Financial Economics Insights

Review

Study on the Deficiencies in the Presentation of Financial Statements of Enterprises and Countermeasures for Improvement

Yi Ji [1,*]

[1] Geely University of China, Chengdu, Sichuan, 640400, China
* Correspondence: Yi Ji, Geely University of China, Chengdu, Sichuan, 640400, China

Abstract: This article delves into the current state and inherent deficiencies of corporate financial statement presentation, thoroughly examining issues pertaining to information disclosure, format standardization, comparability, and user orientation. Through a comprehensive analysis of actual cases and literature, the piece highlights the shortcomings in the transparency and decision-utility of existing financial statement presentation. In response to these flaws, the article proffers a series of improvement strategies, encompassing the refinement of information disclosure mechanisms, the enhancement of report format construction, the elevation of information comparability, and the fostering of a user-oriented philosophy. These recommendations aim to elevate the overall quality of financial statements, augmenting their transparency and utility in the market, thereby furnishing enterprises, investors, and regulatory bodies with more accurate and dependable informational support.

Keywords: financial statement presentation; information disclosure; format standardization; comparability; user orientation

Published: 19 November 2024

1. Introduction

In the vast ocean of the business world, financial statements are like lighthouses guiding the direction of an organization. They are not only a medical report on the health of an organization, but also a window for the outside world to see the inner workings of an organization. However, when these statements are used for decision-making or analysis, the accuracy, transparency and usefulness of their presentation are particularly important. Unfortunately, the current presentation of corporate financial statements is far from ideal. Inadequate disclosure of information, rigidity and irregularity of statement format, non-comparability of information among enterprises and neglect of the diversity of users' information needs are all thorny issues before us. This not only affects the judgment of investors, creditors and other stakeholders, but also restricts the ability of enterprises to gain public trust and sustainable development in the market. How to improve the presentation of financial statements to make them more relevant and in line with the needs has become an urgent issue in front of us.

2. Basic Concepts and Functions of Financial Statement Presentation

The preparation and presentation of financial statements involve a structured and standardized exposure of financial information to stakeholders, pursuant to specified accounting principles and standards. This process is not only mandated by law but also serves as a beacon of an enterprise's transparency and integrity. Comprising key elements such as the balance sheet, income statement, cash flow statement, and statement of changes in equity, these financial reports individually portray the financial standing of a business at a given moment, its operational achievements over a period, the movement of cash, and the alterations in ownership interests. In practice, the presentation of financial statements transcends mere numerical presentation, encompassing a comprehensive reflection of the operational and managerial landscape of the enterprise. These reports become indispensable tools for investors, creditors, management, and regulatory bodies, enabling them to gauge the financial health, operational efficacy, and risk profiles of the enterprise. For instance, the ratio of current assets to liabilities on the balance sheet elucidates the firm's short-term solvency; the revenue and cost components within the income statement illuminate the profitability and cost management capabilities; while the cash flow statement dissects cash inflows and outflows across operational, investment, and financing activities, critical for assessing cash flow management and financial stability. Furthermore, the strategic utility of financial statements extends beyond mere data presentation. Investors use financial analyses rooted in these statements to inform their investment decisions. Creditors utilize them to assess credit risk, thereby shaping lending policies. Management leverages this analytical framework to optimize resource allocation and elevate operational efficiency. However, the true value of financial statements lies not only in the information they convey but also in how users interpret and apply this information. This necessitates that financial statements not only adhere to standards and norms but also possess a degree of adaptability to cater to the varying operational contexts of different enterprises and the diverse informational needs of various stakeholders [1].

3. Defects in the Financial Statement Presentation of Enterprises

3.1. Insufficient, Untimely, and Irrelevant Disclosure of Information

Information disclosure constitutes the core content of financial statements; however, in reality, many corporate financial reports exhibit significant deficiencies in this regard. These issues not only compromise the transparency of the reports but also perplex and disappoint their users. Inadequate information disclosure primarily manifests in the omission or concealment of crucial financial information. For instance, significant corporate events such as major asset restructuring, related-party transactions, and potential legal proceedings are often inadequately disclosed, rendering it difficult for investors and creditors to comprehensively assess a company's financial health and operational risks. The timeliness of information disclosure is another significant concern. In the rapidly evolving market environment, the currency of information is paramount. Yet, numerous enterprises delay their information releases, resulting in market asymmetries. Such delays might stem from inefficient internal management or may be purposeful, aimed at evading market and regulatory scrutiny. Regardless of the cause, this phenomenon negatively impacts investor decision-making, heightening market uncertainty and risk. Irrelevant information disclosure further complicates matters for users. Some enterprises, in an attempt to showcase the complexity of their financial standing, excessively detail inconsequential data, thereby neglecting truly essential information [2]. For example, a company might extensively describe non-financial metrics in its reports while providing insufficient elucidation of core financial data. Such practices not only waste users' time but could also cause them to overlook genuinely critical financial indicators. The underlying causes of these issues are multifaceted, encompassing inadequate corporate governance, insufficient adherence to accounting standards, and lax oversight by regulatory bodies. The insufficiency in information disclosure not only tarnishes corporate reputation but may also precipitate a host of legal and ethical predicaments.

3.2. Lack of Standardization and Flexibility in Report Formats

The issue of report formatting is often overlooked in corporate financial statement presentation, yet it significantly impacts the transmission and comprehension of financial information. The insufficiency of standardization is primarily manifested in the inconsistency in format and criteria adopted by different enterprises when compiling financial statements. This phenomenon is particularly pronounced across various industries and sizes of businesses. For instance, some large corporations may design their report formats to highlight specific financial data, while small and medium-sized enterprises frequently rely on standardized templates. This inconsistency creates substantial difficulties for users when comparing the financial health of different companies, rendering effective horizontal comparisons nearly impossible. Moreover, the rigidity in report formatting poses a significant challenge. While accounting standards provide a fundamental framework, many enterprises rigidly apply these standards in practice, lacking flexibility. This approach not only contravenes the spirit of accounting standards but also renders financial statements lengthy and difficult to comprehend. For example, enterprises often include extensive templated descriptions in their reports, with insufficient analysis and explanation of specific data. This transforms the reading of financial reports into the monotonous task of perusing a dry ledger, failing to provide the profound insights necessary for decision-making. Turning to the matter of flexibility, there are instances where enterprises need to adapt their report formats according to their unique operational characteristics and business models. For instance, high-tech firms might require more disclosure of R&D expenditures and intangible assets, whereas traditional manufacturing industries might emphasize fixed asset management. However, in practice, many enterprises struggle in this regard, either hesitant to deviate from existing standards or producing formats that lack scientific validity and rationality post-adjustment. This lack of flexibility in report formatting fails to meet users' individualized needs and may obscure critical financial information.

3.3. Poor Comparability of Financial Information Among Different Enterprises

The comparability of financial information is a focal point of attention for investors and analysts. However, in reality, financial information across different enterprises often proves difficult to compare directly, with the most glaring disparity arising from variations in accounting policies and methods. For instance, some companies amortize intangible assets using the straight-line method, while others opt for an accelerated approach. These differing treatment methods result in substantial discrepancies in the book value of similar assets. Similarly, there are vast differences in inventory valuation methods, depreciation methods for fixed assets, and other accounting practices, making cross-enterprise comparisons of financial data quite challenging. The idiosyncrasies of various industries also pose significant difficulties. The structure and content of financial statements vary widely across industries. Certain financial metrics that are critically important in one industry may be virtually inconsequential in another. For example, in real estate enterprises, land reserves and development costs are key indicators, whereas in high-tech firms, the proportion of R&D expenditure and intangible assets is more salient. Such industry-specific differences complicate cross-industry comparisons of financial information. Additionally, the inconsistent standards for the preparation of financial statements remain a persistent issue. While international accounting standards and national accounting standards in various countries have matured, some enterprises still adopt non-standard preparation methods based on their specific circumstances. While this approach may more accurately reflect the actual situation of a company in certain situations, it also leads to inconsistencies and non-comparability in financial information [3].

3.4. Ignoring Differences in User Information Needs

The user base of financial statements is remarkably diverse, encompassing investors, creditors, management, regulatory authorities, and more, each with distinct informational needs. Regrettably, many enterprises, in their preparation of financial statements, frequently overlook these varying requirements, resulting in the inability of the information content to meet the needs of all users. For instance, investors prioritize the profitability, growth potential, and return on investment of a company, whereas creditors are more concerned with debt repayment capability and financial stability. Management necessitates detailed data on operational efficiency and cost control, while regulatory authorities seek compliance status and potential risks within the enterprise. This oversight leads to financial statements becoming homogenized and rigid, lacking specific relevance. For example, some companies, in order to comply with regulations, accumulate a plethora of templated data but provide insufficient elucidation on the business logic and driving factors behind the concrete indicators. While this approach may fulfill certain regulatory obligations, it fails to furnish other users with valuable insights. Additionally, high-tech enterprises might require more disclosure of R&D investment and intangible assets, while manufacturing enterprises necessitate detailed presentation of production costs and sales data. However, in practice, these companies often adhere to standardized reporting, lacking personalized informational representation within their statements.

4. Improvement Strategies for Financial Statement Presentation of Enterprises

4.1. Enhancing Information Disclosure Mechanisms to Improve Disclosure Quality

Current financial statements, while compliant in form, often harbor numerous issues in their actual content. To address this issue, enterprises should approach it from multiple perspectives. Firstly, establish a comprehensive and transparent information disclosure system to ensure that all significant financial information is not omitted. For instance, high-tech firms can create specialized sections detailing the composition and utilization of research and development expenses, which not only aids investors in understanding the firm's future potential but also enhances its market image. Secondly, strengthen the efficacy of internal audits and external reviews to ensure the authenticity and accuracy of disclosed information. Internal audit departments should regularly scrutinize the collection and processing of financial data, ensuring that all information undergoes rigorous verification. External audit institutions need to more stringently scrutinize the financial statements of enterprises, preventing any form of data falsification and misleading information. Moreover, introducing professional financial advisory teams can assist enterprises in improving the quality of information disclosure. These advisors can provide expert opinions and recommendations, helping firms identify information genuinely pertinent to users. For instance, for real estate enterprises, the disclosure of land reserves and development progress is particularly crucial, directly impacting investors' assessments of the firm. Additionally, enterprises can leverage modern information technology to enhance the efficiency and transparency of information disclosure. Establishing an online financial information disclosure platform allows users to conveniently access the firm's financial data, even enabling real-time queries and analysis. This not only facilitates users but also elevates the openness and transparency of the firm's information. Lastly, enterprises should establish a proactive feedback mechanism to promptly gather and respond to user opinions and suggestions regarding financial information disclosure. It is necessary to conduct regular user satisfaction surveys to understand the problems and needs encountered when using financial statements, and then make improvements based on these feedbacks. This practice not only enhances user trust in the firm but also enables the firm to better adapt to market changes [4].

4.2. Strengthening Report Format Construction to Standardize Presentation Methods

The issue of the standardization of financial statement formats has long been a recurrent subject. However, in practical application, many enterprises still struggle with inconsistencies in formatting and ambiguous information. This phenomenon not only confuses users but also severely undermines the reputation of the enterprises and the market's trust in them. To address this issue, enterprises must invest substantial effort into the formatting of their financial statements, ensuring that each report is clear, standardized, and easily comprehensible. Initially, enterprises can reference international financial reporting standards (IFRS) and Chinese Accounting Standards (CAS) to devise a set of standardized report formats. These standards, having been extensively practiced and validated, provide a robust framework. Simultaneously, enterprises should conduct regular training for their finance personnel to ensure they are adept in applying these standards, thereby averting formatting chaos caused by individual interpretation and operational discrepancies. Additionally, enterprises can incorporate more explanatory text within their reports to assist users in understanding the significance and context of key data. For instance, detailed explanations of complex accounting treatments can be provided in the notes. This not only enhances the transparency of the reports but also reduces misunderstandings and queries among users. Particularly for users across different industries, explanatory text facilitates a better comprehension and comparison of financial data from different enterprises. Moreover, enterprises can adopt professional financial report design tools to enhance the visual appeal and readability of their reports. These tools aid in designing more aesthetically pleasing and intuitive reports, enabling users to quickly grasp crucial information. For example, visualizing profit fluctuations and cash flow status through charts and graphical representations renders the data more vivid and comprehensible. Furthermore, enterprises can establish a dedicated financial report review team responsible for periodic assessment and evaluation of report formats and content. This team should comprise not only finance personnel but also representatives from other departments, ensuring that the reports meet diverse requirements. They can offer improvement suggestions, helping enterprises continually refine report formats and presentation methods. The standardization of report formats is not merely a technical endeavor but also a manifestation of an enterprise's sense of responsibility and professionalism. Users require a financial report that is structurally lucid and content-accurate, rather than a mass of perplexing figures [5].

4.3. Improving Information Comparability to Facilitate Comparative Analysis Among Different Enterprises

Current corporate financial statements generally comply with formal requirements, yet frequently exhibit discrepancies and inconsistencies in their actual content. This phenomenon not only causes headaches for investors and analysts but also significantly hampers fair market competition. To facilitate more convenient comparative analyses among enterprises and enhance the comparability of information, it is essential to improve the consistency of financial data. Enterprises can utilize the International Financial Reporting Standards (IFRS) and the Chinese Accounting Standards (CAS) to unify report formats and categorize items. These standards provide clear guidance, effectively preventing subjective arbitrariness in financial statement preparation and ensuring the comparability of data across different enterprises. Particularly for multinational corporations, uniform report formats and item classifications are indispensable, enabling users to quickly and accurately understand the financial condition of enterprises. In addition to adhering to standard guidelines, enterprises can enhance the comprehensibility of their reports by adding standardized explanations and annotations. For instance, when disclosing sales expenses, enterprises can detail the specific composition of these expenses, indicating whether they are primarily allocated to market promotion or after-sales service. This allows users to make more informed comparisons between different enterprises, clearly observing the actual purpose and efficiency of each expense item. Such transparency not only elevates the clarity of financial reports but also aids users in making more prudent investment decisions. Modern information technology is also a crucial tool for improving the comparability of information. Enterprises can establish a unified financial data platform, centralized management of various financial statements and related data, facilitating user access to and analysis of data. Through this platform, users can easily retrieve financial information from different enterprises, conducting both horizontal and vertical comparisons, thus gaining a comprehensive understanding of the operational status of enterprises. Especially for large corporations and multinationals, the role of such data platforms becomes even more significant, reducing the time and effort users spend searching for and organizing data. Furthermore, enterprises can regularly participate in industry financial reporting exchange meetings, collaborating with other enterprises to discuss and refine report formats. Such exchanges not only elevate the financial management capabilities of enterprises but also foster the healthy development of the entire industry. After all, without a healthy and transparent market, the long-term development of enterprises would be compromised. Within these exchanges, enterprises can share their experiences, learn from others' lessons, and continuously improve their financial reporting systems [6].

4.4. Establishing a User-Oriented Concept to Meet Diverse Information Needs

In the current market landscape, user demands have become increasingly diverse and complex. If corporate financial statements fail to meet these requirements, not only will they lose the trust of investors but also potentially miss significant business opportunities. Therefore, it is imperative to establish a user-centric philosophy and provide targeted financial information. Enterprises can create dedicated sections within their reports to offer customized information for different user groups. For instance, for investors, companies can disclose detailed cash flow status, profitability, and future development prospects, aiding them in assessing investment value more effectively. For creditors, companies can elucidate on the debt structure and repayment capabilities, thereby bolstering their confidence. For regulatory bodies, enterprises must ensure the compliance and transparency of all financial data, avoiding any potential non-compliance. To achieve this, companies need to gain a profound understanding of the real needs of their users. Regular user satisfaction surveys can be conducted to identify issues and suggestions encountered while using financial reports. Such surveys not only help companies uncover inadequacies in their reports but also enhance user trust in the enterprise. For example, some users may desire more information on corporate social responsibility, prompting companies to augment their reports with content showcasing contributions in areas like environmental protection and employee welfare. The advancement of modern information technology provides a new platform for enhancing user-centric practices. Companies can utilize online financial reporting systems, allowing users to select specific financial metrics and data based on their needs. This personalized information service not only enhances user convenience but also better meets their diverse needs. For example, investors can query real-time stock prices and financial data through the system, facilitating more informed investment decisions. Additionally, companies can establish a user feedback mechanism to promptly collect and process opinions and recommendations. For instance, a dedicated customer service center can be set up where users can provide feedback via phone, email, or online platforms. Companies must respond proactively and make swift improvements. This interaction not only elevates user satisfaction but also promotes continuous optimization of financial reporting. Embracing a user-centric philosophy is not merely a slogan but a critical component of corporate operations. Users require not just a collection of numbers but a report that aids them in making informed decisions and understanding the true state of the enterprise. Only by truly centering on the user can a company remain invincible in the fiercely competitive market.

5. Conclusion

Improvement of financial statement presentation is not an overnight task, it requires enterprises to explore, adjust and improve in practice. When we look at the deficiencies of financial statement presentation, we should not only stay at the level of criticizing and blaming, but also understand the root causes of these problems and dig out the logic chain and practical dilemmas behind them. By strengthening the quality of information disclosure, improving the standardization of statement presentation, enhancing the comparability of information among enterprises, and establishing the concept of centering on the needs of users, we can gradually get out of the labyrinth of the current presentation. Importantly, each step of improvement needs to be accompanied by in-depth thinking and rigorous practice in order to ensure that the quality of financial statement presentation reaches new heights and better serves the management and development of enterprises. In this process, we look forward to more innovations and breakthroughs, and also look forward to the financial statements can become the cornerstone of enterprise and market trust.

References

1. Grant G H, Miller K C, Alali F. The effect of IT controls on financial reporting[J]. Managerial Auditing Journal, 2008, 23(8): 803-823.
2. Djajanti A, Evi T, Kurniawati D, et al. The Importance of Presenting Financial Statements to Assess the Performance of Micro, Small and Medium Enterprises (MSMEs)[J]. International Proceeding of Community Services, 2024, 1: 32-36.
3. Milojević M. The State of Public Enterprise Financial Reporting in Serbia[J]. Economic Analysis, 2018, 51(3-4): 105-114.
4. Talpas L. The theoretical bases for the preparation of Financial statements for SMEs: The case of Estonia[M]. TUT Press, 2016:12-13.
5. Mande B. Perceptions on Government Financial Reporting in Nigeria[J]. Journal of Finance, Accounting & Management, 2015, 6(1):19.
6. White G I, Sondhi A C, Fried D. The analysis and use of financial statements[M]. John Wiley & Sons, 2002:18-19.