

Full Length Research Paper

Different perceptions in financial reporting: Empirical evidence of Iran

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The objective of financial reporting is to provide useful information to present and potential investors, creditors and others to help them make investment, credit, and other decisions. The purpose of this paper is to find out whether there is an existing gap concerning the importance of accounting information qualitative characteristics from students' perspective in different levels of study. To achieve the purpose of current study, a questionnaire was designed and administered to a sample of 150 BA students and 150 MA students. The results of this study reveal that there is an existing gap between the BA students and MA students in terms of the qualitative characteristics of accounting information.

Key words: Financial reporting, expectation gap, Iran.

INTRODUCTION

The accounting information is considered to be the principal means of communication to the users, which reduces the uncertainty level. Corporate financial reporting is a communication of relevant qualitative and quantitative information for decision making by users of such information through financial statements. Management is entrusted with the legal responsibility of preparing and communication such relevant information to the users. However, the management does not independently carry out this task, but it is the joint effort of accounting researchers, management, auditors and the government. The accounting researchers have attempted to develop a theory of financial reporting to support the accounting practices by the management or to develop a theory of financial reporting to be followed by the management, the former effort being emphasized by academic researchers. The auditors provide the authenticity of financial statements through their audit opinions. The government regulates financial reporting either through enacting reporting regulations or through laying down general guidelines of financial reporting. These efforts by different

institutions go in the name of conceptual framework

Conceptual framework

There has been still an unresolved issue of a conceptual framework for financial reporting. Historically, this conceptual framework was conceived to be the accounting practices per se and then it was visualized to include 'recommendation' of accounting practices by the profession and then it was meant to include 'principles'; and later 'Generally Accepted Accounting Principles' (GAAP). In recent years, this conceptual framework is debated under accounting standards across the world.

Higson (2003: 62) presents the issue of conceptual framework in these words: "A conceptual framework could be seen as an attempt to operationalize the accounting theory - this could be done by either individuals or standard setters. Those who thought about accounting have probably formed some sort of conceptual framework in their own mind". This status continues even to this day. Hence Anthony (1987) remarks "Those who comment on proposed accounting standards do so in terms of their personal conceptual frameworks, and the members of the financial accounting standards board

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vote in accordance with their personal conceptual frameworks”.

Objectives of financial reporting

The objectives of financial reporting have evolved over time. The issue of purpose of information to be disclosed in annual reports was initially recognized by Chambers (1996:162). For a long time in accounting history, the objective of financial reporting was to provide a mechanism for exercise of investors' control over management coupled with another purpose of information provisioning for investment decision making focusing on managerial needs as perceived by AAA (1977:402). Later, the objective was on 'measuring past performance' with an emphasis on profit measurement, which had the management as the target user group. The Study by Rice et al., (1973:14-17) revealed that 75.00 percent of the companies considered their overall purpose to be accountability for performance or stewardship. However, in recent years, the objectives of financial reporting have undergone a paradigm shift from exercise of control, past performance analysis and information for investment decision making for management to provisioning of information for decision making by a large body of user groups. As a result, the AICPA (1970:62-66) extended objectives for financial reporting by emphasizing relevant economic information intended to be useful for enlarged user groups.

At present, the Statement No. 4 of APB still dominates financial reporting. However, Sterling (1972) long back indicated that the ultimate objective of financial reporting was to provide useful information. Similarly, Zairi and Letza (1994) conclude that the purpose of the annual report is to convey information that is useful to those who have an active interest in the reporting organization.

The Institute of Chartered Accountants in England and Wales (ICAE & W) has remarked that the objective of corporate reporting is to communicate economic measurements of and information about the resources and performance of the reporting entity, useful to those having a reasonable right to such information (Oza, 1990: 30). Corporate reporting not only helps its management to regulate the prices of its goods and services but also helps its external users in different ways. It helps the existing and potential investors in evaluating their past decisions and making changes in their investment policies, creditors in assessing the company's credit-worthiness, profitability and liquidity, and the government in administering the system of taxing the companies. Thus the major objective of financial reporting is to supply information for resourceful decision-making.

Various accounting professional bodies in the United States, the United Kingdom and Canada have made attempts to formulate the objectives of financial reporting to make accounting information relevant and useful. The

Accounting Principle Board (1970) Trueblood Report (1973) Corporate Report (1975) FASB (1978) and the Stamp Report (1980) have contributed significantly in this direction. However, the objectives developed by the Trueblood Committee have stood the test of times and these objectives have guided the standard setting bodies the world over.

In view of the criticism of corporate financial reporting, the American Institute of Certified Accountants appointed a study group in 1971 under the chairmanship of Robert M. Trueblood. The study group visited various places, interviewed executives, held meetings with institutional and professional groups and submitted its report in 1973. The Trueblood Committee (1973:13) recommended twelve objectives of financial reporting and these objectives are listed below:

1. The basic objective of financial statements is to provide information useful to making economic decisions.
2. An objective of financial statements is to serve primarily those users who have limited authority, ability or resources to obtain information and who rely on financial statements as their principal source of information about an enterpriser's economic activity.
3. An objective of financial statements is to provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flows to them in terms of amount, timing, and related uncertainty.
4. An objective of financial statements is to provide users with information for predicting, comparing, and evaluating enterprise's earning power.
5. An objective of financial statements is to supply information useful in judging management's ability to utilize enterprise's resources effectively in achieving the enterprise's primary goal.
6. An objective of financial statements is to provide factual and interpretative information about transactions and other events, which is useful for predicting, comparing, and evaluating enterprise's earning power. Basic underlying assumptions with respect to matters subject to interpretation, evaluation, prediction, or estimation should be disclosed.
7. An objective is to provide a statement of financial position useful for predicting, comparing, and evaluating enterprise's earning power. The statement should provide information concerning enterprise's transactions and other events that are part of incomplete earning cycles. Current values should also be reported when they differ significantly from historical cost. Assets and liabilities should be grouped or segregated by the relative uncertainty of the amount and timing of prospective realization or liquidation.
8. An objective is to provide a statement of periodic earnings useful for predicting, and evaluating enterprise-earning power. The net result of completed earning cycles and enterprise authorities resulting in recognizable progress towards the completion of incomplete cycles

should be reported. Changes in the values reflected in successive statements of financial position should also be reported, but separately, since they differ in terms of their certainty of realization.

9. An objective is to provide a statement of financial activities useful for predicting, comparing, and evaluating enterprise earning power this statement should report mainly on the factual aspects of enterprise transactions having or expected to have significant cash consequences. This statement should report data that requires minimal judgment and interpretation by the preparer.

10. An objective of financial statement is to provide information useful for the predictive process. Financial forecasts should be provided when they will enhance the reliability or user's predictions.

11. An objective of financial statements for governmental and not-for-profit organizations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organization's goals. Performance measures should be qualified in terms of identified goals.

12. An objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprises in its social environment.

The Trueblood Committee (1973: 78) has emphasized that to be useful, corporate disclosures must meet the information requirements of users and should be user decision oriented because corporate annual reports are one of the main sources of information for investors and the relative importance of information may change over time.

Financial reporting rules

Accounting has certainly influenced the evolution of contemporary economic activity, but construction of financial reports does not create economic reality (Salehi, 2008). The rules of financial accounting, however, are not directly regulating but are rules for constructing representatives of economic reality (Mouck, 2004: 533). Further, he contended, "the creation of Double Entry Accounting (DEA) performed a similar function with respect to commercial or economic reality. The DEA model provided a conceptual grid, which accountants have been using ever since as a lens through which they observe and record economic activity. However, the DEA allowed accountants to qualify their representations of economic reality in terms of a homogeneous monetary unit. The resulting representations of economic reality have been praised for their contribution to our ability to organize the facts of economic activity and thereby to facilitate decision-making and control. The accountant is creating representations of institutional facts that have an ontologically subjective mode of existence (records and

reporting) land, buildings, equipment, livestock, etc., have an objective physical mode of existence, but ownership claims, debts, corporations, and money have a subjective mode of existence. Indeed, Ijiri (1967) has even formulated a model for measuring the degree of consensus concerning accounting representations and referred it as the "degree of objectivity", deviating this from the usual understanding of objective. In general the term objective is understood to mean existing outside of the mind, having a separate or independent existence. Ijiri (1967: 134) also held that, "objectivity refers to external reality independent of the persons who perceive it". From the subjective reality in accounting perspective, the net income reported can be seen as a fuzzy indicator. Net income provides an indication of the increase in value, or wealth, even though there is no objective criterion for measuring that value. In this sense, net income has much in common with indices such as consumer price index but it has also much in common with the index known as the skin conductance response used in the detector tests. Just as the subject of such a test may be able to fool the person administering the test, the preparers of corporate financial statements may be able to fool the users of those statements about financial position and results of operation (Mouck, 2004:540). Financial reporting should have several conditions as follows:

1. Understandability: Information should have the quality of readily understandable by users (Salehi et al., 2010). For this purpose, users are assumed to have a reasonable knowledge of business, economic activities and accounting and willingness to study the information with reasonable diligence. Structured presentation and adequate disclosure enhance the understandability of financial statements.
2. Relevance: Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting, their past evaluations. The relevance of a financial statement gets enhanced if material items are shown separately.
3. Predictive value: The quality of information helps users to increase the likelihood of correctly forecasting the outcome of past or present events.
4. Feedback value: Feedback value represents then quality of information that enables users to confirm or correct prior expectations.
5. Timeliness: Reporting of information should be made before losing the relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. Timeliness should be striking the balance between relevance and reliability.
6. Reliability: Information has the quality of reliability when it is free from material error and bias and can be depended upon by the users to represent faithfully that which it either purports to represents, or could reasonably

be expected to represent. Unreliable information has the potential to mislead the users. Some information might not be reliable to the degree required for recognition in financial statements. Such information warrants disclosure on the ground of its relevance. However, if the information was so unreliable that its disclosure would mislead users, the same should not be disclosed.

7. Verifiability: The ability through consensus among measures to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias. It is securing a high degree of consensus among independent measures using the same measurement methods.

8. Neutrality: Information to be reliable must be neutral; it should not influence the making of a decision or a judgment in order to achieve a predetermined result or outcome. It is absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior. The information should not favor one set of interests over others.

9. Representational Faithfulness: It is the correspondence or agreement between a measure or description and the phenomenon that it purports to represent. From the accounting point of view, it is correspondence between the accounting figures and descriptions and the resources or events that these figures and descriptions represent. It should be noted, however, that there are degrees of representational faithfulness. Because the financial reporting process involves allocations, estimation and subjective judgments, it cannot produce an 'exact' result; consequently, the trade-off between relevance and reliability will often apply, resulting in the presentation of information which is assigned a high degree of relevance, but which sacrifices representational faithfulness. Framework is designed to prescribe the nature, function and limits of the financial accounting and to be used as a guideline that will lead to consistent standards.

10. Comparability: Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises in order to evaluate their related financial position and performance. Accounting policies employed in preparation of financial statements and any changes in those policies and their effects should be disclosed prominently to enable users to identify differences among accounting policies being used by different enterprises. Comparability improves if financial statements provide corresponding information for the preceding periods.

11. Consistency: It refers to conformity from period to period with unchanging policies and procedures. The measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise. However, the revised International

Accounting Standard deals only with the consistency of the presentation and classification of items in the financial statements, not with the use of consistent accounting policies or the consistent application of those policies.

12. Materiality: As definition 'Information is material if its non-disclosure could influence the economic decisions of users taken on the basis of the financial statements'. The magnitude of an omission or misstatement of accounting information that, in the light of the surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

Usefulness of financial statements

The present structure of financial reporting system and its usefulness is universal in the sense that it meets the requirements of users independent of culture, which is defined by Hofstede (1991:155) as "collective mental programming." The pioneering effort in testing the hypothesis that the financial reporting needs were the same irrespective of religious or cultural groups was positively tested by Baydoun and Willet (2000), who suggested that the current value balance sheet and the value added statement would meet the Islam's objective of socio-economic justice and accountability. Baydoun and Willet's model of Islamic corporate financial reports was initially tested through a questionnaire survey by Sulaiman (1998), who found that there were no differences in the perceptions of usefulness between Muslim and non-Muslim respondents. Another study by Sulaiman (2001) revealed that Muslims and non-Muslims were no different as far as accounting matters were concerned.

Further, the Accounting Principles Board's Statement No. 4 (1970: 32) also endorsed the decision-usefulness view of the financial statements: "The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a business enterprise that is useful to statement users, particularly owners and creditors, in making economic decisions." Sterling (1972: 198) observes: "Almost all the literature on accounting states that accounting reports must be 'useful' or that accounting is 'utilitarian art.'" The Trueblood Report (AICPA, 1973: 30) also supported the decision usefulness approach in these words: "Accounting is not an end in itself. As an information system, the justification of accounting can be found only in how well accounting information serves those who use it. Thus, the study group agrees with the conclusion drawn by many others that the basic objective of financial statements is to provide information useful for making economic decisions." Lastly, the annual report is always tuned to user requirements. Hence the APB (1970: 18) considered that because financial information was used

Table 1. Demographic information of participants.

The age of participants	Overall frequency	Percentage
Under 30	72	35
Between 30 to 40	105	50
Between 40-50	21	10
Over 50	12	5
Gender	Overall frequency	Percentage
Male	171	81
Female	39	19
Educational background	Overall frequency	Percentage
Bachelor degree	87	41
Master degree	123	59

by a variety of groups and for diverse purposes, "The needs and expectations of users determine the type of information required."

All these studies tend to focus on the conclusion that the present mode of financial reporting is universal from the viewpoint of preparing to a greater degree and of usefulness to a substantial level irrespective of region and religion and the annual report is the only medium through which significant amount of information is disseminated.

Research objective and questions

Since the main goal of this study is the illustration of the financial reporting importance from the view point of the students, the research attempt to shows this significant from the different students perceptions'. The overall question which the study sought to address is whether there is any evidence that the provision of accounting or finance courses in higher degree caused to better understanding of the goal of financial reporting. So, according to this main objective the research questions as below:

Q1: Do MA and BA students have the same perceptions on the nature of financial reporting in Iran?

Q2: If any difference is there, in which areas of financial reporting they have different perceptions?

Q3: Are academic degrees changing the perceptions of the students in the different levels?

METHODOLOGY

A questionnaire was administered to 150 BA students and 150 MA students in accounting or related fields in the estate universities. So far accurate answer to the research questions, the authors design and developed a questionnaire which it is the most suitable for this study. A survey questionnaire was completed by two different

groups of students at the end of 2009. The questionnaire contains two parts namely (A) bio-data and (B) this section includes several questions regarding to the financial reporting in Iran. Five-Point Likert Scale questionnaire was employed in this research. The Five-Point Likert's scale having the ratings of "strongly disagree" (1) and "strongly agree" (5) were used. The statistical tools used in the study included mean value, standard deviation, and T-Test for the purpose of analysis and interpretation.

RESULTS

Out of 300 questionnaires which distributed for gather data, 210 usable questionnaires were collected from the different participants. 87 questionnaires were collected from B.A degree students and 123 questionnaires were collect from M.A students. It means the M.A students have more interest for participating in academic research. Table 1 shows the general information of the participants. According to Table 1, majority of participants, 105 participants have age between 30 to 40 years old (50%); further 81% of participants were male in contrast only 19 % of participants were female.

By the way 87 of participants were B.A students (41%) as against 123 of participants were M.A students (59%). To conclude that majority of the participants were male as well as they were M.A students.

Table 2 highlights the paired samples statistics and paired samples tests of the nine qualitative characteristics of financial reporting. To know whether there is any improvement in these qualities the views of 210 samples respondents were tested between B.A students and M.A students. The mean value of all the nine qualities, except decision usefulness to management, stood at less than 3.00, which vary from 2.31 to 2.95 between two groups of students indicating financial reporting qualities were not recognized. But, the quality of decision usefulness to management was assigned a mean value of 3.07 between the students, indicating the accounting standards were mainly useful to the management.

Table 2. Usefulness of financial reporting.

Qualities	Respondents	Status	Paired samples statistics		Paired samples test			Sig *																																																																																																										
			Mean	SD	Paired differences		T-value																																																																																																											
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Adequate disclosure	210	BA	2.39	1.044	-1.790	1.113	-23.318	0.000																																																																																																										
		MA	4.18	0.780					Relevance	210	BA	2.91	0.981	-1.267	1.200	-15.294	0.000	MA	4.18	0.860	Reliability	210	BA	2.81	1.171	-1.243	1.187	-15.170	0.000	MA	4.05	0.892	Materiality	210	BA	2.80	1.066	-1.171	1.030	-16.477	0.000	MA	3.97	0.978	Comparability	210	BA	2.78	1.076	-1.281	1.203	-15.431	0.000	MA	4.06	0.902	Quality of information	210	BA	2.69	0.995	-1.476	1.129	-18.948	0.000	MA	4.17	0.889	Information usefulness of	210	BA	2.95	1.015	-1.148	0.929	-17.899	0.000	MA	4.10	0.855	Decision usefulness (Management)	210	BA	3.07	0.966	-1.019	0.993	-14.877	0.000	MA	4.09	0.843	Decision usefulness (Investors)	210	BA	2.82	1.052	-1.395	1.085	-18.629	0.000	MA	4.21	0.799	Grand mean	210	BA	2.80		-1.310				MA
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* Significance (2-tailed); BA = Bachelor Degree Students; AM = Master Degree Students.

The higher level of paired mean difference was noticed in the adequate disclosure, which stood at 1.790. As the respondents gave higher weight age to the relevance compared to the reliability, it appears that the balance is tilting towards reliance to enhance or at least to protect the decision usefulness of financial statements in the face of increasing complexity of the business environment.

The grand mean value for B.A students stood at 2.80 indicating financial reporting was not useful, but there was an improvement in the usefulness of financial reporting in the M.A students as evidenced by the grand mean value of 4.11.

The T-statistics of all the 9 qualities showed significance of <math><0.05 (P=0.000)</math> indicating that there were significant differences between M.A students and B.A students.

In other words, significant improvement in the usefulness of financial reporting was evidenced in M.A students which resulted from the awareness of the M.A students of the nature of the financial reporting.

Conclusion

The present structure of financial reporting system and its usefulness is universal in the sense that it meets the

requirements of users independent of culture. The results of this survey showed that the Iranian accounting and related field students are strongly believe that the financial reporting is very important in Iranian environment. However, it found huge gaps between M.A students and B.A students in Iran. In other word, the authors became to conclusion that as much academics degree going high, the students catch reality of financial reporting importance.

In order to reduce such financial reporting gaps the society at whole should have more accounting knowledge as much as possible. The authors believe that this gap should reduce not only from the view point of students but also from the view point of society at whole. To conclude, there is a negative relationship between the gap and usefulness of financial reporting. So, this gap should be reducing by different legal professions and legislatures. For reducing such a gap in society, the Iranian accounting profession should conduct different seminars, workshops, etc.

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