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Integrity issues of information created by book entries

by

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Abstract

Book entries are vehicles used in accounting to accommodate non-cash transactions, timing differences and provisions. The use of book entries is a normal activity in accounting and may have their origin in accrual accounting. The management of a company may apply creative accounting techniques in the form of earnings management, in particular, adopting the practices of income smoothing and taking the so-called 'big bath'. These practices may result in the financial manager or accountant misusing book entries. This could then lead to information of a different integrity to that which would have resulted had these creative accounting practices not been performed in the company.

The question addressed in this dissertation and for which an answer is sought, is whether there is any notable difference in the integrity issues of information supplied through the accounting process and created by real transactions (real events) as opposed to information created by book entries (artificial events). The hypothesis underlying this dissertation is:

The integrity of information created by book entries is based on subjective opinions because it is based on future events therefore it is not the same as integrity of information created by real transactions that is based on historical events.

The new science is concerned with new guidelines, amongst other things, regarding reality, observation, objectivity, predictions and relationships among events. These new guidelines could be seen as explaining certain aspects which is relevant to the field of accounting. The attributes of a book entry are not based on reality, but are based on subjective predictions of future transactions etc. Another similarity is that a book entry is often not objective but is based on subjective observation.

Notable differences were observed in the integrity of the information emerging from a real, historical event and a future event. These differences were established through the

application of two research methods, namely, the use of a questionnaire and the analysis of the financial statements of 30 companies listed on The JSE Securities Exchange South Africa (JSE). The influence of book entries on certain ratios was considered, and the ratios influenced by two major book entries, namely, depreciation provision and deferred taxation, differ substantially in interpretation when the two book entries are reclassified. The results of the questionnaire also indicate that a large proportion of the financial managers in practice believe that book entries substantially influence the integrity of information.

Keywords Book entry
Earnings management
Events
Integrity of information
Occurrences
Transactions

Opsomming

'n Boekinskrywing is 'n meganisme wat in rekeningkunde gebruik word om nie-kontantransaksies, tydsverskille en voorsienings te akkommodeer. Die gebruik van boekinskrywings is 'n normale aktiwiteit in rekeningkunde en mag selfs hul oorsprong hê in toevallingsrekeningkunde. Die bestuur van 'n maatskappy mag kreatiewe rekeningkundige tegnieke toepas in die vorm van verdienstebestuur, deur spesifiek gebruik te maak van inkomste-effening en die neem van 'n "*big bath*". Hierdie gebruike kan daartoe lei dat boekinskrywings misbruik word deur die finansiële bestuurder of die rekenmeester. Dit mag lei tot inligting wat verskil in integriteit van dié inligting waar geen kreatiewe rekeningkundige beginsels toegepas was nie.

Die vraag wat in hierdie verhandeling aangespreek word, en waarvoor 'n antwoord gesoek word, is om vas te stel of daar enige merkbare verskil is tussen die integriteitskwessies van wat deur die rekeningkundige proses voorsien word, en deur middel van egte transaksies (egte gebeurtenisse) geskep is, teenoor inligting deur boekinskrywings (kunsmatige gebeurtenisse) geskep. Dit lei tot die volgende hipotese:

Die integriteit van inligting wat deur boekinskrywings geskep word is gebaseer op subjektiewe menings omdat dit op toekomstige gebeurtenisse gebaseer word, daarom is daar 'n verskil met die integriteit van inligting wat deur egte transaksies geskep word wat op historiese gebeurtenisse gebaseer is.

Die nuwe wetenskap is gemoeid (onder andere) met nuwe riglyne ten opsigte van realiteit, waarneming, objektiwiteit, voorspellings en verhoudings tussen gebeurtenisse. Hierdie nuwe riglyne kan sommige aspekte wat relevant is vir die veld van rekeningkunde, verduidelik. Die eienskappe van 'n boekinskrywing is nie op realiteit gebaseer nie, maar gebaseer op subjektiewe voorspellings van toekomstige transaksies. 'n Verdere ooreenkoms is dat boekinskrywings meestal nie objektief is nie weens die feit dat dit gebaseer is op 'n subjektiewe waarneming.

Merkbare verskille in die integriteit van inligting is verkry deur die waarneming van egte, historiese gebeurtenisse en toekomstige gebeurtenisse. Die verskille is basies vasgestel deur die toepassing van twee navorsingsmetodes naamlik, die gebruik van 'n vraelys en die ontleding van die finansiële state van 30 maatskappye wat op die JSE Sekuriteite Beurs Suid-Afrika genoteer is. Die invloed van boekinskrywings op sekere verhoudings word in oënskou geneem en die verhoudings wat beïnvloed word deur die twee wesenlike boekinskrywings, naamlik, die waardevermindervorsiening en uitgestelde belasting, se interpretering verskil wesenlik in gevalle waar die twee boekinskrywings herklassifiseer word. Die resultate verkry uit die vraelys dui aan dat 'n groot aantal finansiële bestuurders glo dat boekinskrywings die integriteit van inligting wesenlik beïnvloed.

Sleutelwoorde Boekinskrywings
Gebeurtenisse
Inkomste-bestuur
Integriteit van inligting
Transaksies
Voorkomste

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