QUALITATIVE CHARACTERISTICS OF FINANCIAL INFORMATION PRESENTED IN FINANCIAL STATEMENTS ACCORDING TO IFSR/IAS VERSUS THE INFORMATION FUNCTION – CONTRIBUTION TO THE DISCUSSION

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Abstract: In the work the qualitative characteristics of financial information presented in financial statements, as adopted and interpreted in the Conceptual Framework for Financial Reporting in 2008 and 2010, have been subjected to critical analysis. Doubts and concerns regarding the emphasis placed on financial information usefulness for decision-making purposes as an overriding characteristic have been presented. The concept of financial information usefulness for decision-making purposes from the point of view of the users' interests has been analysed. It has been pointed out that adding further details to financial statements and allowing the application of multiple variants makes it difficult to use them in practice, also for such users as private investors. Threats related to data comparability limitation and the resulting consequences have been pointed out. The necessity to highlight the reliability and credibility of infancial information in order to enhance the users and societies' trust for financial reporting and the whole accounting system has been empahsised

Keywords: qualitative characteristics of financial information, decision-useful information, financial reports, conceptual framework

1. Introduction

Financial reporting is playing an increasingly significant role in global economy as a basic source of financial information about economic entities. For this reason, legal solutions related to the scope, the degree of detail, the manner of financial information presentation in a financial statement as well as basic principles of drawing up such a statement are gaining importance. Questions concerning the quality of information contained in financial statements are especially justified in the period of global economic crisis.

In 2002, on the basis of the Norwalk Agreement, two organisations: Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) started joint works so as to establish new accounting standards. These works among others led to a change in the Conceptual Framework for Reporting, which is a kind of „guide" and „base" for International Financial Reporting Standards. The Framework specifies the main objectives and the principles of drawing up financial reports as well as their qualitative characteristics.
The changes introduced in the years 2008 and 2010, referred to as the Improved Conceptual Framework for Financial Reporting, are in particular related to the qualitative characteristics of financial information presented in financial statements and reflect the „new philosophy" of a financial statement.
This resulted in a number of doubts concerning the direction of these changes, the interpretation of provisions contained in the Framework and their effects in the economic practice. The aim of this article is to subject the provisions adopted in the Framework to critical analysis and to indicate the resulting threats to the economic practice. The author has presented her doubts regarding the evaluation of the quality of financial information contained in financial statements.

2. Financial reporting objectives

Financial statements are a synthetic set of financial information which, when properly presented and interpreted, makes it possible to determine the financial condition of an economic entity. This complex set of information reflects various economic relations between the current and prospective economic partners, such as contractors, owners, managerial staffs, employees, local communities. The effects of these activities are determined on the basis of the adopted assumptions and accounting principles. Financial statements present the results of an entity's activity on various planes in past periods. It is therefore a „statement on the past".
Financial reporting should satisfy the information needs of different users in a highly aggregate manner, which is consistent with the adopted model of accounting based on the capital maintanance concept (Weetman, 2003, p. 17).

First attempts to regulate the issue of objectives, basic assumptions and qualitative characteristics were undertaken in the 1970s by FASB, which resulted in Statements of Financial Accounting Concepts (SFAC). The conceptual framework "was to be used as a guide in the development of consistent accounting standards, hopefully leading to a more coherent set of accounting principles to aid practice" ((Kaminski K. A., Carpenter J. R., 2011, p. 16). In 1989 the International Accounting Standards Committee (IASC) worked out its own version of the conceptual framework, referred to as „Framework for Preparation and Presentation of Financial Statements" (hereinafter referred to as the „Framework"). This work was continued by International Accounting Board (IASB). Since 2002 FASB and IASB have been carrying out joint work on the development of new standards, which has been divided into 8 stages. Stage A is related to the objectives and qualitative characteristics of financial statements. The stage was completed, resulting in appropriate changes introduced in the Framework in 2008 and 2010.

The Framework defines a financial statement as a general purpose statement. This means that information contained in it is directed to a wide (as wide as possible) range of users who do not have access to data prepared specially to meet their specific information needs. This means that the information scope of financial statements should be determined so as to comprise properly diversified contents, adjusted to different information needs of the users.
According to the Framework, the objective of the general purpose financial statement is to provide financial information about a reporting entity which is useful to existing and potential investors, lenders and other creditors when they take decisions to provide resources to the entity. These decisions involve transactions related to equity and debt instruments, loans and various forms of credit. The Framework contains extensive grounds for such a solution. It has been pointed out that broadly understood investors must have information about future receipts of net financial resources to the entity. Therefore, they must be provided with information about the resources of a given entity, its claims and the effectiveness of these resources management by the entity's managerial staff.
Therefore, the information scope of a financial statement should in the first place meet the needs of one group of users.
Thus appears the first contradiction regarding the financial statement nature. In the Framework the priority of one group of users has been adopted – the ones who provide equity, which in turn puts a constraint on the character of the financial statement as a general purpose statement.
At this point it is worth reminding the accounting system functions that are most frequently quoted in the accounting theory:

- Informative function,
- Controlling function (information-identification stage and regulation-identification stage),
- Reporting function,
- Analytical and interpreting function,
- Statistical function (Messner, 2001, p 27-28).

The above mentioned functions should be reflected in the financial accounting product – the financial statement. The scope and structure of financial statements should be selected so as to enable and make it easier for various stakeholders to fulfil the remaining functions. This in turn forces appropriate qualitative characteristics of information contained in financial statements, which will be discussed in the further part of the study.
According to the Framework, financial statements are not aimed at showing the value of a reporting unit, but to provide

information that will help investors, lenders and other creditors to estimate the value of this entity. Financial reports are to a large extent based on estimates, evaluations and models, and not on faithful representations.

According to the Framework, financial statements should provide information on the entity's economic resources and claims against it. It is also important to report changes in these resources and claims which result from the entity's financial activity or other events, e.g. the issue of additional shares. The financial results of activity are reflected chiefly by net financial flows in the future.

3. Usefulness of financial information in the decision-making process

The Framework defines the basic objective of financial statements as providing the investors, lenders and other creditors with information they can use to take particular decisions. A question then arises: when can a piece of information be regarded useful from the point of view of stakeholders? Financial statement users take different decisions. Gearing financial reporting towards the information needs of the users made it possible to specify three paradigms referring to financial reporting usefulness (Riahi-Belkaoui A., 2000, p. 274 cited by Mućko P., 2007, p. 246):

- The paradigm of accounting usefulness for decision-making purposes, examined through analysis of users' decision-making models,
- The paradigm of accounting usefulness for decision making purposes in the opinion of individual users,
- The paradigm of accounting usefulness for decision-making purposes measured as a reaction of financial market information users.

Classification of financial information into useful and useless and less or more useful requires a particular decision goal to be identified. This in turn makes it necessary to point to a specific decision-making model, in which the function of the goal is determined as a criterion maximizing the decision-making usefulness. Only such a point of view allows arranging the significance of information in a hierarchy. The decision-making model is always a result of a specific application by the economic entity (Smejda, 2006, p.175).

According to the second paradigm, it is the users themselves who should reveal their information needs. In interviews and surveys, users frequently point to their need for too detailed information, which is ahead of their actual needs. On the other hand, the published results of research into the use of financial information revealed entire areas of financial statements that had been almost completely passed over by the shareholders (Bartlett S.A., Chandler R.A., 1997, p.248-254) .

According to the third paradigm, the usefulness of a particular item or a set of information should be observed with reference to the reaction of capital markets, e.g. the stock exchange. Studies involve checking the reaction of investors to a particular item of information. If there are no reactions, it can be assumed that the information was useless. However, the behaviour of stock exchange investors is frequently irrational or dependent on factors other than financial information presented in financial statements. The last 5 years of analysing the Stock Exchange in Warsaw show that information which is unquestionably useful, namely the information on companies' financial results, frequently did not trigger investors' reactions or caused a reaction opposite to the expected one. The announcement of the companies' high profits was accompanied by a fall in the price of their shares.

The concept of information usefulness regards the future whereas the data contained in financial statements concern the past, which naturally limits their usefulness. In the opinion of the author, the high level of information generalisation is also a constraint in its use in the decision-making process. On the other hand, excessive detail may be desired by a particular user, but for the others it may be „information chaos", in consequence leading to disinformation due to excess of information. The subject literature quotes lists of financial statement information scope according to the groups of financial statement users (Luty Z. 2010, pp 128-129). In the lists all the main groups of users have been treated equally, without highlighting solely the needs of investors. Thus, rating companies expect an „information package" containing:

- Risk,
- Manipulation tendency,
- Financial condition,
- Value in the future.

On the other hand, transnational institutions expect information about the following issues:

- Rationality of behaviour,
- Market flexibility,
- Behaviour towards inflation,
- The influence on the global market,
- The influence on the level of unemployment.

Contractors are interested in information concerning the continuation of activity, solvency, financial flow.

The scope of sought-after information is quickly expanding, which in near future may mean that one financial statement will not be able to live up to the expectations of all users. Information overload will make it unintelligible. Perhaps a good solution will be to prepare two types of financial statements, directed to different groups of users. The research on a group of private investors (36 000 completed surveys) carried out in Germany, published in 2009 by Deutsches Aktieninstitut, indicates that most investors feel overwhelmed by the excess of information contained in financial statements. The increasingly extensive statements are more and more difficult to understand (Białas M.). The experts analysing the data came to the conclusion that the majority of private investors do not analyse financial statements. How do they draw knowledge about the financial condition of economic entities then? It turned out that approximately 75% of the surveyed were guided by press information, which they considered to be the most important and reliable source of information (Szewc M., 2009, p. 24-26 cited by Białas M., 2011, p. 220-221). The results of studies are surprising as it is the investors that were specified in the Framework as major recipients of reporting information.

According to the Framework as of 2010, financial information is useful when it is relevant and faithfully represents what should be reported in financial statements. Therefore, fundamental qualitative characteristics are usefulness and faithful representation. A piece of information is deemed useful when it can influence a change of decisions taken by the users, i.e. when it has a predictive value, a confirmatory value or both values at the same time. In the opinion of the author of the publication, the explanations regarding the above mentioned value contained in the Framework are not clear. Each piece of information concerning the evaluation of assets or result elements which is generated by the financial accounting system may be predictive and, in the event business continuity is maintained, also confirmatory. The author's proposal related to a slightly extended interpretation is presented in Table 1. These characteristics can be referred to as auxiliary characteristics for the fundamental one – usefulness or its components.

Table 1. Auxiliary characteristics (components) of financial information usefulness

AUXILIARY CHARACTERISTIC	INTERPRETATION
Predictive value	Information which can be used by the user to predict future results, but also other values related to future periods
Confirmatory value	A piece of information which makes it possible to confirm previous evaluations which were made in the preceding period and concern the current or future periods

Source: own study based on the Framework

Another thing which is not completely clear is the interpretation of information significance as an aspect of usefulness. Every significant item of information is useful, but not every piece of information that is useful is necessarily significant. For example detailed information about stocks may have a predictive or confirmatory value for a particular user, usually a contractor, but it may also be of little importance from the point of view of the entity's financial position. For this reason, useful information should be hierarchized with regard to its significance from the point of view of the main objective of drawing up financial statements.

Also explanations regarding faithful representation raise doubts in the opinion of the author of the publication. In this case the auxiliary characteristics include:

- Completeness,
- Neutrality,
- The absence of errors.

Representation of information free of errors is understandable, whereas neutrality of information in the context of the accounting policy, which is being increasingly extended in IFSR in the areas regarding the adopted methods and estimates, is no longer understandable. If an entity, within the framework of the adopted financial reporting policy (accounting) allowing choice options, adopts a particular solution (method, estimate) the consequence of which will be its presentation in a more favourable light, can we say that such information is still neutral? Explanations regarding the adopted method or estimate which are contained in a statement may be complete, but for the information user who does not know how a given item would have been evaluated if another method or estimate had been used, a particular phenomenon will still be incomplete, therefore, it will not be faithfully represented. At this point it is worth mentioning that the financial statement user must have a thorough knowledge in the field of accounting in order to interpret data contained in financial statements in a proper way.
A. Lennard draws attention to the diversified scope of financial statements and financial reporting (Lennard A., 2007, p.54). The scope of the latter may be much broader.

4. Complementary qualitative characteristics of financial information

In the Framework as of 2010, the following have been identified as complementary characteristics of financial information:

- Comparability,
- Verifiability,
- Timeliness,
- Intelligibility.

In the previous version of the Framework (as of 1989) comparability was one of the four major characteristics of a financial statement. The introduced change results from adjusting the financial statement to the needs of investors (Lalević Filipović A., 2012, p.88). The high degree of discretion when determining the usefulness of information and its faithful representation is likely to considerably constrain the comparability of information contained in financial statements of different entities. The lack of a proposal for a „model" financial statement in terms of the arrangement and posssible levels of detail makes it difficult to compare financial statements of various entities (Strojek-Filus, 2012). In the opinion of the author, maintenance of fundamental qualitative characteristics does not guarantee maintenance of data comparability.

A particularly important characteristic is verifiability, as it guarantees the credibility of information. Information which is not verifiable cannot be deemed fully reliable. Verifiability may be direct or indirect in character. Direct verifiability involves the application of measurement or direct observation. Indirect verifiability consists in using a particular technique or method with the same initial data and checking the correctness of the initial data. The comparability characteristic should be ensured by a properly carried out financial revision. Based on accounting, it is assumed that proper application of general accounting principles and detailed provisions contained in legal regulations is a guarantor of information credibility (Mućko P., 2007, p.242).

An institution which to a large extent guarantees that a financial statement presents credible, correct and reliable information, making it easier to safely invest the capital, grant loans and credits, take proper investment decisions and minimise threats related to the lack of expected economic benefits from mutual trading relations, should be the institution of certified auditor (Sawicki K., 2002, p.179). The subject literature presents analyses of reporting information credibility (Luty Z., 2010, p. 132-133). The highest level of credibility has been noted for historical data recorded on the basis of source documents. Included in the accounting books, it provides controlling and analytical evidence. On the other hand, the lowest level of credibility has been observed for data on intangible assets, including the ones resulting from capital and legal ties. Timeliness means that the users will be able to have a given item of information at their disposal in appropriate time from the point of view of a decision making moment. Interpretation of the intelligibility characteristic corresponds to the previously binding version. Information in a financial statement should be presented in a clear, transparent and concise way, which makes it more intelligible. If a presented phenomenon is more complex by nature, so will be the information, which is its faithful representation. It cannot be distorted so as to make it understandable to the user. It is also assumed that the user has a basic accounting knowledge, which allows him to read this information.

Fig. 1. A hierarchy of financial information qualitative characteristics in a financial statement

I level - Overriding characteristic - Information useful for decision-making purposes
II level - Fundamental characteristics: usefulness, faithful representation
Auxiliary characteristics (components) of usefulness: significance, predictive value, confirmatory value **Auxiliary characteristics (components) of faithful representation:** completeness, neutrality, absence of errors
III level - Complementary characteristics: Comparability Verifiability Timeliness Intelligibility

Source: own study based on the Framework.

In the Framework it has been pointed out that benefits resulting from the provision of a particular item of information cannot be smaller than the costs incurred in order to provide and make use of this information. This is a logical solution based on a simple economic calculation of costs and benefits.

5. Conclusions

It should be stressed that changes made in the Framework as of 2010 introduce a greater degree of discretion in the evaluation of financial information usefulness. Also faithful representation raises a lot of doubt and the extent to which entities can and want to fulfil it might only be verified by the economic practice in the future. Departure from the overriding principle of true and fair view and emphasising the importance of useful information in its place may be interpreted as permission to the multiple variants of a given piece of information presented in financial statements. The highlighting of information needs and the necessity of satisfying them in a financial statement for one group of users (investors, lenders and other creditors) questions the general purpose of a financial statement. One may get an impression that it is a special purpose statement, geared mainly at reducing the investment risk. However, the results of previously conducted studies on private investors should encourage boards to analyse the problem more thoroughly. The question arises whether the introduced changes serve the interests of investors, and if so, which group of investors? If the introduced changes serve only the biggest investors having the strongest position on capital markets, it might be worth directing a separate „information package" to them, while maintaining the general purpose character of previous financial reports. It should also be emphasised that in the period of global crisis and stagnation observed in many countries, especially the ones belonging to EEA, the controlling function of the accounting system, including in particular that of financial reporting, seems to be gaining importance. In the opinion of the general public, financial information should be reliable and credible to the highest possible degree. Changes introduced in the Framework as of 2010 regarding the qualitative characteristics of financial information push the characteristic of comparability into the background, which according to the author is necessary to maintain the transparency and intelligibility of reporting information sets.

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