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## **Information Provision of Financial Management of Agricultural Enterprises**

### **Introduction**

The performance of each management system largely depends on the informative provision. The quality of information which is used for making management decisions determines the volume of expense of financial resources, level of profitability, market value of enterprise, alternativeness of choice of investment projects and availability of financial instruments and other indexes which characterize the level of welfare of proprietors and personnel, rates of development of enterprise and so on. For instance, the micro enterprises require financial support, since their previous position was unfavorable in relation to small companies [Wasilewski M., Pisarska A. 2009, p. 119–225].

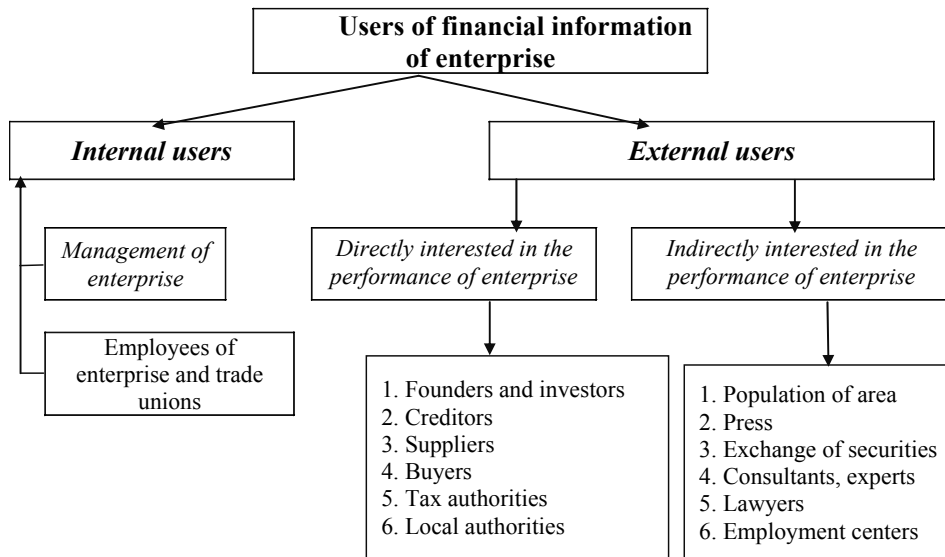
The system of the information provision (informative system) of financial management shows by itself the continuous and purposeful selection of corresponding informative indexes, which are necessary for making analysis, planning and preparing effective management decisions on any financial activity of enterprise and should be built in accordance with the requirements of the Law of Ukraine.

*The aim of the article* is research of role of financial information in preparing and making effective management decisions on agricultural enterprises. Implementation of this goal is associated with the solution to the following *tasks*:

- to investigate the role of the informative providing of financial management on agricultural enterprises;
- to justify the system of indexes of the informative providing of financial management on agricultural enterprises;
- to analyze the features of the financial reporting on agricultural enterprises.

## The Role of the Information Provision of Financial Management on Agricultural Enterprises

The informative system of financial management is intended to provide necessary information not only for a managerial staff and proprietors of enterprise but also to satisfy interests of wide range of its external users. The basic users of financial information are internal and external users (Figure 1).



**Figure 1**  
Classification of Users of Financial Information  
Source: Author's presentation.

External users use only that part of information, which characterizes the financial performance of enterprise and its financial state. Much of this information is concentrated in the official financial statements given by an enterprise. Internal users use not only this kind of information, but also the considerable volume of information about financial activity of enterprise, which is a commercial secret.

The high role of financial information in preparing and making effective management decisions predetermines rigor of its quality at forming the informative system of financial management, among which requirements to its significance, completeness, timeliness, authenticity, clearness, comparability, efficiency are distinguished.

Significance determines how much the involved information influences the results of financial decisions, first of all, in the process of the formation of financial strategy of enterprise, development of purposeful policy on different aspects of financial activity, preparation of current and operative financial plans. In times of general economic insecurity and more difficult access to bank credits and loans, the strategy of obtaining the funds by enterprises should be more active. It ought to be based on a biggest range of financial sources offered by international finance markets [Hanisz R.N. 2009, p. 11–12].

Completeness characterizes the full range of informative data needed for making analysis, planning and preparing operative management decisions on all aspects of financial activity of enterprise.

Authenticity which determines how much the information that is formed reflects adequately the real situation and financial performance, characterizes truly the external financial environment and is neutral in relation to all categories of potential users and verified.

Timeliness shows whether the formed information meets the requirements within a period of its use. The certain types of informative indicators „live” in its informative system in the same qualitative term only one day (for example, foreign exchange, rate of certain fund and money instruments at the financial market), others “live” for a month, quarter, etc. [Van Horne J.C., Vahovych J.M. 2008, p. 375].

Clearness is determined by simplicity of its formation, accordance to the specified standards of presentation and availability of understanding of those categories of users, for which it is intended. However one should not mix up the requirement of clearness of information for the specific category of users with its universal availability for understanding by all participants of financial activity of enterprise, because not all of them may have sufficient qualification for its adequate interpretation.

Comparability determines possibility of comparative estimation of cost of certain assets and the financial performance of enterprise over time, possibility of making comparative financial analysis of enterprise with similar business entities, etc. Such comparability is provided by authentication of determination of specific informative indicators and units of their measurement, use of proper national and international standards of the financial reporting, sequence and stability of methods of accounting of financial indexes on an enterprise.

Efficiency means that costs of certain informative indicators should not exceed the effect obtained as a result of their use when preparing and implementing appropriate management decisions.

## The System of Indicators of the Informative Provision of Financial Management on Agricultural Enterprises

Composition of the system of the informative provision of financial management, its breadth and depth are determined by the branch features of the activity of enterprises, their organizational and legal form of functioning, volume and degree of diversification of financial activity and other terms.

The specific performances of the informative provision system are formed due to the internal and external sources of information. In the context of each of these groups of sources a set of indicators included in the informative system of financial management is subject to the prior classification.

*A. System of indicators of the informative provision of financial management, formed from external sources.* It is divided into four groups:

1. The indicators which characterize the overall economic development of the country and in turn are divided into:
  - a) indicators of macroeconomic development;
  - b) indicators of branch development.
2. The indicators which characterize the financial market, namely:
  - a) indicators which characterize the market of securities (stock market instruments);
  - b) indicators which characterize the market of money instruments.
3. Indicators, which characterize the activity of contractors and competitors among which the following groups can be distinguished:
  - a) banks;
  - b) insurance companies;
  - c) suppliers of products;
  - d) customers of products;
  - e) competitors.
4. Legal and regulatory indicators. The indicators of this group are formed, as a rule, in the contexts of the following blocks:
  - a) legal and regulatory indicators in various areas of financial activity of enterprise;
  - b) legal and regulatory indexes for the functioning of separate financial market segments.

*B. System of indicators of the informative provision of financial management, formed from internal sources.* It is divided into three groups:

*1. Indicators which characterize the financial state and results of financial activity of an enterprise on the whole.* The system of informative indicators of this group is widely used by both external and internal users. It is used in the

process of financial analysis, planning, development of financial strategy and policy on key aspects of financial activity, gives the most aggregate idea about the results of financial activity of enterprise. Formation of the system of indicators of this group is based on data of financial accounting of enterprise [Kreinyina M.N. 2001, p. 372].

The advantage of indexes of this group is their unification, because they are based on the general standard principles of accounting (that allows to use standard technologies and algorithms for financial calculations on different aspects of formation and distribution of financial resources, and also to compare these indexes with other similar enterprises).

At the same time, an informative base which is formed on the basis of accounting has some drawbacks, the main of them are: reflection of informative indicators only on determination in general (that does not allow to use it when making decisions on specific spheres of financial activity); low frequency of development (as a rule, once a quarter, or a year); use of cost indicators only (it complicates the analysis of impact of price change on the formation of financial resources) [Kramarenko G.O. 2003, p. 86]. This group of indexes include:

- a) indexes which should be represented in a balance sheet;
- b) indexes which are represented in income statement;
- c) indexes which are represented in a report on property assets and cash flows.

2. *Indexes which characterize the financial performance of separate structural subdivisions of enterprise.* The formation of the system of indexes of this group is based on the data of management accounting which must be organized on an enterprise.

This type of accounting was developed in connection with the transition of Ukrainian enterprises to the generally accepted in the international practice accounting system, which allows to complement accounting substantially. It represents the system of accounting of all necessary indexes which form the informative base of operative management decisions and planning of business activity in the following period.

In comparison to financial, management accounting has the following advantages: it reflects not only cost but also natural values of indexes (and hence trends of changes in commodity and raw material prices); the frequency of the results of management accounting fully meets the information requirement for making operative management decisions; this accounting can be structured in any context – into the centers of responsibility, types of financial activity and others. The result of this accounting is a commercial secret of enterprise and must not be given to the external users. Indexes are formed by the following features:

- a) sphere of business activity (operational, investment, financial);

- b) centers of responsibility;
- c) geographical location;
- d) type of final products and others.

3. *Normative and planned indexes related to financial development of enterprise.* These indexes are formed directly on an enterprise by the two following blocks:

- a) the system of internal standards which regulate financial development of enterprise. The standards of certain types of assets of enterprise, the standards of ratio of certain types of assets and capital structure, the standards of specific charges of financial resources and others are included in this system;
- b) the system of planned indexes of financial development of enterprise. An aggregate of indexes of current and operative financial plans of all types are included in this system.

Use of all presented indexes coming from external and internal sources allows to create the purposeful system of the informative provision of financial management aimed both at making strategic financial decisions and ongoing effective financial management of enterprise.

Information which meets the demands of financial management can be classified by types depending on its source and origin. The basic constituents of the informative provision of financial management include:

1. Reporting and operative data are a balance sheet, income statement, cash flow statement, report on property assets and other statistical and financial operating data.

2. Normative and instructional information at all levels (state, regional, branch) includes legislative, normative and methodical documents on financial performance, relevant collections of informative materials.

3. Planned and projected information covers statistical collections of financial performance, financial markets, banking, publication on relevant issues in periodicals, prognosis data, budgets of all levels and their projects, dynamics of exchange rate, stock exchange and banking operative information

4. Analytical information includes accumulated or different one-time information which is formed by corresponding services of enterprise (analytical reviews, explanatory notes to the balance, analytical collections, tables, forms, layouts, business information, pilot projects).

Data of accounting and financial information of enterprise give an opportunity to analyze the state and trends of financial management of enterprise in the corresponding periods; to make financial plans and projections of activity of enterprise in short-, middle-, and long-term prospect; to form the budgets of revenues and charges of enterprise from different elements of its economic activity,

to monitor financial, commercial and productive operations of enterprise, to develop recommendations as to financial rehabilitation of enterprise, improvement of forming and using its financial resources on the basis of analytical assessment. For instance, the present conditions of companies operation indicate the importance of intangible assets as a factor creating the market value of company. That is why the indisputable characteristic of reporting information is providing the interested parties with the widest range of data concerning these intangible sources [Michalczyk G. 2008, p. 234–238].

The information provision of financial management enables particularly to estimate management of assets and liabilities of enterprise, determine the efficiency of management of fixed assets and all its property, identify tools for improvement of the property performance during such evaluation and forecast relevant trends in these processes in future periods.

## **Features of the Financial Reporting on Agricultural enterprises**

The financial statements as information must be prepared and provided for the users in certain terms determined by law in effect. In case of excessive delay of reporting information, it may lose its value.

Data of the financial statements are basis not only for the evaluation of the results of the reporting period but also for their prediction. Financial reporting must meet the following principles:

Enterprise autonomy – each enterprise is considered as a legal entity separated from proprietors – physical persons. Therefore, private property and liabilities of owners should not be represented in the financial reporting of enterprise, but only liabilities of owners for contribution to capital and income distribution to the proprietors (as interests, dividends, capital withdrawal, etc.) must be shown.

Business continuity – enterprise has neither intention nor need to be winded up or substantially diminish the scope of its activity and will remain the same in future.

Periodicity suggests business division into certain periods (the reporting periods) in order to prepare financial statements.

Historical (allocable) cost which determines the priority of assets valuation, coming from charges on their production and acquisition.

Charges and accordance of revenues and expenses according to which in order to determine financial result of the reporting period income of the reporting period should be matched with expenses made for obtaining these profits. Reflection in reporting by the period of charges is that the results of business

transaction are determined when they occur and represented in accounting and financial statements of those periods, to which they relate.

Accordance – by which costs are recognized in the financial statements on the basis of the direct connection between them and the obtained profits.

Accounting policy – an enterprise chooses principles, methods and procedures of accounting in such a way that is sufficient to represent the financial performance and results of business activity and ensure comparability of financial statements.

Consistency ensures comparability of financial statements. The figures of reporting period are represented in the future. Hence the sum of balance at the end of the year must correspond with the sum of balance at the beginning of the reporting period of the new year.

Predominance of substance over form, by which transactions are accounted in accordance with their essence, but not coming from legal norms.

Unified money measuring device provides measurement and generalization of all business transactions in its financial statements in the only monetary items.

Coming from the content of the financial reporting, the information which they contain is necessary to justify the decisions about acquisition, sale and possession of securities, equity, estimation of quality of management, solvency, security of liabilities, determination of amount of dividends, which are subject to distribution, other decisions.

The aim of the financial reporting is the provision of users with complete, correct, impartial information about the financial state, results of business activity and flow of assets in order to make decisions.

## Conclusions

1. In the process of transition to the new system of accounting and financial reporting an enterprise gets certain advantages and possibilities which are related to the new quality of accounting information, it is more reliable and suitable for financial analysis, possibilities of collaboration with financial institutions and foreign partners are increased, quality of management is improved. But in order to realize the indicated advantages in full, it is necessary to follow the certain principles of the formation of the financial reporting.

2. The autonomy of enterprise means that it is considered as a legal entity separated from proprietors – physical persons. Therefore, private property and



liabilities of owners should not be represented in the financial reporting. For example, such operations as share payments, dividend payments to the proprietors, are represented in the financial reporting, at the same time legal claims on private property of owner or its income from other sources are not represented in the reports of enterprise.

3. The principle of business continuity provides the estimation of assets, enterprise liabilities in dynamics, coming from the fact that it will operate in the future. But in the conditions of market economy circumstances may dictate that an enterprise would go out of business as a result of bankruptcy or other reasons. In this case the financial reporting is formed due to other principles. For example, all assets regardless of the division into fixed and floating are estimated by a market value in order to meet the requirements of creditors and proprietors. Therefore liabilities become short-term too.

Extra charges and accordance of profits and expenses mean that profits and expenses are represented in accounting and reporting in the moment of their arising regardless of time of money inflow and payments. Thus, for determination of financial result profits and corresponding charges are compared in a certain period.

4. According to the principle of full coverage the financial reporting should contain all information about the actual and potential consequences of operations and events, which can influence the decisions accepted on its basis.

In addition, in business activity the events may occur after the date of making balance, which will influence the articles of accounting.

Therefore an enterprise must illuminate its accounting policy by describing the principles of assessment of the articles of accounting and methods of accounting of the separate articles. It can also change the accounting policy guided by the interests of its development.

5. Principle of prudence means that the methods of assessment, which are used in accounting, must prevent from understating liabilities and overstating profits of enterprise. For that purpose it is expedient to overestimate supplies and represent historical cost and net cost of realization in a balance.

According to the principle of predominance of substance over form, operations should be accounted in accordance with their essence, but not only coming from legal forms.

Unified money measuring device provides measurement and generalization of all business transactions in its financial statements in the only monetary items.

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## Zapotrzebowanie na informacje w zarządzaniu finansami przedsiębiorstw rolniczych

### Streszczenie

Działanie każdego z systemów zarządzania związane jest z zapotrzebowaniem na informacje. Autorzy opracowania przedstawili rolę, jaką pełni prawidłowe dostarczanie informacji w zarządzaniu finansami przedsiębiorstw rolniczych. Zarządzanie finansami wspierane przez system wskaźników bazujących na dostarczanych danych pozwala na analizę czynników w odniesieniu do sprawozdawczości finansowej w tych jednostkach. W opracowaniu dowiedziono, iż przedsiębiorstwa mogą zmienić politykę rachunkowości podążając za kierunkiem rozwoju ich działalności.