



KONFERENCIAKÖTET

Conference Proceedings

**Nemzetközi tudományos konferencia
a Magyar Tudomány Ünnepe alkalmából**
International Scientific Conference
on the Occasion of the Hungarian Science Festival

Sopron, 2022. november 3.
3 November 2022, Sopron

**TÁRSADALOM – GAZDASÁG – TERMÉSZET:
SZINERGIÁK A FENNTARTHATÓ FEJLŐDÉSSEN**

SOCIETY – ECONOMY – NATURE: SYNERGIES IN SUSTAINABLE DEVELOPMENT

Szerkesztők / Editors:

OBÁDOVICS Csilla, RESPERGER Richárd, SZÉLES Zsuzsanna, TÓTH Balázs István

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The Qualitative Characteristics of Accounting Information: A Literature Review

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Abstract

In light of recent changes in the global economic structure, the International Accounting Standards (IAS/IFRS) play an important role in unifying the accounting language at the international level, by paying more attention to the accounting information included in the published financial statements. In order to increase the quality of accounting information and the likelihood that internal and external users will be able to rely on it, the paper tries to clarify the qualitative qualities of the accounting information that are guaranteed by an efficient accounting information system. The study also focuses on how to prepare an accounting information and the characteristics that must be provided in order to make a qualitative accounting information.

Keywords: qualitative characteristics, quality of accounting information

JEL Codes: M40, M41

1. Introduction

It is widely known that the financial statements are one of the primary outputs of any accounting information system. This highlights the significance of the numbers that are included in these financial statements as a summary of each of the financial events and operations that took place during a particular period. Because of this, these statements should be useful and help both current and potential investors and lenders figure out when the cash flows will happen (Palepu et al., 2020).

There are numerous purposes for which financial statements are compiled. The International Accounting Standards Board (IASB) has developed a document called the Conceptual Framework for Financial Reporting (Lennard, 2007). This document outlines the qualitative aspects of financial statements that are responsible for their utility to users because of the information that can be gleaned from these statements (Gray et al., 2011).

Therefore, accounting outcomes are financial reports designed to enlighten stakeholders. Furthermore, for this data to aid in decision making, it needs to exhibit certain qualitative features. In other words, the qualities that information should have been determined by its qualitative characteristics. According to the conceptual framework established by the bodies tasked

with issuing standards and defining characteristics connected to the quality of accounting information, these features are classified as either primary or secondary (Neogy, 2014).

Therefore, accurate accounting data is crucial for influencing capital expenditures, projections, and market effectiveness. Accounting information of higher quality is preferred by both investors and users. The phrase "accounting information quality" refers to the generalizability of the financial data included in financial reports (Alorabi & Qashi, n.d.). Evaluation approaches for the quality of accounting data are also in high demand around the world. Financial reporting by professional organizations should adhere to strict guidelines to ensure accuracy and usefulness. In 2010, the FASB and the IASB collaborated to establish a conceptual framework for financial reporting (Alasbahi & Iswhara, 2021). Strength was given to fundamental qualities. Fundamental characteristics included verifiability, timeliness, clarity, and comparability, while relevance and faithfulness were bolstered.

This study explains how qualitative characteristics increase the quality of accounting information and make it easier for internal and external users to trust it. It also analyses the relationship between accounting information and qualitative characteristics.

Research objectives

This study's primary objective is to explain and justify the quality features of accounting information made possible by qualitative characteristics, thereby enhancing the quality of accounting information and making it easier for internal and external users to trust it, and to examine the relationship between accounting information and qualitative characteristics. This study intends to improve the credibility of accounting information by examining the quality features made possible by qualitative characteristics as well as by analyzing the relationship between accounting information and qualitative characteristics. This will increase the quality and credibility of accounting information for both internal and external users.

2. Literature review

The quality of the accounting data included in the financial statements is impacted by the accessibility of several characteristics and qualities to judge the benefit it provides to its users, as these characteristics distinguish between the less useful and more useful information for decision-making, as well as the accounting methods and the quantity and quality of information that must be provided and displayed. Many studies have discussed the qualitative characteristics of accounting information such as:

Obaidat et al. (2017) regarding the qualitative characteristics of accounting information. The study finds out that there is a gap, it demonstrates that auditors and investors agree on certain aspects but disagree on others, causing the gap. Investors care less about qualitative characteristics than auditors.

Neogy (2014) analyzed and examined the qualitative characteristics of accounting information of selected mobile telecommunication companies in Bangladesh have a relatively satisfactory level of quality, and each business must ensure the quality of accounting data generated by accounting information systems for the decision-making process and to achieve their goals.

Kythreotis et al. (2014) described the influence of the characteristics of the quality of accounting information on decision-making in the institutions of the Algerian economy and the conclusion that there is a correlation that is statistically significant between the qualitative characteristics of the quality of accounting information and decision-making in the economic institute were reached. In addition, the qualitative qualities of accounting influence the decision-making process within economic institutions.

Grigoras-Ichim and Morosan-Danila (2016) depicted a qualitative in character, focusing on the difficulties experienced by accountants in compiling financial reports. The article contrasts the Romanian accounting framework with those of Europe and the rest of the world with regards to the treatment of qualitative features of accounting information. According to research, the qualitative aspects of financial statements are critical since they expose the company's genuine financial situation, performance, and changes in financial circumstances to users.

Moradi et al. (2019) examined if the influence of accounting information quality on investment efficiency increases or decreases in the presence of a specialized auditor. The study found that the quality of accounting information seems to help with the problem of overinvestment. Similarly, it has been observed that the auditor's specialty can significantly improve investment efficiency while lowering the underinvestment problem. Moreover, the study revealed that accounting information quality and auditor specialization are two mechanisms with a degree of substitution in improving investment efficiency.

Appiah et al. (2016) aimed at highlighting the role played by both the fundamental properties of accounting information and the relative significance of this information in deciding the nature and magnitude of accounting information to be presented in financial statements. The study concluded that the concept of the quality of accounting information is comprehensive and not limited to qualitative characteristics without other aspects that are no less important and directly affect the achievement of the quality of this information, that the concept of information quality is dynamic and changes with the passage of time and place and clarified that appropriate accounting disclosure is the primary link between accounting information systems.

Bushman and Smith (2001) examined the financial system, which considers relevance and reliability to be the two characteristics that make accounting information useful for decision-making, these are the two most important qualitative characteristics of accounting information and have a significant impact on the quality of financial reports. According to research, in the face of intense competition, all economic institutions are focused on delivering the appropriate features and reliability of their services. This, in turn, has resulted in an increased focus on the quality of financial reports and laws that require the provision of qualitative characteristics of accounting information, both of which are extremely important to the success of any given institution. Moreover, the data showed that activating the quality of financial reports is directly related to their relevance and reliability (the more relevant and reliable, the higher the quality of financial reports).

Alasbahi & Iswhara (2021) clarification was provided regarding the dependability of qualitative aspects of accounting information as an indicator of the information's quality. Based on the findings of this research, qualitative aspects of accounting information were discovered to be reliable indicators of the quality of accounting information as well as helpful in the process of decision-making.

3. Methodology of the study

In this study, the authors opted to use secondary data and adopt a historical methodology by conducting a literature review of some of the first accounting journals, dissertations, and papers ever written. In addition, to collect information on collection integration with the subject of the investigation, we read a variety of publications available online and compile the important indicators.

4. Conceptual framework

Qualitative characteristics of accounting information

There is no doubt that accounting information, to be useful for the purpose for which it was prepared, which is to help decision-makers or users of accounting information to make rational decisions, must be characterized by several characteristics, and these characteristics are divided into main characteristics and secondary characteristics in Figure 1.

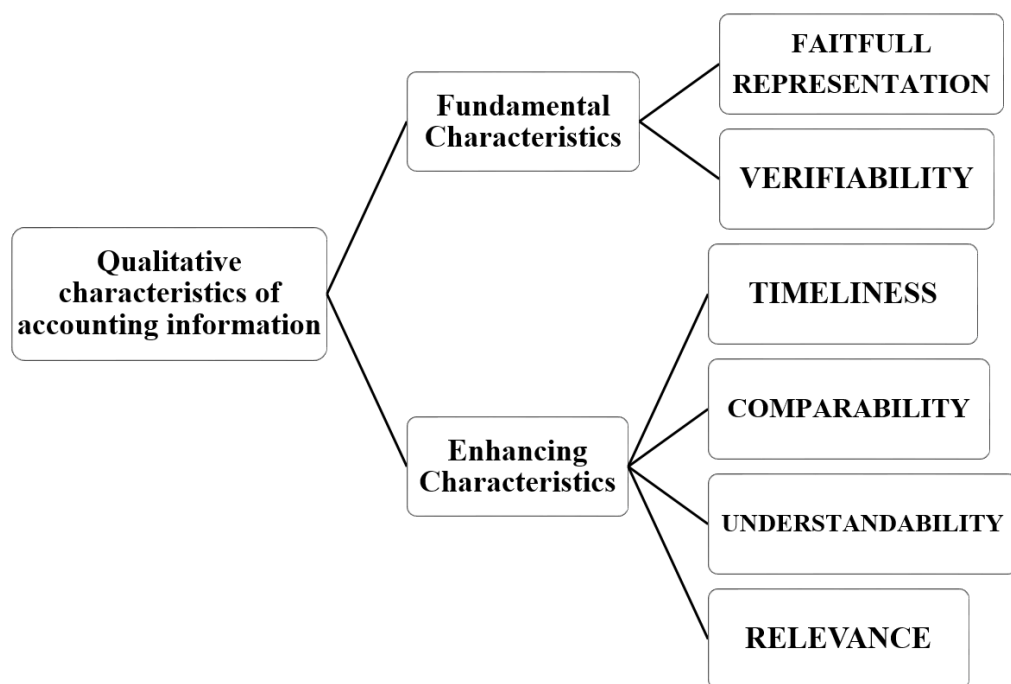


Figure 1: Qualitative characteristics of accounting information

Source: Own construction

4.1. Fundamental qualitative characteristics

Relevance

The relevance characteristic it is meant that the presented financial information is relevance. Therefore, this information must influence the users' economic decisions and make a difference in those decisions. When omission or falsification of financial data affects economic decisions made by the users based on that data, it is regarded as being of relative importance (Kieso et al., 2019). In terms of relevance, this type of information assists the users in evaluating the past, present, and future events, improving or correcting their past evaluations, and improving their ability to predict events by enhancing or correcting their past evaluations (Al-Shatnawi, 2017).

Faithful representation

In order to be faithfully represented, accounting information and events must be symmetrical, The faithful representation characteristic points to symmetry between the accounting information and the events (Mahdi dehdar al-aedi & Abadi, 2019). "For the information to assume the characteristic of credibility, it must reliably represent the financial operations and other events which it is understood to portray or is expected to express reasonably" (Al-Shatnawi, 2017). A reliable representation of the information must be complete, not deficient, neutral, not biased, and free of material errors.

4.2. Enhancing qualitative characteristics

Comparability

It is the comparability of the current financial statements with previous years, or by comparing them with the financial statements of other companies in the same activity. Among the conditions for correct comparison, the institution must have consistency in the accounting policies and theories that it uses every year, and if there are changes in it, reference must be made in the disclosures (appendices) to these changes.

Verifiability

Users are assured that the information is credible and reliable because it is faithfully represented and verifiable, it means that we can verify and prove any information, directly or indirectly, using the same inputs that allow displaying the same outputs. For example, cash in a company can be verified directly by counting it or obtaining bank approval.

Understandability

The information is easily understandable by users due to its classification, characterization, and presentation. It means that the information must be presented in a clear and easy-to-understand manner. That is why we always find in the annual report a huge number of disclosures, tables and illustrations, and there is an index of difficult terms specific to each industry to make it more clear to its users.

Timeliness

Information is provided to users within a reasonable timeframe for them, to make a decision. It means that the financial information should be announced in a timely manner so that its users can decide, and the earlier information is announced, it is the more useful.

Therefore, based on their impact on decision-making, qualitative qualities are categorized in Figure 2 as core characteristics (consolidated) and basic characteristics (basic). Regardless of classification, financial reporting contains qualitative information that is useful for decision-making. Despite this, the provision of valuable financial information is constrained by a barrier to financial reporting and expenses that should not outweigh the benefits.

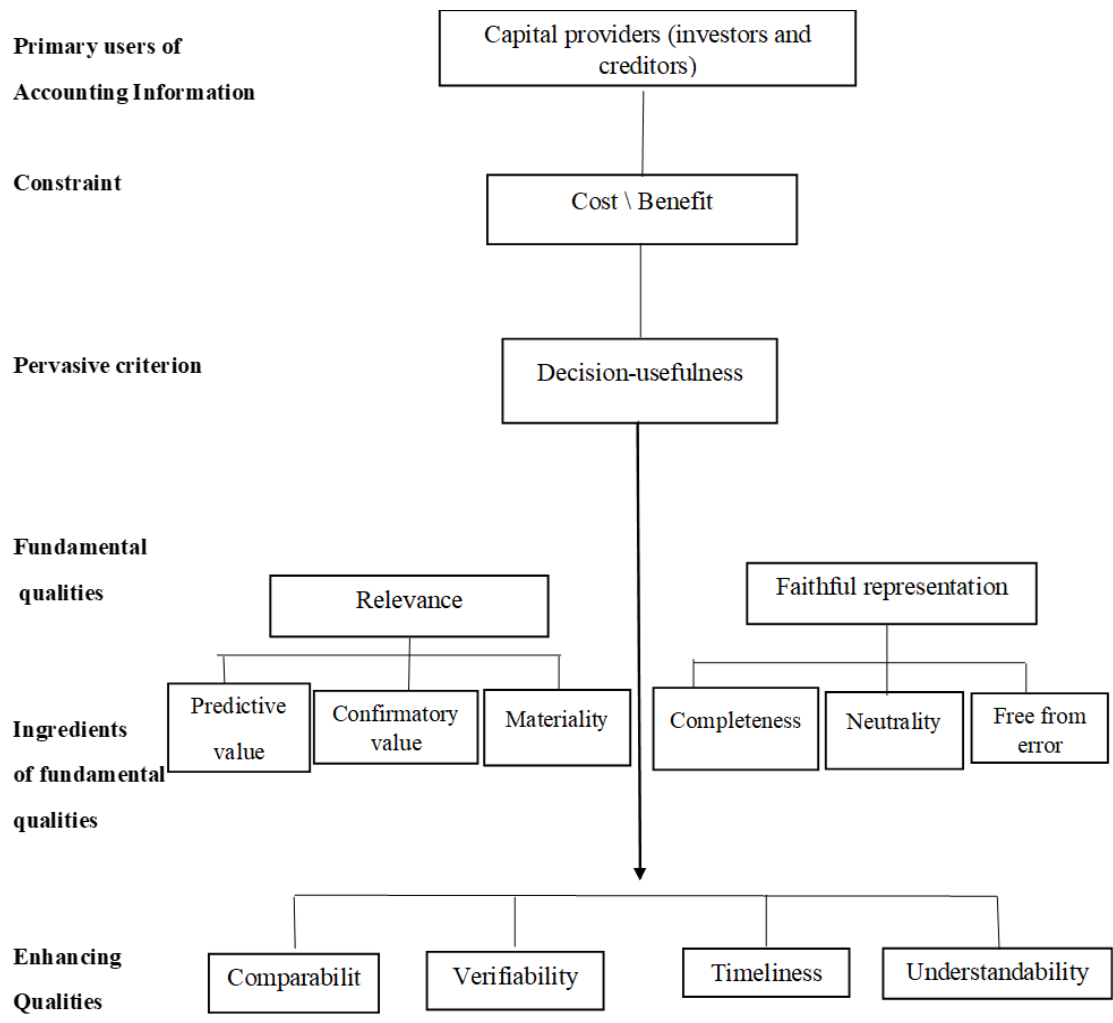


Figure 2: Hierarchy of accounting Qualities
Source: Kieso (2019)

5. Measuring the quality of accounting and financial information

Accountancy is “the art of communicating financial information about a business entity to users such as shareholders and managers” (Elliott & Elliott, 2007). Information is a collection of items that have been structured and interpreted to convey significance to users, and it is helpful for selection (Fitriati & Mulyani, 2015). Alsalim et al. (2018) said “the quality of accounting information indicates those characteristics that should assign the useful accounting information that is useful for the preparation of financial reports, because of its role in evaluating the quality of information that results from the application of accounting methods”. The characteristics that accounting data need to have to fulfill the requirements set forth by its users are collectively referred to as the quality of accounting data.

Those who rely on financial reports will be more likely to use resources wisely if they can trust that those reports are accurate and complete (Al-Dmour et al., 2018). Finally, financial reports should aid economic decision-making by providing trustworthy data on which to base decisions (Tian & Peng, 2020).

Professional Bodies Responsible for issuing qualitative characteristics

The qualitative characteristics of accounting data are addressed within the conceptual framework of the standard-setter, for whose work they are crucial. Professional bodies' roles in the formalization of qualitative characteristics include producing high-quality standards to provide useful financial reports. The most significant of these organizations are, but they are not limited to, those shown in Table 1.

Table 1: Different types of professional bodies

<i>GASB</i>	Governmental Accounting Standards Board
<i>IPSASB</i>	International Public Sector Accounting Standards Board
<i>AASB</i>	Australian Accounting Standards Board
<i>CICA</i>	Canadian Institute of Chartered Accountants
<i>IASC</i>	International Accounting Standards Committee
<i>ASSC</i>	Accounting Standards Steering Committee
<i>FASB</i>	Financial Accounting Standard Board
<i>IASB</i>	International Accounting Standards Board

Source: Own construction

According to Table 2, the features of understandability, relevance, and comparability are generally acknowledged by professional organizations. On the other hand, reliability, timeliness, verifiability, and completeness are less acceptable.

Table 2: Qualitative Characteristics of Accounting Information Referred by Professional Bodies

Characteristics	GASB	IPSASB	AASB	CICA	IASC	ASSC	CF joint project IASB - FASB
<i>Relevance</i>	✓	✓	✓	✓	✓	✓	✓
<i>Understandability</i>	✓	✓	✓	✓	✓	✓	✓
<i>Comparability</i>	✓	✓	✓	✓	✓	✓	✓
<i>Timeliness</i>	✓	✓	-	-	-	✓	✓
<i>Consistency</i>	✓	-	-	-	-	-	-
<i>Reliability</i>	✓	-	✓	✓	✓	✓	-
<i>Faithful representation</i>	-	✓	-	-	✓	-	✓
<i>Verifiability</i>	-	✓	-	-	✓	-	✓
<i>Predictability Value</i>	-	-	-	-	✓	-	-
<i>Confirmatory Value</i>	-	-	-	-	-	-	-
<i>Completeness</i>	-	-	-	-	✓	✓	-
<i>Objectivity</i>	-	-	-	-	-	✓	-

Source: Cohen and Karatzimas (2017), Abkar and Saleh (2016)

6. Conclusion

As we can see, defining the goals of financial reports is the first step in applying the approach to the usefulness of accounting and financial information in rationalizing users' decisions, and the importance of the qualitative characteristics of accounting and financial information stems from the great importance that can be derived from financial reports and the objectives that they achieve for their users. Because users can have faith in the information provided in financial reports, good information is most useful in the field of rationalizing judgments. The decision of the users of the accounting information is affected by the qualities of the accounting information, whether they are primary or augmenting, and this in turn is reflected in the quality of the financial reports. So, the lack of certain things in financial reports has an indirect effect on the quality of accounting information, which in turn influences the decisions made and the profit that may be made as a result. Similarly, experts agree that credibility and accuracy are paramount, followed by readability and consistency. Finally, the qualitative parts of financial statements are important because they give all users the financial information they need and show how the finances are doing, how they are changing, and how they are doing over time.

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