

THE DETERMINANTS FACTORS OF QUALITY OF THE FINANCIAL REPORT

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Abstracts: *This research's main objective is to find the determinants factors of quality of the financial report prepared by the organization. Quality of the financial report was examined with the support of relevance, faithful representation, comparability, understandability and timeliness. Five hypotheses were developed based on the study's aims to determine the degree of association between the variables. This study was conducted with the primary data. Data are collected through 250 respondents. Respondents for the research purpose were Chartered Accountant, Registered Accountant, Account teacher of various levels and the person working in different post of accountant. Collected data were analyzed by using SPSS-22. The major statistical tools used for the research purpose are reliability analysis, descriptive analysis, correlation analysis and regression analysis. The findings also show that respondents believed timeliness of financial reporting had a greater chance of improving quality of the financial report. Timeliness has moderate positive correlation with the quality of the financial report where as other variable relevance, faithful representation, comparability and understandability has weak positive correlation with quality of the financial report. From this study it can be concluded that relevance, faithful representation, comparability, and understandability have a weak positive link, while timeliness has a moderate positive correlation with financial report quality.*

Keyword: *Quality of the financial report, relevance, faithful representation, comparability, understandability and timeliness*

1. Introduction

FASB (1999) and the IASB (2008), the main goal of financial reporting is to offer high-quality financial reporting data on economic entities, principally financial in nature that is helpful for making economic decisions. It is crucial to offer high-quality financial reporting information because doing so will encourage investors, creditors, and other stakeholders to use resources wisely, improving market efficiency (IASB, 2008).

The rise in accounting scandals around the world in the early twenty-first century has shown flaws in financial reporting quality. The value of accounting reporting is determined by, and is dependent on, the quality of financial reporting. The desire for a clear and comprehensive definition of financial reporting quality has grown around the world. It is critical to provide high-quality financial reporting in order to influence users' investment decisions and improve market efficiency. Another global demand is for ideal ways for assessing the quality of financial reporting. The more the benefits to be realized by investors and readers of financial reports, higher the quality of financial reporting. Furthermore, financial reporting quality is a wide notion that encompasses more than just financial data; it also includes non-financial data that is valuable in making decisions. Financial reporting quality is defined as financial statements that provide accurate and fair information about an entity's underlying financial position and economic performance, as per the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB).

1.2 Problem Statement

This study focus to determine the factors that affect the quality of the financial report of the organization. The research questions of the study are as follows:

- What are the different determinant factors of the quality of financial report?
- What is the significance impact of the relevance, faithful representation, understandability, comparability and timeliness on the quality of financial report?

1.3 Research Objective

The general objective of the study is to know the determinants factors of the quality of financial statement.

The specific objectives are:

- To study the impact of relevance on the quality of financial report.
- To identify the impact of Faithful representation on the quality of financial report.
- To examine the impact of understandability on the quality of financial report.
- To analyze the impact of comparability on the quality of financial report.
- To determine the impact of timeliness on the quality of financial report.

1.4 Research hypothesis

In order to identify the determinants of the quality of financial report, following hypothesis have been developed:

H1: There is significance relationship between relevance and the quality of financial report.

H2: There is significance relationship between faithful representation and the quality of financial report.

H3: There is significance relationship between understandability and the quality of financial report.

H4: There is significance relationship between comparability and the quality of financial report.

H5: There is significance relationship between timeliness and the quality of financial report.

1.5 Limitation of the study

The following are the study's significant limitations:

- The research is entirely based on primary data sources for dependent and independent variables. As a result, the correctness of the information provided by the respondents determines the study's conclusions' reliability.
- The data gathered from the respondents is presumed to be accurate.
- The analysis is based on linear regression assumptions between the dependent and independent variables. Non-linear regression assumptions were not considered in this study. As a result, the scope of this research is limited; all assumptions may not be met.

2. Literature Review

Financial reporting is the process of formally reporting a company's financial activity. It has long been regarded as a necessary resource for all market participants. It also eliminates the mystery and disagreements among all interested parties, including managers, investors, regulatory agencies, society, and other stakeholders. Every person involved in this process, as well as every operation related to it, should be thoroughly submitted, particularly the disclosure procedure, all transactions, accounting policies, and all judgments and opinions expressed by the personnel involved in this process (Gaynor et al., 2016).

The primary principle of measuring financial reporting quality, as per the IASB, is related to the accuracy of the objectives and the quality of the revealed information in a company's financial reports. These qualitative features make it easier to evaluate the usefulness of

financial reports, resulting in a high degree of quality. Financial reports must be accurately portrayed, comparable, verifiable, timely, and intelligible to achieve this level.

There are agreed-upon elements of good quality financial reporting, as specified by the FASB and the IASB in its Conceptual Framework for Financial Reporting. Relevance, faithful representation, understandability, comparability, and timeliness are among the qualitative qualities of financial reporting quality, which are classified into essential qualitative characteristics and improving qualitative characteristics. Each of these phrases has a theoretical explanation that highlights their relevance as qualitative features and also identifies which qualities are regarded basic in different frameworks.

2.1 Relevance:

The ability "to make a difference in the decisions made by users in their capacity as capital suppliers" is referred to as relevance (IASB, 2008). The International Accounting Standards Board (IASB) defines relevance as the ability to influence user decisions in their capacity as capital providers. Fair value is thought to be one of the most important indications of relevance. The use of Fair Value as a measurement basis in an entity indicates a high level of relevance in financial reporting data (Beest, Braam, and Boelens, 2009). Annual reports play a critical role in defining the level of relevance by disclosing forward-looking information, business prospects and risks, and comments on how important market events and significant transactions affected companies (Beest, Braam, and Boelens, 2009).

2.2 Faithful Representation:

The IASB (2008) approach promotes faithful depiction as the second key qualitative criteria. Annual reports must be complete, unbiased, and free of substantial error, as per the IASB (2008), in order to authentically describe economic phenomena that the information purports to represent. Annual reports must be complete, unbiased, and devoid of substantial inaccuracy in order to correctly portray economic phenomena that information purports to depict (IASB, 2008). The concept of faithful representation is to reflect and depict the true economic position of the financial data that has been published. This term is useful for describing how well responsibilities and economic resources, such as transactions and occurrences, are fully reflected in financial reporting.

2.3 Understandability

One of the most important features of information in financial reports is its readability. Effective communication is the key to achieving a high level of understandability. As a result, the higher the quality attained, the better the users' grasp of the content (Cheung, Evans, and Wright, 2010). When information is provided and classified clearly and appropriately, it is one of the improving qualitative aspects that will increase. Users can understand what their demands are when annual reports are adequately organized (Beest, Braam, and Boelens, 2009). When information is classified, described, and presented simply and concisely, the first improving qualitative attribute, understandability, improves. When the quality of information allows consumers to comprehend its meaning, this is referred to as understandability (IASB, 2008). Five elements that stress the transparency and clarity of the information offered in annual reports are used to assess understandability (Jonas and Blanchet, 2000; Iu and Clowes, 2004; Courtis, 2005).

2.4 Comparability

Cheung, Evans and Wright (2010) the idea of comparability refers to the capacity for users to compare financial statements in order to determine an entity's financial situation, cash flow, and performance. This comparison allows users to compare firms over time and within the same time period. Comparability, which "is the quality of information that enables users to discover parallels in and contrasts between two sets of economic occurrences," is a second improving qualitative property (IASB, 2008). To put it another way, similar situations should be presented in the same way, whilst various situations should be presented in distinct ways.

2.5 Timeliness

Timeliness is the final enhancing qualitative quality. "Availability of information to decision makers before it loses its ability to affect decisions" is defined as "having information available to decision makers before it loses its ability to influence decisions" (IASB, 2008). Timeliness relates to the amount of time it takes to expose information and is linked to the utility of decisions in general (IASB, 2008). When evaluating the timeliness of information in annual reports, the natural logarithm of the number of days between the end of the fiscal year and the signature on the auditors' report after the end of the fiscal year is determined. Each organization was given a score between 1 and 5 based on the natural logarithm of the number of days.

3. Conceptual framework

The framework developed for this study is made up of five independent variables that are crucial in determining the quality of financial report. Relevance, Faithful Representation, Understandability, Comparability and Timeliness are independent variable and Quality of the financial report is the dependent variable.

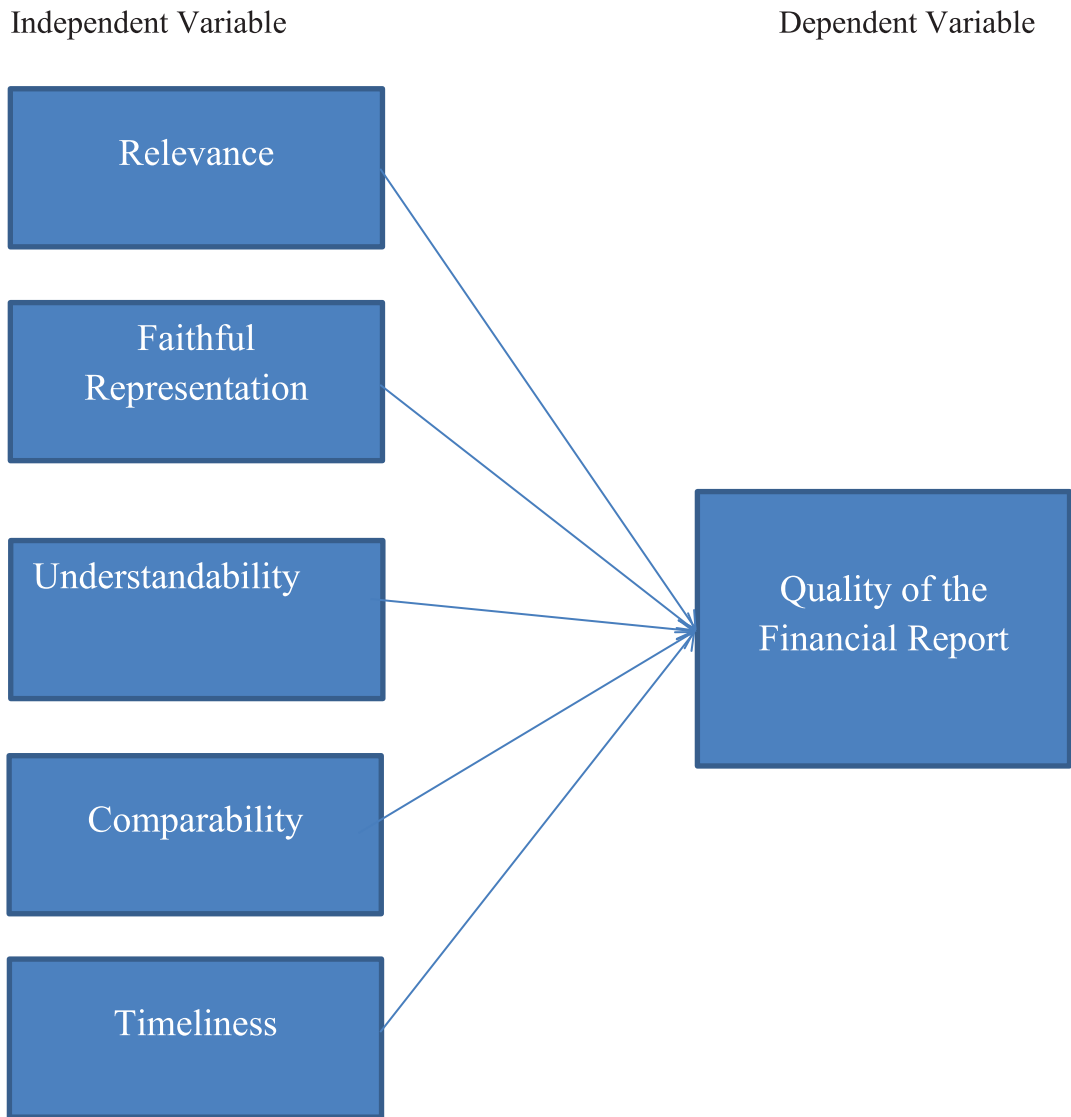


Figure 1

Conceptual framework of the study

4. Research Methodology

This descriptive survey aims to identify the components of the organization's qualitative financial report.

4.1 Population and Sampling

The populations for this study are people who prepare a financial report as well as the investor on the market of the Rupandehi. Convenience sampling method will be followed in order to take responses. These numbers of the respondent has been selected on the research made by the Hair et al. (2010). For the study purpose Chartered Accountant, Registered Accountant, Account teacher of various levels and the person working in different post of accountant has been taken as a respondent. As the research studies of Hair et al. (2010) the number of respondent can be selected either five times or ten times of the number of question prepared for the research proposes. Here the total number of question is 28 so, the 250 respondent are being selected for the study.

4.2 Sources of data and Instrumentation of data collection

The study is established on the primary source of data. The instrument for the data collection will be questioner method. The questioner has been used from an appendix of Mbobo and Ekpo. (2016). Some of the question has been added after scanning through the different article in the variable timeliness and quality of the financial report. The questioner has been classified into two categories biological characteristics of the respondents and question related to the dependent and independent variable. The variable all 28 questions are measured in five point Likert scale ranging 1=very little extent, 2=little extent, 3= moderate extent, 4=large extent, 5= very large extent.

4.3 Method of analysis

The data from the collection were evaluated using statistical methods and statistical package for social science (SPSS-22). The information gathered has been organized, analyzed, and presented in appropriate tables and formats. As needed, such tables and formats have been translated and explained. Descriptive statistics like mean, standard deviation, and percentage will be employed, as well as inferential statistics like correlation analysis, regression analysis.

5. Results

5.1 Reliability Test

The table represents the reliability coefficient cronbach's alpha for representative questionnaire on determinants factors of quality of the financial report .This can be shown by the following table.

Table 1

Reliability Statistics

Cronbach's Alpha	No. of Items
0.861	28

The value of Cronbach's Alpha comes to 0.861 which is more than 0.6 which shows there is a good reliability. This demonstrates that the tool is reliable and can be used confidently in a variety of statistical tests and result interpretation.

5.2 Demographic profile of Respondents

This section provides information about the demographic and other characteristics of the respondents under study. Sex, age, academic qualification and work experience are among the characteristics of respondents.

Table 2

Demographic Profile of Respondents

Factor	Frequency (n)	Percentage (%)	
Gender	Male	144	57.6
	Female	106	42.4
Age	Below 20	15	6
	20-30	98	39.2
	30-40	67	26.8
	40-50	38	15.2
	50-60	20	8
	60 Above	12	4.8

	S.L.C	21	8.4
Education	Intermediate	45	18
	Bachelor	135	54
	Master Degree	49	19.6
	Below 5 Years	82	32.8
Work Experience	5-10 Years	81	32.4
	10-15 Years	63	25.2
	Above 15 Years	24	9.6

5.3 Descriptive Statistics

Table 3

Summary of the descriptive analysis

Items	Mean	Ranking
Timeliness	3.58	1
Faithful Representation	3.53	2
Quality of the financial report	3.53	2
Understandability	3.50	3
Comparability	3.43	4
Relevance	3.41	5

All the items have mean value more than 3 which implies that the entire variables are inclined towards the agreement.

5.4 Correlation Analysis

The correlation coefficient measures how closely two variables are related. It demonstrates very intimately the dependent variable and independent variable are related. The correlation coefficient is a statistic that evaluates how strongly two variables are correlated. The square-root of the coefficient of determination is used to calculate it. The correlation coefficient's value falls between 1 and -1. There is absolutely no correlation between the dependent and independent variables, which is shown by a value of 0.0. If r is equal to either 1.00 (perfect positive) or -1.00 (perfect negative), then there is perfect correlation (perfect negative).

Table 4*Correlations matrix*

	R	FR	C	U	T	QR
R	1					
FR	0.493**	1				
C	0.551**	0.522**	1			
U	0.520**	0.491**	0.595**	1		
T	0.447**	0.437**	0.513**	0.482**	1	
QR	0.416**	0.427**	0.482**	0.485**	0.531**	1

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4 shows the relation between the dependent and independent variables. Relevance (R) has a positive significant relationship with quality of the financial report (QR) which has correlation coefficient value 0.416 and significance at 1 percent level of significance. Similarly Faithful representation (FR) has a positive significant relationship with quality of the financial report (QR) which has correlation coefficient value 0.427 and significance at 1 percent level of significance. Likewise Comparability(C) has a positive significant relationship with quality of the financial report (QR) which has correlation coefficient value 0.482 and significance at 1 percent level of significance. Uniformly Understandability (U) has a positive significant relationship with quality of the financial report (QR) which has correlation coefficient value 0.485 and significance at 1 percent level of significance. Finally Timeliness (T) has a positive significant relationship with quality of the financial report (QR) which has correlation coefficient value 0.531 and significance at 1 percent level of significance.

5.5 Regression Analysis

Regression analysis is a statistical method for determining the relationship between two or more quantitative variables a dependent variable whose value must be anticipated and an independent or explanatory variable about which information is provided. The method is

employed to discover the equation that expresses the relationship between the variables. A multiple regression equation predicts one variable from two or more independent variables.

A. Model Summary

The model summary table shows the strength of the relationship between the model and the dependent variable. The model summary of the regression is presented in Table 5.

Table 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.618 ^a	0.382	0.369	0.59603

a. Predictors: (Constant), Relevance, Faithful representation, Comparability, Understandability and timeliness

From the table 4.15 the value of adjusted R square is seen to be 0.369 which means that about 36.90 % of variation in the quality of financial report can be explained by the explained variables used in the model. Hence the remaining 63.10% of the variation is explained by the other variables that are not considered by regression model.

B. Analysis of Variance (ANOVA)

The Anova table tests the suitability of the model from a statistical perspective. Table 6 shows the Analysis of Variance (ANOVA) results. The table 6 shows that the p-value is 0.000 which is less than 0.01 level of significance. Thus there is a significant relationship between the explanatory variables in the fitted model. It means that the fitted model is good.

Table 6*Analysis of Variance (ANOVA)*

	Sum of Squares	df	Mean Square	F	Sig.
Regression	53.599	5	10.720	30.175	.000 ^b
Residual	86.682	244	0.355		
Total	140.281	249			

C. Regression Coefficients

The Table 7 presents the regression result for the quality of the financial report using regression model.

Table 7*Regression coefficients*

	B	T	sig.
(Constant)	0.619	2.481	0.014
Relevance	0.069	0.987	0.325
Faithful Representation	0.126	1.704	0.09
Comparability	0.139	1.843	0.067
Understandability	0.19	2.585	0.01
Timeliness	0.303	4.888	0

a. Dependent variable: Quality of the financial report

* Significant at 5 percent level of significance

From the table7, based on the coefficients, the regression equation for the quality of the financial report can be written as $\hat{Y}=0.619+0.069X_1+0.126X_2+0.139X_3+0.190X_4+0.303X_5$ Regression coefficient of relevance, faithful representation, comparability, understandability and timeliness are 0.069 ,0.126, 0.139, 0.190 and 0.303 respectively in quality of the financial report. It indicates that if 1 unit increase in relevance, the quality of

the financial report is increased by 6.9 units keeping other variable constant. The relationship between relevance and quality of the financial report is not statistically significant at 5% level of significance. It indicates that if 1 unit increase in faithful representation, the quality of the financial report is increased by 12.6 units keeping other variable constant. The relationship between faithful representation and quality of the financial report is not statistically significant at 5% level of significance. It indicates that if 1 unit increase in comparability, the quality of the financial report is increased by 13.9 units keeping other variable constant. The relationship between comparability and quality of the financial report is not statistically significant at 5% level of significance. It indicates that if 1 unit increase in understandability, the quality of the financial report is increased by 19 units keeping other variable constant. The relationship between understandability and quality of the financial report is also statistically significant at 5% level of significance. It indicates that if 1 unit increase in timeliness, the quality of the financial report is increased by 30.3 units keeping other variable constant. The relationship between timeliness and quality of the financial report is also statistically significant at 5% level of significance.

5.6 Discussion

The primary goal of this study is to determine or verify the factors that influence the quality of financial reports. The research is only focused on determining the variables of financial report quality. This research aids in determining the most important aspects of financial report quality. As a result, the researcher looked at a variety of qualitative variables such as relevance, faithful representation, comparability, understandability and timeliness. Various statistical tools were used to evaluate and interpret the data collected from the questionnaire. The study's first section focuses on the demographic profiles of respondents. It includes information about the respondents' sex, age, academic qualifications, and work experience. The descriptive analysis of several factors was studied in the second portion. The final section covers inferential analysis, which includes the use of various methods such as correlation and regression. To test the hypothesis, correlation and regression analysis were performed based on the hypothesis. All of the independent factors have a significant impact

on the dependent variable, as per the correlation analysis. However, as per the regression analysis, the independent variables of understandability and timeliness have a substantial impact on the quality of the financial report, whereas the other variables have no significant impact. As previously stated, the majority of recent studies have focused on the determinants and their qualitative influence. Different sorts of determining factors have been studied, albeit with less enthusiasm, based on the quality they provide to the financial report. Some scholars have done broad reviews of numerous aspects of financial reporting quality.

6. Conclusion and Action implications

The goal of this study was to figure out what elements influence the quality of financial reports. The favorable influence of numerous aspects has been investigated by assessing the financial report's quality. When the organization employs various factors, the quality of the report has been seen to fluctuate. The study also looks at the impact of independent variables such as relevance, faithful representation, comparability, understandability, and timeliness on financial report quality. Several reasonable conclusions can be derived from the data of this study. Understandability and timeliness are identified to be critical factors for financial report quality in the majority of the respondents studied. Among the other tools, the most important were understandability and timeliness. It is the factors that assist users of financial reports in making accurate and timely decisions. As a result, it is one of the most satisfying determinants. Relevance has a negative link with financial report quality. As a result, the report's relevancy could not satisfy its users, and it should instead concentrate on the usage of fair value in the report. There is a negative correlation between faithful representation and financial report quality. As a result, faithful representation was unable to improve the financial report's quality. As a result, it should concentrate on reflecting and representing the true economic condition of the financial data given. The study discovered a negative link between comparability and financial report quality. As a result, Free Comparability's users were dissatisfied. As a result, comparability enables users to compare financial statements in order to determine an entity's financial situation, cash flow, and performance. The financial report's understandability and quality have a good link. As a result, it aids in the

presentation of financial data in a clear and sufficient manner. As a result, the report is understandable. The quality of the financial report and its timeliness has a beneficial link. As a result, the sooner the information is received, the more effective and efficient the decision can be made. The financial report's quality is the company's identity. To produce a high-quality report, competent monitoring and further expense are required. It is also vital to be informed of the report. The further study can explore the result in different way with different size of the sample. This study was conducted without taking into account or moderating variables. As a result, future studies can take into account potential moderating variables that could positively or negatively influence the association. This study's model is restricted to simple linear regression models. Other models and advanced statistical tools can thus be utilized to investigate for future studies.

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