



A Quality Financial Report: A Conceptual Analysis

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Abstract: Following the loss of assets due to distortion of facts in financial reports, there is a need for ongoing study into what defines a quality financial report. A high-quality financial report should be able to achieve its primary goal of delivering useful information for economic decision-making (International Accounting Standard Board Framework). Following that, a conceptual framework for a high-quality financial report is presented. As a result, the purpose of this article is to describe the idea of a quality financial report by identifying the financial report's qualities, antecedents, and results. The financial report should include both basic and improving qualitative features in order to be useful (International Accounting Standard Board Framework). The mechanical display of the report is then added as another characteristic. The criteria taken into account here include readability, legibility, and report length. The conceptual framework will assist financial report preparers on what constitutes a great financial report, allowing them to enhance their reporting. It will also assist financial report users in assessing the quality of financial reports before using them for decision making. If this structure for a quality financial report is used, the number of financial statements scandals may be reduced, restoring investor confidence in the financial report.

Keywords: Measuring qualitative, financial reporting, quality financial report, legibility.

1. Introduction

Investors are requesting quality financial reports with more divulgence to avoid losing their investments because of distortion of data. This paper operationalizes financial report quality as far as basic quality characteristic (relevance and faithful presentation), additional quality attributes (comparable, verifiability, timeliness, understandable) and mechanical display qualities (readability, legibility, length of report). A quality financial report is subsequently recognized utilizing its antecedences, its attributes, and its outcomes.

Financial statements are used to provide information on the financial position, business situation, and cash flows of an enterprise, to meet the management requirements of business

owners, state agencies, and the user needs of enterprises, users in making economic decisions. Quality is characterized as "meeting the client prerequisites" or "readiness for reason or use", a quality financial report should hence meet the necessities of its clients who incorporate, the investors, the financial backers, the lenders, and the controllers. It should likewise be good for the reason for giving the clients the significant data for direction

1.1. Background of the Study

The events financial statement scandals, for example the Enron case and WorldCom, caused financial backers to lose their trust in financial reports. The breakdown of enormous

organizations like Enron, WorldCom, Tyco International, Waste Management, Freddie Mac, American Insurance Group (AIG), subsequent to having delivered a progression of 'good financial outcomes' left partners addressing whether financial outcomes are satisfactory as a proportion of execution (Thomas, 2002) [1]. Did the financial reports of above organization mirror the 'true and fair' perspective on the particular associations? this turned into a big question that needs an answer (Eccles and Saltzman, 2011) [2].

1.2. Problem Statement

Quality financial reports are to give a "valid and fair view" of the organization's working situation for financial direction (International Accounting Standard Board Framework). "Valid and fair view" recommends that the data uncovered in financial reports is liberated from mistake and without inclination. Quality financial reports ought to hence lessen data asymmetry. A quality financial report ought to have the option to meet the International Financial Reporting Standards (IFRS) or the Generally Acceptable Accounting Principles (GAAP) in this manner meriting an inadequate assessment from the inspectors. In short, every one of the principal subjective attributes and all the upgrading subjective attributes supplemented by the mechanical introductions of the report ought to be met for great quality financial reports.

In spite of many organizations guaranteeing that their financial reports meet the International Financial Reporting norms, financial backer trusted in these reports has declined because of the low quality of reports (Zainudin and Hashim, 2016) [3]. Assuming that organizations keep on delivering low quality financial reports, investors' trust in these reports will proceed to decrease and more organizations will keep on repeating their financial statements (Wang and Wu, 2011) [4]. Since studies have shown that the nature of financial reports is conversely connected with investing risk (Tang et al, 2016). This, therefore, intends that in the event that the nature of financial reports gets worse, investing risk will keep expanding which isn't great for the financial business sectors.

This paper's point is to propound a framework for a quality financial report. This will help the preparers of financial reports reports in guaranteeing that their reports have the traits of a quality financial reports prior to introducing them to the clients. It will likewise help the clients of financial reports, for example, the investors, the shareholders, the regulators, and the creditors in assessing the financial reports' quality before

they use them for making decision. Assuming that both the preparers and the clients of financial reports have a similar direction for a quality financial report, users' needs are probably going to be met and, in this way, supporting users' trust in financial reports. Quality financial reports will in this manner upgrade informed decision making by the clients which is great for the capital market as financial backers base their choices on them

2. A Quality Financial Report

Preferably, analysts would constantly approach financial reports that depend on the standards of financial reporting, like those from the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). Yet, financial reporting quality can fluctuate enormously. High-quality financial reports give information that is helpful to investigators in surveying an organization's exhibition and possibilities. A quality financial report concept's hypothetical starts from the management hypothesis and the stakeholder hypothesis. Preparers of financial reports should be great managers that produce quality reports that are important for decision making and faithfully symbolize what has really happened without bias, complete and independent from the error. The information uncovered in quality financial reports ought to give true and fair, especially the data about underlying financial positions and economic performance (FASB, IASB). These quality financial reports ought to have the option to meet the different stakeholders' requests or needs. The mechanical show of the report ought to likewise upgrade the quality of the actual report. The applied system for a quality financial report is then evolved with the antecedents of a quality financial report, the attributes of a quality financial report and the outcomes of a quality financial report [5], [6], [7].

2.1. Antecedents of a Quality Financial Report

The antecedent's conditions that impact a quality financial report are the guiding accounting standards, the report's expected clients and the report preparer's intentions. These conditions will be described in the following.

2.1.1. The guiding accounting standards

Diverse accounting standards might prompt contrasts in financial report detailing and its quality even with similar financial information. For US organizations, reporting quality is directed by Generally Accepted Accounting Principles

(GAAP). For different states outside the US, a reporting quality is directed by International Financial Reporting Standards (IFRS). The GAAP and the IFRS offer rules and rules to be trailed by the preparers of financial reports. There is anyway a transition to join the GAAP and IFRS. Besides, different regulation and guideline, for example, the Sarbanes Oxley Act additionally fortify the financial reporting quality. As a result, the accounting standards that guide each jurisdiction have an impact on the quality of the financial statements in that jurisdiction.

2.1.2. The report's expected clients

Various clients have various views of what establishes a quality financial report. For example, for a environmentalist, a quality report will investigate the organization's effect on the climate. For a financial investor, a quality report will cover the business activities of the company. Therefore, the expected clients of the report will impact what comprises a quality financial portrayal.

2.1.3. The report preparer's intentions

Tang et al. (2016) suggested that the difference in the quality of financial statements at the firm level is strongly influenced by management intention. Because financial statement preparers can exclude or add specific data in the financial statement to fulfill their ideal thoughts, so they subsequently impact the quality of the reports they get ready. Albeit financial proclamation preparers should reveal all data that is significant and applicable for decision making (IASB Framework), a few unethical individuals control the data they divulge. This is finished by controlling measurements to misrepresent or minimize certain transactions, or by discarding some significant data required for decision making or even giving a lot of information that is useless (Ernst and Young, 2012). These circumstances, consequently, show that the preparer's intention impacts the considerations for a quality financial statement.

2.2. The attributes of a quality financial report

There are assured attributes related to a quality financial report like suitable, faithful representation, comparable, verifiable, timely, and comprehensible (IASB framework, 2008). Other studies refer to other attributes such as accessibility, accuracy, clarity, standards compliance, completeness, consistency, cost, duration, familiarity, frequency, language, transparency and availability (Nederpelt, 2011) [8]. Beside those attributes, this paper adds more three

mechanical presentation qualities like readability, legibility, and report length. Then, at that point, a quality report should have the option to address the needs of the client and should likewise satisfy its motivation. Clients need adequate applicable material data to settle on decision making while the reason for financial proclamations is to furnish clients with that data. In this work, we present the traits of a quality financial report that divide into three classes: basic quality characteristics, additional quality characteristics, and the mechanical show of the report

2.2.1. Basic quality characteristics

The first basic quality characteristics of a quality financial report is relevance. To be relevant, accounting information must be able to make a difference in the decision-making of its users. Accordingly, "it must have predictive value, confirmatory value, or both" (IASB, 2010a). Financial information has predictive value if it can be used as an input for users to predict future outcomes. Financial information has confirmatory value if it provides feedback on previous assessments. The predictive value and confirmatory value of financial information are related. Information that has predictive value often has confirmatory value.

The second characteristic is the faithful presentation. Information is presented faithfully when it is descriptively complete, neutral, and error-free (IASB, 2010a). Sufficient information includes all information necessary for the user to understand the phenomenon, including all necessary descriptions and explanations. For some items, complete information also requires an explanation of significant facts about the quality and nature of the item, and the factors and conditions affecting the nature of the item. Information is neutral when there is no bias in selection or presentation, it is not biased towards a predetermined outcome, or is influenced by a particular attitude. Faithful presentation does not mean accurate in all respects. Error-free means that there are no errors or omissions in the information descriptions and procedures.

2.2.2. Additional quality characteristics

Comparable, verifiable, timely and understandable are quality characteristics that enhance the usefulness of relevant information and are presented fairly in the financial statements.

First, comparable is understood that information about an enterprise will be more useful if it can be compared with similar information in other enterprises or in the same

enterprise in different periods. Comparability allows users to distinguish and understand similarities or differences in items (IASB, 2010a). Comparability involves consistency, but they are not the same thing. Consistency refers to using the same methods for similar items. Comparability is the goal, and consistency is the condition for achieving it.

Second, verifiability helps to assure users that the information presents truthfully with respect to economic phenomena. Verifiable means that different independent and competent observers and evaluators can reach consensus, though not entirely, that the information is faithfully presented. Verification can be done directly or indirectly.

Third, timeliness means having information available for users to make timely decisions. Old information is less useful, and if reporting is delayed, the information will lose its relevance. However, some information may remain useful long after the end of the reporting period because users need the information to identify and assess evolving trends.

Finally, understandable. Information is understandable if it is classified, described, and presented clearly and concisely. Understandability increases when information is classified, characterized, and presented in a clear and concise manner (Beest *et al.*, 2009). The financial statements are presented to users who have a certain knowledge of business and economic activities as well as a certain ability to evaluate and analyze information. Excluding this information from the financial statements may make the information easier to understand, however, this makes the report incomplete and, therefore, possibly misleading.

2.2.3. Mechanical display of financial report

Besides the basic quality characteristics and additional quality characteristics for a quality financial report, this paper proposes the mechanical display of the report as one more class for the attributes of a quality financial report. This happened after understanding that it's not only the content of the report that makes it a good report, yet the way in which the data is introduced to the client is additionally significant. To guarantee that the revealed data arrives at the expected clients in the best organization, the mechanical display is worked by readability, legibility and length of the report.

Readability means easily read the report, so that the reader can understand the written report easily (DuBay, 2004). It is determined by the amount of vocabulary, the reading level, the space between letters, words, and lines. The principles of easy

reading include the following: utilize short, straightforward words; keep away jargon; use socially and unbiased language; utilize the right grammar, punctuation, and spelling; use simple sentences, active voice, and present tense; utilize straightforward graphical components. When the text exceeds the reader's ability to read, they often stop reading. If the reader cannot read it easily, they may stop reading the report altogether and thus that makes uninformed decisions. Thus, this makes readability one of the attributes of a quality report.

Legibility refers to the ease of distinguishing one letter from another in a particular typeface (DuBay, 2004). Legibility factors including layout, typefaces and font sizes used for financial statements. To enhance legibility, the typeface, layout and font size used must focus the reader's attention on it rather than on the information presented. It is for this reason that legibility becomes one of the essential attributes of a quality financial report.

Finally, the length of the report plays an important role in a quality financial statement. With regards to providing more information, information overload can occur, and it can eclipse important information that is useful for decision-making. Reading lengthy reports can be tiring for the reader, preventing them from reading the entire report thereby missing some useful information for decision making. Reports that are too short can also be bad, as they can leave out some important information for decision making. There is therefore a need to balance by ensuring that all important information relevant to decision-making is reported succinctly.

2.3. The outcomes of a quality financial report

A quality financial report should have the option to meet the goals for which it has been set. If a budget report has furnished clients with all of the material data pertinent to decision making, then, at that point, they have achieved the goals for which they were laid out. Therefore, a quality financial report should provide a solid basis for decision-making by external users, internal users and regulators.

2.3.1. Decision Making Basis by External Users

A quality financial statement is the basis for decision-making by external users. These external users include investors, creditors, banks, and potential investors. Investors and potential investors rely on financial statements to gauge an organization's past performance and future prospects. Creditors and banks need to know the financial position of the organization to be able to make decisions. Because each of

these users makes decisions based on the information presented in the financial statements, quality financial reporting is essential to avoid making erroneous decisions [9], [10].

2.3.2. Decision Making Basis by Internal Users

A quality financial report also helps internal users such as shareholders, managers and employees in their decision making. Shareholders will use the information in the financial statements to evaluate the performance of the organization, the performance of its managers, and the return on their investment. Managers will also use the information in the financial statements to make decisions about production levels, sales levels, and budgeting issues. Employees can also use the information in the financial statements to determine if their organization can pay them, whether the organization will continue to operate in the long term, and whether the organization is offer them bonuses and raises in the future. As a result, quality financial statements will be useful to internal users in making informed decisions in their personal interests

and the interests of the organization.

2.3.3. Decision Making Basis by the Regulators

Regulatory such as government and stock exchanges also base some of their decisions on financial statements, so quality decisions are required. These decisions include government tax decisions, mandatory and voluntary requirements by stock exchanges, and standards board revisions. From the financial statements, regulators can assess whether tougher regulations and increased penalties are needed. Thus, this makes quality financial reports useful as a basis for regulators to make their decisions.

3. The Proposed Conceptual Framework for a Quality Financial Report

The conceptual framework for a quality financial report is shown in Figure 1. From the figure, it can be seen that from the antecedent conditions for a quality financial report, combined with attributes, we can get its outcomes.

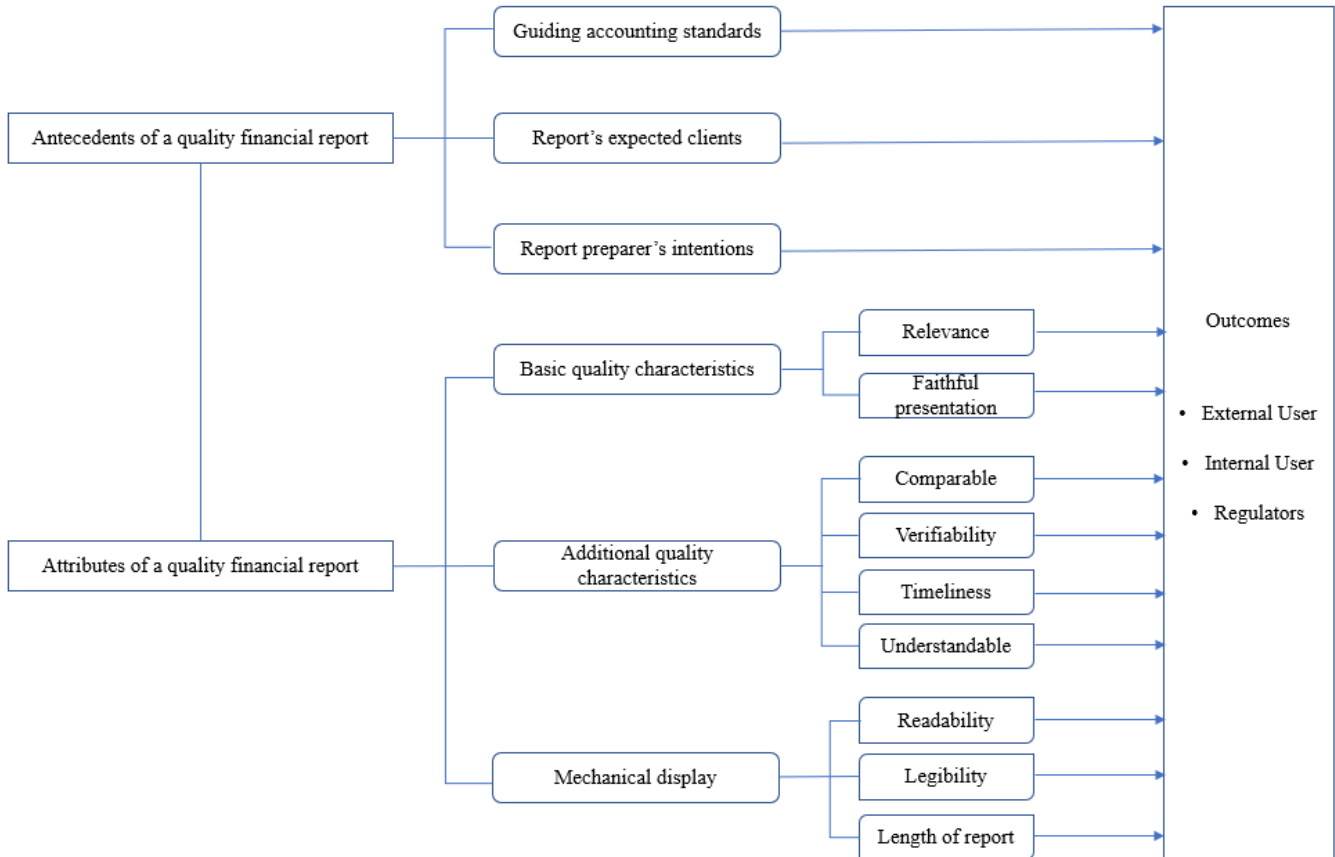


Figure 1: The Proposed Conceptual Framework for a Quality Financial Report

4. Conclusion

Financial statements are used to provide information on the financial position, business performance, and cash flows of an enterprise, to meet the management requirements of business owners, state agencies, and users in making economic decisions. A quality financial statements will create a reputation for that enterprise in the process of joint ventures, associations, and investment attraction. In addition, improving the quality of financial statements not only contributes to creating a clean and healthy business environment, but also strengthens the interests of business stakeholders such as investors, bank... As a result, this paper aims to describe an ideal quality financial report by identifying report's qualities, antecedents, and results. The financial report should include basic and additional quality characteristics. Then, the mechanic presentation should be added into attributes to enhance the quality of a financial report. The conceptual framework helps financial report preparers and users in assessing the quality of financial report before making decision.

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