Role and Importance of High Quality Financial Reporting Standards

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Abstract - In any industry, it may be manufactured or service entity every function is related to each other to achieve the objectives. It is not sure whether the services and activities or interrelated or not. At the end of the day all the activities are connected to one common activity called accounting and finance. Such activities are important for the stakeholders and the company's management. These reports are also part of the accounting and reporting of the company and financial reporting is very important and critical activity of the entity. It is an important part of the corporate governance. This study would help the readers to understand the importance of the Financial Reporting Standards and Financial reporting includes the reporting of financial information of the company to various users of the financial statements, namely investors, suppliers of goods and services, general public, bankers, governments and other related government departments. The study also identified the value added characteristics of Financial Reporting Standards of an entity. Financial report consists of financial statements in the form of balance sheet, income statement, cash flow statements and statement of changes in equity. Financial report also consists of notes of financial statements, annual financial statements, and prospectus and management analysis.

Keywords – Financial Reporting, High Quality, industry.

I. INTRODUCTION

This paper will discuss critically the needs for high quality financial reporting. Some disclosures are included in financial reporting, these information's contains money related data to the different groups of stakeholders to be aware about the financial enforcement and the position of money related to the predetermined association over a time frame. The stakeholders can be financial specialists, debtors, oblige suppliers, investors, government and government organizations (Pristine, 2017). For getting more depth and critical information about risks of the businesses and financial ability, investors and lenders depend on financial reporting for that, investors usually relies on financial reporting for getting true and accurate information that is easy to compare with it, because it is difficult for the investor to have a daily information and reactions of the company's operations, outside people can balance the earnings and the value and worth of the business by financial reporting, any company has systematically performed good and has a positive aspects, investors can easily recognize that company (Vera,2013) . This part of the study concentrated to identify and understand the background of the Financial Reporting Standards, objectives, reasons and importance of Financial Reporting Standards, which are an essential factor for the investors to make a decision.

II. RESEARCH METHODOLOGY

The study is made with the objective of understanding the importance of Financial Reporting Standards. The study also made with the objective of studying the reasons and impact of using Financial Reporting Standards. Researchers have used descriptive method of study with the help of secondary sources of information. Secondary sources of information have been taken with the help of various journals and articles related to the topic. Information has also been collected with the help of various books related to the International Reporting Standards. According to international accounting standard board, the main objective of the financial reporting is to guide the stakeholders about the financial performance and financial position of the companies to make wise decisions. The study also added the characteristics which are much important for the stakeholders to take a decision for their investment.

Background of Financial Reporting

Moreover, there is one institution called accounting standards executive committee (ACSEC) in the US, which is responsible in complying international financial

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decisions as well as financial reporting. This institution contains fifteen institutes who are caring a full knowledge and background of financial reporting cases (Kaplan and Fender, 1998). ACSEC believes that a free exchanging of the ideas that related to financial cases is playing a significant role in the development of quality accounting standards and this will provide opportunities for the members to share their point of view since the goal of ACSEC is to respond a highest number of accounting suggestions and proposals that put out by the financial accounting standard board (FASB) (Kaplan and Fender, 1998).

Serving the public and providing a useful data by improving financial reporting is the main objective of ACSEC, to be the institutes spokes body on those matters and to determine the institute's technical policies concerning with financial reporting standards is the delegation of ACSEC, also on the FASB financial reporting proposals it is ACSEC's purpose to provide meaningful feedback to the FASB (Kaplan and Fender, 1998). By developing a common group of high quality accounting standard that could be used internationally, the IASB and the FASB show their involvement and pledge, both boards agreed to improve and develop a new combination conceptual framework that include underlying qualitative features on which accounting standard shall be based and the main objective of financial reporting, in the result of joint project to assemblage the more principles based IFRS (Ferdy and Geert, 2009).

Objectives, Reasons and Importance of Financial Reporting

Financial reporting helps the stakeholders to plan, analyse, and compare the results and to take necessary action which would guide them in the right way. It is also one of the important messages for the suppliers and lenders to the company to have trust on their relationship. It also includes the details of the companies relating to the resources of the organisation, liabilities and equity and the changes in the share capital during a particular time. It also helps to understand the procurement of the funds and usage of such funds. Financial reporting include the information of the company and its performance and productivity. Auditors use such financial reporting information to finalise the annual audit procedures and also to finalise the statutory audit filing to the government department. Another main reason for maintain financial reporting is to improve the social welfare of the employees, trade unions and other government department. It is important that the companies use the financial reporting information to comply the various statutory regulations. The companies have to fill their details with stock exchanges as part of financial reporting procedures. These financial reporting helps the stakeholders to analyse the reports to bench mark and take decisions accordingly. It is also helps the companies to mobilise the capital through both internal sources and external sources.

High quality financial reporting plays a significant role to conform and comply with different statues and regulatory needs. Government agencies should be provided with financial information's in order to perform well based on the data they got. Also financial reporting helps statutory audit to be facilitated easily. It is required to audit the budget report of the company by the statutory auditors to show and express their thoughts and opinion (Vera , 2013) . The general public can dissect the execution of the association just as its administration, based on financials. Organizations duties are to outfit their financial reports and explanations, for the aim of bidding; this will be helpful for the investors to invest more in a certain company with having full information of its financial performance. Investors need some useful and helpful data that impact their financial and investing decisions and this is depending on high quality financial reporting, usually investors cannot invest without having financial information and knowing that may reduce any risk, any available financial data will be used in planning, analysing, decision making and benchmarking in any organization, so this will help to improve the level of the organization (Norah, 2017).

The information presented in the annual reports accompanied with the culture with huge impact of government policies. It is the practice that the stakeholders would look for financial reporting information which are reliable and trustworthy. (Hashim 2012). The end product of accounting should be done by financial reporting, financial statement enhance users' power and ability to make decision and investment so that will improve high quality financial reporting. Most of the companies whether product or service companies are working to achieve the organization objective, each company has different departments and the departments may not be related to each other, but at the end of the day all of the departments will link together with finance and accounting department (Pristine, 2017).

The impact of high quality financial reporting:

The foundation of the accounting standards will be demonstrated by this conceptual framework. High quality accounting standards should be completed when the objectives are achieved properly and qualitative characteristic are applied well, which helps and leads to have high quality financial reporting data that can be useful in decision making (Ferdy and Geert , 2009). Moreover, whenever cooperation or transaction take place for which no accounting standards are available, the conceptual framework shall give a share in decision making of constituents, the main goal of financial reporting is providing decision useful information, these

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information may benefit the investors and lenders in making decision in their capacity as capital providers (Ferdy and Geert , 2009). Furthermore, There is one term called 'earnings quality' it will be used broadly to involve the quality of earnings in both cash flow and balance sheet and its generally used in practice, the activities that the company will likely be able to bear it in the future and provide an appropriate return on the investment of the company will result to high quality earnings.

Characteristics of high quality of financial reporting:

According to the IASB, the high quality of financial reporting is based on the principles regarding faithfulness of the elements enclosed in the financial information. These characteristics of the high quality will help to assess the usefulness of the financial reports. Any financial information must have all such characteristics like faithfulness, comparable, verifiable timeliness and understandable. These characteristics will enable the companies to provide transparent financial information to their users, which help them make decisions and to avoid misleading or incorrect information in any financial statement (Gajevszky, 2015). A theoretical explanation of each quality of financial reporting would emphasise the importance of high quality financial reporting.

FAITHFUL REPRESENTATION: Every company has to provide trusted financial information to their stakeholders, which reflects the true financial position of the company. Faithful representation will reveal how well an entity organised their resources and obligations. Willekens, (2008), Moreover it is identified from the studies that the auditors' report will be value added advantage for any financial report, where it provides the assurance of high quality with faithful representation.

RELEVANCE: The users of financial information of the company are expected to look in to relevant information in terms of usefulness and being compassed for the further reference. All the information provided in the financial report will induce the users to make major economic decisions. Users of the financial information will evaluate the financial information based on the correctness and then confirm the relevance of the financial information.

TIMELINESS

Time is an important factor on which the information is to be provided to stakeholders. It would enhance the quality of the financial statements as the information to investors to be provided on time to make appropriate decisions. Issuing the auditors report to the users is an important date which stakeholders expect to receive the financial statements in order to invest in the companiesk. (Beest, Braam, and Boelens 2009)

COMPARATIVELY

One of the important characteristics of Financial Reporting standard is comparability. Users always use the financial statements to analyse the financial performance and financial positon of an entity. Users would take the financial statement of the same period of two or more different companies and analyse for taking a decision for investments. (Cheung, Evans and Wright 2010). Comparability helps the users to consider facts of different accounting information with the notes of the accounts

UNDERSTANDABILITY

Understandabiltiy is another important **factor** which adds value to the characteristics of financial reporting standards. Users have to understand the value added to the financial reporting standards to ensure high quality. When an information is understood by the users then the fact is ensured quality with clarity and sufficiency. Most of the information in the form of graphs and various tables to present with clarity to the users to understand in a better way of financial reporting. (Beest, Braam, and Boelens 2009)

III. CONCLUSION

In conclusion, all disclosed information of the company are pertains to reporting quality, the economic reality of the company's activities will be represents by high quality reporting. Moreover, high quality financial reporting can assess company's performance and prospects. It is essential for any organization to have a high quality financial reporting in order to react correctly based on information that they got, even investors can get high earnings by using these information that can impact their decision in a positive way and achieve their goal as well. In short it is concluded that high quality of Financial Reporting Standards plays in a vital role in every aspect of the company's performance. This study also analysed by considering important characteristics of Financial Reporting Standards which are in the form of relevance, faithful presentation, timeliness, comparability and understandability.

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