TOWARDS A CLASSIFICATION FRAMEWORK FOR ACCOUNTING INFORMATION

By

HUIBRECHT MARGARETHA VAN DER POLL

submitted in fulfilment of the requirements for the degree

DOCTOR COMMERCII (FINANCIAL MANAGEMENT SCIENCES)

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

at the

UNIVERSITY OF PRETORIA

APRIL 2007

Acknowledgements

Firstly I would like to thank my Creator, the God of the Holy Trinity, for the insight He gave me to complete this thesis.

I would also like to express my appreciation to the following people who guided and supported me during my research:

I. Professor Daan Gouws, my promoter at the University of Pretoria, for his continued supervision and motivation.

II. My husband, Professor André van der Poll, for his continued support, motivation and love. Thank you for all the input, proofreading and believing in me.

III. My children, Hendrik (9) and Saretha (5), for their love and support even though they did not always understand why I had to work all those late nights and weekends. Hendrik, thank you for your assistance with the random selection of a company as discussed in Chapter 5.

IV. My parents, Kris and Retha Krüger, for motivating me, believing in me and creating opportunities for me, by sending me to university.

V. Yvonne van Stuyvenberg, the subject librarian at the University of South Africa, for finding old text books from all over the world at very short notice.

VI. All those respondents who replied to the questionnaire.

VII. Trish Cooper for her professional language expertise.

Breggie van der Poll

April 2007

Abstract

This thesis is concerned with the classification of accounting information from the recording phase through to the reporting phase. Various criticisms on the way information is presented in financial statements, especially in the balance sheet and income statement are found in the literature. Classification models for accounting information have been proposed in the literature but the main disadvantages of these models are that they are inherently static in nature and do not embed the notion of time.

To further test the various criticisms of present classification structures, 1) a comprehensive literature survey of the criticisms of present accounting classification structures as presented by researchers in the literature was conducted, 2) a questionnaire was prepared and sent out to companies in industry, academics as well as analysts in order to test these criticisms, and 3) an analysis of the financial statements (balance sheet and income statement) of 93 companies listed on The JSE Securities Exchange South Africa (JSE) was undertaken.

The outcome of the above three (3) actions led to the following hypothesis:

The current classification of accounting information, from the recording phase to reclassification in the reporting phase, does not supply users of such information with the necessary information for decision-making purposes. In this regard a comprehensive classification framework for accounting information is proposed, with the following properties:

- A well-defined set of attributes will be used, ultimately to classify a transaction into a static subframework to aid decision-making.
- Time will be used to classify a transaction at the time of recording and later to reclassify it at the time of reporting.
- The proposed framework will guide the classifier as to how an item finds its way into a static structure.

Classification has as its first step the identification of all the attributes known at the time of recording and reporting of the items implicitly involved in a transaction. These attributes in essence define the items that are to be classified into a structure as well as allowing for relationships to be drawn among the said items.

One of the advantages of classification is the creation of (new) knowledge or information. The utility of such information depends on the quality of the classification performed. Normally the responsibility for classification at both the recording and reporting phases rests with the accountant. The resultant classification should provide enough information to users of financial statements, especially financial managers, to allow them to reclassify the given information to suit their own needs.

An important influence on a classification framework for accounting information is the various requirements put forward by a variety of users of such information. Some of these requirements may conflict with one another. It is proposed in this thesis that a distributed union of all requirements of users be taken and all conflicting requirements be removed from the union (i.e. simply put all requirements into one group and remove all those that conflict with one another). Classification is then performed for the result. Additional information may be supplied in the statements to cater for the requirements outside the result.

The classification framework for accounting information proposed in this thesis is made up of three (3) subframeworks as follows:

- A normative subframework that defines a number of attributes for a transaction and which is based on the recording (past) and reporting (present) phases of accounting information. This framework also takes transactions with future aspects into account.
- A decision subframework which follows directly on the normative subframework and which directs the classifier as to where a transaction should be classified in a final, static subframework.
- A static subframework which shows where items implicitly involved in a transaction are finally classified.

Classification frameworks are proposed for both the balance sheet and the income statement. The balance sheet framework embodies a temporal component, a decision component and a static structure. A different classification layout for the income statement, including a temporal component and a static structure, is also proposed in this thesis.

Opsomming

Hierdie tesis gaan oor die klassifikasie van rekeningkundige inligting vanaf die teboekstellingsfase tot en met die verslagdoeningsfase. Vele kritiek oor die manier hoe inligting in die finansiële state, hoofsaaklik die balansstaat en inkomstestaat, voorgestel word, word in die literatuur aangetref. Klassifikasie modelle vir rekeningkundige inligting word in die literatuur voorgestel, maar die hoofnadele van sodanige modelle is dat hulle inherent staties van aard is en ook nie die idee van tyd insluit nie.

Ten einde die verskeidenheid van kritiek op bestaande strukture te toets, is 1) 'n deeglike literatuurstudie van die kritiek op bestaande rekeningkundige klassifikasie strukture deur navorsers in die literatuur onderneem, 2) 'n vraelys opgestel en aan maatskappye in die industrie asook analiste en akademici gestuur ten einde die geldigheid van die kritiek in die literatuur te toets en 3) 'n analise van die finansiële state (balansstate en inkomstestate) van 93 JSE-genoteerde (JSE Securities Exchange South Africa) maatskappye onderneem.

Die bevindings van bostaande drie aksies het tot die volgende hipotese gelei:

Die huidige klassifikasie van rekeningkundige inligting vanaf die teboekstellingsfase tot en met die herklassifikasie tydens die verslagdoeningsfase, verskaf nie aan gebruikers van sodanige inligting die nodige inligting vir doeleindes van besluitneming nie. In hierdie verband word 'n omvattende klassifikasie raamwerk vir rekeningkundige inligting voorgestel wat die volgende eienskappe bevat:

- 'n Goed gedefinieërde versameling attribute sal gebruik word om die finale klassifikasie van 'n transaksie in 'n statiese raamwerk wat besluitneming bevorder, te klassifiseer.
- Tyd sal gebruik word om 'n transaksie op die tydstip van teboekstelling te klassifiseer en later tydens verslagdoening te herklassifiseer.

- Die voorgestelde raamwerk sal die klassifiseerder leiding gee oor hoe om 'n item in 'n statiese struktuur te plaas.

Klassifikasie het as 'n eerste stap die identifisering van alle bekende attribute tydens teboekstelling van 'n transaksie en verslagdoening oor die items implisiet betrokke in 'n transaksie. Sodanige attribute definieer in wese die items wat in 'n struktuur geklassifiseer moet word. Dit laat ook ruimte vir verwantskappe wat tussen die betrokke items bepaal kan word.

Een van die voordele van klassifikasie is die skep van (nuwe) kennis of inligting. Die bruikbaarheid van sulke inligting hang af van die kwaliteit van die klassifikasie wat uitgevoer is. Die verantwoordelikheid van die klassifikasie tydens teboekstelling sowel as veslagdoening berus gewoonlik by die rekenmeester. Die gevolglike klassifikasie moet genoeg inligting verskaf aan gebruikers van finansiële state, veral finansiële bestuurders, om hul in staat te stel om herklassifikasie te kan uitvoer om aan hul eie behoeftes te voldoen.

'n Belangrike invloed op 'n klassifikasie raamwerk vir rekeningkundige inligting is die onderskeie vereistes wat deur 'n verskeidenheid gebruikers van rekeningkundige inligting gestel word. Party van hierdie vereistes is noodwendig in konflik met mekaar en in hierdie tesis word voorgestel dat 'n verspreide vereniging van al die vereistes van die gebruikers geneem word en dat al die vereistes wat in konflik met mekaar is van die vereniging verwyder word (di. al die vereistes word in een groep geplaas en al dié wat in konflik met mekaar is word verwyder). Klassifikasie word dus vir die resultaat gedoen. Bykomende inligting kan moontlik by die state gevoeg word ten einde voorsiening te maak vir vereistes buite die resultaat.

Die voorgestelde klassifikasie raamwerk vir rekeningkundige inligting berus soos volg op drie (3) subraamwerke:

- 'n Normatiewe subraamwerk wat 'n aantal attribute vir 'n transaksie definieer en gebaseer is op die teboekstellingfase (verlede) en verslagdoeningfase (tans) van rekeningkundige inligting. Die raamwerk neem ook transaksies met toekomstige effekte in ag.

- 'n Besluitnemingsubraamwerk wat uit die normatiewe subraamwerk vloei en wat die persoon wat die klassifikasie doen, lei na waar die transaksie in die finale statiese subraamwerk inpas.

- 'n Statiese subraamwerk wat aantoon waar items wat deur 'n transaksie geïmpliseer word, finaal geklassifiseer word.

'n Klassifikasie raamwerk vir beide die balansstaat en die inkomstestaat is voorgestel. Die balansstaatraamwerk beslaan 'n temporale-komponent, 'n besluitnemingskomponent en 'n statiese struktuur. In hierdie tesis word 'n aangepaste klassifikasie-uitleg vir die inkomstestaat voorgehou met 'n temporale komponent sowel as 'n statiese struktuur.

Sleutelwoorde   Attribute

Besluitnemingsbruikbaarheid

Klassifikasie raamwerk

Rekeningkundige inligting

Temporaal

Verantwoordbaarheid

Verspreide vereniging

Table of contents

List of figures

List of tables