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## **International Financial Reporting Standards Compliance, Disclosure and Relevance of Financial Statements as Perceived by Investors with Regards to their Decision Making**

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**Abstract:**

**Purpose:** *The purpose of this research was to investigate the International Financial Reporting Standards (IFRS) compliance, disclosure and relevance of financial statements as perceived by investors with regards to their decision making.*

**Design/Methodology/Approach:** *Since the study based its findings on perceptions of investors, a concept that cannot be defined with certainty and is not constant since it varies due to factors such as regulatory framework, country polies, investor experience, technological factors, just to mention a few, the regression model was used to portray the relationship between investment decision making and financial reporting relevance, credibility/reliability and quality of disclosures*

**Findings:** *Corporate governance, audit form reputation, audit committee and company size have a great impact on IFRS compliance and disclosure in financial statements. Verifiability and understandability help to improve IFRS Disclosure and Financial Statement Relevance. Relevance is considered an important attribute of quality financial information in decision making.*

**Practical Implications:** *Investors need to make effective and informed decisions on investment. For this to be possible, information provided in the financial statements has to be relevant and faithfully represent the substance of what it purports to represent. Companies should practice voluntary disclosure on information items that influence investment decisions and be required to give a simplified interpretation of the information contained in the annual reports.*

**Originality/Value:** *The analysis will assist investors in better judging the disclosure and relevance of financial statements of organizations from a thorough knowledge of the two aspects so as to make more informed decisions*

**Keywords:** *Investors, decision making, compliance, disclosure, financial statements.*

**JEL codes:** C1, C4, C5.

**Paper type:** *Research article*

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## 1. Introduction

Corporations that have adopted IFRSs and IASs are required to prepare a full set of financial statements that conform to regulatory guidelines and should be accurate. These corporations whether public or private have a duty to present and fully disclose the financial information concerning their business to investors for them to make informed investment decisions mainly on future rates of return (Kawugani, 2019). In addition to meeting this regulatory mandate, companies seek to retain current investors and gain new ones by releasing their financial statements on the stock exchange which is where a corporation's capital stock is widely held and its activities are of interest to the general public.

However, in the recent past, financial reporting and practice have come under strong scrutiny, with investors questioning whether companies are fully disclosing financial information pertaining to their activities and whether this information is actually relevant to their investment decision making needs. The focus of this study is therefore to investigate the extent and characteristics of financial information disclosures by companies and the relevance of financial statements as perceived by investors with regards to their decision making.

## 2. Background of the Study

The preparation and presentation of financial statements is intended to provide information that is useful to financial statements users in making effective decision making. Clem (2015) defines a financial statement as a formal record of past financial activities of an entity presented in a structured manner and in a form easy to understand. Korableva *et al.* (2017) and Osadchy *et al.* (2018) agree that financial statements are a unified system of data on the property and financial position of the company and the results of its activities for a specific or certain period. Financial statements provide important information for a wide variety of decision makers. According to Meyer (2007), accounting plays a significant or vital role within the concept of generating and communicating wealth of companies.

The main group users of financial statement as pointed out by Yuh (2013) include investors, employees, creditors, customers, government and the general public. Investors in particular are interested in the profitability, growth potentials, stability and dividend policies of a company in whose security they contemplate investing. They analyze and interpret financial information so as to predict future possible rate of returns on investments such as dividends and increase in value of investment and to assess the risk in investing in a particular company. Thus, investors rely heavily on the information provided in the financial statements to make decisions.

Investment decision involves the commitment of current funds into long term projects for future benefit. These decisions are very crucial and caution must be taken because huge and hard earned resources are involved, irreversible in nature,

risky and have long term implication (Patrick *et al.*, 2017). A fraudulent or an erroneous financial statement implies a risk possibility which can mislead investors into making wrong investment decisions therefore relevant and fully disclosed financial information becomes important to the success of these investment opportunities. There is a need for investors to have good knowledge and understanding of the financial statements that include the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and notes to the financial statement and other relevant financial information presented in an annual financial report to avoid irrationality in investment decision making.

Investors need to make effective and informed decisions on investment. For this to be possible, information provided in the financial statements has to be relevant and faithfully represent the substance of what it purports to represent as according to the Conceptual Framework for Financial Reporting (2018). For information to be relevant, it should have a predictive or confirmatory value and faithful representation entails that financial information should be to the maximum extent complete, neutral and free from error. Other enhancing qualitative characteristics of financial information include comparability, verifiability, timeliness and understandability.

Various scholars articulate that the perceived relevance of financial information is to provide reliable information about the true and actual financial position, performance, and changes in financial position of a business investment opportunity that could be useful to existing and prospective investors (Patrick *et al.*, 2017). However, investors have been facing challenges with relying on financial information provided in financial statements for investment decision making because the information is not entirely meeting the above mentioned characteristics.

Disclosures and assertions made by management are not entirely relevant to their decision making needs, poor disclosures are being made in-terms of timing, complexity and information overload, faithful representation has reduced and IFRS compliance is not being entirely adhered to. This is evidenced by the increasing number of qualified, adverse and disclaimer opinions offered by auditors after examining financial reports (Barlevy, 2015). It must be noted that the financial information prepared by management as its responsibility has to be reviewed by independent external auditors prior to investment decision making. The rising number of creative accounting and fraud cases all round the world also supports this.

Thus, there is a lot of scrutiny being placed on disclosure and relevance of financial statements as their credibility and relevance is dropping. According to some scholars, financial statements are now a questionable source of information to use in investment decision making. Abraham and Shrivs (2014), Liesegang and Bartley (2014) and Alvarez and Barlevy (2015) are among scholars that actually view disclosures as a way of symbolic window dressing, they argue that they are of little use to the readers of financial statements. Investor confidence therefore continues to

erode as financial statements are being altered by companies to portray a desired position.

A clear show of why investor confidence in financial statements is being eroded is the accounting scandals that continue to occur on an international level. Lawyers Connect (2016) deem accounting scandals as the biggest challenges in today's modern business world. For example, in the past two decades' headline grabbing cases of fraudulent financial reporting at public companies has rocked investment markets (Kravitz, 2012). These cases range from the famous Enron, WorldCom, the second largest telephone company at the time, down to Parmalat, Tesco, and Toshiba recently. In 2001, news of the Enron accounting scandal of corporate corruption and fraud broke out and the company's investors lost \$74 billion; in 2002, WorldCom was involved in fraudulent expense capitalization. In 2003, news of the Parmalat accounting scandal broke in Europe of falsifying accounting documents; 2011 saw the revelation of the biggest accounting scandal (Olympus) in Japanese history revealed; in 2014, Tesco was caught overstating its profit by £263 million; and in 2015, Toshiba's financial statement fraud of overstating profits came to light (Awolowo, 2016; Awolowo *et al.*, 2018). All these scandals had a negative impact on the capital markets and have contributed to the erosion of trust of the investing public (Awolowo *et al.*, 2018).

Zimbabwe is not without its fair share of accounting scandals that affect the investment community. According to Business Times (2019), investors in Zimbabwe are finding it difficult to deal with the numbers that come out of the country because they were not making sense. Most of the countries parastatals are involved in fraud which include Air Zimbabwe, Zinara and Zimra. Other companies like Meikles limited was once suspended on the ZSE over allegations of overstating the debt it was owed by the Reserve Bank of Zimbabwe (RBZ) with the intention of manipulating its price (New Zimbabwe, 2015). CBZ Holdings is also a listed bank that was involved in a corporate scandal in 2017 over independence of its non-executive directors and salaries of the senior management (News of the South, 2017). All these cases contribute to the questioning of the financial statements as a source of useful information in decision making by investors. As according to Bhande (2016), the country is deemed a risk investment destination and some international critics were advocating for factoring corruption in the cost of doing business in the country.

### **3. Research Methodology**

The study adopted a quantitative research approach. Questionnaires administered online were used as the data collection instruments for this study. The population sample of 15 consists of investors with a total estimate of 96% shareholding of the 80 000 000 shares in the company. The sample in this research is based on the number of shareholding in the company and the justification is so at to examine

perceptions of those investors mostly affected in decision making that is the major shareholders.

### **3.1 Measurement of Variables**

The data generated from structured questions as well as analysis of financial statements will be coded, numbered and classified under different variables for easy identification and then summarized. For data captured using the Likert scale, analysis will be used in extracting information and the data will be analysed using SPSS and regression used to measure the relationship of the variables. The analytical model used to examine the relationship between the variables is:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon,$$

Where,

$Y_i$  = decision making of investors (dependent variable)

$\beta_0$  = constant (coefficient of intercept)

$\beta_1 \dots \beta_2$  = regression coefficient of two variables

$X_1$  = Credibility/Reliability (independent variable)

$X_2$  = Quality of disclosures (independent variable)

$\varepsilon$  = Error term.

Since the study based its findings on perceptions of investors, a concept that cannot be defined with certainty and is not constant since it varies due to factors such as regulatory framework, country polies, investor experience, technological factors, just to mention a few, the regression model was used to portray the relationship between investment decision making and financial reporting relevance, credibility/reliability and quality of disclosures. Empirical research shows how variables have been measured as according to other researchers. Compliance index and quality index are also some ways of measuring the variables (Agyei-Mensah, 2013).

## **4. Data Presentation and Analysis**

### **4.1 Relationship between Investor Decision Making and Credibility/Reliability in Financial statements**

This section presents the regression analysis results obtained between the two variables, investor decision making and credibility/reliability in financial statement. The regression model results are presented on table 4.6. SPSS version 25 was utilized in the study as a tool for analysis of the variables in relation to regression analysis. Coding of the variables was done in the software with the help of a research instrument and the results generated are as shown in the Tables below:

**Table 1. H1: Relationship between investor decision making and credibility/reliability in financial statements**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.499	.079		6.327	.000
	Credibility and reliability	.484	.042	.725	11.450	.021

a. Dependent Variable: investor decision making

**Source:** SPSS version 25.

Regression analysis as indicated in Table 1 shows that H1 was accepted at the expense of rejecting H0 showing the existence of a positive association of the variables. There is a positive relationship between investor decision making and credibility/reliability in financial statements. This association is shown by 6.3727 t-tests statistics that is supported with a 0.021 p-value significant at 5%. Therefore, the findings show that there is a positive relationship that exists between investor decision making by Lafarge investors and credibility/reliability of Lafarge financial statements that is to say an increase in credibility and reliability of financial statements by Lafarge will have a positive impact on the company’s investors’ decision making and vice versa.

Investors require information that helps in evaluating firm's performance, monitoring their investment, predicting earning per share and assessing the liquidity status of firms. The extent to which investors rely on the information reported in financial statements so as to make decisions depends on the credibility of those financial statements – that is, the trust or faith investors have in the financial statements presented to them. The findings obtained support this argument. Shroff (2015) measured the relationship of investor decision making and credibility/reliability of financial statements and found a positive relationship between the variables.

**Table 2. ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.034	1	14.034	131.094	.021 <sup>b</sup>
	Residual	12.632	118	.107		
	Total	26.667	119			

a. Dependent Variable: investor decision making  
 b. Predictors: (Constant), credibility and reliability

**Source:** SPSS version 25.

Analysis of variance is also shown in the table in conjunction with the study variables. This is indicated by a p-value of 0.021 that is significant at 5%. In addition, the findings presented on table 3 depict that an increase in credibility and reliability of financial statements will also improve the investor decision making. Therefore, a positive correlation exists between investor decision making and credibility/reliability in financial statement.

## 4.2 Relationship between Investor Decision Making and Quality of Disclosures

Table 3 below shows the regression analysis in relation to the findings that were managed to be generated from SPSS.

**Table 3.** *H2: Relationship between investor decision making and quality of disclosures*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.589	.076		7.702	.032
	Quality of disclosures	.404	.038	.700	10.65	.000

a. Dependent Variable: investor decision making

**Source:** *Own elaboration.*

Regression analysis as indicated in Table 3 shows that H2 was accepted at the expense of rejecting H0 showing the existence of a positive association of the variables. There is a positive relationship between investor decision making and quality of disclosures. This association is shown by 7.702 t-tests statistics that is supported with a 0.032 p-value significant at 5%. The results also show that an improvement in quality of disclosures will improve investor decision making as agreed by Nwaobia *et al.* (2016).

**Table 4.** *ANOVA<sup>a</sup>*

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.069	1	13.069	113.419	.032 <sup>b</sup>
	Residual	13.597	118	.115		
	Total	26.667	119			

a. Dependent Variable: investor decision making  
b. Predictors: (Constant), quality of disclosures

**Source:** *Own elaboration.*

Analysis of variance is also shown in the table in conjunction with the study variables. This is indicated by a p-value of 0.032 that is significant at 5%. The findings show that on average the respondents agree that there is a correlation that exists between investor decision making and quality of disclosures. Therefore, quality of disclosures in financial statements helps to improve the decision making by investors. Conclusively these findings relate to the view by Moen (2014) that good corporate governances help to ensure transparency and accountability of financial disclosure.

These findings point out that audit firm reputation plays bigger role in influencing the disclosure of financial statements. This concurs with Dereit (2015) who argued the importance of audit firm reputation on the reliability, credibility and transparency on reporting and disclosure of financial statements.

## 5. Conclusion

The study concludes that corporate governance, audit firm reputation, audit committee and company size are major factors used to determine the extent of IFRS compliance and disclosure in financial statements and that audit firm reputation and company size have a great impact on IFRS compliance and disclosure in financial statements. Concerning the relation between investor decision making and credibility/reliability, the research concludes that a positive relationship exists between the variables.

There is a positive relationship between quality of information shown by the attributes and investor decision making. Quality was therefore being compromised by complexity and ambiguity.

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