

## INTRODUCTION

### IT on Financial Statements

- The business value derived from IT is an area of interest in Information Systems (IS) research. IS research studies the returns and value derived from IT investments [1].
- Accounting research studies intangible assets of which IT is a part. It looks at the effects of capitalisation and expensing of intangibles and the value relevance of accounting for intangible assets [2]. However the focus is not on IT investments specifically.
- Previous studies have performed a content analysis of financial statements, where there was variability in the reporting of IT and <8% of ASX listed companies separately report their IT expenses [3].
- This research will highlight the classification of IT investments in financial statements. It will look at the current accounting treatment of IT applied to an IS context.

## RESEARCH AIMS

### Through Exploratory Research:

- Understand how IT is classified and presented in financial statements in practice
- Understand the attitudes of accountants and business executives of IT reporting in Australia
- Understand the challenges and complexities accountants face in classifying IT.

## METHODOLOGY

### Case Based Approach

Developed Pilot Interview Questionnaire

Pilot Interviews (Round 1)

- Purposive sampling
- Interviewed 4 accounting experts

Refined Interview Questionnaire

Interviews (Round 2)

Interviewed 6 accounting experts

Interview Questions (Selection)

- What do you consider as IT assets from an accounting perspective?
- How do you report IT assets and under what conditions is it capitalised? How do you deal with accounting standards and are there other ways to deal with IT assets?
- How clear cut or how vague are standards for applying to an IT context in practice?
- How would you rate current accounting standards with dealing with IT investments and complementary investments that go with IT? How do you see accounting moving forward- with greater use of IT?
- What is generally practiced? Is there room for flexibility for classifying IT?
- What do you think the current standards present the firms position for users? How accurate and true and fair is it? Do you think we need additional standards to be more consistent in reporting?

Transcribe, Code & Analyse Interview Data

## SIGNIFICANCE

### Tech Trend

- Economies are moving towards the 'new' economy.
- In 1998, two of Australia's top ten companies were resource-based compared to eight in 1980 [4].
- Predictions: increase focus on information rather than process, companies working with business partners, increase in cloud and increase IT services integrated in business strategy [5].

## FINDINGS

### Reporting Trend

- IT asset definition is defined broadly but similar in nature across interviewees.
- Expensing trend of IT. IT increasing in composition of making sales.
- Differences in reporting and non reporting firms in particular to IT projects involving software developments.
- Some contradictions in the expensing and capitalisation of IT spending.

### Attitudes & Opinions of Accounting Experts

- Internal company policies tend to be broadly defined.
- Internal company policies are clear cut to apply in private companies.
- Differing levels of conservatism and aggressiveness across companies and within companies.
- Cost allocation issues of private companies on a local, regional and global level, in terms of timing and expense distribution.
- Standards were generally referred to as quite clear but, however has a wide range of interpretations.
- Some who found the reporting vague said that the astute investor would be able to see the issues in a company

### Issues and Challenges of Current Reporting

- Internal IT projects that involve software development involves the most judgement in capitalisation decisions. Eg the proportion of salaries that are capitalisable.
- Failure of projects. The potential loophole of projects that do not deliver being capitalised.
- Need reporting consistency across industries.
- Hardware accounting issues are not terrible- surrounds capitalisation thresholds and depreciation policy.
- Classification and valuation co contribute to issues in IT classification.

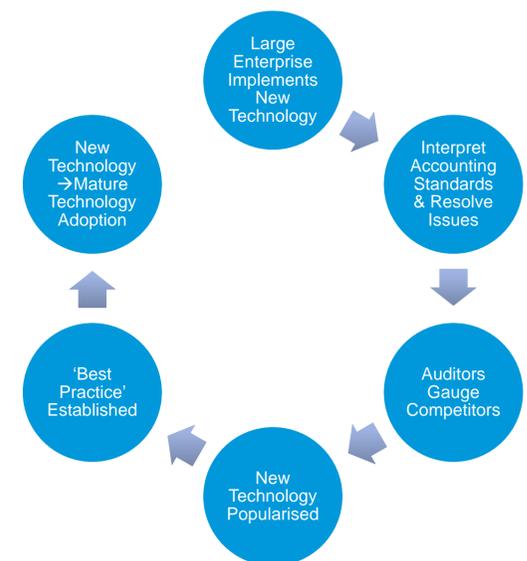
Research

Development

Maintenance

## INTERPRETATION

- Principle based accounting standards supported by industry.
- Although accounting standards can be improved, generally interviewees find that there is sufficient information/ methods to obtain information to make decisions.
- Best practice reporting development cycle to establish clarity in reporting



## CONTRIBUTIONS

### Researchers

- Greater understanding in the presentation of financial statements and the potential variance that might be present in reporting. This is important when using financial statements as a data source.

### Practitioners

- Understand accounting issues from an IT context, and forecasting arising issues.
- More thorough analyses in the accounting for IT.

## REFERENCES

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- [2] Wyatt, A., & Abernethy, M. A. (2008). Accounting for Intangible Investments. *Australian Accounting Review*, 18(2), 95-107.
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- [4] Guthrie, J., & Petty, R. (2000). Intellectual capital: Australian annual reporting practices. *Journal of Intellectual Capital*, 1(3), 241-251.
- [5] TechTarget, SearchCIO. (2012/10/21). Newest trends in IT shifting CIO concerns, from <http://searchcio.techtarget.com/video/Newest-trends-in-IT-shifting-CIO-concerns>