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A Study on Financial Reporting & Accounting– Issues Associated & Impact

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Abstract

The subject of financial reporting & Accounting has been generally recognized as very important in accounting era since a long time. This paper highlights the theoretical literature on the economic consequences of financial reporting and disclosure regulation. We integrate theoretical studies from accounting, economics, finance and law in order to contribute to the cross-fertilization of these fields. We provide an organizing framework that identifies firm-specific (micro-level) and market-wide (macro-level) costs and benefits of firms' reporting and disclosure activities and then use this framework to discuss potential costs and benefits of regulating these activities and to organize the key insights from the literature. Financial reporting is the process of assessing and summarizing all the financial transactions and aspects of a certain person or business. The present paper makes an attempt to give conceptual framework of financial reporting, its sections & objectives, users, benefits associated with it, challenges faced, its future perspective, Impact & Suggestions for improvement in very simple words. Further this paper highlights the importance of financial reporting & accounting in modern business era. The impact of financial reporting & accounting seems very high.

Keywords: *Financial Reporting, Financial Accountings, Financial Reports.*

1. Introduction

To minimize the information asymmetry between the management and outsider parties, financial reporting and accounting is a very common practice now a day. There has been a forefront in practicing progressive and transparent disclosure. Financial reporting and accounting gives deeper insights to the way we run our business and to the value creation that will enable the outsiders to make more informed choices about our performance. Financial reporting & accounting requires years of study and hands-on practice, and is signified by an accounting designation that depends on the jurisdiction. In the United States, the primary accounting designation is Certified Public Accountant (CPA). While in Canada, the main accounting designations are Chartered Accountant (CA), Certified General Accountant (CGA) and Certified Management Accountant (CMA). In the United Kingdom and India, Chartered Accountant (CA) is the primary financial accounting designation.

Financial reporting & accounting provides information obtained through ratio analysis, regarding the profitability, liquidity and financial stability. This report will pay particular attention to the earning power, liquidity and credit management, inventory management and debt management, and will highlight major strengths and weaknesses while offering some explanation for observed changes. The report will comment on the prospects of the company and make recommendations that would improve its performance. These observations do have limitations which will be noted. This report will explain how a cash flow statement and a prospectus could enhance. Financial reports are the documents and records you put together to track and review how much money your business is making (or not). The purpose of financial reporting is to deliver this information to the lenders and shareowners (the stakeholders) of your business. If someone else is supporting part of your business, financial reporting must be part of the essential contract between you and them. Your lenders and investors have the right to know if their money is being spent wisely and returning a profit.

Major four sections in a financial reporting & accounting	**Section Contents**
First Section	Company's Assets & what the company owns in terms of property and cash value.
Second Section	Company's liabilities in terms of loan & unpaid taxes.
Third Section	Company's spending on a monthly base in terms of expense.
Fourth Section	Company's earning in terms of sales and Investments.

A financial report consists of four major sections. Two of the sections deal with the company's worth in terms of how much the business owns and owes others. For example, the first section deals with the company's assets and illustrates what the company owns in terms of property and cash value.

The other section deals with the company's liabilities like banking loans and unpaid taxes. The two other sections focus on how much the company is spending on a monthly basis in terms of expenses and how much the business is earning in sales and investments. Financial reports will often use well-structured charts and colorful graphs to show the results or spending habits of each employee or the collective numbers for each expense. These reports will often be several pages long, so an index page will often be used to organize the material.

2. Financial Reporting & Accounting

Financial reporting is presenting financial data of a company's position, operating performance, and funds flow for an accounting period. Financial statements together with related information may be contained in various forms for external party use such as in the annual reports.

Writing a financial report is usually done by an advisor or an accountant. To write the report, beginning and ending amounts and money figures need to be known. Assets, profits, expenses sheet companies give about their activities, including how they prepare and show it. Financial reporting is the process of assessing and summarizing all the financial transactions and aspects of a certain person or business.

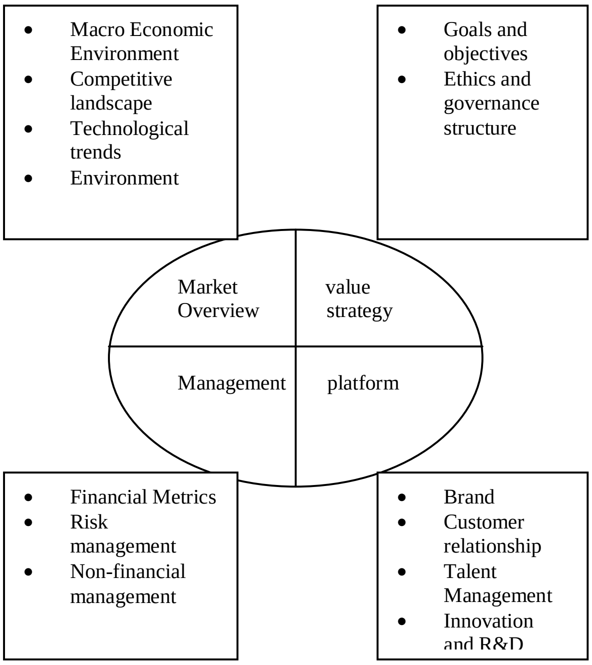
A financial report is often also referred to as an annual report. The financial report presents the financial data of the given business in an honest and effective manner. Financial reports are often written to cover a specific financial period. While some cover an entire year, other reports only cover a specific period, such as a quarterly report.

A quarterly report only covers three months out of the entire year. It is important that you clarify how long a period the financial report covers, as the financial information you use in the report only needs to apply to this period. For example, if the financial report only covers January to March, you cannot use information from December or April. Any information that does not fall into the chosen period can severely affect and tamper the true results of the financial report.

The process of recording, summarizing and reporting the myriad of transactions from a business, so as to provide an accurate picture of its financial position and performance. The primary objective of financial statement is the preparation of financial statements - including the balance sheet, income statement and cash flow statement - that encapsulates the company's operating performance over a particular period, and financial position at a specific point in time. These statements - which are generally prepared quarterly and annually, and in accordance with Generally Accepted Accounting Principles (GAAP) - are aimed at external parties including investors, creditors, regulators and tax authorities.

Financial reporting & accounting is aimed at providing information to parties outside the organization. Set of documents prepared usually by government agencies at the end of an accounting period. It generally contains summary of accounting data for that period with background notes, forms and other information.

2.1 Financial Reporting Disclosure Model



Financial Reporting and Accounting is the communication of published financial statements and related information to the third parties (external users) including shareholders, creditors, governmental authorities and the public. Company's financial reporting & accounting is a complete communication system involving the company as issuer(preparer); investors and creditors as primary users; other external users the accounting profession as measures and auditors; and the company law regulatory or administrative authorities.

3. Objectives of financial reporting:-

Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment credit and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence. Paton-1922- stated that we must assume an intelligent reader of the financial statements. Financial reporting should provide information that is useful to present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans Financial reporting should provide information about an enterprise's economic resources, obligations, and owners' equity. Financial reporting should provide information about liquidity, solvency, and funds flows. (information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, and its capital transactions, including cash dividends and other distributions of enterprise resources to owners and about other factors that may affect an enterprise's liquidity or solvency.) Financial reporting should provide information about an enterprise's financial performance during a period. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners for the use of enterprise resources entrusted to it. Financial reporting should provide information that is useful to managers and directors in making decisions in the interests of owners. Financial reporting should include explanations and interpretations to help users understand financial information provided.

4. What a financial report should accomplish:-

A financial report should answer certain basic financial questions:

- Is the business making a profit or suffering a loss, and how much?
- How do assets stack up against liabilities?
- Where did the business get its capital, and is it making good use of the money?
- What's the cash flow from the profit or loss for the period?
- Did the business reinvest all its profit?
- Does the business have enough capital for future growth?

Businesses often assume that the readers of the financial statements and other information in their financial reports are fairly knowledgeable about business and finance, in general, and understand basic accounting terminology and measurement methods, in particular. Don't expect to find friendly hand holding and helpful explanations in financial reports you read, and realize that drafting a financial report yourself takes a lot of accounting know-how.

5. Users of Financial Reporting & Accounting:-

Financial Reporting & Accounting provides the useful Information to the variety of users such as Managers requires the financial Reporting & Accounting to manage the affairs of the company by assessing its financial performance and position and taking the important business decisions .Shareholders access the risk and return of their investment & take the investment decision on the basis of this analysis. Prospective investor needs the financial reporting & accounting to assess the viability of investing in a company, they predict the future dividend & risk associated in the company based on the profits disclosed. Financial Institutions also requires the financial reports to make a decision whether to grant a loan or credit to the business or not .They want to assess the financial health of the business to determine the probability of bad loans. Any decision of lend must be supported by a sufficient assests base and liquidity.

Suppliers also want to assess the credit worthiness of the business and want to make a decision whether to supply the goods on credit or not .They want to know whether they will be repaid on time. Terms of credit are also determined according to the assessment of company's financial health. Customers use the financial reports to assess whether the supplier has the resources to ensure the steady supply of the goods. Employees ascertain the profitability & its consequences on their future remuneration and job security by analyzing the financial reports. Competitors compare their performances with the rival companies to learn and develop the strategies to improve the competitiveness by analyzing the financial reports. General public abstracts the information about the impact on environment, community and economy. Government also analyzes the financial reports to determine the correctness of the tax declared in the tax returns, to keep the track of economic progress.

6. Major Problems associated with Financial Reporting & Accounting:-

Accounting framework allows the prepares of financial reporting & accounting to use accounting policies that most appropriately reflect the circumstances of their entities. But the use of different different accounting policies operating in geographical areas also presents the problems when it comes to comparison. Again the use of the estimates in the preparation of financial accounting and reports are inherently subjective therefore lack the precision as they involve the use of management foresight. Further financial reporting and accounting takes into account the transactions that are being capable of expressed in monetary terms. It does not consider those resources and transactions to which value can't be assigned.

Financial reporting and accounting presents an account of the past performance of the entity therefore provides a little insight in to future prospects of the enterprise and lacks the predictive value. Difference in the interpretation in the requirements of the accounting standards and their application to practical scenarios will always be inevitable. Despite of carrying the audit according to the acceptable standards, certain material misstatements remain undetected due to the inherent limitations of the audit. Use of the historical cost as a base of measurement of assests presents the various problems for the users to account for the change in the price level of assests over a period of time. Deliberate manipulation of the accounts that is greatly towards the achievement of predetermined results has been a unfortunately reality in the recent past popularized by major accounting disaster such as Enron Scandal. Further the cost of providing the reliable information out weights the benefits Expected to be gained.

7. Future trends of Financial Reporting & Accounting: What Would the Investors like to see?

Investors are calling for clearer, more comparable and more integrated non-financial reporting and greater accountability from company boards, according to a new survey. The study, conducted by the Association of Chartered Certified Accountants (ACCA) and the European Sustainable Investment Forum (Eurosif), asked investors to evaluate the non-financial reporting practices of European companies.

7.1 Call for clarity and comparability

The majority of investors expressed a belief that in order for non-financial information to be useful, it must be comparable across companies. Most respondents felt they are currently not able to sufficiently compare non-financial reporting and agreed that non-financial information should be better integrated with financial information.

The key findings among the investors were as follows:

- 89% agreed that reporting should be more forward-looking in addition to providing information on past performance.
- 93% disagreed that current levels of non-financial disclosure are sufficient to assess materiality.
- 84% disagreed that companies make it clear how they identify material non-financial issues.
- 92% disagreed that company boards are sufficiently accountable for non-financial disclosure.
- 92% agreed that financial and non-financial information should be more integrated.

7.2 Framework for non-financial reporting

When it came to the question of which topics non-financial reports should cover, 66% of respondents agreed with the European Commission's proposal to cover at a minimum environmental, social/employee, human rights and anti-corruption issues. Furthermore, while it was acknowledged that there are a number of non-financial reporting frameworks in use at present; most of the investors surveyed agreed that established standardized reporting frameworks should be used by companies.

7.3 Increasing the reporting pool

The European Commission's proposal states that all large companies (both listed and private) should be subject to the disclosure requirements on a consolidated basis, with large companies defined as those with:

- over 500 employees
- a balance sheet exceeding EUR 20 million, or
- Revenue exceeding EUR 40 million.

According to European Commission figures, the proposal will increase the number of companies producing non-financial reports from 2,500 to 18,000 out of a total population of 42,000 large companies in the EU.

8. Suggestions:-

Five years after Enron, corporate financial reporting stands at a crossroads. One route leads deep into the lightly charted terrain of "principles-based" reporting, where thousands of rules and regulations would be replaced by a relative handful of guiding precepts. Proponents argue that the increasing torrent of new standards and regulations is creating an unworkable system. If the existing rules failed to prevent corruption and provide transparency, a system based on vague pronouncements is deemed to fail.

The alternative path entails a continuing series of changes to the status quo that would undoubtedly increase complexity even as they attempt to improve transparency and accountability. No issue underscores these concerns more dramatically than fair-value accounting, in which assets and liabilities are marked to market rather than recorded at historical cost. The degree to which fair-value accounting is embraced (or not) will have a major impact on the very nature of corporate finance. In short, Sarbanes-Oxley was just a warm-up for what lies ahead. In this special report, we examine the issues raised by principles-based accounting and disclosure, fair-value measurement, and improved financial transparency. And, perhaps, much to learn.

Security of financial transactions, being executed from some remote location and transmission of financial information over the air, are the most complicated challenges that need to be addressed jointly by mobile application developers, wireless network service providers and the banks' IT departments.

9. Conclusion:-

In today's world no company can survive without providing the adequate information to the general public, with the help of which they make the rational decisions. Information about the nature and amounts of a reporting entity's economic resources and claims can help users to identify the reporting entity's financial strengths and weaknesses. That information can help users to assess the reporting entity's liquidity and solvency, its needs for additional financing and how successful it is likely to be in obtaining that financing. Information about priorities and payment requirements of existing claims helps users to predict how future cash flows will be distributed among those with a claim against the reporting entity. Different types of economic resources affect a user's assessment of the reporting entity's prospects for future cash flows differently. Some future cash flows result directly from existing economic resources, such as accounts receivable. Other cash flows result from using several resources in combination to produce and market goods or services to customers. Although those cash flows cannot be identified with individual economic resources (or claims), users of financial reports need to know the nature and amount of the resources available for use in a reporting entity operations. If in the coming years, companies continue to furnish additional qualitative information to help the shareholders, prospective investors; it will help them to better understand the management of our business.

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