by people. (Arens & Loebbecke, 2005:54)

The two researchers believe that the element is important if an error or neglect causes a change in the decisions of internal or external beneficiaries who rely on the accounting information contained in the financial statements.

Third: (A field study of the elements of the financial statements for the Higher Education Fund)

This account is referred to the provisions of Articles (10) and (47) of the Ministry of Higher Education and Scientific Research Law No. (40) of 1988, and Instructions No. (122) of 1999. (A fund shall be established at each center of the Ministry of Higher Education and Scientific Research, the university, the authority, the college, the institute, and the scientific research center, called the Higher Education Fund, which shall enjoy administrative and financial independence. The fund is managed by the university president, the president of the university, the assistant president of the university, no more than three department directors, and the director of the administrative and financial affairs department.

The Fund Council's management is responsible for issuing the necessary decisions to disburse from the Fund in accordance with the provisions, laws, decisions, and instructions after approval by the University Council. The university's higher education fund revenues consist of consulting office rents and revenues resulting from the university's services and activities. These amounts are disbursed at a rate of 70% to motivate workers, and 30% for maintenance and treatment of bottlenecks. This is done according to the minutes of the Higher Education Fund meeting, which is held monthly.

Below is the balance sheet and income statement as of 12/31/2020 for this account, with a statement of the relative importance of each account and the results of examining the most important accounts included in those lists.

a. Balance Sheet List: Everything contained in the records of the Presidency of Al-Nahrain University is recorded and posted.

Table (1) The relative importance of the balance sheet of Al-Nahrain University

Accounting guide number	account name	The amount for the year 2020 is dinars	comparative account name	The comparative amount in 2020 in dinars	Percentage
183	Cash at the bank	410,232,795	Total liabilities	533,255,995	%76,93
167	advance	123,023,200	Total liabilities	533,255,995	%23,07
1	Total assets	533,255,995	Total liabilities	533,255,995	%100
266	Various accounts payable	46,228,303	Total liabilities	533,255,995	%8,67
268	Dividend creditors	49,247,778	Total liabilities	533,255,995	%9,24
224	Reserve	437,779,914	Total liabilities	533,255,995	%82,09
2	Total liabilities	533,255,995	Total liabilities	533,255,995	%100

Source: Prepared by the two researchers based on data from Al-Nahrain University.

Through the above table, it was noted that the Bank's cash account achieved relative significance to total assets. (77%), the highest ratio on the asset side, followed by on the liability side the reserve calculation which was (82%) of the total liabilities, as the two researchers verified The accuracy of the amounts recorded on some items in the budget list, which achieved high relative importance, and the results of the examination were as follows:

- ❖ Cash account at the bank: This account records the amounts deposited or withdrawn by the university from its current account at the bank in Iraqi dinars for operational purposes.
- The Fund's Board of Directors did not prepare periodic reports and an annual report on the Board's activity and the results of its work during the year, in contravention of Article (12-C-Sixth) of the Higher Education Fund Instructions for the year 2004, which stipulates (Preparing periodic reports and an annual report on the Council's activity and the results of its work during the year).
- The amounts were not deposited into the current account daily at the bank, whether in cash or checks, until ten days later.
- The treasurer alone completes the task assigned to him from beginning to end (Receiving the amount of money, transferring the amount to the cashier's register (Accounting 66), placing the amount in the metal clip, and depositing the amount in the bank) without having an alternative if he is on vacation.

❖ Reserve account: This account represents the funds that are recorded in the above account, which constitute support for the university’s financial position and are disposed of in accordance with the applicable laws.

- Not maintaining a ledger record of the reserve and its types, makes it difficult to track the movement of the account.

- The reserve referred to in the balance sheet has been classified under the type of accumulated surplus, which is the result of increased revenues resulting from university activities represented by (fees for courses in the Continuing Education Center, and rental income for fixed assets, which include clubs, consulting offices, and the sale of natural honey).

Based on the results presented for some calculations, the two researchers believe it is necessary to take into account the following points to avoid the identified weaknesses, as follows:

1. The Board of Directors of the Higher Education and Scientific Research Fund shall adhere to the applicable instructions in terms of preparing periodic and annual reports and submitting them to the Ministry of Higher Education and Scientific Research and providing the Federal Financial Supervision Office with a copy of it if requested.

2. Participate with another staff member with the cashier to complete the tasks if he is on vacation.

3. Maintaining a reserve ledger.

b. Income statement list: All expenses and revenues of the Presidency of Al-Nahrain University are recorded and posted.

Table (2) The relative importance of the income statement for Al-Nahrain University

Accounting guide number	account name	The amount for the year 2020 is dinars	comparative account name	The comparative amount in 2020 in dinars	Percentage
31	Salaries and wages	44,439,000	Total cost	69,523,000	%63,92
32	Commodity supplies	17,270,000	Total cost	69,523,000	%24,84
33	Service supplies	7,814,000	Total cost	69,523,000	%11,24
3	Total cost	69,523,000	Total cost	69,523,000	%100
438	Fixed asset income	65,054,661	Total cost	69,523,000	%93,57
437	Diversified revenue	4,468,339	Total cost	69,523,000	%6,43
4	Total revenue	69,523,000	Total cost	69,523,000	%100

Source: Prepared by the two researchers based on data from Al-Nahrain University

From the table above, it was noted that the salaries and wages account achieved relative importance to the total expenses (64%), which is the highest percentage on the expenses side, followed by the fixed assets revenue account on the revenues side, where its percentage was (94%) of the total revenues. The two researchers verified the accuracy of the amounts recorded on some items in the income statement list, which achieved high relative importance, and the results of the examination were as follows:

- ❖ **Salaries and Wages Account:** This account includes the cost of what the university pays in cash to its staff, salaries and wages, and the wages of ancillaries in exchange for their contribution to the educational process, as the Fund disburses this account (Incentive rewards for university members for their efforts in completing the work assigned to them, and incentives for staff).
 - The university does not keep a record of the rewards granted to staff members to count the total amounts granted to each staff member in one year according to the applicable laws and instructions.
 - Not all variables are entered accurately with regard to incentives in terms of maternity leaves, academic leaves, and thanks, and thus affects the calculation of the number of points per employee.
 - There are no records of the incentive calculation for each staff member by the Higher Education Fund Accounts Division to track disbursement procedures.
- ❖ **Fixed assets revenue account:** This account includes the revenues that the university receives in exchange for renting the buildings it owns to others.
 - Weak procedures for fixing the accounting guide number on the receipts for all revenues received by the treasurer, contrary to the unified accounting system.
 - There is no sub-ledger for calculating fixed asset revenue.
 - There is a weakness in the procedures for collecting indicative fees and announcing those who won the bid (the tenant) through examining the receipt and deposit documents (the treasurer's secretariat).
 - Most of the rented buildings, represented by (clubs, copying offices, studios, and playgrounds), mostly belong to the formations (colleges), and the college's balance of these revenues is (85%) according to the instructions of the Higher Education Fund. Consequently, there is a delay in paying the formations' (faculties) share of the above revenues, which consequently negatively impacts the formation's (college's) performance in performing its scientific and educational services.

Through the results of some calculations, the two researchers consider it necessary to take the following points to avoid the specific weaknesses:

1. Prepare a record of incentives and rewards to avoid losing incentive statements and administrative orders related to rewards.
2. Enter all variables to be able to calculate the number of points for one employee.
3. Write the accounting guide number on the receipts for all revenues received.
4. Maintaining a sub-register for calculating fixed assets income.
5. Collecting the advertising fees amounting to (2%), collecting the advertisement amount from the person to whom the bidding was awarded, and taking a receipt.

6. Pay the quota of formations (faculties) without delay.

Fourth: (Conclusions and recommendations)

First: conclusions

1. The organization's preparation of its financial lists according to the accounting measure is actually to give the accounting information credibility and allow its users to make sound decisions because it genuinely expresses its financial position.
2. Financial statements are characterized by accuracy, objectivity, clarity, credibility, and comparability.
3. There is great importance to the accounting measurement process in preparing and presenting financial statements as it works to record, measure, classify, and summarize operations and events.
4. Accounting measurement is determined by the monetary value of the elements and items of financial statements that are measured quantitatively, such as assets, liabilities, revenues, and expenses.
5. It is necessary to take into account the relative importance of the element since the error or neglect changes the decisions of internal or external beneficiaries who rely on the accounting information contained in the financial statements.

Second: Recommendations

1. The Board of Directors of the Higher Education and Scientific Research Fund shall adhere to the applicable instructions in terms of preparing periodic and annual reports and submitting them to the Ministry of Higher Education and Scientific Research and providing the Federal Financial Supervision Office with a copy if requested.
2. Participate with another staff member with the cashier to complete tasks if he is on vacation.
3. Preparing a record of incentives and rewards to avoid losing incentive statements and administrative orders related to rewards.
4. Collecting the auctioneer's fees amounting to (2%), and collecting the advertisement amount for the person to whom the bid was won, and you must obtain a receipt.
5. Work on entering all the variables that occur to the owners to be able to calculate the number of points.

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