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A Review Article: Financial Reporting

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Abstract: The purpose of financial reporting is to transfer information to users. Financial reports include all reports containing financial information. Despite of a lot of information in financial reports, these reports are not the only source of information on public sector entities, and in many cases, the users also use other sources to meet their information needs. The aim of this study was to evaluate theory and research that has been done in this area.

Keywords: Financial Reporting, Information Systems, Constitution.

Introduction

Management accounting system is regarded as the main and essential systems of management information system. Therefore, the task of management accounting system is to provide the information needs of different levels of the managers in the fields of planning and control of resources, performance evaluation and decision making (Ataran et al., 2012). A review of accounting as an information system and objectives which this system has to provide and meet the financial information needs of users, both inside and outside the organization caused that financial reporting solve information in the form of various reports entitled financial reports of providing and common needs of the users from this information. Financial reports are in order to meet the information needs of the users from financial information in order to make an informed judgment and decisions by them (Ahmadpour & Ahmadi, 2008). Therefore, the basis needed to receive such information is to make decision the users from financial information. The basic objective of financial reporting in the public sector is to help this section to serve the accountability towards the nation. In the constitution of the Islamic Republic of Iran, the sovereignty of nations is of great importance. According to Article 56 of the constitution, "absolute sovereignty over man and the world possesses God and He has made human His own social destiny". Persons, who by virtue of law by people are elected as a lawyer for the management of society, must be held accountable to them, including according to Article 122 of the constitution, "the president about the powers and duties which has by virtue of the constitution or other laws, is responsible against people, the Leader and the Islamic Consultative Assembly". Financial reporting is one of the most important tools that help public sector officials so that they can show how to play special tasks in the field of public resources and expenditure for the service efficiently, effectively and with economical compliance. Basic resources such as oil revenue and tax are consumed through executive agencies to provide public services such as education, health, infrastructure and national security. The officials of executive agencies act directly or indirectly as a representative of people and they should be responsible for the optimal use of these resources to people. At the moment, a limited portion of this accountability is performed through providing annual budget performance bill of the whole country and the provision of billing and settlement of budget reporting. Therefore, it is necessary that other financial reports prepare to reflect the financial condition and the results of operation of executive agencies for submission to the people and their representatives. As according to the Article 55 of the constitution, the report of the settlement funds should be made available to the public, other financial reports shall also be made public. Dissemination of financial reports to the public can help to create transparency and increase public confidence in the government (Mansouri et al., 2007). Given the importance of financial reporting, the aim of this study was to evaluate theory and research that has been done in this area.

The need for a conceptual framework for financial reporting

The conceptual framework of financial reporting in accounting is essential for three reasons: first, the conceptual framework as a Statute is a guide for standard-setters. Financial Accounting Standards Boards (FASB) defines the conceptual framework for financial reporting as follows. "A coherent set of principles and goals that can lead to consistent standards and the nature of the action and of the financial statements are provided". Standard-setters observe objectives, theories and concepts mention in the conceptual framework when developing standards and they prepare the standards based on it. If the framework which the standard-setters emphasize has an internal coherence and consistency, then we can hope that the result (reporting standards) has also the same characteristics. Second, the conceptual framework can also be a guide for interns. The change in accounting treatment has been associated with environmental changes. Therefore, accounting has always been influenced by the new events which at the moment of the creation, there is no standard procedure for them and when facing with them, the interns are forced to find a practical solution for these cases which the conceptual framework can be a guide to action in these situations. Taking into account the objectives and principles mentioned in the conceptual framework, the interns select the best strategies by applying professional judgment and based on the reasoning of the different approaches. Third, the role and influence of the conceptual framework are on public acceptance standards because the standard which is not generally accepted by the public is doomed. Therefore, if the interns know that the standards are based on a conceptual framework, they feel relaxed and show less resistance against them. In Iran, accounting standards boards of recognizing through knowing the need for a conceptual framework for financial reporting have emphasized the first product in 1997 entitled "theoretical bases of accounting and financial reporting in Iran", the proposed text (Safari & Ebrahimi, 2012).

Factors affecting the reliability of financial reports

Given the importance of the reliability of the information disclosed, some of the factors which are effective on the reliability of the information disclosed by management from the perspective of the users include: incentives from the position, validation of self-management, the factors affecting the environment of reporting both internal and external and intrinsic properties of the subject disclosed. The reliability of the information disclosed is defined as inferring to investors of the acceptability of a particular disclosure. Therefore, the reliability of the information disclosed refers to how the investors perceive and interpret that they are referred briefly.

1. Disclosure of negative news has more credits compared to positive news.
2. If the one who disclose the news has a good financial status, the disclosures made by him seem more creditable than the disclosures of the companies which have not the good financial status.
3. When a company has not the good financial status, the management of such companies has more incentives on providing misleading information. Therefore, it is true that the credibility of information disclosed by the companies with less financial situation is deteriorating.
4. The credibility of signaling is an important factor in the creditability of its own message. Therefore, the reliability of the management is an important factor in the credibility of information disclosed by them.
5. The amount of reassurance from both internal and external environment based on the accuracy of the information disclosed by the Directors is another factor affecting the credit of information which this kind of the reassurance can be provided by the sources outside of the organization such as independent auditors, financial analysts and journalists or can be prepared by internal sources such as board of directors, audit committees, and internal auditors.
6. Rumors play an important effect on the reliability of financial information on how to make a decision.
7. If the board of the company has a high quality, the investors will feel more confident about the accuracy of the information disclosed by them.
8. Information disclosed by the companies that have strong internal audit department is considered valid.
9. One of the factors affecting the reliability of the information disclosed is its intrinsic rationality of information. The information that is inconsistent with their prior expectations of the people is skeptical. For example, the probability of forecasting the profit growth of 10 percent for the company which the reported earning

has been negative for three consecutive years, has less creditability compared to the company which the reported earning has had the positive growth for three consecutive years.

10. Most accounting writings consider the reliability of the information disclosed the same with the reliability of the management, but there are the important differences between these two concepts. The reliability of disclosed information for every disclosure is separately assessed and this assessment may be different for ever company in different times while the reliability of the management is a sustainable features associated with the managers of the company and this is related to an interpretation which the investors have from the competence and reliability of the directors. The reliability of the source of a message, in turn, is only one of the elements which constitute the reliability of the message and other parameters affect the reliability of the message. This issue shows that the reliability of the management is only one of the factors which affect the credibility of disclosed information and this is not only the factor.

Limitations of financial reporting

Financial reports and general purposes do not provide all the necessary information for users. The users of financial reports and general purposes may use other sources of information (such as economic status reports and monitoring on budgets, etc.) to assess the performance of the government accountability. The users of financial reports of for the general part are various and information needs are different. As a result, preparing the reports providing all the information needs of the users, is impossible. Therefore, the kind and amount of information provided in the financial reports and general purposes shall be based on the common needs of the users. The financial statements and the general purposes generally reflect financial information about the financial effects of transactions and other events in the past. In addition, the information mentioned is often based on estimates and judgments resulting from the application of certain rules. Meanwhile, the information contained in the financial reports is essentially limited to the quantitative information. In the financial reporting process, cost-benefit analysis should be considered. Some believe that in order to meet, presenting information must be unrestricted, but presenting detailed information can mislead the user rather than be as a helper (Mahdavi & Rezaee, 2013).

Discussion and Conclusion

The aim of this study was to evaluate theory and research that has been done in this area. Several studies have been conducted regarding the financial reporting and in this research, various aspects have been studied. For example, Mahdavi and Rezaee (2013) discussed on the study of the role of the quality of the financial reporting on dividend policy of listed companies on the Tehran Stock Exchange using data on 64 companies from 2003 to 2009. The results of the research showed that there was a significant and direct relationship between the optional section of accruals quality and dividend payment, but there was not the significant relationship between the non-optional section of accruals quality and dividend payment. Noravesh and Hosseini (2009) has discussed in a research on the study of the relationship between the quality of the financial reporting and the number of trained accountants in business units listed on the Tehran Stock Exchange. By investigating the relationship between recruiting most trained accountants and the financial reporting quality, he showed that there was no evidence of the superior quality of the financial reporting systems in companies using most trained accountants compared to other companies. In another place, Vaslehchi and Abdollahi (2013) studied in their article entitled "the basis of cash management for the financial management and reporting" and the basis of the cash management for the purposes of the financial management and financial reporting. This study uses the method of the descriptive study to investigate the importance of the principle of influence, relevance and impact of cash management in the field of the financial management and financial reporting. This paper refers to the strong impact of the cash management on the survival of great corporates, increase of shareholder wealth, fraud prevention and detection and enrichment of liquidity. The organization must give a serious attention to the management of the cash and know it a serious company. Regulatory bodies should also raise disclosure requirements to increase transparency of the cash and its equivalent and prevents the creative cash management. Bakhtiari and Azimifar (2013) discussed in a research entitled "a professional ethical impact on the quality of the financial reporting" to study accountants' responsibility to meet the needs of a business owner or employer and they emphasized that the decisions made based on information provided by the accountants, can have an impact of the life of all of these stakeholders. Therefore, ethical behavior is an essential and expected. The society's expectations of the people are very abundant and people should have a confidence on the quality of services provided by the accounting profession. Therefore, information provided by the accountants needs to be highly competent, reliable and objective. Lack of professional ethics and qualitative characteristics of the financial reporting have an unrealistic image of the financial reporting. Regardless of the accounting standards and rules, without professional ethics, the accountants can manipulate the financial reports. Accounting standards and rules do not guarantee the accuracy of the financial reporting. However, professional ethics and qualitative characteristics of financial reporting should be used. The development of professional ethics in professional accounting will result in improving the financial reporting. To explain these findings, it can be said that the main focus of theoretical concepts of public sector financial reporting is based on the financial reports and general purposes. In addition, these concepts can also be useful in the preparation of the financial reports and special purposes. The purpose of the financial reporting is to transfer of information to the users. The financial reports include all reports containing financial information. Despite of a lot of information on the financial reports, these reports are not the only source of information on public sector entities, and they also use other sources to provide their information needs in many cases. Although primarily the financial reports are prepared to provide financial information, sometimes providing non-financial information along with financial information are required to increase the usefulness of these reports.

Conflict of interest

The authors declare no conflict of interest

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