

ACCOUNTING ISSUES DERIVING FROM THE ESTABLISHMENT OF A VIRTUAL ENTERPRISE

Panayiotis Tahinakis,

Department of Accounting and Finance,
University of Macedonia,
156, Egnatia str., 540-06 Thessalonica,
Greece,

E-mail: tahi67@uom.gr

Nicolaos Protogeros,

Department of Accounting and Finance,
University of Macedonia,
156, Egnatia str., 540-06 Thessalonica,
Greece,

E-mail: proto@uom.gr

John Mylonakis,

Doctor of Business Administration,
10, Nikiforou str.,
166-75 Glyfada, Athens,
Greece,

E-mail: imylonakis@panafonet.gr

Dimitrios Ginoglou,

Department of Accounting and Finance,
University of Macedonia,
156, Egnatia str., 540-06 Thessalonica,
Greece,

E-mail: ginogl@uom.gr

INTRODUCTION

The purpose of this paper is to present accounting difficulties deriving from the establishment of Virtual Enterprises. Emphasis is, also, given to the analysis of the accounting recognition and measurement difficulties deriving from recording accounting information in a Virtual Enterprise.

ACCOUNTING ISSUES IN VARIOUS VIRTUAL ENTERPRISES ORGANISATIONAL MODELS

A Virtual Enterprise is a temporary organization of companies that come together to share common costs and skills to address business opportunities that they could not undertake individually. Although the idea of Virtual Enterprises is still in its infancy and every Virtual

Enterprise works under its own agreements between the partners, the Virtual Enterprise organisational models can be categorised in three types: The Supply Chain, the Hub and Spoke (or more commonly referred to as the Star) and the Peer-to-peer models.

Concerning accounting, the valuation of expenses and revenues for reporting purposes depends upon the reporting objectives and concepts applied. In this case, if the objective is to measure and report the individual assets of the firm for each period, the only alternative is to measure the value of the firm as a whole and subtract from this value the valuation of other specific net assets. However, if the objective is to measure and report specific assets, in order to provide the users of the financial statements with an indication of the resources available to the firm, an independent measurement of the intangibles might be desirable.

ACCOUNTING RECOGNITION AND MEASUREMENT DIFFICULTIES

From the existing literature on the accounting treatment of expenses, it is clear that there are opposing views as to how expenses should be treated in the balance sheet, as well as, in the Profit and Loss Accounts. However, once a company has selected the appropriate method, it should apply it consistently.

The inherent difficulty in the capitalising and amortising method lies in the high degree of uncertainty associated with the expenses. At the beginning, the management would be required to identify the expected revenue-benefit to be generated and the expected duration.

An alternative to full capitalisation and amortisation is the case of capitalising only costs that relate to specific projects with expected net revenue contribution streams. Under this method

all direct and indirect costs are charged and allocated among the specific projects according to the absorption basis. The costs of projects not producing useful results should be charged, according to *accrual concept*, against revenues of the accounting period, in which the uselessness is determined. Costs of successful projects should be capitalised and amortised over the future periods benefited.

The choice of an appropriate accounting treatment for expenditure focuses on the application of fundamental accounting concepts.

CONCLUSIONS

Virtual Enterprises can be considered as a new alternative of organisational form supported by information technologies using and adding to the variety of organisational instruments. The general trade-off flexibility and production efficiency becomes stronger through the use of information technologies and the emergence of new organisational forms. The main goal lies in the description of the modern technologies that enable the integration of Virtual Enterprises.

An outcome of this study is that there are accounting problems of defined, measured and disclosed accounting information, deriving from a Virtual Enterprise to users of financial statements. However, the expansion of Virtual Enterprises together with the extensive use of new information technology will not only enhance the quality of the services offered to customers but will, also, lead to higher benefits and greater economic resources for the government.

REFERENCES

- Anthony, R., Reece, J. and Hertenstein, J. (1995). Accounting Text and Cases. New York: Irwin Inc.
- Bobek, S., Potocan, V., Sternad, S. and Spicka, H. (2002). Information systems in virtual corporations: Issues for ERP based E-business systems. Informing Science INSITE.
- Beckett, R. (2003). Determining the anatomy of business systems for a virtual enterprise. Computers in Industry, 127-138.
- Boyle, P. (1990). Segmental Reporting: A missed opportunity. The Accountants Magazine. March, 46-47.
- Caraminha-Matos, L. and Afsarmanesh, H. (1999). The virtual enterprise concept: Infrastructures for virtual enterprises-networking industrial enterprises. New York: Kluwer Academy Publishers.
- Garrison, R. and Noreen, E. (2002). Managerial Accounting. 9th ed.. New York: McGraw – Hill Publisher.
- Gou, H., Huang, B., Liu, W. and Li, X. (2003). A framework for virtual enterprise operation management. Computers in Industry, 333-352.
- Hendriksen, E. and Van Breda, M. (1992). Accounting Theory. 5th ed., New York: Irwin Inc.
- Ho, J. (1997). Evaluating the Word Wide Web: A Global Study of Commercial Sites. JCMC, 3(1), 312-330.
- Karcher, A., Knarr, M. and Jungkunz, R. (2002). Concept for an engineering portal in a Virtual development environment. Proceedings of the 8th International Conference on Concurrent Enterprising, Rome. Italy.
- Katzy, B. and Schuh, R. (1998). The virtual enterprise handbook of life cycle engineering: concepts, methods and tools. New York: Kluwer Academy Publishers.
- Lewis, R. and Pendrill, D. (1995). Advanced Financial Accounting. London: Pitman.

- Schiff, M. (1974). Benefits of Immediate Write-offs. *Management Accounting*, Dec., 11-12, 26.
- Perrin, O. and Godart, C. (2004). A model to support collaborative work in virtual enterprises. *Data and Knowledge Engineering*, 63-86.
- Tahinakis, P., Protogeros, N. and Ginoglou, D. (2004). The application of international accounting standards in Greece: The case of measuring goodwill. *Global Business & Economics Review – Anthology 2004*, 104-112.
- Tarabanis, K., Protogeros, N., Walsh, P. and Koumpis, A. (2001). Simplifying Commercial Transactions over the Net: The Thin-EDI Approach. *Proceedings of the Special Track on Electronic Commerce of EUROMED Net International Conference, Nicosia, Cyprus.*
- Vesterager, J., Larsen, L. and Gobbi, C. (1999). Architecture and methodology for creating virtual enterprises – results from Globeman21. *Proceedings of IMS Globeman21 Open Day, Time24, Tokyo, Japan.*
- Zarli, A. and Poyet, P. (1999). A Framework of Distributed Information Management in the Virtual Enterprises. *The Vega project in Infrastructures for Virtual Enterprises, Networking industrial enterprises, IFIP TC5 WG 5.3/Prodnet. Working Conference for Virtual Enterprises-V.E. (PRO-VE'99). U.S.A.*
- Warren, C., Reeve, J. and Fess, P. (2003). *Financial Accounting*. 8th ed. New York: South-Western, Thomson Learning.
- Wechsler, D. and Wandycz, K. (1990). *An Innate Fear of Disclosure*. New York: A.I.C.P.A.
- Welsch, G., Zlatkovich, C. and White, J. (1972). *Intermediate Accounting*. 3rd ed. New York: Irwin. Inc.
- Wu, N. and Su, P. (2005). Selection of partners in virtual enterprise paradigm. *Robotics and Computer – Integrated Manufacturing*, 119-131.