DegreeLive

B.Com Honours | Semester II | Calicut University

Accounting Standards for Financial Reporting

Course Code: COM2MN103 • Module 1 Notes

1. Introduction to Financial Reporting: Concepts and Standards

Financial reporting is the structured communication of financial information of an enterprise to external stakeholders. These stakeholders include equity shareholders, bank lenders, creditors, trade partners, tax authorities, and financial analysts. Without standard reporting systems, capital markets could not function, as investors could not compare the performance of different firms. This module covers the meaning, role, and characteristics of financial statements, and details the broader concept of financial reporting.

Role and Characteristics of Financial Statements

Financial statements represent the core output of an accounting system. To be useful for decision-making, they must possess four qualitative characteristics:

- **Understandability:** Information must be presented clearly so that users with a basic knowledge of business can comprehend it.
- **Relevance:** Information must influence the economic decisions of users, helping them evaluate past, present, or future events.
- **Reliability:** Information must be free from material error and bias, representing transactions faithfully.
- **Comparability:** Users must be able to compare financial statements over time and across different companies.

Concept of Financial Reporting

While **Financial Statements** refer to the specific books (Balance Sheet, P&L, Cash Flow), **Financial Reporting** is a broader term. It encompasses financial statements, notes to accounts, board reports, prospectus details, government filings, and sustainability disclosures.

Objectives of Financial Reporting

- Provide information useful to existing and potential investors in making rational investment decisions.
- Help users assess the timing, uncertainty, and prospects of future cash inflows to the enterprise.
- Disclose the economic resources of the enterprise and the claims against those resources.

Advantages & Disadvantages

- **Advantages:** Attracts global investment capital, lowers cost of debt, and ensures regulatory compliance.
- **Disadvantages:** High administrative cost of auditing, and potential leak of strategic operational margins to competitors.