

Diversifying Financial Statements and Reports to Serve Different Users

by Ass. Prof., Dr. VÕ VĂN NHỊ & Dr. NGUYỄN PHÚC SINH

Accounting system and financial statement employed by local companies have experienced various changes and developments in the past three decades after the unification of the country. From the centrally-planned and subsidized mechanism to the period of economic reform and international integration, financial statement (FS) by local companies, generally, has played well its role as an instrument for serving the state's economic management, supporting operations of businesses, and supplying information to the public. The biggest achievement of the accounting business in the past three decades is probably the building of a legal framework that is stable, uniform, and capable of getting along with international practices and standards. The FS today, however, reveal various shortcomings when meeting demand for information by users. The most apparent are: principles and requirements of drafting and presenting the FS are not standardized and uniform; rules of measuring, recording and presenting information and contents on the FS are unreasonable; FS prepared by local companies doesn't match international standards; and contents and form of most FSs follow the same pattern, etc. These shortcomings make FS less useful, and unable to meet different requirements posed by users from all walks of life.

Standardizing the existing FS form and making information presented in the FS useful to different groups of users, therefore, has become a matter of great importance to the effort to deal with fall in utility inherent in the FS.

In our opinion, one of ways to make a breakthrough in the effort to enhance the utility of FS made by local companies is to diversify the utility of the FS by supplying diverse information to different users, because the current form of FS only aims at supplying information based on size and kind of companies without paying attention to characteristics of FS users. We think that the FS should be oriented towards five principal groups of users:

- Governmental bodies (finance, tax, statistics, investment, and planning, etc.)
- Investors (existing and potential shareholders, holders of options and transferable securities, etc.)
- Creditors (suppliers of loans and commercial credits, debenture holders, etc.)
- Managers of the company
- The public

The diversification based on the said five groups can make access to and use of information in the FS easier and more appropriate to groups of users.

In our opinion, the FS should be diversified in such a manner to make FS information more accessible and usable under current conditions. Such diversification causes no harm to accuracy and rationality of the 'big picture' of the company presented by the FS because the diversification is based on a system of FSs with standardized methods of measuring, recording and presenting. Moreover, generally speaking, the diversification of FS is an inevitable demand from companies that want to offer clear report of their performance and optimize the utility of the report for users.

1. FS for governmental bodies

a. Objectives

FS should reach certain 'standards', reflect correctly and comprehensively the economic and financial situation of the company, thereby providing governmental bodies with a reliable and uniform basis for:

- Assessing compliance with regulations about accounting standards and system, and economic and financial policies set for the companies (done by bodies responsible for accounting, auditing, financial affair and investment).
- Assessing implementation of financial obligations by companies (done by tax agency).
- Assessing other aspects of corporate operations done by other governmental bodies.

b. Scope of application

In our opinion, to serve the state macroeconomic management and ensure uniformity and consistency of information about companies, the FS should be standardized regardless of the corporate ownership, size and field of operation. However, the FS could be diversified according to the size and operation of companies because most of local companies are of small, or very small, sizes. Thus, the FS could be presented in two forms:

- Standard FS: This could be used for companies of medium size or bigger, and small companies in industries that affect living standard, and social order and security, such as food, pharmaceutical, power, beverage, tobacco, military supplies, etc.)
- Condensed standard FS: This could be used for small companies in other industries.

2. FS for managers of the company

a. Objectives

The FS must reflect fully and timely all information about economic and financial situation of the company, thereby providing its managers with a timely and suitable basis for:

- Checking all operations of the company.
- Analyzing financial situation, business performance, and changes in owner's equity and cash flows.
- Working out budget plan.
- Assessing responsibility of the management, etc.

b. Scope of application

In our opinion, such FS can only be prepared when the managers need because it only serves the internal management purposes.

3. FS for investors

a. Objectives

The FS should present information about economic and financial situation of the company in a comprehensive and timely manner in order to help existing and potential shareholders, and holders of options and transferable securities acquire suitable and reliable grounds for:

- Getting a big picture of the corporate finance.
- Estimating profitability of investment.
- Analyzing and estimating future development of the company.
- Comparing financial information about different companies in order to work out some portfolios.

b. Scope of application

In our opinion, such FS is compulsory for all public companies, listed companies and any concerns that plan to make their IPOs or privatize in 12 months.

4. FS for creditors

Most local companies depend on external sources of finance, especially commercial loans, in spite of the fact that other sources of finance (issue of shares to the public, formation of joint ventures, etc.) have been developed. That is why the supply of reliable and exact information of corporate financial strength to creditors is an important target that companies must achieve.

Because creditors have right (and responsibility) to require information about commercial loan and debts from the company and they also have their own analysts and consultants, we think that FS for creditors must be similar to the one for governmental bodies. In addition, the company can add detailed explanation when required.

5. FS for the public

Generally, this group comprises various users but most of them have no direct and close relations to the company, therefore, we don't think that some kind of FS should be made to serve this group. However, we advocate general access to information about the company presented in the FS provided that such access causes no harm for the company, or when they prove that the company should supply such information as required by law. In such cases, the authorities must set regulations about dissemination of corporate information for the public.

Moreover, because the public can get information from many other channels, such as newspapers, Internet, or governmental bodies responsible for supervising the companies, so the Government can simply require all companies to open websites to publicize information about the companies, including the annual FS. We think it is the most effective and feasible measure at present. In our opinion, all companies when doing business for some profit always affect, positively and negatively, the community, and such information, when used by researchers, reporters, analysts, or students, may be useful to dissemination of knowledge of FS and information it offers. So the supply of information about its operation, especially in form of FS, is a must to the company.

The diversification of the FS to serve various groups of users doesn't lead to more expense than what the current system requires. Besides cost of building and running a website (a must to public companies and listing bodies), this effort only needs a small expense on changes in form and content of the FS to meet the demand from various groups of users based on existing data (computerization in most companies makes it very easy), and moreover, it can help remove some contents unnecessary to some forms of financial reports. ■



Photo by Huỳnh Thọ