1993

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Publication Details
This working paper was originally published as Sadeghzadeh, A, Socially Responsible Accounting Reporting: Financial Aspects, Accounting & Finance Working Paper 93/03, School of Accounting & Finance, University of Wollongong, 1993.
SOCIALLY RESPONSIBLE ACCOUNTING REPORTING:
FINANCIAL ASPECTS

by

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1993 Working Paper Series No. 3
AUDIT YOURSELF (DISCHARGE YOUR ACCOUNTABILITY) BEFORE BEING AUDITED.
(MOHAMMAD, THE PROPHET, saw)

Socially Responsible Accounting Reporting:
Financial Aspects

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Date: March 1992
Everyone in a given society is affected by reported accounting data whether he or she knows it or not.

Kam

ABSTRACT

The shortcomings of financial reports in some respects, have been criticised by many researchers and academicians. In this study some of the main shortcomings, associated with the acknowledged functions of financial reports, are pointed out and the necessity for regulating accounting reporting is justified. Based on the generally accepted concept of full disclosure, the role and responsibilities of financial reporting is highlighted and "socially responsible accounting reporting", in relation to the influence of culture on accounting, is defined.

Key words: Financial reporting, Full disclosure, social responsibility, culture

Acknowledgement: The author is grateful to Professor M.J.R. Gaffikin for his kind and sincere supervision, to S. C. Lodh and A. Frino for their feedback on the early drafts of this work and to Tabriz University (Tabriz, Iran) for their financial support.
Introduction and Motivation of the Study

There has been extensive research activity on the interaction between financial reporting and the users of accounting numbers (Abdel-Khalik & Ajinkya, 1979). Many studies have been carried out in the areas of financial reporting and the usefulness of financial reports to the users of accounting numbers but it seems that even more effort is required if the aim is the enrichment and betterment of accounting reporting. Whereas there were few demands on accounting information in the past, with the advances of computer technology and a proliferation of new databases, the quality and quantity of accounting information presented has, according to Nitterhouse and Silhan (1987), become even more critical. They refer to Professor Burch (page 1) pointing out the need for accountants to make reports and other output more usable.

It has largely held that the main objective, and the rationale for the issuance, of accounting reports centres on their information service function but, in many respects, the reports have failed to perform this function successfully. They have been criticised for their disclosure shortcomings (Hariadi, 1991; Henderson and Peirson, 1988; Miah, 1991 to name a few).

Primarily this study will review some previous research in order to highlight some of the important shortcomings of accounting reports relevant to disclosure. Then the scope and the limits of financial statements and financial reporting will be considered and the main function of accounting reports, namely the information serving function, will be analysed. A brief review of the discourse regarding "financial reporting regulation" will follow. Finally, after reviewing the responsibilities of accounting reports, a definition of socially responsible accounting reporting with regard to the interaction of culture and accounting will be attempted.

Research Questions

The following research questions will be addressed in the light of the above considerations:

1. Accounting reports, accounting information, financial reports and financial informations are used interchangeably.
1. What kinds of information are provided by financial statements and financial reports?
2. What are the major shortcomings of conventional accounting reports?
3. Is there any need to regulate accounting reporting and to format accounting reports?
4. What are the necessary requirements for full disclosure?
5. What are the responsibilities of accounting reports?
6. What is the definition of and/or what is meant by "socially responsible accounting reporting"?
7. Does culture influence accounting reporting?
8. Is there any "reporting format" applicable for all societies at all times and circumstances?

Review of Previous Studies

In this section it is intended that, by surveying the literature, some major shortcomings of accounting reports be pinpointed, the remedial suggestions be reviewed and the necessity of regulating accounting reporting be justified.

Different studies have focused on the shortcomings of accounting reports from different perspectives (Hariadi, 1991; Henderson and Peirson, 1988; Miah, 1991 and others). Although within the domain of financial accounting, each study has focused on one or a few aspects of disclosure. Two of these studies will be focused on in this work, each of which criticises the present style of financial reports from a different point of view.

A large number of studies have been carried out in the area of social responsibility disclosure (which most financial reports lack). A short glance to the commonalities of some of the studies will suffice, but with regard to our purpose the research carried out by Hariadi (1991) contains most of the relevant commonalities. Therefore, the first part of this section will review this article.
The lack of social responsibility practice and disclosure in some countries has been criticised in recent years (Hardiari, 1991). Developing countries in particular have received scant attention from most companies, except from the generally foreign-owned large companies (Andrew et al., 1989). "The public sector has never been concerned with the bottom line of the profit and loss statement. It can no longer afford the luxury of this benign neglect." (Linowes, 1971)

Hardiari argued, on the one hand, that:

The extent to which business is responsible to society is a source of endless debate. However it seems there is a need of the business sector to seek ways of improving and reporting their social responsibility performance since their reputation and goodwill will be enhanced. On the other hand, Hariadi mentions the objective of financial reporting being to communicate primarily the results of transaction of goods and services between two or more economic entities. He states that this objective does not communicate changes in human capital and ignores the transaction between the firm and its environment. Reasoning that "(c)onventional accounting has difficulty with measuring the social consequences of events because of a lack of credibility, quantifiability, and objectivity" he acknowledges the necessity of developing a social report outside a financial statement based conventional statement (Hariadi, 1991). Considering the criticised impact of business activities in economically highly developed countries on the quality of human and social life as well as, and specifically, the living environment, Hariadi appreciates an increased demand and pressure on business to integrate more social consideration into its decision making and disclose their social responsibility.

Gray et al. (1987) define social reporting as "The process of providing information designed to discharge social accountability" where social accountability is defined as "The responsibility to account for actions for which one has social responsibility (ie actions with implications of a non financial nature) under an established contract (implicit or explicit)". It is very important to note that if some companies exercise their

2. Most of the discourse about social responsibility disclosure relies on the argument in Hariadi (1987).

3. In one study in the context of Malaysia and Singapore, conducted by Andrew et al., the overall percentage of disclosing companies was only 26%.
social responsibility while others ignore it, their performance comparison base in between will be eliminated. As a result, socially irresponsible companies will look more successful than socially responsible ones. Ultimately, this will lead the flow of investment funds to the irresponsible companies, resulting to still more social costs and diseconomies (Kam, 1990).

With regard to the practicability of the theory Hariadi quotes from Dierkes that:

Conventional accounting has some difficulties in measuring social costs and social benefits of companies in its financial statements. This causes a significant frustration and alienation in the business sector as well as a grooving confusion about its future role in society. He then concludes that company's role in its economic and social circumstances should be disclosed while a satisfied solution of how to disclose has not yet reached at.

Although some would argue against the foregoing discussion, the majority of research works conclude that published financial reports should include information displaying the amount of responsibility exercised by the reporting company regarding social issues.

The difficulty associated with the purpose of social responsibility reporting is attributed, as a general belief, to the "lack of generally accepted role of business in society". The difficulty is a proven fact but whether the role of business in society can be theorized or not requires more research effort.

There is a realized dominant consensus ( ) that, because of the difficulties involved in measuring externalities in money value, social responsibility reports should be disclosed in a descriptive report outside conventional accounting statements, either voluntarily or imposed by the law.

Another difficulty frequently mentioned in the discourse of shortcomings of financial reports stems from the diversity of accounting methods and the possibility of selecting among them. Some criticisms have been addressed to financial reporting from this

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4. "A company which tries to ensure that it does not pollute the environment, does not produce unsafe or faulty products, provides a broad range of employee amenities, and so on, would be classified as socially responsible." (Henderson and Pierson, 1988)
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perspective. Henderson and Peirson (1988), for example, point to the alternative accounting methods for many transactions, often with widely different results. They quote from Chambers' 8190 estimated different ways of valuing manufactured products in the USA. And different accounting methods influence the market value of firms' securities in at least five (overlapping) ways (Foster, 1986). Applying alternative accounting methods eliminates the comparability of accounting reports of different companies. Alternative accounting methods, furthermore, facilitate creative accounting and a desired results to be reported utilising a method which has been criticised in the USA and Australia (Henderson and Peirson, 1988).

There are arguments both for and against uniformity in accounting methods but, unless the accounting policies (applied accounting methods and changes in the accounting methods) as well as the effects of the changes (in the results of performance and the financial position) are disclosed within the financial reports, the usefulness of the reported information and the inter-company and/or intera-company comparability of the reports will be doubtful (Henderson and Peirson, 1988).

With regard to the shortcomings of financial reports and the critics already reviewed as examples, the question that comes to mind is can and/or should financial reporting be regulated? This issue will be discussed later in this article.

The Limits to Financial Statements and Financial Reports

Financial statements, it has been contended, provide information about the results of performance, financial position, financing and investing of reporting entity, including information about compliance (SAC 2 Par 28). This is not all the information required by different users of informations and not all essential information required by users can be provided through the common conventional financial statements. The International Accounting Standards Committee (IASC) in paragraph 13 of its framework states:

... financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information.

With a similar statement, the FASB, in its Concepts Statement No. 1, notes that:
... although financial reporting and financial statements have essentially the same objectives, some useful information is better provided in the financial statements, and some is better provided by means of financial reporting other than financial statements.

In this regard Paragraph 10 of the SAC 2 states:
Financial reporting encompasses the provision of financial statements and related financial and other information. Financial reports, comprising financial statements, notes, supplementary schedules and explanatory material intended to be read with the financial statements, are the principal means of communicating financial information about the reporting entity to users.

The above citations indicate the importance of financial reports and justifies that more information than disclosed through financial statements be provided by means of financial reports.

The Main Functions/Objectives of Accounting Reports

*It is an observable fact . . . that accounting implies communicating.*

 *(Chambers)*

*If the heart of a profession is its technical expertise, its soul is its service orientation.*

 *(George J. Staubus)*

Before starting to discuss the main issue it is necessary to address the following question paying special attention to the answer provided.

**Question:** Should we use the term "objective(s)" of financial reports and "objective(s)" of accounting, or "function(s)" of financial reports and "function(s)" of accounting?

Chambers (1976) very adeptly answers this question. He explains:
An objective is an aim or a goal. It is commonly used of people or bodies of people. It can perhaps be used of things. But for the sake of clarity it seems preferable to speak of the 'functions' of things or instruments. One can speak of the function of a pen, a car, a house; to speak of the 'objective' of these things would not ordinarily be considered apt. Ordinary usage would tolerate reference to the objective of the user of a car, or the issuer of a financial statement, or the user of a financial statement.

Chambers, therefore, chooses to speak of functions, rather than the objectives, of financial statements, and this study will follow him.

A great deal has been written about the functions of accounting reports, albeit some of them employ the term objectives of accounting and/or objectives of accounting reports. For example:

*Concepts Statement No. 1 of FASB* states that the basic objective of external financial reporting for business enterprises as follows:

> Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions.

The Companies Act and Code 1981 recognizes the function of financial reports as follows:

> The financial reports presented must show 'a true and fair view' of the company's profit and state of affairs.

Barton (1982) states "economic decision making, control and accountability" as three basic functions of accounting information. And, from Miah's perspective, providing a complete picture of managerial stewardship is viewed to be the function of accounting reports. (Miah, 1990)

Accounting serves the information needs of users through providing information by means of financial reports which the entity issues periodically.

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It is seen easily that two main issues construct the whole skeleton of all the citations already reviewed. These two issues are "information conveyed" and "users of financial reports". Therefore, it seems useful to study briefly the importance of information as well as the users of financial reports.

**Importance of information**

... every business decision will ultimately rely on the data provided by the accounting system.

(Joseph)

The significance of financial reporting as a means of communicating information to interested parties has been the cause of the establishment of Australian Accounting Research Foundation as well as of other regulatory bodies.

With regard to the importance of information and its role in decision making Chambers (1976) says:

... a deliberate investor will attempt to formulate some ideas of the prospects of the firms he compares. But without dependable information on the state of those firms at or about the time of comparison, he will not have reliable ground for his progress.

What investors and other users of financial reports need, what they expect from accounting reports, what makes the basis of their decision is nothing but information.

But, an important point worthy of special attention is the fact that accounting reports and/or information provided within them do not and are not sufficient for decision making; rather users of the reports, employ inputs from accounting reports as data in their decision models to make predictions (ASOBAT, Wolk et al., 1989). Information can, then, be assumed as inputs or raw material for a decision making process.

Therefore, special attention should be paid to users of the financial reports and their information needs. The next section will discuss this issue.

6. Forward to Statement of Accounting Concept and Statement of Accounting Standards, Paragraph 2
Who are the users of financial information?

Alexander (1990) gives the following definition of the users of the corporate reports:

Those having reasonable right to information concerning the reporting entity ... A reasonable right to information exists where the activities of an organization impinge or may impinge on the interest of a user group.

In order to perform the information service function of financial reports more efficiently in regard with information needs of the users some studies attempt to identify users and the needs of different or specific groups of users (Chambers, 1976) and tailor their reporting system accordingly.


... no, or little progress can be made towards improvement of the design of Financial statements until more is known of the decision model and decision process of their users.

But Chambers himself does not attempt to follow this procedure (Ibid, page 11).

It would be much more easier to the providers of financial reports if all users required the same information. But, different classes of people, use (in varieties of ways) information provided by accounting reports as basis for their decision making. Alexander (1990) states:

Different users, with different purposes, may require different information about the same item. Different users will require (and be able to understand) different degrees of complexity and depth.

Some studies concentrate on and mention only a few more important groups of users. SAC2\(^7\) identifies three primary categories of users of general purpose financial reports,

\(^7\)Statement of Accounting Concept (SAC2) of Australian Accounting Research Foundation Accounting Standards Board and Public Sector Accounting Standards Board
those whose common information needs dictate the type of information to be disclosed by such reports . . . " . These categories are: resource providers, recipients of goods and services and parties performing a review or oversight function.

Paragraph 9 of the Framework for the Preparation and Presentation of Financial Statements published by the International Accounting Standards Committee (IASC) identified seven groups of users of accounting information. The groups are: investors, employees, lenders, suppliers and other creditors, customers, government and their agencies, and the public.

With regard to the purpose of this article it is important to consider that society, as mentioned above, is recognised as a user of accounting information. Kam (1990) addresses the question "Does society have a legitimate claim to being a user of accounting data?". He then quotes the answer provided by a special committee of the AAA\(^8\) which states:

> It is apparent that individuals who do not receive accounting data in question can be affected by the actions of those who do receive and act upon those data. The notion of "use" of accounting data can be broadened, therefore, to encompass those affected indirectly by the appearance and employment of the data by those having direct access. In the limit, then, the entire membership of a society may be regarded as constituting the universal set of "users"; future generations might well be included.

Kam further argues that:

> Everyone in a given society is affected by reported accounting data whether he or she knows it or not. Those who act upon the data cause certain economic events to transpire that eventually affect everyone. Society, therefore, can justifiably be considered a user of externally reported accounting information, especially information provided by large corporations whose actions has a great economic impact. It can also be argued that society, through its governmental representatives, permit business firms to operate, and it therefore has a right to ask for an

accounting of the activities of business as they relate to general welfare of society.

Stating that "(i)f society is designated as a user, this leads to 'social accounting' ", Kam cites from the Trueblood Committee (ibid page 51) the following as another objective of financial statements:

An objective of financial statement is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment.

It becomes clear, then, by now that each class of user needs and uses different information and expects that the information content of accounting reports would have been tailored to its own specific need(s).

Therefore, it is important that the information provided in accounting reports fit and meet information needs of their users as much, efficiently, completely and perfectly as possible. Because, "(i)f the information content of accounting data is lacking, investors will seek other sources." (Kam, 1986)

In following this goal accountants, on the one hand, obviously seem to be lucky to have alternatives (of choices). Using a rather unusual analogy Alexander (1990) concludes that in the same way that different tastes of sausages are made simply by changing the ingredients to meet different users' requirements "to provide a different financial statement in accordance with a user's particular wishes, we have to alter the data inputs". But, on the other hand, even if it is feasible in practice it is important to consider to what extent identifying user needs and tailoring the reporting system and information content of the reports to meet their specific needs is necessary and/or possible. This issue will be briefly discussed in the next section.

**General purpose financial reporting**

Because of the difficulties engaged in identifying the users of financial reports and their specific needs, general purpose financial reporting is recommended. According to the **Statement of Accounting Concepts SAC2** "Objectives of General Purpose Financial Reporting" (Paragraph 7):
General purpose financial reporting focuses on providing information to meet the common information needs common to users who are unable to command the preparation of reports tailored to their particular information needs. These users must rely on the information communicated to them by the reporting entity.

The paradox of identifying the users of financial reports and their specific needs on the one hand and providing general purpose financial reporting on the other hand has somewhat been solved by the devices of "special purpose financial reporting" (Statements of Accounting Concepts No 2 Paragraph 20) and "differential reporting" ( ).

It is also important to note that "(s)ome users have specialised needs and will possess the authority to obtain the information to meet those needs. Examples of such users are taxation authorities, central banks, and grants commissions. Although such users may make use of the information contained in general purpose financial reports, because they have the authority to command the information they require, they do not need to rely on information provided to other groups." (SAC 2 Paragraph 8).

**Financial Reporting Regulation**

So far it has been emphasised that financial reports form a unique and most important basis for decision making. Their soundness and completeness will positively influence the soundness and the efficiency of decisions. On the contrary, deficiency in the information content of financial reports will lead to biased, unsound, and inefficient decisions.

This being the fact, and considering the importance of the consequences of biased, unsound and inefficient decision making, the question requiring special attention would be: is there any need to regulate accounting reporting and to format accounting reports?

9. This section is summarized from Wolk et all (1989). "Financial reporting regulation (or nonregulation) is a social choice that affects different parties in different ways and . . . there is no correct answer. This leads . . . for the recognition of an explicit political economy of accounting . . . . That is, accounting policy is not simply a matter of economic efficiency or optimality. It also affects income and wealth distribution (who get what), and this is necessarily a social and political issue that transcends accounting". (Wolk et all, pp 96-97)
Employing a common set of accounting standards will improve the quality of financial information in financial reports. This justifies the necessity of standard setting, regulation and establishing regulatory bodies.

There are arguments both for and against financial reporting regulation. Wolk et al. have devoted a sizable section of their book to the discourse of financial reporting regulation. They attempt to evaluate the arguments both for and against formal regulation in order to understand the nature of accounting regulation and some of the consequences that follow from it. With regard to the unregulated markets for accounting information Wolk et al. refer to a recent body of literature considering the possibility that financial reporting need not be regulated. They state that:

- The arguments all relate to the incentives for a firm to report information about itself to owners and to the capital market in general. Agency theory is employed to explain why incentives exist for reliable and voluntary reporting to owners. Wider voluntary reporting to capital markets is attributed to competitiveness in the capital markets. Finally, it is argued that any information not reported voluntarily could be obtained through private contracting.

On the other hand, based on the possibility of a financial failure in the free market system, which indicates a sub-optimal allocation of resources and the possibility that free markets are contrary to social goals, Wolk et al. argue that market regulation is in the public interest. Market failure requires regulatory intervention to prevent monopoly pricing; and social welfare programs modify market based income distributions to provide social safety to lower income individuals of society.

According to Wolk et al. (1989) it can be concluded that, in order to improve the quality of financial reports and to protect the public from fraud and failure as well as to achieve social goals more and better regulation is necessary. This is in agreement with Chambers (1976). He declares that:

- In general, no comparison of the financial characteristics of firms is valid or instructive unless the principles of independent discovery of states from

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time to time, temporal corresponding of reports of effects, and completeness of representation, are followed uniformly by all firms. In addition, Chambers' assertion justifies the intuitive rationale for regulation.

Full Disclosure in Financial Reporting

Full disclosure principles call for financial reporting of any facts significant enough to influence the judgement of an informed reader. The profession is still in the process of developing the guide-lines that tell whether a given transaction should be disclosed and what format this disclosure should take. Different users want different information and it becomes extremely difficult to develop disclosure policies that meet their varied objectives.

A good illustration of the types of financial information used in investment, credit and other decisions is provided — Exhibit 1 here.

Financial statements, notes to financial statements, and supplementary information are areas directly affected by FASB standards. Notes are the accountant's means of amplifying and explaining the items presented in the main body of the statements. From the stand point of APB Opinion No. 22 "accounting policies adopted and followed by the reporting entity, as well, complies, with the criterion already stated, and therefore it concludes that "a statement identifying the accounting policies adopted and followed by the reporting entity should also be presented as an integral part of the financial statements."

As noted at the outset of the article it is very difficult to present all essential information about an enterprise in financial statements only. On the other hand, based on what has been discussed already, more information is required by the users and must be provided to them in one way or another. In this regard Keiso and Weygandt (1989) point out to financial reports which include other types of information found in the annual reports, such as management's discussion and analysis. Considering the increased disclosure requirements in recent years (Keiso & Weygandt, 1982) it is necessary that more

8. This section relies on the argument by Keiso and Weygandt (1982).
information than that provided by financial statements be provided to the users by financial reports. This additional information includes the following issues:

1. Notes to financial statements which present accounting policies and other notes relating to inventory; property, plant and equipment; credit claims; equity holders' claim; contingencies and commitments; differed taxes, pensions, and leases; changes in accounting principles and events that occur subsequent to the balance sheet;

2. Special transactions or events like translations with related parties, error and illegal acts be presented in a manner which properly balances the rights of the reporting company and the needs of the users of the financial statements;

3. In response to segment information requirements by the profession concerning the details behind conglomerate financial statements particularly revenue and income information on the individual segment that compose the total business income figure be provided in certain situations. So the users can determine the extent to which different product line or segments contribute to the company's profitability, risk, and growth potential;

4. Interim reports (reports that cover periods of less than one year like quarterly reports and reports required by 10Q);

5. Other areas on the annual reports like the following be included in financial reports:

   a. Management Discussion and Analysis (MD&A) section which covers three financial aspects of an enterprise's business - liquidity, capital resources, and results of operations. It requires management to highlight favourable or unfavourable trends and to

12. "Related parties transactions arise when a business enterprise engages in transaction in which one of the transacting parties has the ability to influence significantly the policies of the other, or in which a nontransacting party has the ability to influence the policies of the two transacting parties."(Ibid page 1250)
identify significant events and uncertainties that affect these three factors.

b. Management's responsibilities for financial statements including its responsibilities for, and assessment of, the internal control system must be disclosed.

c. It is recommended and for the best of the management that provides information related to its socially responsible activities, though not compulsory.

d. Auditor's report expressing the auditor's opinion in regard the financial statements of the entity also must be presented as an important source of information.

6. Companies are also permitted (not required) to provide information concerning corporation's expectations for future in form of either financial forecast or financial projection. To encourage management to disclose this type of information the SEC has issued a "safe harbour" rule. The safe harbour rule provides protection to an enterprise that presents an erroneous forecast as long as the projection was prepared on a reasonable basis and was disclosed in good faith.

7. A Summary Annual Report (SAR)\textsuperscript{13} makes annual reports more meaningful for certain stockholders who need highly summarized and less technical analysis of financial information. Providing a SAR will enrich the information content of financial reports even more.

8. Intentional or reckless conduct, whether act or omission, that result in materially misleading financial statements, must be reported. Likewise gross and deliberate distortion of corporate records (such as inventory count tags), or misapplication of accounting principles (failure to disclose

\textsuperscript{13} A SAR contains a condensed financial presentation on a more readable format than that of the traditional report. This approach is based on the concept of 'differential disclosure''(page 1271).
material transactions) must be dealt with when financial reports are being prepared.

**Characteristics, qualifications and the composition of accounting reports**

In order that management's accountability and stewardship is discharged, financial reports must be provided that, with regard to all other aspects, attain the highest possible level of quality. (SAC 1 Paragraph 7 and SAC 3 Paragraph 3). All regulatory bodies, also, have been established mainly to improve the quality of financial reports\(^\text{14}\).

Financial reports should qualify certain characteristic and should convey specified information. Nitterhouse and Silhan (1987) state that "(a)n accounting report, regardless of its purpose, should be designed with certain general principles in mind". These, by definition, apply to any type of report. Nitterhouse and Silhan (page 2) have defined the following general principles:

* Avoid irrelevant data (potentially counter-productive)
* Avoid excessive detail (potentially counter-productive)
* Avoid excessive redundancy (potentially counter-productive))
* Avoid ambiguity (potentially misleading)
* Avoid clutter (potentially distracting)

With regard to the composition of financial reports the following question is worth bearing in mind - what information should be put in accounting reports? In order to answer it is necessary "to identify those characteristic that financial information should possess if it is to serve the specific objectives (SAC 3, Paragraph 3).

In order that financial information meet the reporting criteria it should possess certain characteristics. These are known as the qualitative characteristics of financial information and have been the focus of studies of researchers and all authoritative bodies. All studies and regulations identify more or less the same characteristics as qualitative characteristics

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14. For example, establishment of Australian Accounting Research Foundation in 1966 by the Institute of Chartered Accountants in Australia and the Australian Society of Chartered Accountants (the Accounting Bodies). Paragraph 2 of Forward to Statement of Accounting Concepts and Statements of Accounting Standards.
of financial reports. SAC 3 in paragraph 7 "identifies relevance and reliability as the primary qualitative characteristics which financial information should possess in order to be the subject of general purpose financial reporting".

Beside relevance and reliability, materiality, comparability and understandability also have been identified as the necessary characteristics of financial information.

There are, of course, some constraints on relevant and reliable financial information such as "timeliness" and "cost/benefit" which will not be discussed in this article.

**Responsibilities of Financial Reporting**

Reconsidering what has been discussed already leads to the conclusion that information shortcomings of financial reports, either in the form of lack of disclosure or mis-disclosure, will result in mis-allocation of resources in society and will force the "good citizen" businesses to have difficulties in capital acquisition and prosperity. It also will impinge negatively on the whole economy and any present and potential member of the society. From the standpoint of social responsibility researchers publishing unreal information is a social cost ( ), and the issuers are responsible for their action.

Therefore, it seems very important to focus on the responsibilities of financial reporting.

Different studies state different points of significant importance to be disclosed in financial reports, and it is with this purpose in mind that this study lists all of them. Based on what has been discussed so far, some of the responsibilities of financial reports can be summarised as follows:

"... (F)inancial reports should disclose relevant information for the assessment of performance, financial position, financing and investing, and compliance " (ED42A, 1987, Para 40). A similar responsibility is designated for general purpose financial reports by SAC 2, Paragraph 28. This might be referred to as "a true and fair view of the company's profit and state of affairs" which the Companies Act and Code 1981 state that the financial reports must show. Hines (1991) argues that:
published financial statements should contain information that is an aid to various user groups in making rational decisions about the company under review.

Most studies focus on the stewardship responsibility of the management which holds that accounting reports should provide a complete picture of the entity (Miah, 1990). In some other studies this has been referred to as management accountability which should be discharged through financial reports (SAC 1, Paragraph 7). It is also necessary that the accounting system employed, general as well as specific policies applied and some information like, changes in accounting procedures as well as changes in auditors, be disclosed.

Some would go one step further and argue that providing information by means of financial reports is not enough and there must be communication beyond that (Alexander, 1990). By communication, Alexander means that the receiver becomes genuinely informed and mentally and personally aware. He then quotes from Chambers that:

If effective communication is to take place the language used must be such that the signs employed evoke in others the same response as if those others were to see the subject represented instead of the signs.

Alexander then acknowledges that this is an idealistic position specially in accounting in which the means of communication (essentially a few) are usually prepared by those who were not actually involved in the financial events supposedly being communicated anyway.

Some scholars would mention the social responsibility practice of management as a significant information which financial reports should disclose (Hariadi, 1991; for example).

On the basis of the above it can be concluded that the responsibilities of a financial report is discharged if it depicts the true and fair picture of the reporting entity by providing as much necessary and sufficient information as possible, so that the reports can be used as bases for decision makings. The term "necessary information" encompasses implicitly relevance and reliability, in consideration of timeliness and cost/benefit discourses; and the term "sufficient information", while referring to the needed qualification of the
seeked information, excludes implicitly irrelevance, excessive detail, excessive redundancy, ambiguity, clutter, and the like from the reported information. 

As the conclusion of all the on-going discussions it seems possible at this stage to define the *good* and *comprehensive* financial report which follows. But there is a substantially important other aspect related to the issue which will be discussed briefly following the definition; ie, the interaction of accounting and culture.

**Definition of Socially Responsible Accounting Reporting**

In brief, a financial report which discloses useful information to users, provides a complete picture of managerial stewardship, discharges managerial accountability, portrays social responsibility practice of reporting entity (as well as its social contract fulfilment) and displays a true and fair view of the company's profit and state of affairs can be qualified as being *socially responsible accounting report*. A reporting system which provides reports of this kind can be called *socially responsible accounting reporting*.

**Culture and Accounting**

A recent research area introduced to the accounting literature is the interaction of environmental (especially cultural) factors with accounting (Arpan and Radebaugh, 1981; Belkaoui, 1985 and 1990; Gray, 1988; Hofstede, 1985 and 1987; Jaggi, 1975; Mathews and Perera, 1990 and 1991; Perera 1989 and Wines 1989 to name a few). The results of these studies indicate that the accounting system of each country is influenced by the environmental factors of that country. According to these studies, not only can the accounting principles and policies applied in one country not be applied in another country with a different culture; this is, even, the case for multinational companies; in that, the accounting practice of a parent company cannot be imposed in subsidiaries (Hofstede, 1987, pp 8-9).
This may seen in conflict with the definition concluded above. But this is only the appearance and there is no conflict in the substance. This is because it is assumed in this study that the above conclusion is on the provision of this new dimension. That is, the conclusion - the definition of socially responsible accounting reporting - is true if applied/considered to each society separately on the basis of the circumstances of that specific society. The results of the study cannot be applied or transplanted to another society with different characteristics without modifications (Jaggi, 1975).

The conclusion is in accordance with the contingency theory which justifies different accounting principles and procedures for different circumstances. The conclusion does not even conflict with the quotation from Mohammad, the God's messenger (saw) at the outset of the study (Audit yourself (discharge your accountability) before being audited) contrary to a complete transparency which might be inferred from the appearance of the quotation.

The quotation must be considered in the general way and policy of the Holy Quran, called Quest. The general policy of Quran, Quest, sometimes referred to as Adl, means (in general) putting every thing to its place. It implies that always and in all instances the action which is required and is the best suitable (with regard to the circumstances) and regardless of all other biases or interests should be taken; a general expression to social responsibility dilemma.

Indeed there should be no other bias or interest except the discharge of the responsibility, either for shareholders or for society in the general way already mentioned, putting every thing in its place. There should be no trade off between benefits of interested parties. Neither there should be sacrificing of one for the other. Each should
be done in its place. Each party's benefit should be considered as much as required and appropriate.

It is very important to notice that in the general procedure of the Holy Quran the actions which are not qualified Adl are qualified Oppression or unjust - the Quranic term DZolm, which, in its general and intensive form, means putting things in places other than their (own) places; another expression to socially irresponsible actions. Also it is important to note that there are of course guide-lines and procedures to determine the required action suitable for any different circumstances.

**Conclusion**

Applying the on-going discussion to accounting reporting means that, following the general policy of the Holy Quran - Quest or Adl, and considering that each society, as the influence of its culture and environment, needs a specific type of accounting reporting, it, then, becomes clear that any information must be put in its place - either in financial reports, or out of financial reports whatever the existent circumstances (with regard to the content of this study) require. That is, financial reports must be inclusive/comprehensive (of all necessary and sufficient information with regard to all other requirements like timeliness and cost/benefit aspects) as well as exclusive (of all unnecessary information again with regard to all other requirements like timeliness and cost/benefit aspects). An example of the unjust is the quotation from Richard H. Breeden, Chairman of the U.S. Securities and Exchange Commission SEC in the Wall Street Journal:

> If accounting standards aren't adequate to give an accurate picture of a firm's condition, they are not doing the job they need to do.

15. Religious leadership and followership, (Ijtehad Va Taghlid).
Based on the on-going discussion, as an ultimate conclusion we can state that no unique accounting (or whatever subject) theory, principles and practice is applicable to all societies at all circumstances and at all times with different cultures and environment. Likewise, no unique accounting reporting can be qualified as good and comprehensive in all respects and socially responsible; which fits to and meets the accounting needs of all societies of different cultures at all times and circumstances, rather these terms can be defined contingent and within the boundaries of each culture and environment separately. That is, the definition of socially responsible accounting reporting given before is true within each separate culture. As such, it can be redefined in its more complete form as:

A financial report which; with regard to the circumstances in which, at a specific point of time, it is issued as well as the existing/extant environmental (especially cultural) factors with which it is surrounded and influenced; discloses useful information to users, provides a complete picture of managerial stewardship, discharges managerial accountability, portrays social responsibility practice of reporting entity (as well as its social contract fulfilment) and displays a true and fair view of the company's profit and state of affairs can be qualified as being socially responsible accounting report. A reporting system which provides reports of this kind can be called socially responsible accounting reporting.

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### Financial Reporting

Area Directly Affected by FASB Standards

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