# Investigating Accounting Factors through Audited Financial Statements

Subjects: Business, Finance

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Day by day, the importance and impact of the investigation of accounting factors through audited financial statements are increasing based on qualified staff and investments in technology (equipment, machinery, etc.) toward a new approach in businesses. So, while changes in the global business environment have driven business transformation into more innovative businesses, they move toward profit sustainability by focusing on the efficiency of the costs recorded in the accounting financial statements.

Keywords: accounting ; circular economy ; auditing ; financial statements ; sustainable profit ; businesses

## 1. Introduction

To see the importance of the circular economy in businesses, according to (Korhonen et al. 2018), the circular economy (CE) is currently one of the concepts most promoted by the EU, several national governments, and various businesses around the world. Where the (CE) is important for its power to attract both the business community and the policy-making community in terms of the sustainability of profits, there is still a need for other scientific research to ensure the actual effects of the (CE) on the sustainability of profit. The implementation of the (CE) for different disciplines includes practical errors and an increasing variety of technological procedures to meet the need for the support of interested parties, in addition to improved business models (Wiesmeth 2020). Regarding the circular economy in terms of manufacturing businesses according to (Balanay et al. 2022), other regions such as East and Southeast Asia, Japan, China, Germany, Finland, and the Philippines were also researched in the production, energy, and forestry sectors, where the importance is emphasized and the scientific information is necessary for the advancement of the circular economy for a sustainable sector of profit through innovations that must be brought by the businesses of different countries. Furthermore, regarding the impact of the circular economy on businesses according to (Wójcik-Karpacz et al. 2023), the reinforcing factors of sustainable profit in businesses are the right technologies and digitalization, as well as managerial skills. To see the consequences of the circular economy on businesses in developing markets, according to (Dantas et al. 2022), the consequences of the circular economy show that policymakers should reevaluate their business policies by promoting open innovation within the circular economy. To see the effects of circular economy innovation and business model innovations on the sustainability of business profit according to (Hysa et al. 2020; Rehman et al. 2022), innovations have positive effects on performance and the sustainability of profit. Furthermore, if talking about circularity and innovation, it does not only discuss the micro-level impact it has in companies but also the micro-level dimension that is linked with social innovation, energy transition, environment, and related issues (Popescu et al. 2022).

## 2. Investigating Accounting Factors, Financial Statements, Auditing, Qualified Staff, and Investment on Technologies for Sustainable Profit in Businesses toward a Circular Economy

All the assessments so far are sending businesses to develop five important points, such as a fundamental evolution of financial reporting standards, the benefits of the connection of financial reporting and non-financial reporting as the main challenge to obtain holistic and coherent information, double materiality, and the effect of reversion to identify financial reporting in two perspectives: external–internal (how ESG factors affect the development, performance, position of the business—often identified as financial materiality) and internal–external (as business activity affects ESG factors—often identified as environmental and social materiality), and potential linkage approaches (direct linkage and indirect linkage); location of non-financial information is a central lever for integrating FI and NFI; the location of NFI is of prime importance (EFRAG 2021). According to (Karasioğlu et al. 2021), the impact of accounting ethics on the quality of financial reports is emphasized to make correct decisions for sustainable profit; businesses must have qualified and confident managers when making decisions, but, according to (Scapens 1990), there are few researched case studies as a research method

can help the practice of accounting for the investigation of financial statements. To analyze the audit of financial statements according to (Waterhouse and Tiessen 1978), the organizational structure (evolution and emergence in human behavior) and the efficient design of accounting systems increase the sustainability of business profit. According to (Lucianetti et al. 2018), businesses must analyze unforeseen factors (decentralization and environmental uncertainty) as they play an important role in the sustainability of profit, while, related to the organizational strategy to have sustainability, future investigations should be done since there was no strong correlation. A similar opinion, but related to the research being done by academics, there are gaps caused by low research performance in this field and that the discipline is facing a continuous decline emphasized by (Argilés and Garcia-Blandon 2011) according to (Azudin and Mansor 2018) and (Merchant 2008), where there is a gap in the accounting literature from the perspective of a developing economy by elaborating the current stages of development of business and the impact of three factors (structure, potential, and technology) on business profit sustainability. However, according to (Robu and Istrate 2015), the issue of harmonizing national financial reporting standards with international financial reporting standards to guarantee homogeneity and comparability of reported information is mandatory. To investigate the impact of the timelines of the audited financial statements on business sustainability (Ha et al. 2018), it is pointed out that financial leverage and industry do not affect the timing of financial reports; it is also emphasized that there are differences between businesses at the time of publication of financial reports. To investigate the effect of financial reporting ambiguity and audit quality (Chae et al. 2020), a business with opaque (weak) financial reporting increases the risk of the volatility of a company's profit and its prosperity. According to (De Villiers and Molinari 2022), (Mardi et al. 2020), and (Al-Ajmi 2008), it is pointed out that for businesses to have a sustainable profit, their financial statements must be clear, stable, reliable and open-access for everyone; on the contrary, hiding information, blaming others, refusing to admit that there are problems, and refusal to address problems affect profit volatility, so business leaders can apply these lessons to crisis management in their companies. To investigate the relationship between reliability, the complexity of audited financial statements, and market reactions, according to (Alduais et al. 2022), the most complex financial reports are associated with lower current returns, and they negatively affect sustainable earnings or the expectation of future returns. To investigate the impact of the work of auditors on the management of business profits between two periods of the global financial crisis and its consequences, according to (Ghafran et al. 2022), the workload of the auditor harms the quality of income, where it is suggested that auditors working in some companies are less effective and that they should consider the importance of jurisdiction related to governance to have sustainability of profit. According to (Ghafran et al. 2022), the main concerns for businesses are the lack of choice in audit firms and the issues related to their governance and accountability. A similar opinion regarding these concerns and especially in the audit fees of the financial statements is emphasized by (Goddard and Schmidt 2021), labeling the negative implications for the quality of the audit and the damage to the auditor–client relationship, but, according to (Humphrey and Moizer 1990), the professional behavior of the audit and the ability of the auditors serve the function of protecting the interests of the country.

## 3. Investigating Variables of Audited Financial Statements in Businesses (TASS, IASS, TLIA, TREV, and NFI) for Sustainable Profit in Businesses toward a Circular Economy

Regarding the investigation of audited financial statements in businesses, taking into account all the independent variables, contributions were made by many researchers emphasizing their importance in the sustainability of profit. Therefore, the availability of electronic data, including (activators, smart devices, tags, integrated computers, and mobile devices), for accounting statements is of great importance, and every day their importance is increasing to make an audit of the highest quality (Tan et al. 2018). The study of (Kacani et al. 2022) took into consideration the benchmarking instrument, which indicated that those sub-industries performing better both in short- and long-term risk display a higher outsourcing potential and more opportunities for integration in global value chains. To investigate the impact of all variables on the sustainability of profit, the financial position of the business in the market, and the reforms in the financial statements through the accounting of the audited financial statements, according to (Lulaj 2021a), (Lulaj 2021b), the impact of accounting on the preparation of financial statements is becoming more and more necessary, that large businesses have a better financial position compared to small businesses, and that insolvency is greater among small businesses. Regarding the variable of intangible assets (IASS), according to (Hu et al. 2022), foreign ownership increases with the increase in intangible assets. According to (Uddin et al. 2022), intangible assets provide competitive advantages and increase business productivity and efficiency. However, corporate resilience to the shocks of COVID-19 highlights the critical role of intangible assets, whereas, according to (Lim et al. 2020), a significant and growing part of corporate assets consists of non-recourse assets; high risk of evaluation and the weak collateralization of some intangible assets (goodwill) may discourage debt financing. Furthermore, businesses that use recent changes in accounting rules are allowed to observe market-based valuations of intangible assets. Regarding the total assets variable (TASS), according to (Wang 2022), emphasizing that the optimal choice of the portfolio of risk-averse entrepreneurs in a costly state-verification

framework, according to the analyzed model, it is concluded that opposite responses of the firm's leverage and share are generated assets that are consistent with empirical evidence.

## 4. The Impact of Profit Sustainability in Businesses for Financial Accounting Items

To investigate the impact of profit sustainability in businesses for financial accounting items, according to (Caddy 2000), there has been a focus on the intellectual assets of the business and to some extent on an equivalence between intellectual assets and intellectual capital where, with each debit (in the sense of increase), the possibility of a loan (in the sense of a reduction) must be allowed. According to (Zambon et al. 2020), the financial value is related to the generation of net cash flows over time to have appreciable profit in businesses. According to (Ellis et al. 2022), financial reporting for general purposes has evolved to meet the needs of existing and potential investors, as well as creditors, providing information related to the evaluation and expected return, time, and uncertainty of future monetary flows, as well as the care of the management on the economic resources of the company. Financial reporting and ESG have also emerged to meet information needs in recognition of the fact that sound financial decisions are based on broader analyses than those derived from financial information. The research field of accounting information systems (AIS) emerged about 30 years ago as a subfield of accounting, but it is in danger of developing further as an isolated discipline, according to (Jans et al. 2023). According to (Haji et al. 2023), on balance, a significant number of questions remain on the net effects of CSR reporting regulations.

In this case, to investigate the competition within the external market and the phenomena of the tendering of the audits of financial statements (Beattie and Fearnley 1998), the development of a competitive tender and the examination of the change of the auditor strengthen the stability of the business in the market. However, according to (He et al. 2016), poor audit quality and high fees harm the sustainability of business profit. To investigate the impact of technology on the sustainability of profit through the analysis of financial statements, according to (Türegün 2019), businesses have taken a step forward in the field of technology and accounting programs, while in the coming years financial reporting will become stronger thanks to learning (training and education of staff), artificial intelligence, blockchain, and the use of big data, showing the transformation of financial reporting with technological changes. A similar opinion was given by (Mohd and Khan 2021), emphasizing the importance of future research in this field. According to (Carcello and Neal 2003), it is very important that businesses do not pressure auditors to modify financial statements, regardless of ongoing issues, as well as not dismiss the auditors from their positions just because they refuse to issue unaltered reports. This is highlighted by (Ishak 2016), emphasizing the importance of responsibility and guidelines in business governance codes according to international accounting and financial reporting standards to have real and sustainable profits, and also in rules and principles (Cao and Coram 2020), as well as in standard No. 5 (Janvrin et al. 2020), as well as according to (Velte 2022), which emphasizes the importance of financial restatements and the usefulness of financial information (Lev 2018) to have profit consistency. To further investigate the impact of technology on the accounting and auditing of business financial statements, according to (Salijeni et al. 2021), technology facilitates the creation of opportunities to provide quality business reports, particularly for the stability of profit, but according to (Castka et al. 2020), technology improves the process of auditing financial statements. According to (Li 2019), the importance of technology at the time of financial reporting, the strengthening of the supervision of accounting statements, the application of technology, and, first of all, the verification of accounting transactions, are emphasized. According to (Mironiuc et al. 2015), the importance of the value of comprehensive income for net income is emphasized to ensure the sustainability of profit. To investigate the impact of human behavior on the production/service or distribution process, according to (Corrado et al. 2009), the productivity and income of workers have decreased significantly over the last 50 years, affecting the sustainability of profit in the business. According to (Iatridis 2016), changing the tone of financial reporting to pessimistic lowers the cost of capital. Furthermore, according to (Ahadiat and Mackie 1993), emphasizing ethics in accounting increases sustainable profit. To investigate the impact of human behavior on the sustainability of profit, according to (Kusnic and Davanzo 1986), businesses should not create income inequality for workers, increasing the need for greater care; furthermore (Allal-Chérif et al. 2023), businesses must make sustainable innovations to achieve excellence in simplicity (Agyei-Boapeah et al. 2022; Alfaro et al. 2019) by eliminating barriers (time or space), as well as by implementing sophisticated software that helps sustainable profit. According to (Macve 2015), accounting and auditing work in different ways within businesses in different countries and cultures. According to (Xu and Xuan 2021), in the current stage of business development, a high level of internal control can facilitate its effectiveness. By (Merello et al. 2022), the digitization process is affecting all markets and increasing consumer awareness of the sustainable behavior of companies to have a sustainable profit (Lin et al. 2021) through the implementation of a strategic attitude to profit-related opportunities based on the strategic systems audit (SSA), according to the researchers' research (Peecher et al. 2007). According to (Bakre 2008), the financial reporting of a heavy socioeconomic and political technology is emphasized for the colonial and post-colonial era of business

globalization. Therefore, the emphasis on the business is complex, and, on speed changes (Hui and Fatt 2007), facing stationary challenges in the chain is related to changes in developing markets (Soundararajan et al. 2021), as well as more sustainability and integration in corporate culture, as well as in profit reporting for interested parties (Rezaee 2016). According to (Chams and García-Blandón 2019), businesses are becoming more and more aware of these aspects every day, based on the well-being of workers (Sun et al. 2020) and their ethical activities (human behavior) before entering the complex world of business (Low et al. 2008). According to (Al-Mana et al. 2020), privatization can lead to improved performance and sustainable profit efficiency as shareholder-owned businesses generally perform better than national players, so this is a topic of continuing interest regarding the relationship between corporate governance and managerial choices (Nazir and Afza 2018), as well as regarding to what extent financial reporting facilitates the allocation of capital to appropriate investment projects to have a sustainable profit (Roychowdhury et al. 2019). According to (Bebbington et al. 2007) and (Lulaj and Iseni 2018), profit sustainability assessment models should be proposed according to cost–volume–profit analysis. According to (Zhang et al. 2021), business solvency, profitability, and development ability are closely related to profit sustainability, fulfilling the intelligent demand for modern financial data analysis in the cloud servers (Bi 2022), and in recent years, businesses have paid more and more attention to business data in the cloud server (Yang 2021). According to (Chen 2022), the lines between financial and managerial accounting to investigate sustainable profit are constantly being mixed as a result of the new economic norm, which is bringing this relationship closer every day, but the continuous progress of economic globalization through science and technology for sustainable profit has become an important direction for the development of businesses to detect entrepreneurial problems and prevent risks (Hou 2022; Panait et al. 2022), since in the current competitive environment, businesses pay the market great importance on financial performance evaluation research, paying attention to workers' talents to increase sustainable profit (Chen 2021). According to (Yang and Jiang 2020), the hybrid approach greatly improves the accuracy of the data in the accounting financial statements. Regarding the implications of the policy of total assets, according to (McDonough and Yan 2022), businesses must make capital investment decisions based on the state of the total assets of the business.

Regarding the total liabilities variable (TLIA), according to (Colovic et al. 2022), businesses that start operating in the informal sector and later move to the formal sector are less likely to directly receive profit sustainability in the global value chain. According to (Tang and Rowe 2022), the very close connection of the subsidiary to the main company can be potentially harmful to the sustainability of profit. According to (Dawid and Muehlheusser 2022), strict obligations can hinder business investments and their recognition by the market. Regarding the total revenue variable (TREV), according to (Gebauer et al. 2020), businesses with new digital offers are currently using new digital technologies such as the internet of things (IoT), artificial intelligence (AI), or big data (BD), but these offerings rarely increase total revenue as businesses are struggling with business dynamics (BD). According to (Kabir and Su 2022), income from contracts with customers affects the practice of recognizing income and financial statements of businesses, while profits use more the modified retrospective method than the full retrospective method. Regarding the variable of the net financial income (NFI), according to (Kabbach-de-Castro et al. 2022), productivity and hindered income jointly direct the distribution of capital within an internal capital market. According to (Villani 2021), various factors can change the values of the index of external financial dependence, and that stability finds less empirical support. To evaluate the circular economy model of a manufacturing company, according to (Chiarot et al. 2022), the reuse and recycling of material should be reduced by focusing on optimizing the performance of assets and helping to improve the sustainable performance of machinery and equipment. According to (Han et al. 2020), a business in a circular economy must be flexible to market changes in response to changes in technology, economy, and environment to achieve sustainability of profit. Regarding the determination of the factors that lead to a short-term orientation strategy to have business profit sustainability in a circular economy, according to (Gerlich 2023), it is very challenging for businesses to transform a long-term strategy into a short-term strategy for stable profit evaluation. According to (Milios 2018), to have sustainability of profit in businesses, one of the main areas of (CE) is repair and reproduction.

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