

Nature of the Economic Units Investment Activity and Its Reflection on the Accounting System: A Comparative Analytical Study

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The research has interested in addressing the investment activity of the economic units (other than units or investment companies) and showing its impact on the accounting system of those units, This has been achieved by analyzing the nature of the investment activity practiced by the Iraqi economic units to determine whether this activity is a major (ongoing) or secondary (non-current) activity, as well as analyzing the accounting processes practiced by the Iraqi accounting systems for this activity to see if the account treatment of investment activity is commensurate with its relative importance to the activity of economic units. Moreover, since this has a very important impact on the quality of the accounting information detailed in financial reports, as the low quality of accounting information will negatively affects the support of investment decision-making, where it leads to the misallocation of limited financial resources, and the failure to choose optimal investment opportunities for investors, and then leads to economic deterioration. The research has reached to two conclusions, the most important of the Uniform Accounting System for Financial institutions treats the investment activity of these enterprises as a major or ongoing activity, while the Uniform Accounting System for Non-Financial institutions treats the investment activity of these enterprises as secondary or non-current activity, which has been this fact or property.

Key words: *Investment, Uniform Accounting System for Financial institutions, Uniform Accounting System for Non-Financial institutions.*

Introduction

Investment activity is the process of employing or operating available funds in order to achieve future monetary returns, and this activity is of great importance to the fact that investment is the vital and effective component of achieving economic and social development if we are taking into account that any initial increase in investment will lead to increase the income, in return, income increases must go in part to increase investment, which means that successful investments lead to future progress in both income, capital or wealth. Investment is broadly defined as sacrificing or giving up specific current funds for the purpose of obtaining unspecified future funds (Alexander, 2001:1). and is also defined as the commitment or commitment of current financial resources to reap the future revenues (Bodie, Kane, Marcus, 2008: 1). Investment is also defined as the process of operating funds over a certain period of time to improve investors' wealth. Based on the above, the investment activity can be defined as the operation or use of available funds over a certain period of time in order to achieve future cash returns.

The investment activity of economic units can be classified based on the funds used to finance it or the funds employed for it to:

1. Investment financed by available financial resources (capital and liabilities) for the economic unit as in the case of:
 - a) Comprehensive Banks: Banks established with the aim of engaging in commercial banking and investment activity (Islam, Fatima & Ahmed, 2011).
 - b) Insurance Companies: These companies are established with the aim of practicing insurance activity. Their work is summarized by collecting the premiums achieved from the insurance policies issued to their insured customers and investing them in guaranteed economic activities in order to provide the necessary funds to meet the immediate compensation to which these companies are committed to pay for the insured persons, cover their administrative expenses, and achieve a profit margin that enables them to survive and continue to operate, and then grow and expand. Therefore, the investment activity plays a key role in the achievement of insurance companies to ensure that they remain and continue to operate, and therefore insurance companies engage in investment activity in conjunction with the activity of producing insurance policies (Nichols, Wahlen & Wieland, 2009).
2. Investment financed by cash over the need of the economic unit in the exercise of its current (operational) activity for which these units were established, as in other economic units that engage in commercial, industrial, agricultural and other activities.

Based on the above, it is clear that investment activity in financial institutions is a major activity and in non-financial institutions (commercial, industrial, agricultural, etc.) is regarded as a secondary one.

Iraqi Economic Units' Accounting System

As an information system, the accounting system measures economic events affecting the income of the unit's economic activity and financial position, and discloses them in financial reports, with the aim of communicating accounting (financial) information to investors to help them with (SFAC, 2010):

1. Making efficient decisions to allocate their limited financial resources.
2. Making decisions about how efficiently and effectively management uses those resources (SFAC No.8, BC1:28).
3. Helping in predicting future cash flows in terms of their amount, timing and associated uncertainty (reliability).

In order for accounting information to be useful, it must be characterized by the two basic characteristics of the quality of accounting information (IAS, 2016: 21):

- a) **Relevance:** Appropriate information is the information that has the potential to make a difference in the decision taken (SFAC, 2010), and this is achieved when there is a logical link between the information and the decision taken (Flayyih, Al-Mufraji & Alhelle, 2019).
- b) **Faithful Representation:** A honest offer means a compatibility or a match between the numbers (measurement) and the names (accounting descriptions) with the essence of the economic event to be disclosed in the financial reports (SFACN, 2010). This is achieved when the measurements process is accurate enough (carrying amount) to make the value or amounts recorded (carrying amount) corresponding to actual amounts and account names reflect the substance or content of the economics of the content of the economic event to be measured and disclosed in financial reports (statements) as the basic accounting tool for communicating accounting information (financial) to the investors.
- c) Under the accounting and financial laws and regulations in force in Iraq on Iraqi economic units, one of the following accounting systems is applied:
 - The uniform accounting system for banks and insurance companies: it is applied by Iraqi banks and insurance companies, known as the uniform accounting system for financial institutions (CASBIC, 1989:5).
 - The uniform accounting system: It is applied by all Iraqi economic units other than financial institutions, which can be described in the context of this research as the uniform accounting system for non-financial institutions (SAS, 2011: 9).



Research Methodology

The relative importance of investment activity by economic units (reporting entities or units) varies unlike those of the specialized investment units. The failure of the accounting system to deal with this activity in accordance with its relative importance leads to a decrease in the quality of accounting information which is a measure of the quality of reporting or financial reporting of economic units, which is resulting in a decrease the use of accounting information by investment decision makers in rationalizing their investment decisions.

The research aims to determine the nature of the investment activity of the Iraqi economic units (in contrary to the economic units that are specialized in investment activity), and to analyze their accounting systems to indicate whether this activity has a reflection on the accounting system of the economic unit or not, and take the suitable measures if the situation requires that.

The accounting system's handling of the investment activity of economic units according to its relative importance leads to the provision of more detailed and user-friendly information, which increases the quality of accounting information about that activity and makes it more useful to support the process of making investment decisions.

Investment decisions are regarded the main driver of the economy and, therefore, for any economic unit, and because the accounting system is in the process of identifying, measuring and communicating financial information related to economic events that have been accountably treated, and because investment decisions are one of the economic events and even the most important among them, therefore, the accounting system is required to exert the necessary or adequate professional care to accountably address them. Any deficiencies or gap in this treatment leads to a decrease in the quality of accounting information, which negatively affects the support of investment decision-making, and the misallocation of limited economic resources, this, in turn, leads to an economic decline. This research deals with Iraqi economic units.

Research of Result:

UAS for Financial Systems

We will use these two names for the accounting system applied by the Iraqi Economic Units in the context of this research later.

- The Uniform Accounting System for Financial institutions
- The Uniform Accounting System for Non-Financial institutions

Analysis of the Nature of Investment Activity of Iraqi Economic Units

Due to the adoption of the accounting system of the usefulness of decision Approach which has become the most useful information for investors' decisions and its ultimate objective. Hence, the accounting system is required to deal with the investment activity or give it importance in dealing or treat it commensurately with importance that reflects its role to the activity of the economic unit. In order to be able to provide the most useful information to investment decision makers in terms of quantity and richness of content, as the usefulness of accounting information to its users is a measure of its quality (Baxter, 2007:27). Here is a statement of how the nature of the investment activity of Iraqi: economic units reflect their accounting systems:

In Terms of Its Impact on the Account Names and Their Numbers

The accounting processing of investment activity requires the development of account needed to categorize similar economic events related to this activity that has been measured in a particular group called account, which is supposed to have a name that describes or expresses the essence of the measured economic phenomenon. Account is defined as a regular arrangement or settlement that shows the impact of other operations and events on a particular item (Kieso et al, 2016: 80). These accounts are divided into the following types:

1. Accounts in which the investments themselves are disclosed in the balance sheet (financial position disclosure) with a view to measuring the Financial position statement of the economic unit.
2. Accounts in which the revenues (returns) generated by the investments is disclosed in the profits or losses account (income statement) with a view to measuring the result of the activity (performance) of the economic unit.
3. Accounts in which the expected losses are reflected in the lower prices of traded financial investments than the historical cost at the end of the fiscal year, which are disclosed in the profits or losses account (income statement) with a view to measuring the result of the activity (performance) of the economic unit.

Because of the higher relative importance of investment activity in financial institutions than non-financial institutions, the accounting system must take into account or deal with this fact or property, by providing information that is directly proportional to the relative importance of unit investment activity. Economic, which led the financial institutions accounting system to use accounts larger than the number of accounts used by the accounting system for non-financial institutions in order to be able to process as much detailed information as possible and must be appropriate or to support the decision-making process investment in order to rationalize these decisions, and the following forms reflect or visualize of this fact:

Figure 1. Account financial investments and classification in financial institutions.

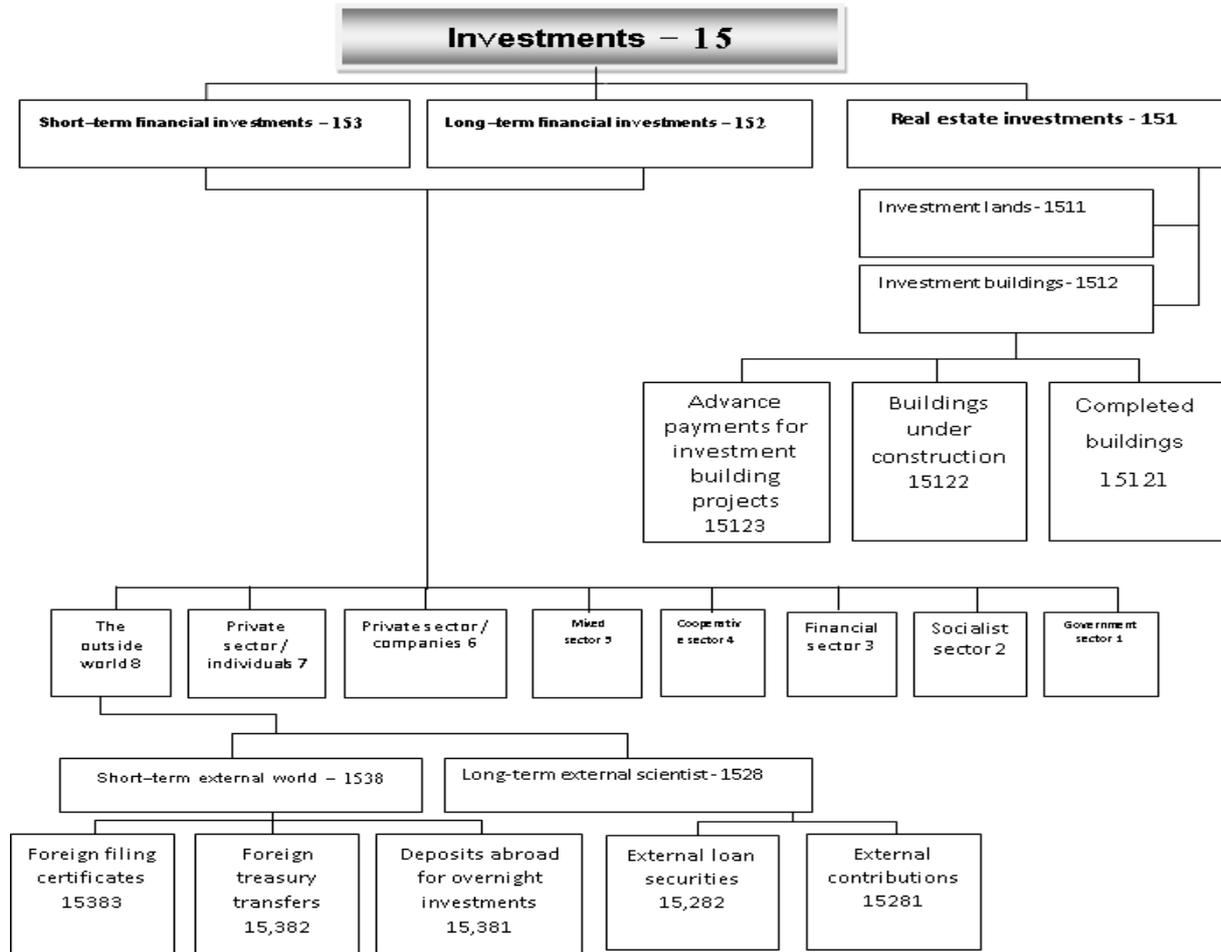


Figure 2. Account investments and classification in non-financial institution.

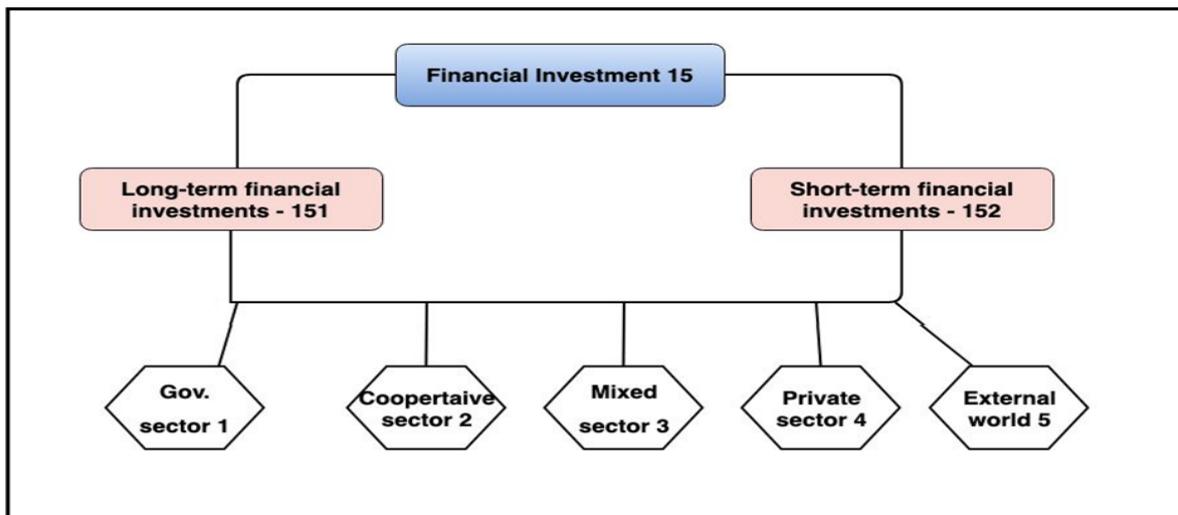


Figure 3. Account investment revenue and classification in financial institutions.

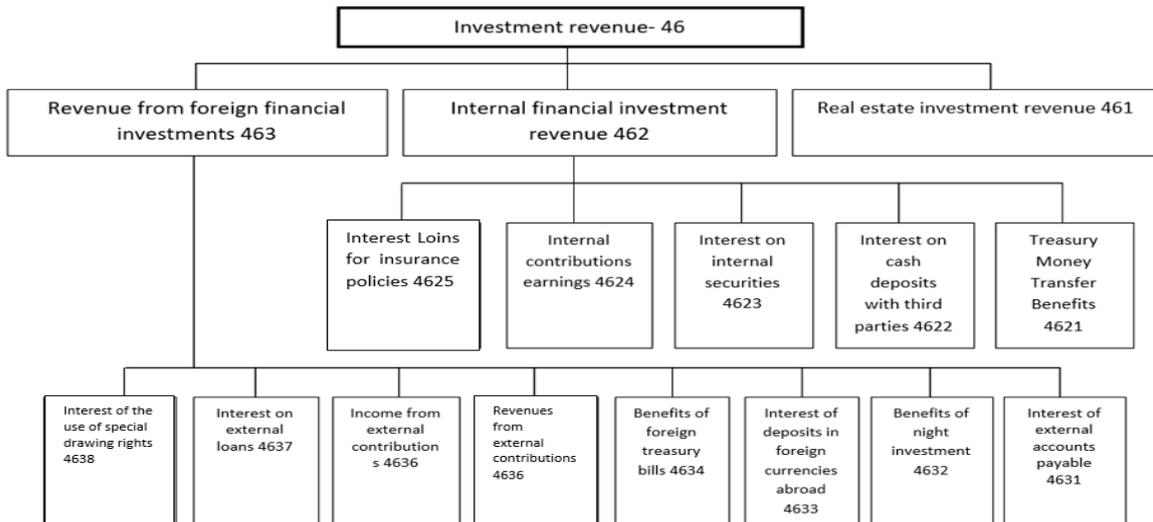
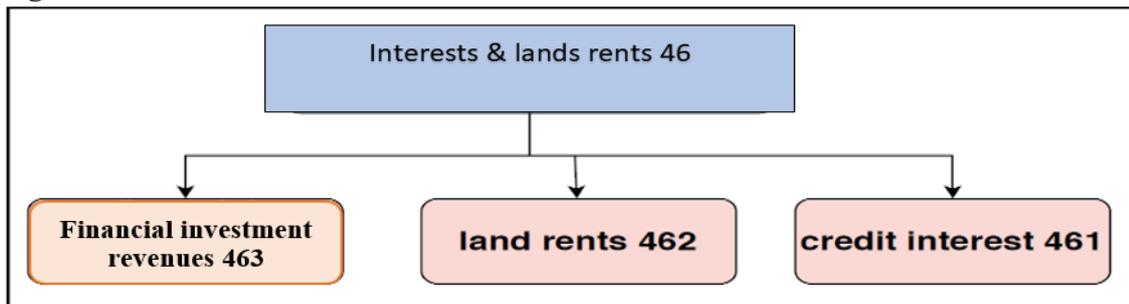


Figure 4. Account investment revenues and classification in non-financial institutions.



It is worth mentioning here, although the UAS for Non-financial institutions treats investment activity as a secondary activity, as it is used in its accounting treatment for accounts that are less than the number of accounts used by the UAS for financial institutions within accounting processing. For investment activity, however, this should not conflict with the characteristics of the quality of accounting information because the accounting system is an information system, so in order for accounting information to be useful it must be fulfilling the main characteristics of the quality of accounting information, including the faithful representation characteristics, if we examine and analyze (account of interest and land rents - 46) we find that it does not enjoy this property because the name of the account does not correspond or correspond to the essence of the economic events that are classified in which all revenues obtained from the investment activity, which consists of the import of interest deposits and loans that are written in the account that analytical derived from it (account of credit interest - 461), land rents revenue which is classified in the analytical account derived from it (account of land rents - 462) and the revenues of securities (stocks and bonds) which are classified in the analytical account derived from it (account of financial investment revenues - 463). Hence, it is therefore correct to name the account of interest and rents of land in the name of investment revenues according to the property of sincere offer as well as the account of

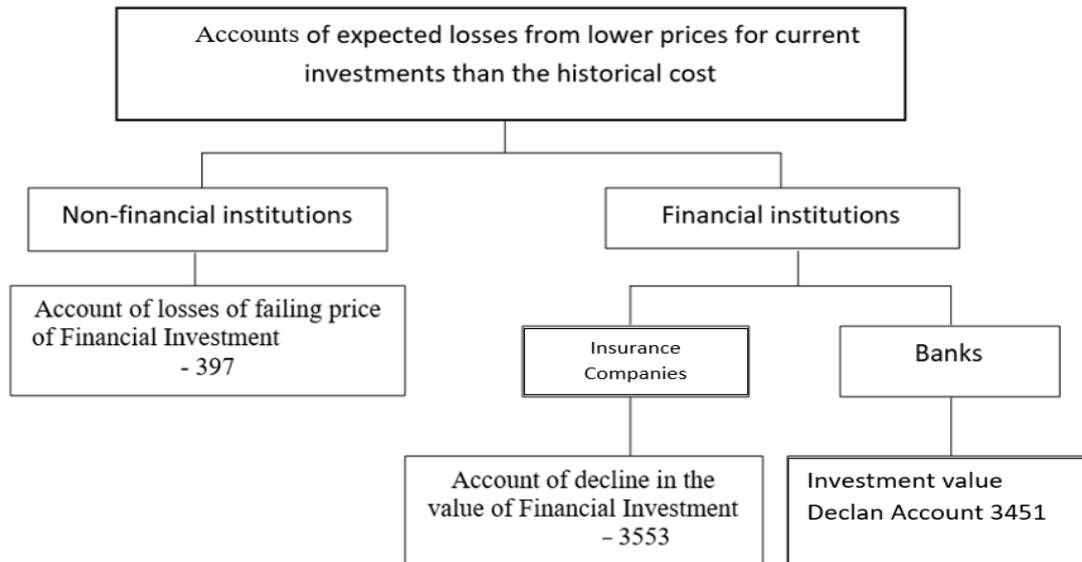
investment revenues used by the uniform accounting system of financial institutions, as this designation is comprehensive and contains. In essence, the revenues generated from various types of investments, including financial investment revenues.

In Terms of its Impact on Disclosure in Financial Statements

The fact that investment activity in financial institutions is a major activity and in non-financial institutions is a secondary activity that has its impact on its disclosure in the financial statements of economic units, as follows:

1. Investment revenues (46) is disclosed in the profits or losses account of financial institutions within the revenues of the current or main activity (phase 1), and in the profits or losses account of non-financial institutions within the revenues of non-current or secondary activity.
2. The expected losses are disclosed by the decrease in the prices of financial investments traded than cost of purchasing them at the end of the fiscal year in the comprehensive banks in the account of the decline in the value of investments (3451) and in insurance companies in account of the decline in the value of financial investments (3553) within the current expenses of the financial institutions as one of the types of banking and insurance expenses, respectively, while those losses in non-financial institutions are disclosed in the account of losses of falling prices of financial investments (397) within non-current expenses as unrelated burdens to the economic unit with its current activity, this account represents the expected losses from the fall in the prices of financial investments traded than the historical cost at the end of the year (UAS, 2011: 107). Here is a figure, figure (5) that illustrates the accounts on which the expected losses are responsible for the lower prices of financial investments traded than the historical cost

Figure 5. Accounts of expected losses for lower prices of financial investments traded than historical cost.



Despite the fact that net income (net result of current and non-current total activity) is the main criterion or basis for measuring the efficiency of the performance of economic units (businesses), it is in fact when there is a conflict between the result (income) of current activity and the result of total activity (net income) of the unit Economic such as the result of the current activity profit and the result of net income loss or vice versa, in this case the result of the current activity must be adopted as a key criterion in the performance evaluation process, and therefore the disclosure of the income of the investment activity within the revenues of the current activity means that it is a major activity in Financial institutions or data on investment activity in financial institutions is of higher relative importance than the data of other activities of these enterprises, enabling the investment activity to give weight to the result of the current activity on the result of total activity (net income) in the process of evaluating the performance of units economic and economic decision-making related. In the same context, however in reverse order, the disclosure of the result of investment activity in non-financial enterprises within non-current or secondary activity (phase II) reduces its relative importance in the process of evaluating the performance of economic units and making economic decisions.

Conclusions

Based on the above, the researcher has reached the following conclusions:

1. The Uniform Accounting System for Financial institutions treats the investment activity of these enterprises as main or current activity, while the Uniform Accounting System for Non-Financial systems treats the investment activity of these enterprises as secondary or non-current activity. This fact or property has had its impact on the two accounting systems applied by the Iraqi economic units in terms of:
 - a) The number and names of accounts used in the classification of economic events related to investment activity both in terms of classification as an asset and in terms of the revenues' recognized.
 - b) The place to disclose revenues and losses related to the activity of investing in the profits or losses account (income statement).
 - c) This increases the quality of accounting information, which is a reflection or a measure of the quality of financial reporting of economic units.

2. The account used by the Uniform Accounting System for Non-Financial institutions in the investment revenues classification, which is called (interest and land rents - 46) does not correspond to the faithful representation characteristics, one of the characteristics of useful information (characteristics of the quality goodness of accounting information), because this account is classified as recognized revenues of the credit interest (461), land rents (462) and financial investment revenues (463). The name of the account does not refer to financial investments, which means that the name of the account holder does not disclose the substance of the economic events classified in it or what is classified (itemized) in related to it.



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