

The Just-In-Time (JIT) System and its Impact on the Accounting Disclosure in the Financial Statements: An applied study in the Iraqi Date Processing & Marketing Company – Tomoor (IIDP)

**نظام الإنتاج في الوقت (JIT) وأثره في الإفصاح المحاسبي في القوائم المالية :
دراسة تطبيقية في الشركة العراقية لتصنيع وتسويق التمور مساهمة مختلطة**

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Abstract.

This study aims to highlight the role of the Just-In-Time (JIT) system and its impact on the accounting disclosure in the financial statements and the accounting information provided by the Company, subject of the research, to the users of these statement, whether internal or external users, and through the application of the above system and the comparison between the statements, subject of the research, before and after the application.



The researcher concluded that the use of the system leads to an increase in liquidity and revenues and a decrease in expenses. It also leads to an increase in the surplus that can be used in expansion operations and foreign investments. It can also be used to bridge the deficit in the Corporation for the previous years and that using the system will lead to the desire of investors to enter as shareholders in the Company which leads to an increase in the value of the Company in the labor market. One of the most important recommendations reached by the researcher is the necessity of using modern systems in production processes and training workers to use advanced systems in accounting work to deal with these systems by involving them in training courses.

Keywords: Accounting Disclosure – JIT System – Inventory

Introduction

The idea of the Just-In-Time (JIT) system started, at first blush, in the Japanese Motor Corporation (Toyota) when the Corporation decided to communicate with customers on demand for products and this was in 1970 and continued to work to develop and elaborate this idea for fifteen years, where the process of implementing the system needs to update multiple manufacturing elements. For the success of this process, the Corporation must enjoy stability in work and continuous production, as it enjoys high quality production, and the percentage of damage is low, as well as the machines' failure rates to be low and the trust between the Corporation and customers who are suppliers of raw materials is high. This is what Toyota enjoys, so it was able to implement the system (Taajari, 2018).

In light of the technological development witnessed by the world, companies began looking for improving their operational performance and that this end was achieved by reducing the inventory period of raw materials for finished goods and reducing the demand for raw materials except when needed. This process would lead to the disposal of the spoilage problem of finished or stored materials. Many techniques have been proposed to solve this problem, including business re-engineering, total quality

management, supply chain integration, and (JIT) system, which was the best way to manage inventory (Garousi, 2013).

The philosophy of the (JIT) system is very typical in production management, as it helps to improve the quality of products and reduce spoilage, as spoiled materials have a direct impact on the profits of companies and the use of this system led to an increase in cash flow as it helped reduce interest rates through the process of helping companies obtain loans in order to purchase raw materials. It also helped prevent the return of goods to suppliers in addition to the reduction of spending on labor (Naidoo 2016). Adekunle (2019) says that the management faces many problems in managing inventory because of the large amount of money it employs in it, which in turn restricts the production process and this in turn limits the company's ability to compete in the market. Companies have tried to reduce production costs and improve the product and were able to achieve this advantage through the use of JIT system.

Gargeya (2002) says that the philosophy of the (JIT) system is based on three basic principles: getting rid of spoilage, continuous improvement of quality, encouraging workers to participate in the planning of operations as well as their implementation. In turn, this will lead to obtaining production and increasing the company's profits accordingly.

In light of the importance of the JIT system presented above, the researcher will focus in this paper on the impact of the system on accounting disclosure in the financial statements and the improvement that it can leave behind in the presentation of the financial position of the company, subject of the researchers, by knowing its impact on quick cash flow after disposal of the inventory as well as showing its impact on the profits of the company, subject of the research, and knowing the extent of its impact on cash flows. This study is distinguished from other studies that the researcher has reviewed as it is focused on the impact of the JIT system on the financial statements and the extent of the change in accounting disclosure after the application of the system.

Chapter one/ Research Methodology

1.1- Research Problem

Accounting disclosure in the financial statements is one of the important things in providing financial information to the users of these statements, as it helps them in making their decisions, and the role that inventory plays in presenting the financial statements, which affects the disclosure of financial information, so the research problem lies in that the Company, subject of the research, invests large amounts of money in inventory, which led to reduced liquidity and revenues and increased expenses. Therefore, the research problem revolves around the following questions:

- 1- Does the use of the system increase the company's liquidity?
- 2- Does the use of the system increase the company's profits?
- 3- Does the use of the system reduce the cash flow deficit of the company?

1.2- Research Importance

The importance of the research lies in:

- 1- Defining the Company's Management and officials on modern methods of inventory management, including the JIT system.
- 2- The use of the (JIT) system in inventory management will lead to an increase in liquidity and revenues and reduce the deficit in cash flows.
- 3- The use of the (JIT) system will help the Company to invest the surplus funds in expanding its business by investing in other companies or expanding production lines.

1.3 - Research Objectives

The research aims mainly to reduce the investment of money in the inventory, and this in turn leads to providing liquidity to the company, subject of the research, and helping it to enter into new investments. The research aims also to enhance the company's value before the competitive companies in the labor market through raising the market value of the company, disclosing the real financial after the shift from the old system in inventory management to the (JIT) system and the clear change in the financial statements and the strength of its financial position.

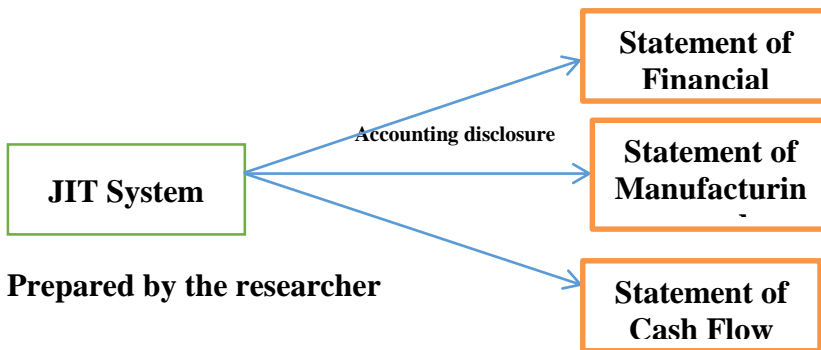
1.4 - Research Hypothesis

The research is based on the hypothesis that the use of the (JIT) system will reduce the investment in the inventory until the Company reaches “zero inventory”. In addition, the use of this system will have an impact on the accounting disclosure through the change in the presentation of the financial statements. **The research hypothesis focused on the use of the (JIT) system will affect (liquidity, increase of profits and reduction of the deficit in cash flows).**

1.5 - Method and field of research

In this study, the researcher relied on the financial statements of the Iraqi Date Processing & Marketing Company, where the financial statements for the year 2019 were adopted and the focus was on the statement of financial position (balance sheet, manufacturing and trading account, profits, losses and distribution and statement of cash flow.

1.6 - Research Scheme



2- Chapter two /JIT System

2.1- Definition of the system: There are several definitions of the (JIT) system, including “a philosophy based on reducing waste in the company’s resources, whether it is related to inventory or transportation, and it also works to reduce errors and defects during the production process” (Ruqiah et al.2018:56). It was also defined as “a system based on reducing costs for the materials inventory by reducing the inventory value” (Taleb, 2021, 29), and it was defined as “the process of purchasing

materials and producing them when needed in the stages of the production process, which leads to the provision of liquidity as it reduces inventory rates” (Al-Masry, 1082).

From the above definitions, the researcher defines the (JIT) system as “the system that helps provide liquidity, reduce expenses and increase revenues, as it reduces investment in inventory.”

2.2- Benefits of implementing the JIT system

- 1- The system is based on production requests at the time of the production process.
- 2- The system reduces the inventory to reach “zero inventory”.
- 3- The system monitors performance and improves quality.
- 4- The system helps reduce costs. (Jarira, 2013:91)

2.3- Objectives of Implementing the JIT System

- 1- The system helps in eliminating excess production as it works on demand.
- 2- The system helps reduce the time of order preparation.
- 3- The system helps in getting rid of defective production (Al-Birwini, 2014:28).

2.4- Elements of (JIT)

- 1- The system focuses on customers and implements their requests.
- 2- Determining the labor within the firm.
- 3- Reducing losses in the production process (Al Yaqoub 2009:21)

3- Concept of Accounting Disclosure

3.1- Definition of Accounting Disclosure: There are many definitions of accounting disclosure, including “It is to show all financial information in a clear manner and be appropriate for its users, whether they are internal or external users” (Hassan, 432). It was also defined as “the second function in terms of importance after accounting measurement of the economic and

financial operations that arise in the economic units” (Ben Rahmoun, 2019:1120). In addition, it was defined as “an accounting principle that includes the presentation of financial and non-financial data in the form of reports and appendices that present the items of the financial statements with credibility and transparency and present them to users in a timely manner” (Sherif, 2019:464). From the above definitions, the researcher defines accounting disclosure as “one of the most important accounting tools that help clarify financial and non-financial items in the form of statements or reports that clarify the financial position of the economic unit in order to assist the users of these statements and reports to make appropriate and timely decisions.”

3.2- Objectives of Accounting Disclosure

Accounting disclosure aims to provide data and information to users to achieve their goals, which are as follows (Sherif, a previous reference)

- 1- Confirming the accounting measurement by disclosing the measured items in the financial statements and reports.
- 2- Showing the financial elements that have not yet been recognized by the economic unit, such as the due taxes.
- 3- Accounting disclosure helps users of financial statements to determine the extent of risks and uncertainty for both recognized and unrecognized elements.
- 4- It helps to make comparisons between the financial statements for previous periods.
- 5- Clarifying the cash inflows and outflows and assist the economic unit in evaluating investments. (Sharif, a previous reference).

3.3- Types of Accounting Disclosure:

There are many types of accounting disclosure, including them

- 1- Mandatory disclosure: It is what is determined by laws and legislation, as well as what is approved by international and local accounting standards for the purpose of providing the appropriate

amount of accounting information to the beneficiaries of the financial statements and reports.

2- Additional (voluntary) disclosure: This type of disclosure means what the economic unit does to provide additional financial information that is not provided for by laws and legislation as well as accounting standards, whether international or local, in order to enhance the position of the economic unit, and from these disclosures provided by the economic unit voluntarily (financial forecasts, earnings per share, spending plans).

3- Full (comprehensive) disclosure: It is a comprehensive and appropriate disclosure of accounting information that covers the greater part of the needs of the users of the financial statements and the beneficiaries of these statements.

4- Specific (adequate) disclosure: It means showing the minimum amount of information that can be used in making decisions by users of financial statements and reports, and this type is in accordance with the requirements and requirements of international accounting standards.

5- Fair disclosure: This type stipulates that the financial statements contain sufficient information that helps investors to make decisions and that they do not contain misleading information or the omission of any information of value or benefit.

6- Informative (educational) disclosure: This type represents the disclosure of appropriate information in order to make decisions and is represented by the disclosure of financial forecasts as well as the disclosure of current and planned capital expenditures. This type helps to reduce the resort to internal sources in order to obtain additional information.

7- Preventive (traditional) disclosure: This type of disclosure enjoys a high degree of objectivity as it addresses the investor who has a limited degree of understanding and use of accounting information.

By looking at the types of disclosure above, the researcher believes that disclosure, with its different forms, must be at a

high level in addressing all users of financial statements and reports and enjoy credibility and transparency in order to be an helpful and important element in decision-making by the users of these statements and reports (Lubna, 2018:46).

3.4- Importance of Accounting Disclosure: The importance of accounting disclosure is due to its being a basic pillar of generally accepted accounting principles, as well as the fact that laws and legislation stipulated the need for financial statements to include sufficient disclosure and many countries attach specific models that require economic units to follow in order to present their financial statements. As a result of the disclosure's importance, many countries and professional organizations interested in the field of accounting issued standards for accounting disclosure as they issued more than one standard related to accounting disclosure, because of the continuous development on the social and economic level, which has an influential relationship in the work of economic units where they have a significant impact on the disclosure process in order to meet the society's requirements for accounting and financial information, which have a direct impact on their decisions. (Abbas, 2019:324)

3.5- Applied Aspect

The Company was established in 1989 with a capital of (fifty million dinars) to carry out the operations of receiving, processing and marketing dates abroad and the local market. As a result of the Company's processes and its development, its capital was raised through the public offering to be (seventeen billion and two hundred and fifty million Iraqi dinars) under the decision of the Public Authority in 2013. Its main activity is the processing and marketing of dates. This study was applied to the financial statements of the Iraqi Date Processing & Marketing Company - Tomoor (IIDP) of 2019. This company was chosen to complete the research as it is a company processes and markets dates, i.e., it needs raw materials and it works on marketing

products. This company invests in many companies, so it needs sources of money, and the money invested in the inventory is rather high, as its percentage of current assets constitutes 38%, the researcher will work on applying the (JIT) system in the Company, subject of the research as well as comparing the final accounts before and after the application of the system and its impact on the accounting disclosure of accounting information.

Statement No.(1)

Balance Sheet of the Iraqi Date Processing & Marketing Company – Tomoor (IIDP) as of 31/08/2019

Guideline No.	Account Name	Before the application of the system	After the application of the system
11	Fixed assets	6,482,096,790	6,482,096,790
118	Deferred revenue expenditures	186,420,777	186,420,777
151	Long-term financial statements	84,302,566	84,302,566
	Total fixed assets	6,752,821,033	6,752,820,133
	Current assets		
13	Inventory (in cost)	777,741,632	0
152	Short-term financial statements	967,698,325	967,698,325
16	Debtors	18,051,241,947	18,051,241,947
18	Cash	189,100,742	966,842,374
	Total current assets	19,985,782,646	19,985,782,646
	Total assets	26,738,602,779	26,738,602,779
	Long-term finance		
21	Paid (nominal) capital	17,250,000,000	17,250,000,000
22	Reserves	11,709,604,052	11,709,604,052
23	Long-term provisions	19,005,281	19,005,281
225	Accumulated deficit	(7,963,856,388)	(7,963,856,388)
	Total long-term finance	21,014,752,945	21,014,752,945

	Short-term finance		
23	Short-term provisions	1,126,703	1,126,703
26	Creditors	5,722,723,131	5,722,723,131
	Total long-term finance	5,723,849,834	5,723,849,834
	Total finance	26,738,602,779	26,738,602,779

Prepared by the researcher based on the Company's data

We note through the comparison between the Company's balance sheet before and after the application of the (JIT) system, that the value of the inventory decreased from (777,741,632) dinars to (0) dinars, and this in turn led to an increase in cash from (189,100,742) dinars to (966,842,374) dinars, and this in turn will lead to the Company's ability to obtain new investment opportunities, and it will also change the view of users of financial statements from external parties who wish to invest in the Company in order to obtain shares, which will lead to an increase in the value of the company's shares because the Company's financial position is good and it can fulfill its obligations towards a third party.

Statement No.(2)

of the production, trading, profit, loss and distribution account for the year ended August 31, 2019

Guideline No.	Account Name	Before the application of the system	After the application of the system
45-41	Revenue of current activity	3,069,178,663	3,100,667,039
	Deduct: Cost of current activity		
5	Cost of production	1,541,329,294	1,541,329,294
6	Cost of productive services	2,167,494,320	2,167,494,320
	Net cost of production	3,70,8823,614	3,708,823,614
35	Purchases of goods for sale		
4122	Change in finished	5,985,624	5,985,624

	goods inventory		
	Net cost of current activity	4,367,309,238	4,367,309,238
	Total surplus (deficit)	(1,298,130,575)	(1,266,642,199)
	Deduct: Cost of marketing services	48,166,540	48,166,540
	Surplus or deficit of manufacturing or trading account	(1,346,297,115)	(1,266,642,199)
46	+ land interests and lease (Credit)	2,539,060	2,539,060
	Surplus or deficit of operating activity	(2,403,421,945)	(1,264,103,139)
48	+ other manufacturing revenues	1,625,100,000	1,625,100,000
49	Other revenues	1,153,188,305	1,153,188,305
	Total other manufacturing revenues	2,778,288,305	2,778,288,305
	Deduct: Other manufacturing expenses		
38	Manufacturing expenses except 384	37,875,862	37,875,862
39	Other expenses	256,990,601	256,990,601
	Total other manufacturing expenses	294,866,463	294,866,463
	Net surplus or deficit	79,999,897	1,219,318,703

Prepared by the researcher based on the Company's data

We note from the above comparison between the account of manufacturing, trading, profits, losses and distribution for the year ended August 31, 2019 that the current activity revenue has increased by (31,488,376) dinars. This led to an increase in revenues and also led to a decrease in the deficit of production and manufacturing from

(1,298,130,575) dinars to (1,266,642,199) dinars, and the use of the (JIT) system contributed to a decrease in the operational activity deficit from (2403421945) dinars to (1,264,103,139) dinars, and the use of the system also led to an increase Surplus Increasing the surplus from (79,999,897) dinars to (1,219,318,703) dinars, through the above, disclosing the use of the (JIT) system in the inventory transaction will lead to an increase in the surplus that can be distributed to shareholders, as well as helping the Company to expand its production operations and raise its value between competing firms in the labor market.

Statement No.(3)

Cash flow of the Company as of 31/08/2019

Guideline No.	Account Name	Before the application of the system	After the application of the system
	Cash flow from operating activities		
41-44	Revenue of current activity	1,759,284,093	1,790,772,469
48	Manufacturing revenues except/482	1,625,100,000	1,624,100,000
49	Other manufacturing revenues except 493	17,996,838	17,996,838
16	Debtors of current activity except 165	461,145,557	461,145,557
26	Creditors of current activity	42,531,647	42,531,647
	Total operating activities	3,906,058,135	3,937,546,511
	Deduct: operating payments		
31-35	Uses	3,419,911,856	3,276,836,659
38	Manufacturing expenses except 382	9,496,200	9,496,200
39	Other expenses	23,474,301	23,474,301

13	Increase of inventory	802,521,895	802,521,895
	Total operating payments	4,255,404,252	4,112,329,055
	Cash flow of extraordinary items		
165	Cash receipts of extraordinary items	675,442,340	787,029,161
265	Cash receipts of extraordinary items	170,856,680	170,856,680
	Net cash flow from operating activities	496,952,903	783,103,297
	Net cash from investment activities		
	Cash received		
15	Cash value of investment sale	2,539,060	2,539,060
	Deduct: Cash payments		
11	Purchase of fixed assets	509,502,230	509,602,230
	Net cash flow of investing activities		
	Cash flow from financing activities		
	Deduct: Cash payments		
268	Dividends	1,586,672	1,586,672
	Net cash flow from financing activities	(1,586,672)	(1,586,672)
	Net cash flow from the three activities	(11,696,939)	274,453,455

Prepared by the researcher based on the Company's data

We note from the above disclosure that the net cash flow for the three activities (operating, investing, and financing) increased from (-11,696,939) dinars to (+ 274,453,455) dinars when applying the (JIT) system. The use of this system will improve the Corporation's reputation in the competitive market, which leads to attracting more investors, and increasing the demand for the Corporation's shares in the trading market.

From the above results obtained from the above statements, the basic hypothesis has been proven, which is that **the use of the (JIT) system led to an increase in liquidity and also led to an increase in profits and the elimination of cash flow deficits.**

4-Conclusions and Recommendations

4.1- Conclusions

1. The application of the system (JIT) led to an increase in the Company's cash flow, after disposing of the inventory and relying on the new system in inventory management.
2. The application of the above system (JIT) led to an increase in the Corporation's profits by not buying raw materials and disposing of (inventory of fuel and oil, inventory of spare tools, inventory of packing and packaging materials, inventory of stationery).
3. The application of the system (JIT) has led to a reduction in the deficit in cash flow detection, which gives an image of the Company that its financial system is working in a stable manner.
4. The application of the system (JIT) changed the presentation of the financial statements, and this in turn will lead to attracting investors.
5. The application of the system (JIT) led to the availability of cash flow with the Company, which in turn enables the Company to enter into new investments or expand its current production lines.

4.2- Recommendations

1. The Company, subject of the research, must convert from the old and traditional systems in inventory management to the (JIT) system, as it leads to the provision of liquidity, due to the disposal of investment in the inventory.
2. The study recommends that the Company, subject of the research, think seriously in order to implement the (JIT) system, as it is one of

the modern systems that help reduce costs, which leads to an increase in revenues.

3. The Company must disclose the accounting policies used in inventory management in its financial reports or even in the notes.

4. The shift from one accounting policy to another requires training workers in the field of accounting work in order to develop their skills and help them use modern means in their work fields.

5. The Company can benefit from international accounting standards in inventory management, especially the IAS2 standard.

6. The Company, subject of the research, should pay more attention to research and development in order to obtain employees who can implement modern systems.

7. The Company, sample of the research, can benefit from research and studies related to inventory management in order to benefit from them in applying the system in the Company

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