INFORMATION NEEDS OF FINANCIAL STATEMENTS USERS - BETWEEN HARMONY AND CONFLICT

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Abstract:
The financial statements are prepared in accordance with existing accounting standards. Thus various economic entities provides financial statements in a standardized format addressed to all users. However, these users have different information needs, which sometimes intersects, but sometimes can even be total different. The question that arises is, in fact, which information is useful? The more we have a broader range of users, the more is much difficult to determine what are their information needs, because these needs can vary greatly for a large number of users.

Key words: *financial statements, users,information needs, decision, conflict*

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1. The Main Users of Financial Statements

The primary objective of financial statements is to provide users with adequate information about the economic entity, information that enables each user to make decisions in full knowledge regarding the economic entity and in relation to the activity it performs. This objective requires that financial statements be able to provide more comprehensive and vast information than that offered by the balance sheet, the profits and loss account and the changes in equity structure, together with related explanatory notes.

Originally managers were identified as primary users of accounting information. Thus, Edwards and Bell, in 1961, believed that the main function of accounting was to provide management with the necessary information in the assessment of their activities, namely (Edwards & Bell, 1961, p. 273):

- a precise measurement of operating profit;
- a precise measurement of accumulated earnings as a result of holding assets whose value has increased.

Edwards & Bell believe that the accounting information helps in evaluating decisions, thus contributing to (Edwards & Bell, 1961, p. 4):

- monitoring current events in the production process;
- formulating better decisions in the future;
- changing the decision-making process.

Although they believe that “the tax authorities, business owners, analysts, the general public should probably be among those that influence the type of information produced” (Edwards & Bell, 1961, p. 4), their information needs are considered less important than those of the management, noting that “the point of view of external users of accounting information cannot exercise significant influence in the business’ decisions” (Edwards & Bell, 1961, p. 105).

Therefore, in Edwards’ and Bell’s view, intended users were existing and prospective managers.

Unlike Edwards and Bell, Sterling (Sterling, 1970) does not distinguish between different types of users. He classifies users between managers and other stakeholders, considering that they could include creditors, owners, employees, and government institutions (Sterling, 1970, p. 132).

In the UK, the Accounting Standards Steering Committee' discussion paper, entitled "The Corporate Report", London, 1975, lists users identified with a reasonable right to obtain information:

- the group of investors – including shareholders and the holders of securities;
- the group of creditors – including existing and potential holders of bonds and loans for stocks and short-term secured and unsecured loan providers;
- the group of employees – including current, prospective and former employees;
- the group of advisors, analysts – including financial analysts, economists, journalists, statisticians, researchers and other providers of advisory services;
- the group of business partners – including customers, suppliers and competitors, those interested in mergers and acquisitions;
- state authorities – including the tax authorities and organisations responsible for oversight of industry and commerce and local authorities;
- the public – including tax and fee payers, political parties, companies dealing with customer protection.

(Fraser & Nobes, 1985, p. 146), in their 1985 study, note that managers appear to be the decision-makers, and that management is one of the main users of financial statements.

(Chambers, 2006, p. 428) notes that the first forms of accounting have paid special attention to managers- owners of businesses according to whom management has the right to establish accounting practices. During the nineteenth century, the accounting objective was represented by protecting creditors, accounting manifesting a conservative character. In the late nineteenth century and during the twentieth century, as a result of the growing importance of investment in securities, accounting has changed, especially regarding the role of managers, largely due to higher investments in securities, the role of corporate managers having a fiduciary character, and it was considered that financial statements were simple reports on the management's administration. During the twentieth century, accounting was strongly influenced by its usefulness in making management decisions. One of the main elements of this period was the belief that financial statements serve different types of decisions.

Connection between financial statements and usefulness in decision making was introduced by governing bodies in the 1970s. At first, this connection was criticised by researchers, these considering that regulators should "define the balance between organisational and individual needs as a basis for accounting standards", without considering usefulness in decision making as a starting point. Gradually, usefulness in decision making has become accepted by the group of users of financial statements and is encountered in almost all articles and literature.

Identifying users of financial statements requires the development of a conceptual framework. The stages of developing a conceptual framework are considered by some authors (Macve, 1981, p. 33) as follows:

- identification of users, and the decisions they take;
- for each decision, establishment of accounting information necessary to be known;
- for each case, making a comparison between benefits obtained and costs incurred, so methods providing the greatest net benefit are chosen.

Regarding the identification of users of financial statements, it can be said that only those for which financial statements are useful will use these financial statements and how they will be used will be influenced by information provided by these financial statements. Thus, user identification depends on the general conceptual framework of drafting financial statements; also the development of the general conceptual framework depends on these users.

We find in some authors a differentiation between various types of users. Thus, some divide users into two groups (Riahi-Belkaoui, 2004, p. 133), as follows:

- direct users, consisting of:
    - owners and shareholders of the economic entity;
    - creditors and suppliers;
    - the management of the economic entity;
    - tax authorities;
    - employees of the economic entity;
    - clients.
- indirect users, consisting of:
    - financial analysts and consultants;
    - stock exchanges;
    - lawyers;
    - financial press and agencies;
    - professional associations;
    - unions;
    - competition;
    - the public;
    - other government agencies.

Next we will try to see which are the information needs of users of financial statements, any similarities between them, or conflicts.

2. The Information Needs of Users of Financial Statements

(Cyert & Ijiri, 1974, p. 29) considered that formulating accounting objectives needs to solve the conflict of interest regarding existing information needs, considering that financial statements are the result of the interaction between three groups, namely:

- economic entities;
- users;
- accounting profession.

Economic entities are the main group directly involved in accounting. Through financial statements, they provide a reflection of their business, consisting of operating, financial and extraordinary activities. Economic entities are also among those who develop accounting information.

Users are the second group, and their interests and their information needs exert direct influence on the production of the accounting information.

The ***accounting profession*** is the third group that influences the type of accounting information that needs to be included in financial statements.

The Framework for the Preparation and Presentation of Financial Statements, issued by the IASC in April 1989, established that financial statements meet "the common information needs of a wide range of users" (2007, p. par.6).

Regarding the identification of primary users, we note that in accordance with the Framework for the Preparation and Presentation of Financial Statements, paragraph 10, investors are primordial users of financial statements as "the supply of financial statements that meet their needs will satisfy most of the needs of others users". Also paragraph 30 of the Financial Accounting Standards Board (FASB) "*Statement of*

Financial Accounting Concepts No. 1. Objectives of Financial Reporting by Business Enterprises" (1978), stated that "investors and creditors and their advisers represent the most prominent external group using information provided by financial reporting". In paragraph 1.11. of Chapter 1: "*Objectives of Financial Statements*" in the "*Statement of Principles for Financial Reporting*" issued by the Accounting Standard Board in December 1999, investors were considered primary users, while also laying an emphasis on "the common interest that all users have in terms of an entity's financial performance and financial position". Information useful and necessary to investors was provided to them through financial statements, while their information not useful to them was deemed unnecessary to be presented in financial statements.

Under "*Objectives of Financial Statements*" in the "*Statement of Principles for Financial Reporting*" issued by the Accounting Standard Board in December 1999, the information needs of investors are those relating to:

- financial performance;
- financial position;
- generation and use of cash;
- financial adaptability.

The investors' information need regarding *financial performance* comes from the fact that this financial performance provides information about:

- the management's ability to administer the economic entity, as well as past and future financial performance of the entity;
- the entity's ability to generate cash flows using the available resources, and the effectiveness with which the entity has used its resources.

The investors' information need regarding *financial position* is due to the following reasons:

- assessment of the management's administration, and the ability of an entity to generate future cash flows is based on information about the economic resources controlled by the entity and uses of these resources in the past;
- assessment of how future cash flows will be distributed to those who have an interest in the entity is based on information about the financial structure;
- assessment of the entity's ability to meet its obligations at maturity is based on information about liquidity and solvency;
- assessment of current performance and financial adaptability is based on information regarding the entity's risk and its management.

The information need of users in terms of the *generation and use of cash* is because this type of information is useful in understanding and reviewing previous assessments in relation to:

- liquidity and solvency;
- connection between profits and cash flows achieved;
- impact on future cash flows of financial performance.

Regarding *financial adaptability*, it tries to determine the economic entity's ability to:

- increase capital;
- pay equity or debt;
- obtain cash by selling assets without disrupting current operations' conduct;
- increase cash inflows from current operations.

The question that arises is, in fact, which information is useful? The more we have a broader range of users the more difficult it is to determine what their information needs are, as these needs can vary widely in case of a large number of users.

Thus, we note that paragraph 17 "*Statement of Financial Accounting Concepts No. 2. Qualitative Characteristics of Accounting Information*" (1980), issued by the

Financial Accounting Standards Board (FASB), states that the information provided by financial statements "cannot be useful in the same way for all [...] users, simply because individual needs and objectives may vary". Unlike this view, in the Framework for the Preparation and Presentation of Financial Statements, issued by the IASC in April 1989, paragraph 6 states that although some users may have more information than those provided by financial statements, "most users, however, must rely on financial statements as their main source of information". The same view is seen in paragraph 1.11. Chapter 1: "*Objectives of Financial Statements*" in the "*Statement of Principles for Financial Reporting*" issued by the Accounting Standard Board in December 1999, which shows that by focusing on the interest that investors have in the economic entity, "the common interest that all users have on financial performance and financial position of the entity" will be satisfied as well. Late in the evolution of these latter two conceptual frameworks, the international and the English one, the problem of satisfying different information needs of different users through a set of financial statements arises. Thus, the usefulness of information in making decisions is deemed to be the primary criterion for user satisfaction. Greater attention paid to investors as primordial users of financial statements by the two bodies, the American one (FASB) and the English one (ASB) is explained in paragraph 30 of the Financial Accounting Standards Board (FASB) "*Statement of Financial Accounting Concepts No.1. Objectives of Financial Reporting by Business Enterprises*" (1978), which states that decisions and use of information by investors "has been studied and described in a greater extent than other external groups, and their decisions significantly affect resource allocation in the economy" (paragraph 30), helping them "determine the amounts, timing, and uncertainty of cash inflows prospects for their investments" (paragraph 37).

In the stages of developing the new general conceptual framework for financial reporting, the issue of identifying main users of financial statements has come up. There were two opinions. One argued that the main user group would include only existing shareholders or major shareholders controlling the entity, and the other supports the idea that financial reports should focus on the needs of existing shareholders and creditors.

However, the Council established that the main group of users should be made of existing and potential investors, lenders and other creditors. Reasons for this choice were as follows:

- existing and potential investors, lenders and other creditors have the largest and immediate need for information included in financial statements;
- IASB and FASB responsibilities require them to focus on the needs of those who participate in capital markets (potential investors).

At one point, some felt that such a group of users would be too large, this resulting in the presentation of too much information in the financial statements. However, in the development of provisions on financial reporting that meet the objective of financial reporting, the two councils were based on the qualitative characteristics of information and on cost-based constraints.

Thus, the Conceptual Framework for Financial Reporting, issued by the IASB in September 2010, and in the one issued by FASB at paragraph OB2, it is stated that the objective of financial reporting is to provide financial information "useful to existing and potential investors, lenders and other creditors in the decisions they take".

On November 15, 2001, the Financial Accounting Standards Board conducted a study of users of financial statements. The objective of this study was as follows (FASB, 2001):

- assessment of how financial information is presented in financial statements;

- establishment of changes to be made in the presentation of financial statements so that they better understand the economic entity's financial performance.

Results of this study can be summarised as follows:

- predictive information that could be presented in financial statements are of high interest to users;
- net profit is often used as a starting point in the analysis, though not among the top three indicators;
- low demand for presenting comprehensive income in a single statement;
- high interest of users in terms of presenting the cash flow statement using the direct method

(Riahi-Belkaoui, 2004, p. 134) considers that in order to meet the needs of the users, both direct and indirect ones, of financial statements, three types of financial statements should be prepared, namely:

- general purpose financial statements, prepared to meet the common needs of users;
- specific purpose financial statements, prepared to meet the information needs of a group of users;
- differentiated presentations that allow users to select the information they need.

Another study regarding the information needs of small and medium economic entities' stakeholders (Deaconu, Nistor, & Popa, 2009) examines letters from professional associations and Chambers of commerce and industry in response to the IASB Exposure Draft regarding IFRSs for Small and Medium Entities, from European and international accounting expertise offices (such as PWC, KPMG, Ernst & Young, Mazars), from European organisations (EFRAG EAA), and not least from researchers.

Thus, according to them, the information needs of stakeholders, depending on the group of user, would be as follows (Deaconu, Nistor, & Popa, 2009):

- financiers, especially banks, have an interest in information about the economic entity's ability to repay the debt, as well as other solvency and liquidity-related information to make a meaningful analysis of the general credit risk;
- shareholders are interested in information which enables them to understand the economic entity's financial position, the distribution of earnings, which is a necessary feature to managers as stakeholders. It is well known that the vast majority of small and medium-sized entities have few non-managers shareholders , unlike public accounted entities, which creates a close relationship between shareholders and managers, managers being among shareholders as well;
- public authorities are relevant for tax compliance and in determining taxes;
- managers are interested in information that would be useful in the management of the economic entity, information provided partially by financial statements.

In May 2009, "Proactive Accounting Activities in Europe" (PPAinE) conducted a study on the needs of users of financial information, whose stated goal was to study the following (EFRAG, 2009, p. 1) :

- the usefulness of different forms of presentation of financial statements for users in the decision-making process;
- user requirements in terms of improvements to be made to the financial information;

- whether certain assumptions of the two normalisation bodies' Councils (IASB and FASC) are consistent with the financial reporting objective to provide a projected cash flow statement and with the goal of administration (*stewardship*).

For this study, intended users are investors, creditors and consultants. The main areas identified by interviewed users as having the ability to improve financial information are (EFRAG, 2009, p. 6):

- better information regarding the risk management process (32% of users);
- more qualitative information regarding future financial information (26% of users);
- highlighting trends in terms of growth and profitability (19% of users);
- competitive analysis (13% of users);
- improved segmented information (10% of users).

3. Conclusions

From the foregoing, it appears that the information needs of financial statement users sometimes coincide and sometimes conflict. However, over time regulatory bodies through accounting rules issued by them have attempted to solved these conflicts of interest between users, which in our opinion means trying to achieve a compromise between the information needs of users by the establishment of primordial users. It is noted that, in recent years, the primary information need of users is deemed, according to the main regulatory bodies, the international one and the American one, to be satisfied by the usefulness in decision-making.

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