

## STATUS AND CHALLENGES OF PREPARING AND SUBMITTING FINANCIAL STATEMENTS TO CONSTRUCTION COMPANIES IN GEORGIA

<https://doi.org/10.47743/jopafl-2022-23-15>

**Lela KHELADZE**

Kutaisi University LTD

Kutaisi, Georgia

*Lelakheladze92@gmail.com*

**Abstract:** *The purpose of financial reporting is to provide information to a wide range of consumers about the financial condition, operating results, and changes in financial position of an enterprise to assist them in making economic decisions. The purpose of financial statement analysis is to assess how effectively management manages the enterprise and how reliable it is for its partners. Its purpose is to provide those who make economic decisions with sound conclusions about changes in the firm's financial condition and financial position. Thus, the analysis of financial information is important when making decisions. At present, the practice of preparing financial statements by enterprises and providing them to customers in the construction business in Georgia faces certain challenges. This is based on the almost impossibility of obtaining information from them in the research process. Despite our multifaceted efforts, it has been problematic to obtain financial reporting from even the largest construction companies in the residential real estate market.*

**Keywords:** *construction companies, financial reporting, Publication of reporting, publicity of reporting, Accounting, Auditing.*

### Introduction

The construction company is functioning properly and functioning. The result of the actual analysis may be an expected prognosis for further safety, or whether or not all of this is avoided in anticipated information. The main basis of the general analysis is reporting. We believe that one of the reasons for the bankruptcy of major companies is the regulation of equipment systems in the enterprise and the threat of a practical lack of practical and experience in reporting analysis. If the aim is to study what resistance and how construction companies carry out commodity management planning and raising capital. From there, on which the particles of factors that act by stimulating factors work, as well as acting by stimulating factors that act on the state of the body of factors. Preventive measures will be taken. The subject of the research is the general analysis of the main companies and its complete content.

**Method:** The methods of economic and financial analysis, the method of abstraction, grouping, detailing, comparison, coefficients, etc. will be used as methodological bases of the research. The research is based on general scientific methodological approaches: analysis and synthesis, deduction and induction, analogy, modeling, abstraction and dynamic method. Quantitative and qualitative methods were used for the study. Primary and secondary information were obtained and used to achieve the research objectives.

**Sample description:** Primary information was obtained through quantitative research methods such as telephone interviews and structured questionnaires. Through interviews and questionnaires, we collected data that were processed in the research process according to a quantitative research method, content analysis. Content analysis is the most common form of textual analysis, which involves summarizing the statistical information obtained and presenting it in a proper form (Cooper, Schindler: 2018. 56).

Secondary sources of information were scientific literature, statistical information and Internet resources. We compiled a list of research objects. Due to the lack of official information, the list of construction companies we have found may not include almost all enterprises, however, we think that it characterizes the residential real estate market of our country in quite detail. The survey was conducted electronically from November 1, 2021 to December 15, 2021. We used all the resources at our disposal to obtain the information needed for the research. Internet sites allow us to obtain contact information of construction companies (e-mail address and / or telephone number), through which we tried to contact the representatives of construction companies in person and provide information about the completed e-questionnaire by phone. We have not received any response to the email sent to the email addresses posted on the internet. We called the contact phone number on the Internet with more than 150 registered construction companies, of which we were able to contact only 53 cases. Of these, 32 respondents categorically refused to participate in our survey. Only 2 respondents agreed to fill in the electronic questionnaire with the company identification number. We finally decided that the questionnaire was anonymous and the respondents did not need to provide identification data. Communication with up to 40 respondents was carried out through the social network Facebook chat. In the end we got 23 answers.

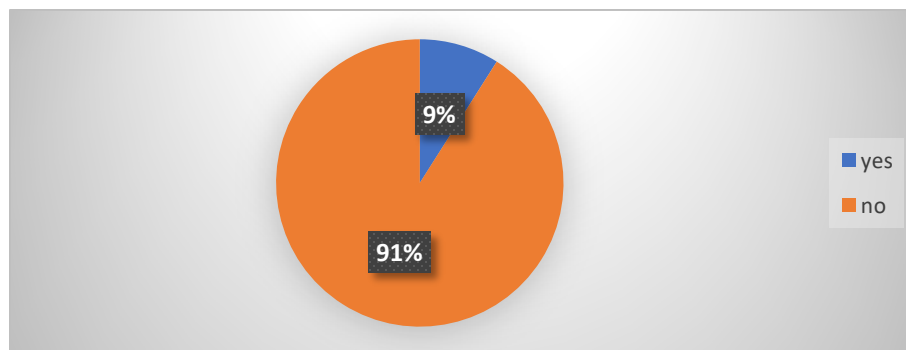
In Georgia, due to partial misconceptions about accounting and its purpose, as well as, in many cases, insufficient economic education of the founders of the enterprise and the management, we did not really expect that all the companies we found would provide us with financial reporting information. This sentiment was based on the fact that according to the common practice, the sole purpose of accounting in most enterprises is to fill in tax returns correctly and avoid fines. The construction business is no exception in this regard. Moreover, due to the specifics of the activity, the housing companies not only did not prepare financial statements, but in some cases did not even use accounting for tax returns. As a result of personal communication, it was found that in most enterprises, the concept of financial reporting is synonymous with tax returns. Representatives of companies with relatively orderly management refused to provide financial statements on the grounds that the information was confidential. Our research aims to identify the key risks that most affect the process of preparing and submitting financial statements to construction companies operating in Georgia.

**Results:** We used qualitative research methods to summarize and present the research results clearly. In the data analysis process, we used various methods of qualitative data analysis, namely: systemic content analysis, which shows the systematic summarization and presentation of research results and is the most common form of textual analysis, and interpretive analysis, Identifying problems (Tsuladze: 2020. 33). 43% of respondents are based in 2001-2005 and 30% in 1995-2000. Thus most of the respondents have more than 20 years of experience in the construction industry. Therefore, we conclude that most of the respondents have adequate knowledge of their position and, consequently, the ability

to identify risks. Thus, it can be considered that the information obtained from them is reliable and important for achieving the set goals. 56.5% of respondents are third category enterprises and 43.5% are fourth category enterprises. This means that according to International Financial Reporting Standards, each of them is required to submit financial statements to the Accounting, Reporting and Auditing Supervision Service electronically (Order of the Head of the Accounting, Reporting and Auditing Supervision Service № 10, Article 2021 15 15).

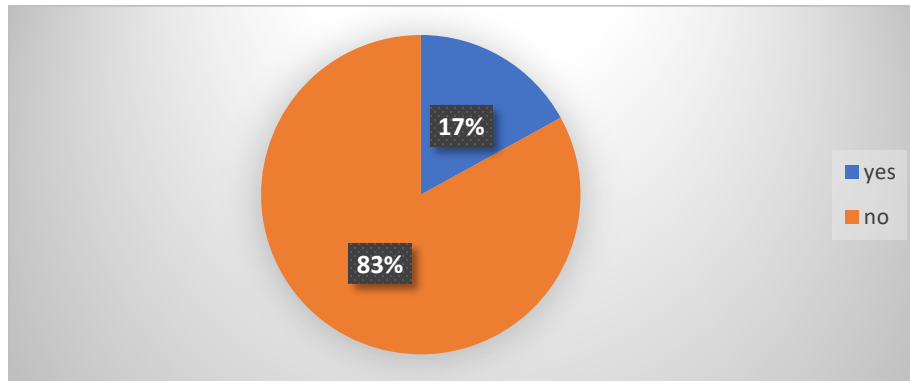
According to the survey results, the main source of funding is bank credit and / or advance payments (72%), while in other cases, state funding, own funds or other income. When asked what methods companies use to improve the skills of their employees, 95.5 percent of respondents named other trainings / advanced training courses. In order to encourage employees, 91.3% of respondents respond with verbal or written thanks, while the remaining 8.7% may receive a bonus, additional days off or a paid gift. That the activities of the respondents are most affected by the increase in prices for construction materials and the restrictions imposed due to the Covid-19 pandemic, which in turn leads to the problem of attracting funds and the outflow of staff from jobs. One of the main problems for companies in the current period is the remuneration of employees for working hours due to the pandemic, hence it is difficult for companies to retain employed staff. Employees left without pay have very little compensation received from the state, so they are forced to avoid unemployment and leave the job on the basis of a personal application. This is a big problem for the construction company itself, because after a certain period of time the company has to spend additional resources to find and train new staff, however in the current period due to problems with attracting funds companies are practically unable to pay staff when the work process is suspended or delayed. The problems are interdependent. When asked what methods and techniques companies use to manage / prevent risks, we can conclude from the answers that most companies carry out identification and assessment of risks, however, due to the current volatile situation and the impact of socio-economic background, it is difficult to eliminate these risks. The surveyed construction companies conduct performance appraisals in the main case (56%) by assessing the financial stability of the company or by assessing the quality of staff performance (33.5%). When asked if the company's financial management service operates independently of the accounting department, the results are as follows:

**Chart 1**



Asked if the company has had publicly published audited financial statements for the past 5 years continuously, the results are as follows:

Chart 2



Source: Diagrams are compiled by the author based on the results of the research

Discussion: The survey results show that in many cases companies do not have an approved accounting policy or do not comply with the requirements of this accounting policy, in many cases there is no separate financial and internal audit service, so financial management issues are delegated to the company manager and internal audit functions remain unfulfilled. Is still partially delegated to the Company Accountant. This circumstance can be considered as the cause of a number of problems, as the existence of financial and internal audit services in the organization significantly changes the overall picture of the company's operation, without which it is clear that the company has difficulty functioning properly. The answers to the question of what are the main problems faced by the Company's Financial Service in the process of preparing and submitting financial statements are as follows:

- Inconsistency of legislative records - 52%
- Non-compliance of practices with legal requirements - 78%
- Deadline for submission of reports 34%

During the research process, we spoke with the founders, CEOs and CFOs and Accountants of a number of construction companies. We talked about the preparation, submission and analysis of financial statements. Conversations with these individuals have reinforced our view that most construction companies not only do not prepare financial statements but also do not distinguish between financial reporting and tax return. As a result of the research, we can emphasize that at present construction companies have an accounting system and all information is programmatically processed in accounting, although this information is mainly used only for tax reporting purposes and not for the preparation of financial statements. The unpreparedness and inaccessibility of financial reporting on the one hand poses a serious problem in various areas, which we think need to be addressed at the legislative level.

At the same time, we partly share the view that business should develop on its own, and that direct state intervention in terms of requiring certain rules to be followed by business runs counter to the basic principles of a free market economy. Imposing financial reporting obligations on construction companies has led to entrepreneurs protesting the increase in administrative costs (hiring qualified staff is required). However, we think that the issue of preparing, submitting and analyzing financial statements should be considered in the context of increasing multifaceted efficiency in a more long-term context.

Thus, based on the analysis of the results of our research, it is possible to formulate the main conclusions and suggestions of the existing problems identified in the research process:

- Preparation and analysis of financial statements will significantly help the construction companies themselves (both the management and the owners) to make an objective assessment of the past activities and make accurate forecasts. Take preventive measures in case of trends.
- The ability to analyze financial statements will increase the interest of potential investors in investing in a particular company, which in itself will help construction companies to find an alternative source of funding, which is why companies need to provide financial reporting in business language;
- Availability of financial statements will allow stakeholders to calculate the average risk ratios of this particular area so that investors can conduct a comparative analysis. Therefore, companies should ensure that the audited financial statements are made public;
- Preparing and submitting financial statements will promote business transparency, which is part of the corporate responsibility of the people who buy the construction product. Therefore, we consider it expedient to provide special training for financial managers and accountants in the construction sector, which will be designed directly with the specifics of the field and will help staff working in this field to carry out activities in accordance with the law.

### References:

1. Eugene F. Michael C. (2014) Financial Management.
2. Carbone TA, Tippett DD. (2014) Project risk management using the project risk FMEA. 28–35.
3. Nadeem Ehsan. (2010) Risk management in construction industry.
4. Hampson, V.M and Best, J.P. (2015) A Framework for Assessing the Effectiveness of Performance Measurement Practices. Proceedings. The 3rd Conference on Performance Measurement and Management Control. The European Institute for Advanced Studies in Management. Nice, France.
5. Karas M. Reznakova M. (2013) Predicting the Bankruptcy of Construction Companies: A CART-Based Model. *Brno University of Technology*. European Journal of Business and Management. ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online) Vol.5, No.23
6. Sue Greener, (2010) Business Research methods.
7. Gornig, Von Martin. Michelsen, Claus. Bauwirtschaft trotz der Corona-Krise – dennoch ruhigeres Geschäft im Jahr 2021. Deutsches Institut für Wirtschaftsforschung: DIW-Wochenbericht. 2021, Issue 1/2, p4-14. 11p.



This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution - Non Commercial - No Derivatives 4.0 International License.