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USERS' OPINIONS ABOUT THE INFORMATION CONTENT OF THE NOTES TO THE FINANCIAL STATEMENT

Review
Article

Keywords

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Abstract

In today's accelerated world, competition amongst enterprises is becoming more and more intense. Challenges can only be met by companies that possess the information necessary for decision-making and are able to convert it rapidly into organisational knowledge. Decision-making based on inadequate knowledge further increases economic risks that are already high. In economic relations amongst enterprises, the annual financial statement is a very prominent source of information. Analysis and processing of the data represented by the published annual statement and its components (the balance sheet and profit and loss account) require the notes to the financial statement, which include information and explanations. The purpose of the notes to the financial statement is to introduce general informative data of the company and to provide complete textual explanation of entries within the balance sheet and profit and loss account, through which the financial and income situation of the company becomes clearly assessable for the external stakeholders. Apart from this, the notes to the financial statement have to create a reliable and realistic overall image. The notes to the financial statement are on the one hand based on legal regulations while on the other hand they depend on the specific properties of a given enterprise. Our research examines the opinions of economic experts and managers about the notes to the financial statement of the external stakeholders/businesses, which they come across in the decision-making process. For the study, a questionnaire survey was conducted; the target group were enterprises from different fields.

INTRODUCTION

In the globalized and accelerated world of our time, competition amongst enterprises has become much more intense. Due to the strengthened economic competition, companies cannot afford uneconomic performance and lack of efficiency or strategic failures due to defective flow of information (Méhésné, 2015). Information, knowledge and promptness are the top three factors that play a prominent role in terms of decision-making (Kerezsi, 2017). Hanyecz (2009) stated: "decision is the risk and responsibility of management". The primary task of management is the successful operation of organizations, companies and non-profit institutions under their control, for the sake of which they shall utilize all the tools that help them in the dynamic, efficient and flexible management of the company. This has to be achieved by constantly taking into account short-term and long-term objectives defined by the owners, as they must bear the risk of the survival of the company and other burdens and obligations as well (Hanyecz, 2009, Zéman-Tóth, 2017). From the standpoint of market competition, reactions to change must take place in time to be valuable and useful (Méhésné, 2015).

In order to obtain appropriate knowledge and information and for the companies to be well assessable and comparable, a reliable and unified information system is required (Kresalek, 2007), which – apart from recording business events as stipulated by accounting regulations – is able to satisfy the information demands of external and internal stakeholders (Musinszki, 2012). Most of this information demand can be fulfilled by the accounting system of companies, which is regulated in Hungary by the Act C of 2000 on Accounting.

In Hungary, the content of the annual financial statements of business entities is determined by the Act C of 2000 on Accounting; besides the balance sheet and profit and loss account the notes to the financial statement are also an essential part of these annual statements. (Kerezsi, 2017).

The notes to the financial statement are part of the annual statement, the simplified annual statement and the consolidated annual statement. The notes to the financial statement shall represent the data and textual explanations that are provisioned by the Accounting Act and the information completing the entries of the balance sheet and profit and loss account, which help the clear assessment of the wealth, financial and income situation of the company for external stakeholders as well. The notes to the financial statement have to support the more comprehensive introduction of the reliable and real overall image (Adorján, 2008, Szabó, 2012), which is based on the consideration of basic accounting principles such as the principle of

authenticity, clarity, consistency, continuity and completeness (Kresalek, 2007). For the analysis of the annual statement, well organised notes to the financial statement might be indispensable for an external stakeholder, since besides the balance sheet and profit and loss account, the additionally required and relevant information about the operation of a business entity can be extracted from them (Kresalek, 2007; Böcskei et al., 2015).

In the notes to the financial statement, the depth and details of the disclosed information are not specifically stated, therefore their professional evaluation is left to the given enterprise. Additionally, it is the company that decides how important they consider the presentation of a particular entry, the applied appraisal process or other topics requiring the share of information (Tóth, 2010). Róth et al (2008) had a similar standpoint: according to his opinion a certain part of the information contained in the notes to the financial statement is based on legal provisions, while the other part depends on the specific characteristics of the enterprise. The extent of the detail of the information also depends on the type of the financial statement, the notes of which are examined because the amount of information contained in the notes to various types of annual statements is different (Fenyves et al., 2015).

The notes to the annual statement should be more detailed; they have to include the cash-flow statement as well; however, the notes to the simplified annual statement are less specified and more vague as their source of information is more limited (Kardos, 2009). It is also important to point out that the notes to the financial statement do not have a legally stipulated structure similar to those of the balance sheet and profit and loss account; therefore identical composition and content are rare. However, in terms of content, the notes to the financial statement consist of three fundamental parts: general, specific and informative (Filyó, 2014). Accordingly, the following distinctions can be made:

- general part, which provides the easier understanding of the data included in the annual statement (Fridrich-Simon, 2018)
- specific part, in which the information is linked to the numerical data represented by the balance sheet and the profit and loss account and presents their details and explanation
- informative part, which is linked to the actual operation of the enterprise and which promotes the detailed understanding of the business situation. It is only indirectly connected to the balance sheet and profit and loss account, which are parts of the annual financial statement (Kántor, 2016).

The purpose of the notes to the financial statement prepared in conformity with the Accounting Act (Ferencz, 2013) should be the support of data

interpretation, but this purpose is not necessarily fulfilled in practice. Kántor (2016) is of a similar opinion in this regard; there are companies to this day, which only inadequately introduce certain entries of the balance sheet and profit and loss account (if they do at all), because they are afraid that their competitors might obtain factual information about their activity and efficiency. However, according to the effective legal provisions, preparation of the notes on the accounts – aside from certain components – is compulsory. Therefore, sufficient time and energy should be dedicated to the elaboration and publication of the required information. Szabó (2012) drew the conclusion that the quality of the notes to the financial statement should be improved.

MATERIAL AND METHOD

A quantitative questionnaire survey related to company expectations regarding the notes to the financial statement was conducted. The advantage of the questionnaire survey is that its application is simple, its questions are pre-defined (closed questions), their response is relatively time-consuming, but the evaluation of the answers of the questionnaire might provide important information (ÁCS, 2014). As a disadvantage of questionnaire surveys, it is commonly mentioned that respondents may not be able and/or willing to respond, and responses may be consciously false. As far as the form of questioning is concerned, we opted for online questionnaires, because they can be filled in a wider scope and in higher numbers than paper-based questionnaires. Closed questions were generally used in the survey, which were essentially formulated statements of various subtypes. On the one hand, there were single-reply questions, such as issues related to the definition of the primary business activity and ownership structure of the company. On the other hand, there were five-point Likert scale questions (Falus - Ollé, 2008; Sajtos - Mitev, 2009).

The questionnaire was prepared by means of the EvaSys software in a form that was suitable for computer use and the collection of replies was also carried out via the application of the same software. The respondents were managers of companies and various organizations and the employees they selected. The prepared questionnaire was sent to the respondents through a social media platform and email. Through the questionnaire, we intended to assess whether economic experts, managers during their decision-making process took into consideration the information included by the notes to the financial statement of the stakeholders of their companies. The sample consisted of 112 completed questionnaires. With regard to the type of businesses, the composition of the sample was the

following: 62% of respondents were limited companies (Ltd), 17% were closed public companies (cPlc), 15% were other enterprises, 6% were limited partnerships (Lp) (Figure 1). The 'other' category might consist of associations, foundations and non-profit organizations.

Figure 2 shows the distribution of companies completing the questionnaire in terms of their primary business activities; the figure shows that 31 of the respondents worked in manufacturing enterprises, 15 people in companies with commercial activity, 15 in companies offering bookkeeping services, while 5-5 respondents worked as auditors or bank employees.

Classifying the respondent companies on the basis of their last year income, Figure 3 shows that the majority were enterprises with lower income, as the income of last year did not reach 500 million HUF in the case of more than 40% of the respondents, while the income of 35% was between 10 billion and 500 million HUF in 2017. Companies with an income above 10 billion HUF distributed nearly equally among the different categories.

STATISTICAL EVALUATION OF THE QUESTIONNAIRE SURVEY REGARDING THE ANALYSIS OF THE INFORMATION CONTENT OF THE NOTES TO THE FINANCIAL STATEMENT

In the questionnaire survey, the first two questions pinpointed the information contained in the annual statement during the decision-making process. The first question focused on the information contained in the annual statement itself and helped us find out whether the data included in the annual statement of other enterprises were taken into account during the decision-making process of the analysed companies; answers to this question are presented in Figure 4. A significant proportion of respondents (87%), took into account the data and information obtained from the annual statements of other companies, while 13% of them did not use these data for their work.

As for the other question, it was focused on the information in the notes to the financial statement, namely we intended to find out whether the respondents of the questionnaire took into consideration the data obtained from the notes of the partner companies during the process of decision-making. The comprehensive result of the replies given to this question is also shown in Figure 4. The two diagrams show a declining ratio of utilization, which means that decision-makers utilized the data obtained from the notes to the financial statement, but only 80% of the respondents (88 people), which is a 7% decline. However, the ratio is still quite high, which indicates that there is an existing demand for this information.

Table 1 shows how important the information content of the notes of relevant business partners was considered by the respondents when they came across it in their work. Respondents were able to choose from the options 'very important', 'important', 'necessary', 'less necessary' and 'unnecessary'. On average, they rated the information between 'important' and 'necessary'; the mean value of answers was 2.47, where 'very important' was represented by 1 and 'unnecessary' meant 5. Furthermore, the results in the table show that 87% of the 112 respondents considered the information contained in the notes to the financial statement at least necessary or important.

Table 2 shows that a significant proportion of respondents (41%), were of the opinion that the information included in the notes to the financial statement may support their decision-making, while only 14% think that it largely supported them. According to the opinion of nearly 40% of the respondents the notes to the financial statements published by other companies supported them only indirectly. In the case of the options presented by Table 2, the reply 'They largely support my decisions' means 5, while 'They do not support my decisions' represents 1. Based on this scoring system, we received 2.58 as the mean value of the replies, which suggests that the notes mostly supported respondents in their decision-making.

In their lifespan, enterprises need to set objectives for different timeframes in order to be able to operate successfully and profitably and to realize their profit-maximising goals. These objectives might be linked to operative, short-term (within 1 year), long-term (between 1 and 3 years) and strategic decisions. Consequently, it was considered important to analyse the type of decisions that economic experts most frequently supported; the result is shown in Table 3. The respondents had to rank the above mentioned 4 decision types.

101-101 replies were given to operative and short-term decisions, while 102-102 to strategic and long-term decisions. Table 3 shows that corporate decision-makers mostly supported operative and short-term decisions on the information obtained from the notes to the financial statement, since 30-30% ranked these decision types the first place. 30% of respondents ranked operative, while 34% ranked short-term decisions the second place. The information published in the annual statements of partner enterprises was less taken into account in the case of long-term and strategic decisions. This is also confirmed by the fact that decisions made between 1 and 3 years were ranked the third place by 45% of the companies, while strategic decision were the last according to 44% of the respondents.

The next question of the questionnaire is related to the previous ones; it requested respondents to evaluate if they obtained sufficient (insufficient, large amount, sufficient) amount of information for

their different decisions in terms of their timeframe. Operative decisions received 107, short-term decisions 108, while long-term and strategic decisions received 109-109 valid replies. Table 4 clearly shows that the notes of partners did not provide much information about any decision type. Nearly 60% of the respondents stated that they received sufficient information for making operative decisions, while 63% for making decisions on short-term. Decisions beyond 1 year were less supported by the notes to the financial statement, approximately 45% of the respondents think that the provided information was sufficient, while almost half of them think that the amount of information received from that source was insufficient. The table also clearly demonstrates that the notes to the financial statement did not contain much information for any decision type. For almost half of the respondents, notes to the financial statement contained insufficient information for strategic decisions and only nearly 46% think that the obtained information was sufficient.

In Figure 5, the following issue was analysed with the help of the stacked bar charts: if a company takes into account the information included in the annual statement or notes to the financial statement of another enterprise, how important does the company deem the information from the notes to the financial statement? Overall, it can be stated that, if a company takes into consideration the information included in the annual statement, then it deems the information of the notes to the financial statement important and necessary as well. Companies that did not use the information from the annual statements of partners, regarded the information of the notes to the financial statement less necessary. Among enterprises, which took into account the content of financial statements published by other companies, 38% deemed the notes to the financial statement important for their work and 37% stated that it was necessary for them. Approximately 18% considered it "very important", 6% "less necessary" and 1% "unnecessary". In the group of respondents that did not use the information of financial statements during their decision-making process, the information of the notes to the financial statement was very important for almost 7%, and it was important and necessary for 20-20%, while more than half of them stated that it was less necessary or unnecessary.

Information from the notes to the financial statement was considered important during the decision-making process by slightly more respondents, thus the situation was improved as compared to the previous criterion. 95% of the respondents who used the notes to the financial statement for their work considered its information content at least necessary. The largest proportion was of the opinion that it was "important" and necessary". Only 18% thought that

it was very important and 9% did not use it for their work at all.

CONCLUSION

For the proper functioning of the market economy, it is essential that the entities within the economy are in possession of the information necessary for decision-making. For effective decision-making and reasonable assumption of risk, it is indispensable for the companies to have the proper information, which could be both financial and non-financial data. With the accelerated globalization and ever-increasing economic competition, companies cannot afford uneconomical functioning, lack of efficiency and strategic failures due to defective flow of information. Challenges can only be met by companies that possess the required information and are able to rapidly convert it into organizational knowledge.

The notes to the financial statement have repeatedly been criticised for not always fulfilling their purpose. The reputation of the notes to the financial statement was specific even from the beginning, as their information content was often not more than an explanation of the numerical data included in the balance sheet and profit and loss account. For this reason, there are several opinions ranging from business entities that consider the notes important, others that think they are unnecessary, while others simply neglect them.

On the basis of our study it can be established that enterprises take into account the information included in the annual statements and the notes to the financial statements of their partner companies for their decision-making; they consider them generally important or at least necessary. In the decision-making process, they hold that the information content of the notes to the financial statement mostly supports them and that information is mostly utilized in the case of operative and short-term decisions. They receive information for these decisions but the notes to the financial statements of partner companies do not provide much additional information for these types of decisions. When the information included in the annual statement and the notes to the financial statement are utilized, the information of the notes is considered important and necessary, while companies that do not use such data for their decisions consider it less necessary.

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ANNEXES

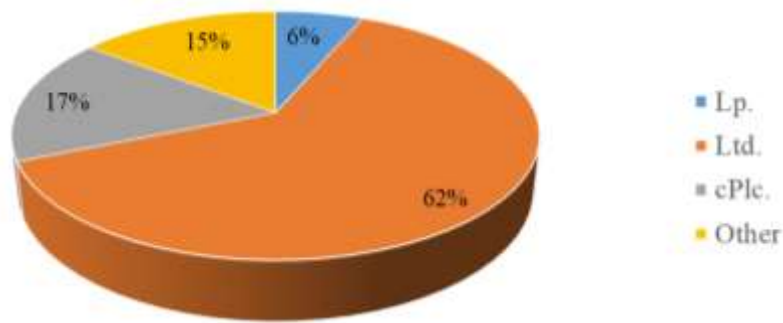


Figure 1: Distribution of the analysed companies by business type

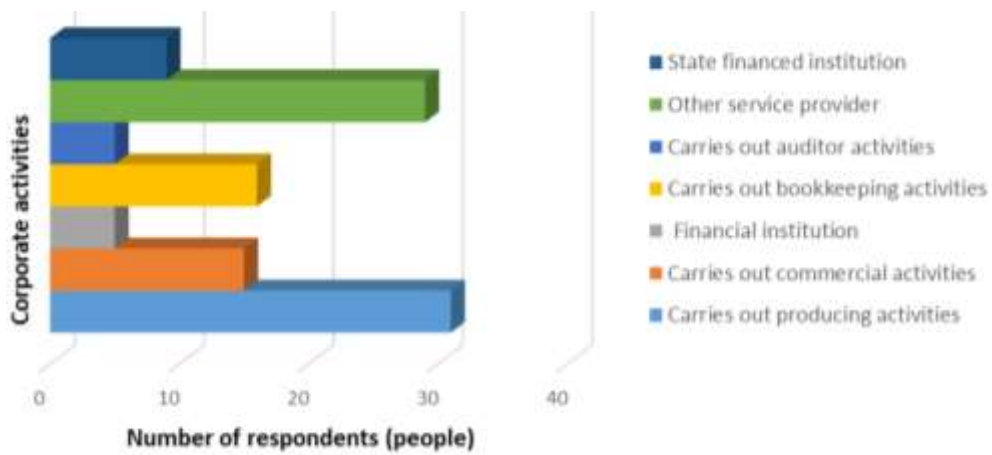


Figure 2: Distribution of the analysed companies by their primary activity

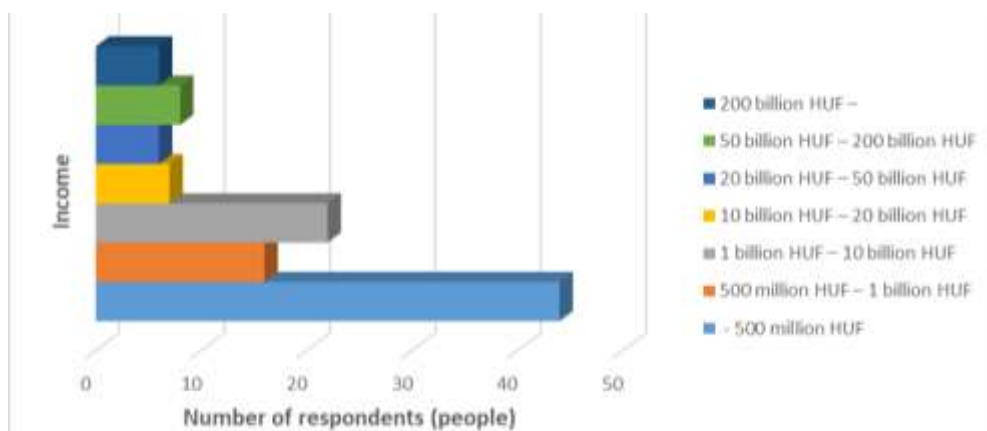


Figure 3: Distribution of the analysed companies by income

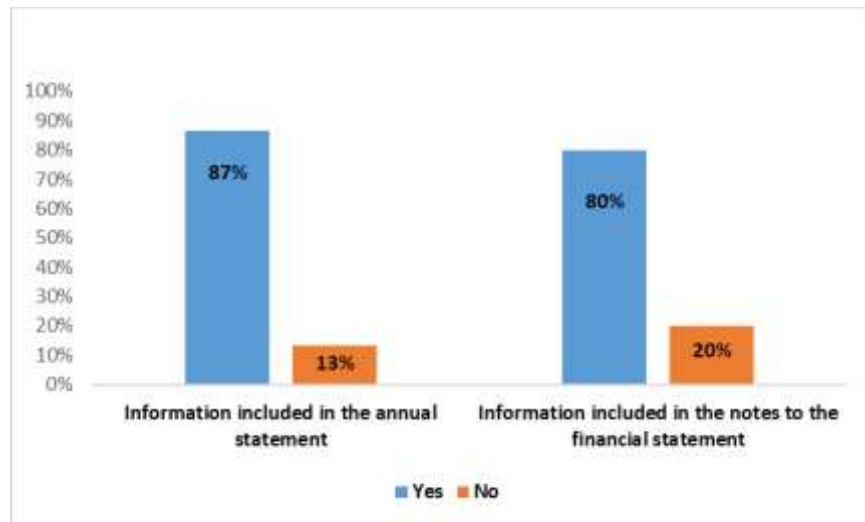


Figure 4: Distribution of replies to the question “In the course of decision-making, do you take into consideration the information included by the annual statement or notes to the financial statement of other enterprises?”

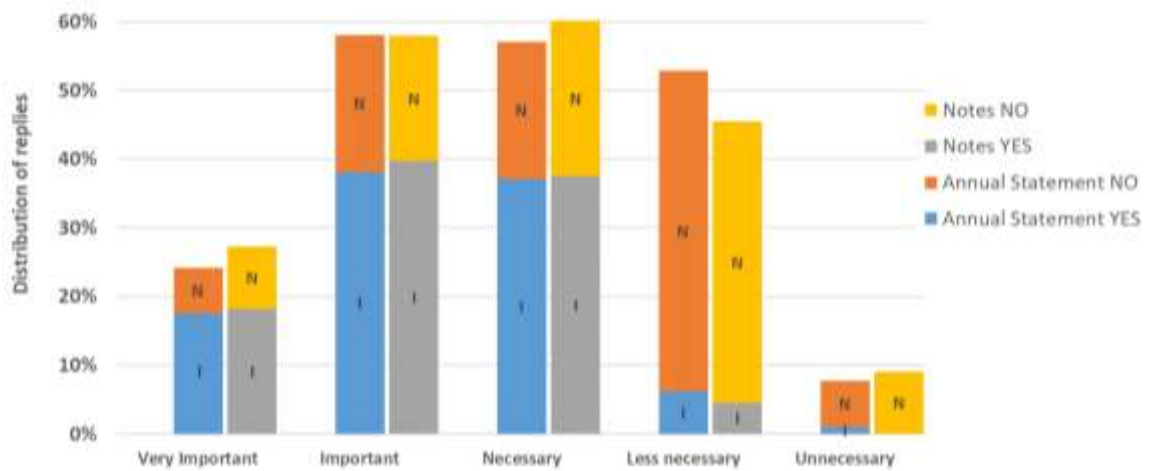


Figure 5: Importance of the information included by the notes to the financial statement and the correlation of the consideration of annual statements and notes to the financial statements

Table 1: How important do you deem important the information included by the notes to the financial statement of market actors that you come across during your work?

Importance of information	Number of respondents (people)	Distribution of respondents (%)
Very important	18	16.07%
Important	40	35.71%
Necessary	39	34.82%
Less necessary	13	11.61%
Unnecessary	2	1.79%

Table 2: To what extent do the information of the notes to the financial statement support your decisions?

Decision support	Number of respondents (people)	Distribution of respondents (%)
They largely support my decisions	16	14.41%
The mostly support me	46	41.44%
They support me less	22	19.82%
Only indirect support	23	20.72%
They do not support my decisions	4	3.60%

Table 3: What type of your decisions are primarily supported by the information obtained from the notes to the financial statement

Name		Operative decisions	Short-term decisions	Long-term decisions	Strategic decisions
1	Number of respondents (people)	32	32	14	28
	Distribution of respondents (%)	30.19%	30.19%	13.21%	26.42%
2	Number of respondents (people)	31	35	20	16
	Distribution of respondents (%)	30.39%	34.31%	19.61%	15.69%
3	Number of respondents (people)	17	24	45	15
	Distribution of respondents (%)	16.83%	23.76%	44.55%	14.85%
4	Number of respondents (people)	21	10	23	43
	Distribution of respondents (%)	21.65%	10.31%	23.71%	44.33%

Table 4: Evaluate, the amount of information you receive from the notes to the financial statement of partner companies for your decisions?

Name		Operative	Short-term	Long-term	Strategic
Insufficient	Number of respondents (people)	36	24	52	54
	Distribution of respondents (%)	33.64%	22.22%	47.71%	49.54%
Sufficient	Number of respondents (people)	64	68	49	50
	Distribution of respondents (%)	59.81%	62.96%	44.95%	45.87%
Large amount	Number of respondents (people)	7	16	8	5
	Distribution of respondents (%)	6.54%	14.81%	7.34%	4.59%