FINANCIAL INFORMATION QUALITY AND IT'S DEFINING CHARACTERISTICS

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Astract: *In any profession and especially in the field of accounting profession, due to the nature of its problems, in the context of the globalization of the world economy, it is necessary to lay it on fundamental principles intend to ensure high standards of professionalism and quality.*

The accounting practice follows a process from the collection of the data from the primary documents to the systematization of the information in the financial statements. The financial accounting information is made public by financial statements, the regulation of which in the Republic of Moldova and the world is very strict, considering the impact on the decisions that the users will take. The qualitative characteristics of financial information help identify types of information that may be useful to existing and potential investors, lenders and other creditors in the decisions they make on the reporting entity on the basis of its financial statements.

Keywords: *financial statements, users of information, professional judgment qualitative characteristics, National Accounting Standards, International Financial Reporting Standards.*

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Introduction. The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making. Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing overall market efficiency.

The primary aim of the present study is to contribute to improving measurement of financial reporting quality. For this reason we operationalize the financial reporting quality in terms of the fundamental characteristics (i.e. relevance and faithful representation) and the enhancing qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness) as defined in the IASB's Conceptual Framework. [1]

Getting a true picture of the financial position, performance and changes in the financial position is the fundamental objective of accounting. In the accounting doctrine of recent decades, financial reporting evolved under different names, such as reports, financial reports, financial statements. But, accounting for the systematization of financial information by accounting for reporting purposes. The designation of financial statements is used both by the Accounting Law [2], National Accounting Standards (NAS) [4] and International Accounting Standards (IAS 1) and Directive 2013/34 / the annual financial statements, the consolidated financial statements and the related reports of certain types of undertakings.

The qualitative characteristics of useful financial reporting identify the types of information are likely to be most useful to users in making decisions about the reporting entity on the basis of information in its financial report. The qualitative characteristics apply equally to financial information in general purpose financial reports as well as to financial information provided in other ways. Financial information is useful when it is relevant and represents faithfully what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. Enhancing qualitative characteristics should be maximised to the extent necessary. However, enhancing qualitative characteristics (either individually or collectively) render information useful if that information is irrelevant or not represented faithfully.

Thus, the qualitative characteristics are the attributes that determine the usefulness of the information provided by the financial statements, so the draft of the new accounting law assumes their approximation by the chapter 3 of the Conceptual Framework by the two-tier hierarchy of the qualitative characteristics, shown in Figure 1:

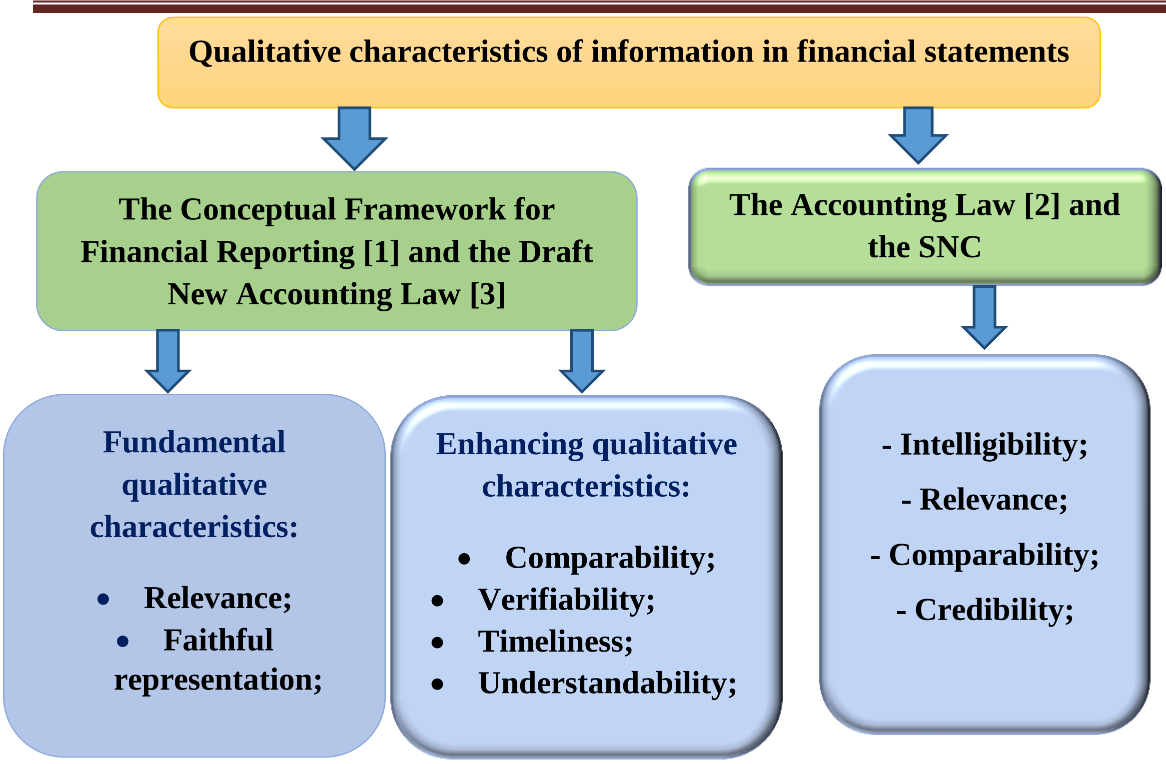

Figure 1. Qualitative characteristics of the information in the financial statements

Source: written by authors based on the conceptual framework for financial reporting and new Accounting law

According to the new draft law, the information in the financial statements must correspond to the qualitative and enhancing qualities.

Information *relevance* is kept as a fundamental feature and requires information to be important to users and to help them evaluate past, present or future events, confirm or correct their previous assessments. [3, p.13]

At the same time compared to the conceptual framework, relevance information is needed by users to substantiate economic decisions, therefore it must be significant. Relevant financial information is capable of making a difference in the decisions made by users.

Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value, or both. The predictive value and confirmatory value of financial information are interrelated. [1]

In the new draft of Accounting Law, the fundamental feature appear the exact representation or *faithful representation* [1], which states that the information presented in the financial statements must be complete, impartial and error-free. [3, p.13]

At the same time from exiting Law, this charcteristic incorporate credibility, which means that information is credible when it contains no significant errors, it is free of any distortions, being biased and reasonably presenting what they expect represent. The credibility assumes that the accounting information does not comprise any significant error or subjectivism and it offers a faithful image of the mirrored phenomena or processes. The conceptual frames detail the elements which ensure the information's credibility equally in terms of content, but underlined in terms of wording. Thus, the accounting information must be objective (to faithfully mirror the transactions and events), must reflect the meaning and consequences of the economic events just as the legal requirements, it has to be neutral (to avoid influencing a decision or issuing a judgment for the accomplishment of a pre-determined outcome or objective), it must be complete and illustrated within the limits of cautiousness.

According to the conceptual framework, this fundamental characteristic seeks to maximise the underlying characteristics of completeness, neutrality and freedom from error.[1]

The faithful representation concept should extend to all parts of the financial statements, including the results of operations, financial position, and cash flows of the reporting entity.

Financial statements that faithfully represent these aspects of a business should have the following three attributes:

- Complete. All of the information that a reader of the financial statements needs in order to form a clear picture of the results, financial position, and cash flows of a business are included in the financial statements. This also means that no information is omitted that might have led a reader to have a different opinion of the business. For example, a business could report that it had a $500,000 loan as of the balance sheet date, but this would not be considered complete unless additional information about the loan were provided, such as its maturity date.
- Error free. The financial statements should contain no errors, so that the information contained within them presents a fair view of the organization. If there is a continuing series of "errors" that tend to bias the results of the financial statements in a certain direction, this may be considered a case of financial reporting fraud.
- Unbiased. The financial statements represent the actual state of an organization, without trying to amplify its results unnecessarily or make them look worse than they really are. For example, biased financial statements could be used to give an overly optimistic view of a business in order to encourage a prospective buyer to pay a higher price for it. Conversely, financial statements could be made to look worse in order to reduce the related income tax liability.

Comparability has also been maintained in the new draft of Accounting Law, this assumes that the financial statements must contain comparative information for the prior period for all reported accounting elements of the current period, unless the accounting standards provide otherwise. [3, p.14]

The information in the financial statements must be comparable in time for trends in the financial position and performance of the entity can be identified. Information about a reporting entity is more useful if it can be compared with a similar information about other entities and with similar information about the same entity for another period or another date. Comparability enables users to identify and understand similarities in, and differences among, items. [1]

Understandability characteristic in the new project of Law, which is being treated as intelligibility provides that the information is to be categorized, characterized and presented in a clear and concise manner. [3, p.14]

As per concpetual framework, classifying, characterising and presenting information clearly and concisely makes it understandable. While some phenomena are inherently complex and cannot be made easy to understand, to exclude such information would make financial reports incomplete and potentially misleading. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information with diligence.

According to the new draft law, *verifiability* is to ensure that users are able to directly or indirectly verify the information in the financial statements. [3, p.14]

Conceptual framework explain, that verifiability helps to assure users that information represents faithfully the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. [1]

The verifiability is the process by means of which independent observers issue assurances regarding the relevance and credibility of the information provided in the financial statements, by confirming the correspondence between the displayed image and the purpose perused for the events and transactions carried out. This quality is embodied by means of the accomplishment of an agreement between observers and of a correspondence between the economic and accounting aspects, but also, between the direct and indirect verification of the displayed information. Thus, the information assessed by an evaluator may be deemed believable if it may be confirmed by another expert.

Timeliness assumes that information is available to users in a timely manner to influence their decisions. [3, p.14] Conceptual framework treats timeliness in in the manner that information is available to decision-makers in time to be capable of influencing their decisions. [1]

Information timeliness goes hand in hand with information accuracy. The concept of what is timely is itself constantly changing and being redefined, due to changes in customer perceptions caused by technology and the competitive environment.

IASB identifies the qualitative characteristics of accounting information that distinguish a better information (more useful) and inferior information (less useful) for decision making. As can be seen in figure 2, the qualitative characteristics can be put in the following hierarchical order:

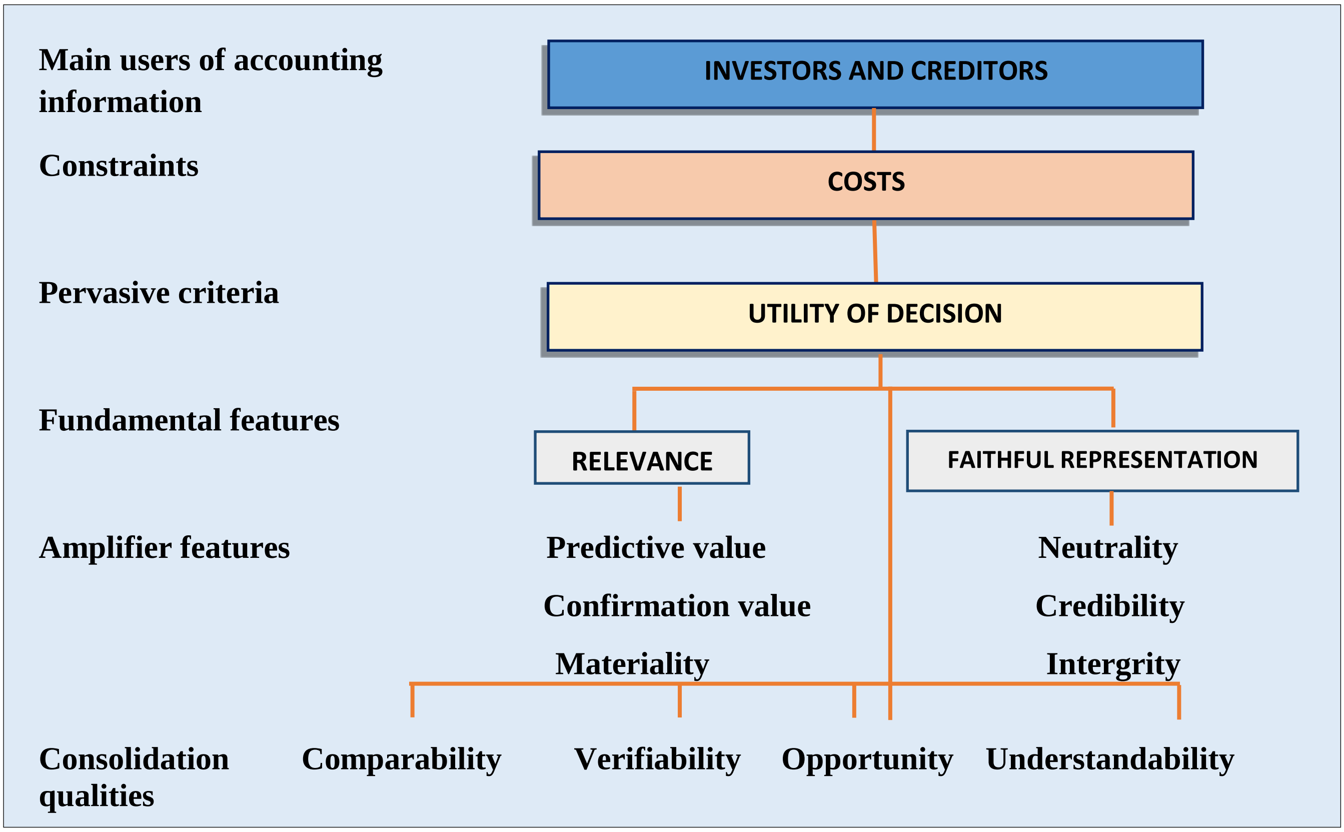

Figure 2. Hierarchy of accounting information qualities

Source: written by authors based on the conceptual framework for financial reporting

As shown in the figure above, qualitative characteristics are divided into basic and fundamental characteristics (consolidated), depending on how they affect the usefulness of the information for decisions. Regardless of classification, each feature contributes to the usefulness of qualitative information from financial reporting in making the decision. However, provision of useful financial information is limited by the omnipresence of an impediment over financial reporting and certain costs that should not exceed the rewards of a reporting period.

Conclusions. The qualitative characteristics of financial information helps to identify the types of information that may be useful for current and potential investors, shareholders or creditors, employees, suppliers, customers, government and other creditors, in the decisions that they adopt regarding the reporting entity based on the annual financial statements. Most often, they do not perform their financial analyses, but employs to analyses published by the specialized press or seek advice from a professional analyst.

However, often external users only have access to financial information disclosed by the company as a legal obligation, and their decisions are deeply marked by the quality and accuracy of data provided by issuers of these financial statements. In conclusion, the qualitative characteristics of financial statements are very important because, based on them, are assured the financial information required to all users, and is reflected the correct financial position, performance and its changes.

The comparability endorses the need of users to compare the information provided in financial statements in time, for the same company, and in space, for different companies and to extract trends regarding the companies' financial positions and the performances.

The purpose for the assurance of this feature is that of perceiving and explaining the differences and similarities between certain information provided in the financial statements.

The comparability's quality is preserved if different accounting methods are used and even if there are adjusted, given that there are displayed comprehensibly, believably and relevantly all the consequences arising from such situations. The comparability between companies and the consistency of the accounting policies in time ensure the increase of the informational value of the economic opportunities and performances and the information's meaning, especially the qualitative one, depends on the user's ability to relate it to certain standards.

The relevance of the accounting information is one of the most significant features in terms of quality and refers to its capacity to influence investors, creditors and other users of the financial statements in their decision - making. A relevant piece of information helps the user assessing present, future and past events, confirming and correcting potential past errors.

The information's relevance regarding a certain element which must be acknowledged in financial statements, may not be assessed distinctly, but it must be assessed within the frame of the main objective of the financial statement, namely to provide useful information for decision-making with respect to investments, financing or exploitation. Moreover, the relevance must be taken into account within the frame of the drafting of the entire set of the financial statements and the way according to which an acknowledged element is useful in the decision-making process.

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