INFORMATION AND STRATEGIC ASPECTS OF FINANCIAL STATEMENTS IN THE ASSESSMENT OF THEIR USERS

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Abstract

Research background: General purpose financial statements constitute a source of financial information used by different groups of stakeholders. However, the frequency of changes concerning the form and content of reports insinuates uncertainty in relation to the credibility and thorough understanding of included information.

Purpose: The aim of the article is to verify the suitability and utilisation of financial statements in decision-making processes and evaluation of their reliability as assessed by unit managers and tax advisors.

Research methodology: In the first half of 2018 a survey was conducted among 60 tax advisors concerned with legal and tax services of economic entities and an identical survey was conducted among 60 managers of entities recognised as big economic entities functioning in the area of Kuyavian-Pomeranian and Pomeranian Voivodships.

Results: The surveys conducted in selected groups of stakeholders make it possible to indicate the areas in which the presented contents are not fully used and do not provide any basis for them to be recognised as compatible with the rules of ethics.

Novelty: For the first time, questionnaires were conducted in various groups of users of financial statements, they determined the level of their interest in particular elements of the report and the principles of accounting ethics.

Keywords: financial statements, financial and non-financial information, ethics in accounting

JEL classification: M41
**Introduction**

A modern economy is based on information and its quick provision, and accuracy and punctuality of its provision decide about efficient and effective operation. However, in order to make full use of information, a user must find it useful and understandable. Financial statements constitute a source of financial and non-financial information generated for a broad spectrum of users (Kiziukiewicz, 2014). Transparency of data presented in reports influences directly their usefulness and they are customarily taken into consideration from the point of view of the people responsible for their registration, processing and presentation in a clearly defined form and time (David, 2018). The expectations of different groups of users are varied; moreover, they change with time, economic growth and technological development (Walińska, 2016). The evaluation of the use of information included in general purpose financial statements by different groups of stakeholders allows specifying adaptation of information included in statements to users’ needs.

The aim of the article is to indicate financial and non-financial information utilised by users – unit managers and tax advisors in decision-making processes. The analysis of national and international regulations concerning financial statements and surveys conducted among internal users are used in the article as research methods.

**1. General Purpose Financial Statements**

Financial statements have been functioning in Polish economic practice since the beginning of the 20th century, but their structure and the scope of presented information have been subject to changes and have been adjusted to economic requirements and the changing legal framework (Voss, Prewysz-Kwinto, 2017). Generalising the concept and scope of an entity’s annual financial statement, it can be stated that it constitutes a structured representation of an economic unit’s financial situation and the transactions it has conducted (Turyna, 2003). Taking into account its purpose, two forms of financial statements can be distinguished: general purpose and special purpose ones. General purpose statements are directed to many groups (internal and external) of stakeholders (Gierusz, Martyniuk, 2007). It is assumed that they are interested in the real, actual economic situation of an enterprise and its achievements, and on the basis of general purpose statements, they can create an opinion about the past, current and future revenue potential and the effectiveness of its management (Jarugowa, 1997). Considering the high level of aggregation of the included information, those statements are supplemented with additional documents, whose scope of information is specified by legal standards and regulations.
of individual countries. Special purpose financial statements are adapted to the requirements of presenting financial data for listed companies (prospectuses), these are statements for tax purposes or they concern short accounting periods. In the light of international regulations, general purpose statements are responsible for meeting the needs of users who are not able to require preparing a statement adjusted to their particular information needs.

The aim of financial statements in the light of International Accounting Standards (IAS) is to deliver information concerning financial situation, financial results and cash flow of an entity which is useful for a wide group of users when making economic decisions. Moreover, a statement also shows the outcomes from resources management (International Financial Reporting Standards (IFRS) conceptual framework 2016).

Over the years the function of a financial statement has been specified, and informational function aiming at presenting financial data expressed in terms of value and constituting the basis for economic evaluation has been specified as the basic function. Moreover, a fiduciary function – controlling one (the management report on performing duties) has been distinguished, also the function of securing the rights of specific groups of stakeholders (collateral of receivables) and the function of balance-sheet recognition and of the tax basis (Remlein, 1996). This classification is by no means the only one solution presented in the literature; the following functions can also be distinguished:

a) an informational function, which allows specifying the actual state of a financial situation and financial results and it constitutes the basis of planning and making decisions;

b) a controlling function, which allows evaluating the implementations and activities of an entity;

c) a documentary function, which constitutes a reliable source of documented economic operations;

d) an analytical function – it allows conducting an economic and financial analysis.

The International Financial Reporting Standards specify the main qualities of financial statements (IAS 1), which include:

a) reliable presentation and compliance with IFRS – it requires a faithful representation of the effects of transactions, other events and conditions in accordance with definitions and criteria of disclosure regarding assets, liabilities, income and costs in line with a conceptual framework;
b) a going concern principle – a statement is drawn up on a going concern principle except situations when the management intends to liquidate the entity or to cease conducting business activity,
c) an accrual principle, which concerns all the elements of a financial statement except information concerning cash flow,
d) materiality and aggregation – individual positions in terms of a kind and function are presented separately,
e) compensation – assets and liabilities and income and costs are not compensated.

Basic financial statements are a source of information by means of which an entity’s management transfers information to different groups of users (Krasodomska, 2013) and they have to be compliant with legal and quasi-legal requirements (e.g. guidelines of non-governmental organisations and of a stock exchange) (Glynn, Perrin, Murphy, 2003). Those statements also constitute a means of communication between entities and their external environment.

2. The Methodology and Results of the Survey

In the first half of 2018 a survey was conducted among 60 tax advisors concerned with legal and tax services of economic entities and an identical survey was conducted among 60 managers of entities recognised as big economic entities functioning in the area of the Kuyavian-Pomeranian and Pomeranian Voivodships. All of the examined entities draw up financial statements intended for big economic entities and they do not use any simplifications.

The respondents were asked whether the information included in a financial statement was used by them when making decisions.

The information included in a statement was used by all the unit managers and 95% of advisors, which is presented below in Figure 1.

The respondents were further asked to indicate the most frequently used elements of a financial statement balance sheet – a report on the financial situation, an income statement – of a report on remaining total revenue and of a report on cash flow. The respondents, both the unit managers and tax advisors, indicated that they used information included in the balance sheet and then in the income statement the most frequently. Over one half of the respondents did not use information from a cash flow statement, and only a small percentage of the respondents indicated using tax information (less than 10% of the respondents). The results are presented below in Figure 2.
Figure 1. The use of information included in financial statements by the unit managers and tax advisors
Source: own study based on research results.

Figure 2. The most frequently used elements of financial statements
Source: own study based on research results.

Other questions the respondents were asked to answer were questions concerning understanding the presented content and information included in a statement. The respondents were asked whether the information included in a balance sheet was for them understandable and sufficient enough to make decisions. For the majority of the unit managers the information in a balance sheet was understandable and sufficient to make decisions. But in the case of tax advisors, the information was understandable and sufficient to make decisions only for one half of the respondents. The results are presented below in Figure 3. It is worth noting that in the examined period changes in presenting information in a balance sheet took place and shifts from assets to liabilities were made: unpaid contribution to share capital and own shares.
The respondents were next asked whether the information included in an income statement was for them understandable and sufficient enough to make decisions. Both the unit managers and tax advisors indicated that for over a half of the respondents the information was understandable and sufficient enough so that they could make decisions, which is presented below in Figure 4. As in the case of the use of information included in a balance sheet, over one third of the respondents thought that the presented information was not understandable, which is reflected in the possibility of it being used when making decisions.

The next question was whether information included in a cash flow statement was for them understandable and sufficient to make decisions. Less than half of the unit managers and every third tax advisor stated that the information included was understandable, but only every third unit manager and every fifth tax advisor thought that the information was not sufficient to make decisions. Those results seem consistent with the answers described on the basis of the data in previously shown in Figure 2. The respondents use a cash flow statement when making
decisions the least frequently because the smallest group of respondents considers information included in such a statement understandable. It may result from the fact that it is an element of a financial statement existing in economic practice much shorter (the moment of being introduced in a financial statement) than a balance sheet or an income statement. Also, it is an element of a statement which, according to Polish legal requirements included in the Accounting Act does not have to be drawn up by all economic entities and can be drawn up in two options (a direct method and indirect method). The above results are presented below in Figure 5.

![Figure 5. A cash flow statement – the use of information](image)

Source: own study based on research results.

Next the unit managers were asked to answer the question whether they used financial statements for evaluating the financial situation of their contractors. Over 80% of the unit managers and only 40% of the tax advisors use such information. This result can indicate varied interest in financial information. Managers concentrate on financial indicators and the debt of a unit, and tax advisors focus on units fulfilling the tax obligations imposed by the State. The results are presented below in Figure 6.

![Figure 6. The use of financial statements when evaluating the financial situation of contractors](image)

Source: own study based on research results.
Respondents were also asked what they took into consideration when choosing contractors and what main information about them they checked in a financial statement. The most frequently indicated information concerned the value and depreciation methods used by entities, also the presentation of a going concern principle and of the information on the audit of the financial statement by a statutory auditor. It is worth noticing that just like in the previous questions; the interest in information included in a statement expressed by unit managers is considerably bigger than in the case of tax advisors. An important element of the information that distinguishes the respondents’ answers is the information on the audit conducted by statutory auditors (external auditors). Over 80% of the managers consider this information crucial, whereas only 15% of tax advisors share this opinion, which is presented below in Figure 7.

![Figure 7. The use of information included in statements when choosing a contractor](image)

Source: own study based on research results.

The respondents were also asked about non-financial information presented by economic entities; they were asked whether the information about drawing up a statement from corporate social responsibility was important for them. The majority of the respondents stated they did not pay attention to that element of a statement. It was declared important for 23% of the unit managers and 15% of the tax advisors, which is presented below in Figure 8.

The next to last question was also connected with non-financial information and it concerned the use of information about ethical standards contained in the code of ethics, in particular those concerning business ethics (Hausman, 1996, pp. 25–65) and the code of ethics for professional accountants (IESBA 2016). The respondents claimed ethics in business and financial reporting played an important role and it was appreciated by unit managers. Almost
60% of the unit managers and 35% of the tax advisors indicated the importance of such information, see below (Figure 9).

![Figure 8. The use of information about corporate social responsibility](image1)

Source: own study based on research results.

![Figure 9. Respect for ethical principles as an important element of non-financial information](image2)

Source: own study based on research results.

Those respondents who marked respect for ethical principles as an important element of non-financial information were also asked to indicate why the standards and principles of ethics were important in their opinion. Respect for ethical principles and informing stakeholders about such conduct inspires confidence in contractors and suggests professionalism. However, a greater percentage of the respondents saw advantages in the area of building relationships among contractors, of limiting the risk of cooperation and they confirmed applying good practices by contractors. The results of the question are presented below in Figure 10.
The presented results of the surveys demonstrate a varied level of users’ interest in both financial and non-financial information presented in general purpose financial reporting. Not all of the information is considered by the respondents to be interesting and it is not always used by them in their professional life, which often results from both the specificity of the scope of duties and the level of knowledge on statements, which is reflected in understanding included information.

Conclusions

Financial statements are an integral part of the functioning of economic entities due to the information that can be found in them. They are used by users both internally and externally and they allow evaluating an economic entity and the results of activities conducted by unit managers. Conducting an assessment of the results of activities and analysing data, most frequently we looked through the prism of the financial and accounting services responsible for drawing up statements in compliance with principles and of statutory auditors dealing with examining statements and their compliance with legal requirements and an accounting policy. Looking at reporting through the eyes of other users, it can be noticed which financial and non-financial information can be found in the area of their interest.

Evaluating information given in a financial statement by the managers of economic entities and tax advisors, it may be noted that the financial information used the most frequently can be found in a balance sheet and an income statement, since as the respondents assessed, this is the
information they find the most understandable. As far as non-financial information is concerned, this concerning ethical standards is found to be crucial, because, as the respondents assessed, it allows building correct relationships and limits the risk of conducted activities. The research results presented in the article do not only indicate the range of interest expressed by unit managers and tax advisors in the area of financial and non-financial information, but they also indicate the changing role of accountants and chief financial officers in the area of cooperation and consultative functions the employees of financial and accounting departments should perform. The rapid process of automation and digitalisation in accounting and financial reporting is sure to make it easier and faster to introduce and process data and drawing up various reports, but it will not replace competences and the knowledge necessary to understand presented information and its full use in decision-making processes.

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