

Are financial reports useful? The views of New Zealand public versus private users

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Are financial reports useful? The views of New Zealand public versus private users

Summary at a glance

This paper examines perceptions of users of financial reports of public versus private for-profit entities in New Zealand. Results indicate that both user groups perceive financial statements to be useful but private users attribute higher importance to such statements. Both user groups also attribute different weightings to other supplementary information.

Abstract

This study reports on surveys conducted on users of financial reports in New Zealand. We compare findings for users of reports of two types of for-profit entities, namely those with public accountability (public entities) and those with no public accountability (private entities). The findings indicate that both types of users have similar perceptions regarding the usefulness of financial statements, with the income statement and balance sheet rated as the most useful components. Furthermore, both types of users, especially for private users, perceive financial statements as the most important information source for decision-making. Public users have a greater interest in supplementary information than private users. The findings of this study contribute to the debate around differential reporting for private companies and have policy implications with regard to the user-needs approach to accounting standards setting.

Keywords: Public users, private users, financial statements, accounting information

1. Introduction

New Zealand statutory financial reporting obligations of for-profit entities vary based on entity size and whether or not the entity has public accountability.¹ This study compares survey data from users of financial statements of entities that do have public accountability (hereafter public users) to that of users of financial statements of entities that do not have public accountability (hereafter private users). In particular, we consider the usefulness of the financial statements, user information sources and the importance users attach to supplementary information.²

The New Zealand Financial Reporting Act 2013 places financial reporting obligations on large for-profit entities. Large entities are defined as those having total assets exceeding \$60m or total revenue exceeding \$30m. The External Reporting Board (XRB), the accounting standards-setting body of New Zealand, defines reporting obligations of for-profit entities in terms of two tiers. Tier 1 concerns entities with public accountability (public entities) which are generally required to apply International Financial Reporting Standards (NZ IFRS) in full. Tier 2 concerns entities with no public accountability (private entities), which may be required to apply a reduced disclosure regime based on IFRS (NZ IFRS RDR), depending mainly on size criteria.

A number of studies have examined how the financial reporting process is perceived from the preparers' perspective (e.g., Jermakowicz and Gornik-Tomaszewski 2006; Andriani et al. 2010; Navarro-García and Bastida 2010; Morris *et al.* 2013; Laswad and Botica Redmayne 2015), the consequences and effects of the financial reporting process and accounting information (e.g., Jermakowicz *et al.* 2007; Horton *et al.* 2011; Brochet *et al.* 2013), the user information needs of large public entities (e.g., Lee and Tweedie 1975a; McNally *et al.* 1982; Gassen and Schwedler 2010), and the user information needs of smaller (private) entities (e.g., Maingot and Zeghal 2006; Quagli and Paoloni 2012). However, there is a significant gap in the literature with regard to a comparative study between the user information needs of public entities and private entities, especially in light of the arguments made for reduced disclosures and differential reporting for private entities. The motivation for this study is, therefore, to provide direct evidence by comparing financial report users of public and private entities, in particular, their information needs and perceptions.

The XRB financial reporting framework, which is based on the International Accounting Standards Board (IASB) framework, identifies meeting user needs as the primary focus of financial reports. To this end, the XRB has published separate reports examining the information needs of users of financial reports of capital market entities (public entities), followed by a report examining users of tier 2 for-profit entities with no public accountability (private entities) (XRB 2016; XRB 2017).

The data in this study is extracted from the two studies commissioned by the XRB (XRB 2016; XRB 2017) and compares the perceptions of the users of the financial reports of these two types of entities – public and private. We find the perceptions of usefulness of financial statements of public users are similar to those of private users. However, the two user groups attribute different weightings to the importance of their sources of information. In addition, private users rate narratives that explain the entity's performance and financial position as the most useful type of supplementary information not currently included in financial statements.

The remainder of the paper is organised as follows: Section 2 provides a literature review, which is followed by the research design in section 3. The findings are presented in section 4 section 5 concludes the paper.

2. Literature review

The IASB conceptual framework state that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (IASB 2010: 9). Based on this objective of financial reporting, there is a need to consider who the users of these financial reports are and what sort of information they need, given that, the goal of financial reports is to provide these users with useful information (Rankin *et al.* 2012: 33).

The primary users of financial reports identified in the IASB conceptual framework include existing investors, potential investors, lenders and other creditors. It is acknowledged, however, that financial reports could be useful to other user groups, but that the focus of the information provided in financial reports is on the primary users³ (IASB 2010: 11). Prior literature has identified other user groups that are interested in general purpose financial

reports as including intermediaries, advisors and financial market and prudential regulators (Coombes and Stokes 1985; Barker and Noonan 1996; XRB 2016). Further, the information in financial reports is focused mainly on financial information from specific financial statements. These include a statement of financial position (balance sheet), a statement of profit or loss and other comprehensive income (income statement), a statement of cash flows, a statement of changes in equity and the notes to the financial statements (Rankin *et al.* 2012: 34). The conceptual framework does not consider other non-financial information and supplementary information that users may be interested in (Andon *et al.* 2015). Furthermore, the conceptual framework does not discuss whether the information needs of users of financial statements of entities that do have public accountability (public users) are different from the needs of users of financial statements of entities that do not have public accountability (private users). It is therefore important to investigate the views and perceptions of these users' needs for financial statements.

2.1 User perceptions of the usefulness of financial reports

An extensive body of literature has addressed the accounting information needs of public users. Several early studies examine user information needs in the United States (US), the United Kingdom (UK), and Australia and focus on private/individual users. They find that equity investors are primarily concerned with expectations about future earnings and cash flows (Baker and Haslem 1973; Lee and Tweedie 1975a; Chenhall and Juchau 1977; Anderson 1981).

In the US, Baker and Haslem (1973) examined whether the information provided in financial reports meets the needs of individual investors. They find that US investors are primarily concerned with expectations about future earnings. Providing profit forecasts, as part of the prospective information, reduces investor uncertainty regarding future returns. Similarly, Lee and Tweedie (1975a) find that the economic prospects of a company are the most important items of information to UK individual investors. A survey by Chenhall and Juchau (1977) suggests that Australian investors consider seven factors to be important. Three of these relate to prospective matters – expected future increase in share price, future economic outlook of the company and industry, and expected future growth in earnings per share (EPS).

A stream of studies has also examined the information needs of professional/institutional equity investors, who are generally considered to have more expertise and resources for analysis of financial information than private/individual investors. Baker and Haslem (1973) comment that individual investors appear to have different information needs from professional analysts and rely less on financial reports than professional analysts do. However, individual investors are found to be dependent on the advice provided by professional analysts. Subsequent studies (Barker 1998; Imam *et al.* 2008) reach similar conclusions.

Chandra (1974) used a questionnaire to examine whether public accountants (as the preparers of financial information) and security analysts (as the users of financial information) agree on the importance of various information items in equity investment decisions. He finds that accountants generally do not value information in the same way as security analysts do. For example, they differ with respect to the need for detail and breakdown of inventories, investments, earnings from subsidiaries and operating expenses.

More recently, PwC (2014a, 2014b) conducted a series of surveys to investigate the needs and opinions of investment professionals about maximising the effectiveness of corporate reporting. Based on interviews with 85 professional investors around the world, PwC (2014a) finds that most professional investors consider adjusted performance measures (non-GAAP) helpful for their analysis, but they recommend improved transparency of disclosure. PwC (2014b) finds that there is little consensus among professional investors about their preferences for the presentation, format, and layout of financial reports. Professional investors indicate that accounting policies should be easy to find and disclosures should be company-specific with a useful level of detail.

Chartered Financial Analysts UK (CFA UK 2015) conducted a survey of more than 290 investment professionals on the importance of annual reports and other forms of company reporting. The results of that study show that 60% of respondents believe financial reports contain too much irrelevant information, but 55% feel financial reports omit some important information, and 47% assert that the disclosure of risks and uncertainties should be improved. These inconsistencies provide evidence that the perceived importance of information is very much a reflection of personal preference. However, overall most respondents agree that the

quality of financial reporting has improved over the last 10 years (i.e., the period since IFRS adoption in many countries around the world).

The body of literature examining the information needs of private users is less extensive (e.g., Abdel-Khalik *et al.* 1983; Carsberg *et al.* 1985; Barker and Noonan 1996; Page 1984; FERF 2006; Handley *et al.* 2017). However, most of these studies identify primary users as including insider shareholders (owners and managers), banks, tax authorities, and some others (e.g., insurance companies, leasing companies, and vendors).

2.2 Information sources

Users of accounting information also use information sources other than financial reports. Investors, whether individual or professional, rely on a variety of sources to satisfy their information needs (Watts 1977; Anderson *et al.* 2012). Much of the evidence in the prior literature on sources of equity investor information shows that individual investors are more likely to use public media, analysts' advice, and advice from friends and family members than to use financial reports for investment decisions. There is, however little consistency in prior studies as to how users rank these different sources in terms of importance.

In an early US study, Baker and Haslem (1973) find that individual investors consider stockbrokers and advisory services as the most important sources for their investment information and attach minor importance to published financial reports as a source of information. On the other hand, in the UK, Lee and Tweedie (1975a) find that most respondents regard annual reports as an important source of information for investment decisions and that financial press reports, followed by stockbrokers' reports are also considered particularly important.

The results in Lee and Tweedie (1975a) elaborate on how investors use annual reports, suggesting that private shareholders tend to skim through them and focus on the chairman's report. Bartlett and Chandler (1997) partially replicate the Lee and Tweedie (1975a) study in examining the readership of annual reports for a sample of UK private shareholders. Their results indicate that annual reports are not widely read by private shareholders, despite significant changes in financial reporting since the 1970s. Lee and Tweedie (1975b) investigate private shareholders' understanding of accounting practice and find that those shareholders

with more knowledge or experience of accounting are more able to understand financial reports than those with less knowledge or experience. A later survey by Elliot *et al.* (2008) finds that less experienced non-professional investors who use unfiltered (raw) information, earn lower returns than more experienced investors.⁴

Anderson (1981) finds that Australian institutional investors rank annual reports as the most important source of information, followed by sharebrokers' advice and company visits. The most widely read sections of the financial report are the balance sheet, profit and loss statement, notes to the accounts, and chairperson's address. Similarly, Day (1986) finds that UK investment analysts perceive the annual report to be an important document, but not a timely source of price sensitive information. Further, surveys by Vergoossen and Amsterdam (1993) in the Netherlands, and by Conesa and Martinez (2004) in Spain, find that the annual report appears to be vital to investment analysts, who emphasise the importance of the consolidated balance sheet and income statement. More recently, Gassen and Schwedler (2010) also find that professional investors and their advisors in 22 countries generally view annual financial statements as the most relevant information source, followed by direct personal contact with investee management, notes to the financial statements, and quarterly financial statements.

One possible explanation for the increased perceived usefulness of financial reports, at least for professional investors, is the adoption of IFRS around the world, and there is some evidence in the literature supporting consequent improvements in the quality of reported financial information. In New Zealand, McNally *et al.* (1982) find that professional users, as compared to financial editors and stock exchange members, attribute different importance levels to more detailed disclosure of specific items, but that few of these differences are statistically significant. A survey of users in 10 European countries by the European Financial Reporting Advisory Group (EFRAG) indicates that most users consider financial statements and management commentary to be the most useful sources of financial information, as compared to press releases, economic surveys, and market information (EFRAG 2009).

PricewaterhouseCoopers (PwC 2011) finds that while the annual report is still seen by many as an invaluable source for providing detailed information about firm performance, it is no longer viewed by investment professionals as the document of record that provides the cornerstone for all valuation work. To improve the quality of disclosure, investment

professionals indicate a need for more disaggregation in segment reporting, and more coherent, consistent information between narrative sections of the annual report and the audited financial statements. A CFA UK (2015) study reveals that investment professionals find annual reports to be the most useful source of financial information, followed by databases (e.g., Bloomberg) and sell-side research reports.

2.3 Other supplementary information

The growing importance of management's commentary on a business and its results is evident in various developments around the globe. Examples include requirements in the US for management discussion and analysis to accompany the financial report, in the UK for directors' reports to include a business review, in Australia for an "operating and financial review" to be included in the annual report (ASIC 2013), and in South Africa for listed entities to produce an integrated report (Stent and Dowler 2015).

New Zealand requirements are currently lagging in this regard. Requirements for the contents of an annual report are specified in section 211 of the Companies Act 1993.⁵ There is no specific requirement for a director's report or management discussion and analysis, although the board of directors is required to provide details of material changes in the nature or classes of the business of the company (Deloitte 2011). Listed entities on the NZX are required to provide commentary on the results for the period in a preliminary announcement in respect of a full year. Many entities meet this requirement by including the necessary information in a chairman's or director's report (Deloitte 2011).

In this study, we examine the perceptions of public versus private users in relation to the usefulness of the financial statements, the information sources used in decision-making, and the need for other supplementary information.

3. Research design and study sample

3.1 Reporting entities in New Zealand

Figure 1 below provides an overview of the total population of reporting entities in the context of the wider for-profit business environment in New Zealand.

Insert Figure 1 about here

It is estimated that in 2015, there were 444,060 for-profit business enterprises in New Zealand. The total number of for-profit entities with reporting obligations is estimated at 2,575 (i.e., a little over 0.5%), with 329 of these being Tier 1 entities and 2,246 being Tier 2 entities. While the Tier 1 population could be determined accurately, estimation of the Tier 2 population was more difficult, because there is no formal requirement for such firms to register or file returns (XRB 2017). To complicate matters further, legislation such as the Companies Act (section 200) allows entities to opt into and out of a Tier under certain circumstances. This data provides evidence that the XRB's reporting strategy indeed excludes the higher reporting costs associated with IFRS for over 99% of for-profit entities in New Zealand. According to XRB (2017), the bulk of the remaining 1% of the population has the option of some reduction in mandatory reporting costs by opting to apply IFRS RDR (2,246 entities). Prior literature indicates that there is little consistency regarding the views and needs of different users as to how to achieve further reductions in reporting costs without sacrificing information, which some users find useful for their particular purposes.

As noted above, it is difficult to estimate the population of the bulk of New Zealand's reporting entities (i.e., Tier 2). Even more difficult would be to estimate the populations of the users of reports for these reporting entities. We do not attempt such an estimate but explain below how we conduct a survey designed to access the entire population of users.

3.2 The surveys

Two online questionnaires were developed for the surveys, one for public users (XRB 2016) and the second for private users (XRB 2017). Public users in the New Zealand context are users of financial statements of entities (Tier 1 entities) that do have public accountability and private users are users of financial statements of entities (Tier 2 entities) that do not have public accountability. Survey questions explored the usefulness of financial statements, the importance of other sources of information used in making decisions, and the importance of other supplementary information in financial statements. The questions are shown in the

appendix to this paper. Questions included use of a five-point rating scale, from 1 (very low) to 5 (very high), asking respondents to allocate 100% among the various options with regard to the types of decisions they make and the sources of information they use, and 'Yes' or 'No' questions with the opportunity to provide further explanation.

Before launching the online surveys, a pilot test of the questionnaires was conducted to identify and resolve potential issues such as ambiguity or bias. The data for this study were part of two larger studies commissioned in the years 2016 and 2017 by the XRB that examined the information needs of users of New Zealand capital markets' entity reports (Tier 1) and Tier 2 for-profit entities' financial reports, respectively.

3.3 The respondents

The two surveys were launched online using a variety of approaches to reach the different user groups and encourage responses. These approaches included links to the survey through various digital and print media channels; email invitations to commercial officers in major banks, brokers, and fund managers; invitations to potential respondents through various professional organisations and accounting firms to access their members/client bases; and email invitations to relevant regulators. In theory, this enabled us to make the survey accessible to the entire population of GPFR users in each of the user groups. This approach resulted in good sized samples but did not allow the calculation of response rate percentages.

The surveys resulted in 47 useable responses from private users and 115 useable responses from public users.⁶ These sample sizes compare very favourably with similar recent studies in the UK and the European Union.⁷

Table 1, Panel A, provides descriptive information on these two types of users, while Panel B shows self-ratings of their knowledge and experience (where 1 is very low and 5 is very high). Most respondents have above average levels of knowledge, skills, and experience in reading, understanding and analysing financial statements (means are above 3 for both knowledge and experience for both private and public users). There is a marginally significant statistical difference between the knowledge and skills of the two user types, suggesting that the users of private entity financial statements have more knowledge of financial statements than the users of public entity financial statements. This may be because financial statements

are relied upon more by private users than public users, who tend to prefer the use of other sources of information for their decision-making. However, our samples show no significant statistical differences in experience between the two user types, suggesting that private users are as experienced when compared to public users in their reading, understanding and analyses of financial statements.

Table 1 Descriptive information on user samples surveyed

Panel A: User type and group

	User		
	Public	Private	Total
Advisor	52	11	63
Investor	37	10	47
Lender	19	11	30
Regulator	7	7	14
Others	<u>0</u>	<u>8</u>	<u>8</u>
	115	47	162

Panel B: Knowledge and skills

	Public		Private	
	Mean	Standard Deviation	Mean	Standard Deviation
Knowledge	3.887	0.814	4.11**	1.07
Experience	3.878	0.870	3.94	1.07

*Significant at ** $\alpha = 0.05$*

Insert Figure 2 about here.

4. Results and Discussion

Mean responses for the questions were calculated and where appropriate used for rankings to summarise the degree of usefulness and importance that respondents attribute to the issues raised in the questionnaires. The higher the mean, the higher the usefulness/

importance as perceived by the respondents. The Mann-Whitney U test is used to provide a basis for comparison of public versus private users' responses to the questions. Lastly, to evaluate the degree of association between the responses of the two user types regarding the usefulness of components of financial statements specifically, we compute the Kendall Rank Correlation Coefficient (τ) for the ranked means of their responses to that specific question.

4.1 Types of decisions for which financial reports are used

Table 2 reports the weighting (out of 100) of the various decision types for which financial reports are used. There are significant differences between the two types of users. While the making of equity and debt investments are the most important decisions for public users (means of 46.74% and 17.79% respectively), the monitoring of management performance (mean of 24.22%) is most important for private users. This highlights that private entities tend to have closely held shares and a lower percentage of debt in capital structure compared to public entities, hence private users' tendency to use financial reports more for monitoring management and governance, rather than for equity and debt investment. Private users also attributed a high weighting of approximately 20% to other decisions, compared to 6% weighting to other decisions by public users. This shows the heterogeneity of private users' needs for financial statements in comparison to public users. Specifically, such other decisions that private users use financial statements for, include compliance with regulations and tax, assessing the performance of the organisation, evaluating of projects, and monitoring compliance of covenants. This is consistent with Barker and Noonan (1996) who identify that the three most important groups of users of financial statements of small companies (SMEs) are owners/directors, banks, and the tax authority. This finding also supports the findings of Eierle and Haller (2009) that most SMEs see little or no need to provide internationally comparable financial statements.

Table 2 Types of users' decisions

	Public (N=115)		Private (N=47)	
	Mean (%)	Standard Deviation (%)	Mean (%)	Standard Deviation (%)
- Decisions - Equity investment	46.74	37.13	16.35***	26.40
- Decisions - Debt investment	17.79	26.14	5.93***	11.87
- Decisions - Lending or extension of credit	16.50	33.21	16.56	29.60
- Monitoring performance for management	11.49	17.93	24.22***	24.58
- Monitoring performance for governance	9.14	13.17	17.02	23.23
- Other decisions	6.39	19.94	19.89**	37.16

*Significant at ** $\alpha = 0.05$; *** at $\alpha = 0.01$*

4.2 Usefulness of components of financial statements

Table 3 reports the level of usefulness of each of the components of the financial statements. The results indicate that all financial statement components are rated as useful (mean rating of 2.99 or more) for both private and public users. However, the level of usefulness is higher for some components than for others. The income statement followed closely by the balance sheet are the two most useful components of the financial statements for both private and public users. Cash flows are ranked next, followed by the notes to the financial statements. A Mann-Whitney U test indicates no significant differences in these ratings between public and private users, suggesting that both groups regard the usefulness of the components of the financial statements similarly.

Table 3 Usefulness of components of financial statements

	Rank	Public (N=115)		Private (N=47)	
		Mean	Standard Deviation	Mean	Standard Deviation
Income statement	1	4.37	0.90	4.36	0.82
Balance sheet	2	4.25	0.97	4.36	0.87
Cash flows	3	3.90	1.29	3.94	1.19
Notes	4	3.75	1.15	3.77	1.34
Changes in equity	5	2.99	1.29	3.21	1.35

Table 4 Associations between the usefulness ratings of financial statement components

	Sample	Balance sheet	Income statement	Changes in equity	Cash flows
Income statement	Total	0.466**			
	Public	0.394**			
	Private	0.647**			
Changes in equity	Total	0.291**	0.284**		
	Public	0.248**	0.227**		
	Private	0.377**	0.422**		
Cash flows	Total	0.149*	0.141*	0.288**	
	Public	0.115	0.115	0.287**	
	Private	0.232	0.203	0.291*	
Notes	Total	0.141*	0.186**	0.241**	0.217**
	Public	0.050	0.064	0.177*	0.201*
	Private	0.336**	.480**	0.369**	0.256*

Significant at * $\alpha = 0.10$; ** $\alpha = 0.05$; *** $\alpha = 0.01$

Table 4 reports the Kendall Rank Correlation Coefficients between the usefulness ratings for the components of the financial statements. The coefficients are positive and significant for public and private users except for the association of notes to the financial statements with the balance sheet and the income statement for public users, and the association of cash flows with the balance sheet and the income statements for both user types. This is consistent with prior research by Yap (1997) that found evidence from a survey of financial statement users in Australia suggesting that cash flow statements are regarded as being of considerable assistance in helping users assess liquidity, solvency and financial flexibility, although not surpassing the importance of information relating to future prospects and profit levels. Further, the notes to the financial statements of public entities have been found to be difficult to read. Reasons from prior literature include that they are perceived as lengthy, complex, and contain technical terms and multi-syllable words (Barnett and Leoffler 1979; Curtis 1986; Curtis 1995; Li 2008; Cheung and Lau 2016). Furthermore, large companies (usually public entities) are perceived as providing less readable notes than small companies (usually private entities) (Healy 1977). This may explain why the usefulness of the notes to the financial statements is not associated with that of the balance sheet and the income statement for public users, as reported in Table 4.

4.3 Sources of information

Table 5 summarises which key sources of information are used in making decisions. Respondents were asked to allocate 100% between these sources of information to indicate their relative importance. Mean percentage of importance is presented for each source of information. Both types of users rate financial statements as the most important source of information, although private users rate the financial statements significantly higher (at 49.2%) than public users (at 36.85%). This reinforces the greater reliance which private users place on the information provided in the financial statements.

Public users place greater importance on advisors and analysts' reports (29.4%) compared to private users (13.86%). Public users also use the media (11.32%) as an important source of information compared to private users (7.72%). This is consistent with the greater focus of analysts and the media on public companies (Baker and Haslem 1973; Curtis 1982).

Table 5 The importance of sources of information

	Public		Private	
	Mean (%)	Standard Deviation (%)	Mean (%)	Standard Deviation (%)
- Corporate financial statements	36.85	24.98	49.20***	25.1
- Management commentary and analysis including directors reports	21.56	17.50	22.04	14.8
- The press media and other on line sources	11.32	11.66	7.72**	9.61
- Advisors and analysts reports	29.40	26.72	13.86***	16.49
- Other sources	7.87	18.72	7.15	19.33

*Significant at ** $\alpha = 0.05$; *** $\alpha = 0.01$*

Insert Figure 3 about here.

4.4 Interest in supplementary information

The respondents were asked whether they are interested in information not currently included in financial statements (supplementary information). Panels A and B of Table 6 report their level of interest and ratings of the usefulness of a range of other such information. Panel A indicates that public users (54%) have significantly more interest in supplementary information than private users (38%).

Panel B of Table 6 shows the mean usefulness of various types of supplementary information using a scale of 1 (least useful) to 5 (most useful), based only on the responses of the survey participants who responded in the affirmative to having an interest in supplementary information as shown in Panel A.

Overall, both private and public users who have an interest in supplementary information, rank all supplementary information types as being useful (mean above 3), except for narratives that explain the entity's performance and financial position which is the least useful for public users (mean = 1.19). This contrasts strongly with the private users, who ranked such narratives as the most important type of supplementary information (mean = 3.94), a

difference which is strongly significant (0.01). This reflects the fact that public users have access to a wider range of information than private users. This finding also provides evidence in support of narrative reporting for private users as such narrative reporting contains important management's communication with stakeholders. Weetman (2018:157) suggests that recent “proposals for such disclosure are strongly normative and tend to be based on the beliefs and good intentions of interested groups, rather than on hard evidence of what is actually useful to stakeholders”. This study provides evidence that supports such additional disclosures.

Table 6 Supplementary information

Panel A: Interest in supplementary information

	Public		Private		Total	
	N	%	N	%	N	%
No*	53	46%	29	62%	82	51%
Yes*	<u>62</u>	<u>54%</u>	<u>18</u>	<u>38%</u>	<u>80</u>	<u>49%</u>
	115	100%	47	100%	162	100%

*Significant at * $\alpha = 0.10$*

Panel B: Interested users' assessments of the usefulness of supplementary information

Supplementary information	Public (N=62)		Private (N=18)	
	Mean	Standard Deviation	Mean	Standard Deviation
- Entity's business	3.694	1.154	3.222	1.629
- Narratives explaining the entity's performance and financial position	1.194	1.763	3.944***	1.110
- Business strategies and prospects for future financial years	4.371	0.910	3.889	1.410
- Summary financial information	3.419	1.235	3.529	1.419

*Significant at ** $\alpha = 0.05$; *** $\alpha = 0.01$*

4.5 Summary of main differences between public and private users

Table 7 below provides a summary of the main differences, identified and discussed in the preceding sub-sections, between the information needs of public and private users of financial statements.

Table 7 Summary of main differences between public and private users

Variable	Table	User		Rating Scale
		Public	Private	
Knowledge	1	3.89	4.11**	1-5
Main decision	2			
– Equity investment		47%	16%***	%
– Monitor management		11%	24%***	%
Main source of information. – Financial reports	5	37%	49%***	%
Supplementary information	6			
- % interest		<u>54%</u>	<u>38%*</u>	<u>%</u>
- Narratives explaining financial performance and position		<u>1.19</u>	<u>3.89**</u>	<u>1-5</u>

*Significant at * $\alpha = 0.10$, ** $\alpha = 0.05$; *** at $\alpha = 0.01$*

In summary, our findings suggest that public (private) users in the study sample are less (more) knowledgeable about financial reports and use them mainly to make equity investment decisions (monitor management performance). Our findings also indicate that while both types of users rate financial reports as their main source of information, public users rely on them less, obtaining 37% of their information from financial reports (private users: 49%).

User views differ significantly regarding the need for supplementary information in that public (private) users are more (less) interested in supplementary information, except as regards

narratives which explain financial performance and position where the usefulness of narratives is rated at 1.19 (3.89).

5. Conclusion

The financial reporting obligations of New Zealand's for-profit entities are based on the size of assets and revenue and whether or not they have public accountability. Entities with public accountability report under Full IFRS (Tier 1), while entities with no public accountability may be required to report under a reduced disclosure regime based on IFRS, depending mainly on their size.

We compared the survey responses of users of financial reports of entities that have public accountability (Tier 1) with those of users for entities with no public accountability (Tier 2). Our findings indicate that both user types have similar perceptions regarding the usefulness of financial statement components, with the income statement and balance sheet rated as most useful, followed by the cash flow statement and then the notes to the financial statements. The statement of changes in equity is regarded as least useful.

Both public and private users rate financial statements as the most important source of information, although private users do place greater importance on this source of information. Public users place greater importance on media and analysts' reports as sources of information compared to private users. This can be explained by the availability of such information for public entities.

A higher proportion of public users have an interest in supplementary information than private users. Information about business strategies and future prospects is rated as most useful for public users and as the second most useful source of supplementary information for private users. Narratives that explain the entity's performance and financial position is rated as the most useful supplementary information for private users but as least useful for public users. This could be explained by the greater level of access, which public users have to the analysts' and media reports that provide such information.

The findings of this study provide useful incremental insights into the users' perspectives on the usefulness of financial statements, an area that has been under-researched, especially in recent times. The findings of this study are of potential interest to policy makers and regulators of financial reporting when keeping in mind the quality of information provided in the financial statements and the costs and benefits of financial reporting regulation.

The limitations of this study revolve around the restricted nature of the surveys conducted, as the surveys were completed only by financial statements users in New Zealand and therefore the survey findings might be specific to the New Zealand financial reporting environment and not simply transferrable to other jurisdictions and reporting environments.

¹ In the US, a private company is not required to provide any information to the public. However, in Australia and the UK, large private companies that meet two of three criteria based on revenue, assets and number of employees, are required to prepare and lodge financial reports.

² The New Zealand Framework defines public accountability in accordance with the International Accounting Standards Board's definition of an entity that has debt or equity instruments traded in a public market or holds assets in a fiduciary capacity for a broad group of outsiders as its primary businesses.

³ The US Financial Accounting Standards Board (FASB) conceptual framework also identified the same set of primary users for financial reports (FASB 2010:3).

⁴ Elliot *et al.* (2008) classify information as "filtered" and "unfiltered". Filtered information is information packaged by a professional intermediary for consumption by investors (e.g., analysts' reports) while unfiltered information is information disclosed by management and unaltered by professional intermediaries (e.g., a firm's annual report).

⁵ Companies Act 1993, extracted 15/4/2015 from:

<http://www.legislation.govt.nz/act/public/1993/0105/latest/DLM321118.html>

⁶ Not all respondents answered all survey questions. The tables therefore report the number of responses to each question.

⁷ EFRAG (2009) had 32 respondents from 10 countries in the European union in their survey of public firms, while CFA UK (2015) surveyed about 290 investment professionals who deal with listed firms in the UK. Quagli and Paoloni (2012) analysed a European Commission survey of only 25 respondents across the European Union who use the financial statements of private firms based on IFRS for SMEs.

Appendix: The questionnaire

Q1 Your knowledge, skills and experience

How would you describe your level of your knowledge, skills, and experience in reading, understanding and analysing financial statements? Please use the scale where 0 indicates none and 5 very high.

_____ Knowledge and Skills

_____ Experience

Q2 Types of decisions for which you use financial reports

For what types of decisions do you use corporate financial reports? Please allocate 100% among the various types of decisions you undertake to indicate their approximate level of importance.

_____ Equity investment

_____ Debt investment

_____ Lending or extension of credit

_____ To monitor/assess performance of those responsible for governance

_____ To monitor/assess performance of those responsible for management

_____ Others, please specify as many categories as you see relevant and indicate their importance

Q3 The usefulness of components of financial statements

The items below comprise a full set of financial statements. Please rate the usefulness of each item to you in making decisions. Please use the scale 1 to 5, where 5 is the most useful. Please support your responses by providing reasons in the space below each item.

	1 (Least useful)	2	3	4	5 (Most useful)	N/A or do not know
• Statement of financial position (balance sheet)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Statement of profit or loss and other comprehensive income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Statement of changes in equity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Statement of cash flows	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
• Notes to the financial statements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q4 Sources of information

We would like to gain insights into the key sources of information which you use in making decisions. Please allocate 100% among the various sources of information to indicate their importance. Please use the space below to explain your reasons.

- _____ Corporate financial statements
- _____ Management commentary and analysis including directors' reports
- _____ The press, media and other on-line sources
- _____ Advisors and analysts' reports
- _____ Others, please indicate the other sources and their weightings

Q5 Interest in supplementary information

Do you use or require any supplementary information that is not included in current corporate financial reports?

- Yes
- No

Q6 Usefulness of supplementary information

Please indicate the level of usefulness to you, of supplementary information in financial reports, using the scale 1 to 5, where 1 indicates very low usefulness and 5 indicates very high usefulness. Please support your views with comments in the spaces provided.

	1 (Least useful)	2	3	4	5 (Most useful)	N/A or do not know
- Information about the entity's business	?	?	?	?	?	?
- Narratives that explain the entity's performance and financial position.	?	?	?	?	?	?
- Information on business strategies, and prospects for future financial years.	?	?	?	?	?	?
- Summary financial information	?	?	?	?	?	?
- Others, (please specify)	?	?	?	?	?	?

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Figure 1

New Zealand's For-Profit Reporting Environment

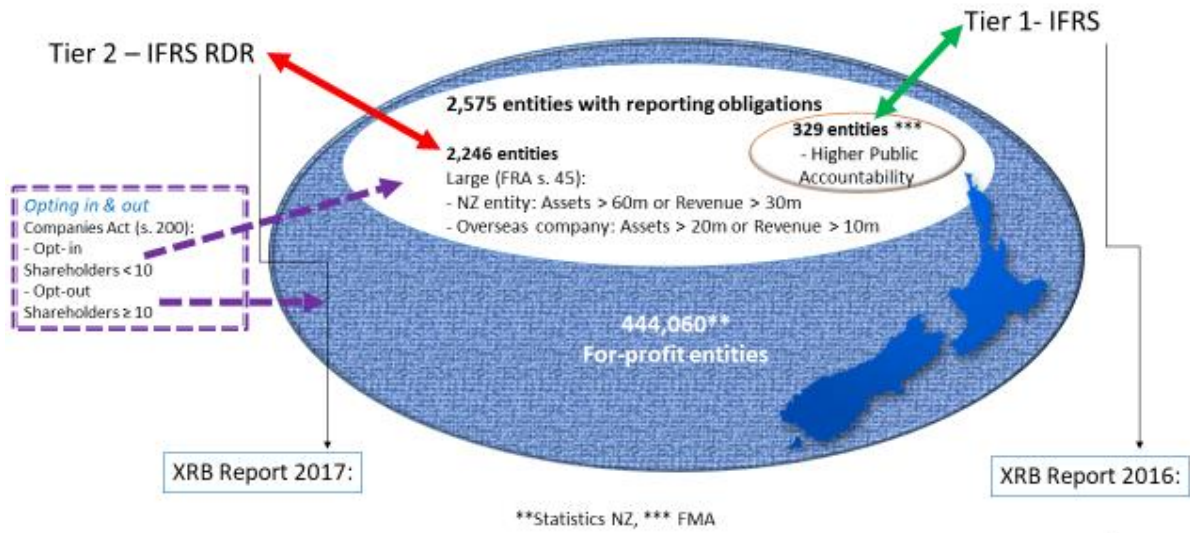


Figure 2: User type and group

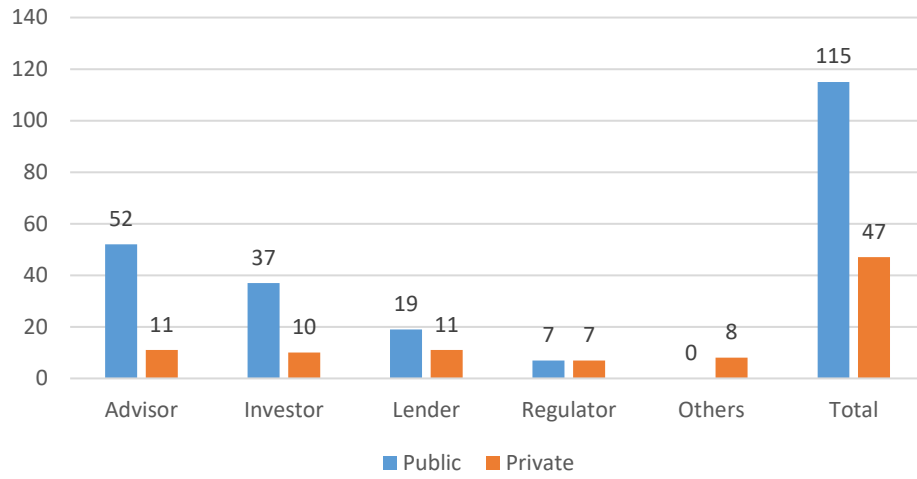


Figure 3: The importance of sources of information

