Quality of Corporate Financial Reporting in Ethiopia

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Abstract
Financial information provided through issuance of financial reports is an important input for the decision makers. However, to trust and rely on while making decisions, such reports should possess certain qualitative characteristics. Taking this fact into consideration, IASB, inter alia, in its conceptual framework has identified the qualitative characteristics that financial reports must possess. Accordingly, the objective of this paper is to investigate the extent of the qualitative characteristics of corporate financial reporting in Ethiopia. Using index, data were collected from annual reports of 40 sample corporate companies in the country over a period of ten years (July 6, 2007 to July 7, 2016). To measure the qualitative characteristics (such as relevance, faithful representation, understandability, comparability and timeliness) of financial information in the annual reports, 21- items which were constructed by Beest et al. (2009) were employed and descriptive statistics were used to present and analyze the data. The study found that the practices of reporting items that are considered as an indicator of 'relevance', 'faithful representation' and 'comparability' characteristics in Ethiopia were poor. However, regarding the 'understandability' characteristics, they were encouraging. Regarding the 'timeliness; characteristics, the study also showed that firms in Ethiopia, on average, provided their annual reports within six months after the end of accounting year.
Keywords: Quality, Corporate, Financial Reporting, IFRS, Ethiopia

1. INTRODUCTION

Financial information provided through issuance of financial reports is an important input for the decision makers. However, to trust and rely on while making decisions, such reports should possess certain qualitative characteristics. Because, the quality of corporate financial information impacts to a great extent the quality of investment decisions by investors (Singvi and Desai, 1971) and plays a crucial role in management decisions (Nakhaei et al., 2014). According to Hasan et al. (2014) also argued that the reason why more attention has been given for corporate financial reporting is that it is a system by which company communicates the outcome of its operational and financial activities to its shareholders. Because, according to IFRS Foundation (2015) "information can make a difference to decisions by improving decision makers' abilities to predict or by providing feedback on earlier expectations and the reliability of a measure rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user that it has that representational quality". Besides, high quality financial information is very vital for evaluating financial position, operational performance and managerial effectiveness of companies (see Hasan et al, 2014). That is why International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have agreed on the importance of more quality financial reports[1] (Bram and Beest, 2013) in the highly competitive and complex business world.

2. OBJECTIVE OF THE STUDY

The objective of the study is to investigate the extent of the qualitative characteristics of financial information being prepared by corporate companies in Ethiopia.

3. RESEARCH METHODOLOGY

Data were collected from annual reports of 40 sample companies out of 120 corporate companies in the country over a period of ten years (July 6, 2007 to July 7, 2016).

Following previous research works (e.g. Beest et al, 2009), the researcher assessed a score which represented a proxy of the disclosure quality of the annual reports of forty sample companies through adapting and following Beest et al. (2009)'s method in the Ethiopian context to measure the qualitative characteristics of financial information in the annual reports. As shown in table 6, the qualitative characteristics measurement tools constructed by Beest et al. (2009) had 21 items index of which 4 items were related to relevance, 5 items were related to faithful representation, 5 to understandability, 6 items were related to comparability, and 1 item was related to timeliness as indicated below. The predefined 5 point Likert scale (1 indicating very poor score, 2 poor

[1] Financial reports portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of performance in the income statement are income and expenses (Australian Accounting Standards Board, paragraph 47, 2009).

score, 3 satisfactory score, 4 good score and 5 implies excellent score) has been used for each these five qualitative characteristics and then the reports on the number of items were coded for each sample company.

Once each sub-qualitative characteristic is rated for each company over the study period, the scores on the related items were added and divided by the total number of period. Then, to determine average score for each qualitative characteristic, the average score for each sub-qualitative characteristic were added and divided by the total number of items. Then the overall average qualitative characteristics score for all companies was calculated by adding each respective qualitative average and divided by total number of firms.

4. REVIEW OF RELATED LITERATURES

Concerning the extent of the qualitative characteristics of financial information of companies in practices, various studies have been carried out to examine and investigate the extent of qualitative characteristics of financial information in practice following two approaches (direct vs. indirect) but many researchers measure the quality of financial reporting indirectly by emphasizing on characteristics that are believed to influence quality of financial reports, such as financial restatements, earnings management, and timeliness" (e.g. Barth et al., 2008; Schipper & Vincent, 2003 and Cohen et al., 2004 as cited by Beest et al., 2009).

However, in the study conducted to empirically analyze the quality of corporate financial information, Singhvi and Desai (1971) and Beest et al. (2013) had employed an index of disclosure items that helped them to make a direct measure while other authors attempted to measure "using different indirect methods or, a combination of them, such as, by calculating conservatism, discretionary accruals, predictability of earnings and value relevance earnings" (kythreotis, 2014). However, the indirect methods of measuring the qualitative characteristics of financial information have been open to criticism. For instance, Lee et al. (2013) claimed that "although there are other mechanisms of measuring of financial reporting quality in the accounting research, such as discretionary accruals, timely loss recognition and earnings persistence, they do not provide direct evidence of the usefulness of accounting information to its end-users in the capital market."

Beest et al. (2009), in particular, arguing against accrual models and value relevance literature, only focused on information disclosed in financial statements to assess the financial reporting quality, they have constructed a compound measurement tool to assess the quality of financial reporting in relation to the underpinning fundamental qualitative characteristics (i.e. faithful representation and relevance) and the enhancing qualitative characteristics (like understandability, comparability, verifiability and timeliness) following the definition of qualitative characteristics of financial information in 'an enhanced Conceptual Framework for Financial Reporting of the FASB and the IASB (2008).

Braam and Beest (2013) also carried out an empirical study to analyze the quality differences between UK annual reports and US 10-K reports by using 33 items index and found that the UK reports score was, on average, higher than US 10-K reports, which indicated that the overall quality of UK annual reports was better than their US counterparts. Kythreotis (2014) examined the extent to which the objective of the IASB towards creating the standards and the conceptual framework in an initiation to develop higher quality financial statements was realized focusing on the fundamental qualitative characteristics – relevance and faithful representations (reliability). The findings of the study indicated that (i) an increase in the degree of relevance regarding the financial statements for the period following the adoption is identified, and (ii) a marginal increase in the reliability of the financial statements is identified but statistically insignificant suggesting that the degree of reliability of the financial statements did not change during the IAS transition of the countries under study.

The exploration of the above itemized existing literature indicates that a number of efforts have been exerted to study issues related to the current study. However, the examination of these literatures showed two major gaps. First, the majority of them were carried out at international level and especially in developed countries. Second, none of them have attempted to conduct comprehensive study regarding the quality of financial reporting producing by Ethiopian Companies. Accordingly, the present study entitled "Quality of Corporate Financial Reporting in Ethiopia" has been planned to bridge these gaps by conducting a comprehensive study on the quality of corporate reports in Ethiopia.

5. RESULTS AND DISCUSSIONS

This section presents the result of the study and discussions thereof. Apposite and high quality of financial information is essential for judging the financial position, financial and operational performance, and governance (both board and managerial) effectiveness of a reporting entity (Hasan et al., 2014). The main purpose of producing corporate annual report is to convey the right message regarding the financial and operational activities of an entity to the stakeholder in general and shareholders in particular (Hasan et al., 2014).

Relevance

As per the conceptual framework of IASB (2010, paragraph QC3), the fundamental qualitative characteristics of financial reporting are relevance and faithful representation. Based on previous literature (for example Beest et al., 2009), the relevance qualitative characteristics of the financial reporting practices of companies in Ethiopia was examined through assessing the extent of disclosure of the following information on the annual reports of sample companies: (a) the presence of the forward – looking information that helps in informing expectations, and predictions concerning the future of the company (R1), (b) the presence of non-financial information in relation to business opportunities and risks complementary to the financial information (R2), (c) applicability of fair value (FV) as measurement basis instead of historical cost (HC) (R3), and (d) reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company (R4).

The analysis of the data pertaining to disclosure practices of companies in Ethiopia on the above stated information on their annual reports is provided in table 1.

Table 1: Extent of existence of Forward-looking information (R1)

	Frequency	Percent	Cumulative Percent
No forward-looking information	29	72.5	72.5
Few forward-looking info	5	12.5	85.0
Better forward-looking info	5	12.5	97.5
Extensive forward-looking info	1	2.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Table 1 showed that most of the companies 72.5% did not report forward – looking information in their annual reports and 25% of them reported little (12.5%) or better (12.5%) forward – looking financial information while only 2.5% of the companies only made extensive forward – looking information disclosure on their annual reports. The statistical mean score for R1 as indicated in table 30 was 1.45 out of 5 point which indicated that the forward-looking information disclosure practices of companies in Ethiopia was poor even though its extent varied from one company to another (SD = 0.815) as shown in table 30.

Table 2: Extent of Presence of Non-financial Information (R2)

	Frequency	Percent	Cumulative Percent
Little non-financial info	28	70.0	70.0
Useful non-financial info	10	25.0	95.0
Better useful non-financial info	2	5.0	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

As indicated in table 2, the study found that 70%, 25% and 5% of the companies disclosed little, useful and better useful non-financial information respectively in their annual reports and the mean score for the annual reports to disclose information in relation to business opportunities and risks was 2.35 with a less variability (SD = 0.58) as indicated in table 30.

Table 3: Extent of Application of Fair Value (R3)

	Frequency	Percent	Cumulative Percent
Only HC	40	100.0	100.0

Source: SPSS Output (2017)

As far as R3 was concerned, as indicated in table 3, the result of the study revealed that all companies (including those that are using IFRS) in Ethiopia used historical cost as a measurement basis and as shown in table 30 no variation (SD = 0) was observed in this regard.

Table 4: Extent of Provision of Feedback to Users (R4)

	Frequency	Percent	Cumulative Percent
No feedback on past	3	7.5	7.5
Little feedback on the past	19	47.5	55.0
Balanced feedback on the past	16	40.0	95.0
More feedback on the past	1	2.5	97.5
Comprehensive feedback on the past	1	2.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

In relation with the extent of the reported results provide feedback to users of the financial information (R4), the results depicted in table 4 indicated that 47.5% and 40% of the annual reports provided little and balanced feedback respectively. On the other hand, of the entities only 2.5% each provided more and comprehensive feedback whereas 7.5% of the companies did not provide any feedback on the various market events and significant transactions affecting the companies. As indicated in table 30, the results of the study also found that the mean score for R4 was 2.45 which is almost nearer to average but the disclosure practices was less inconsistent (SD = 0.783).

Table 5: Descriptive Statistics for Relevance

QC	N	Minimum	Maximum	Mean	Std. Deviation
R1	40	1	4	1.45	.815
R2	40	2	4	2.35	.580
R3	40	1	1	1.00	.000
R4	40	1	5	2.45	.783
Average Scores	**40**	**1.25**	**3.25**	**1.8125**	**.48619**

Source: SPSS Output (2017)

Generally, the minimum average score recorded by companies in Ethiopia for relevance was 1.25 while the maximum was 3.25 (see table 5). The relevance qualitative characteristics of financial reporting of companies in Ethiopia was below average (mean scores = 1.8125) with variation (standard deviation of 0.48619) from company to company. This result revealed that the practices of reporting forward – looking information and non-financial information in the annual reports, using fair value as measurement basis and providing the feedback to users of the annual report as to how various market events and significant transactions affected the company were at its low stage.

Faithful Representation

Faithful representation is, as described earlier, the qualitative characteristics of financial information and categorised under fundamental qualitative characteristics in the Conceptual Framework of IASB (2010). Following the measurement tool designed by Beest et al (2009) to measure faithful presentation, the researcher analyzed the faithful representation qualitative characteristics of annual reports of companies in Ethiopia, the existence of the following information in the annual reports was observed and rated : (1) the extent that valid arguments were provided to support the decision for certain assumptions and estimates in the annual reports (F1); (2) the extent to which the company based its choice for certain accounting principles and valid arguments (F2); (3) the extent the company highlighted the positive events as well as the negative events in the discussion of the annual results (F3); (4) the type of the auditors' opinion included in the annual report (F4); and (5) the extent to which the company provided information on the corporate governance in its annual reports.

Table 6: Extent of Presence of Valid Argument for Estimates Made (F1)

	Frequency	Percent	Cumulative Percent
Only described estimations	39	97.5	97.5
Comprehensive argumentation	1	2.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Accordingly, the results of the analysis of the data pertaining to F1 as depicted in table 6 showed that 39 (97.5%) companies had only described the estimation without providing explanation while only one company (2.5%) provided a comprehensive argumentation for the estimates in its annual report. The mean score of the extent to which the annual report of company explains the assumptions and estimates clearly was only 1.10 indicating that the annual report of the majority of the companies in Ethiopia did not clearly explain the assumptions and estimates showing some variations (SD = 0.632) (see table 30).

Table 7: Level of Presence of Valid Argument for Accounting Policy Applied (F2)

	Frequency	Percent	Cumulative Percent
Changes not explained	37	92.5	92.5
Minimum explanation	1	2.5	95.0
Explain why	1	2.5	97.5
Explained why + consequences	1	2.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

As depicted in table 7, the result related to F2 indicated that the annual reports of 37 (92.5%) of the companies did not explain the changes made for certain accounting principles on valid arguments. The study also showed that, among the remaining three companies, 1 (2.5%) company made a minimum explanation, 1 (2.5%) company made explanation including the reasons and 1 (2.5%) company explained the reason plus the consequences. As depicted in table 30, the mean score for F2 was 1.15 (with SD = 0.580) indicating that the practices of explaining the extent the companies base their choices for accounting principles on valid arguments were poor.

Table 8: Extent of Highlighting Both Positive and Negative Events (F3)

	Frequency	Percent	Cumulative Percent
Negative events only mentioned in footnotes	3	7.5	7.5
Emphasize on positive events	26	65.0	72.5
Emphasis on Positive events but negative also mentioned	4	10.0	82.5
Balanced emphasis on Positive /negative events	7	17.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

As far as the extent of the experience of highlighting the positive and negative events in the discussion of the annual reports, the result showed in table 8 that 7.5% of the companies mentioned negative events only in footnotes and 65% of the companies emphasized on positive events, more positive events. On the other hand, 10% of the companies laid emphasis on more positive but negative events were also mentioned while 17.5% followed balanced approach for both positive and negative events. Table 30 revealed that the mean score of F3 was 2.38 showing that the practices of highlighting the positive and negative events in the annual report was good regardless of the prevalence of variation (SD = 0.868) among companies.

Table 9: Type of Auditor's Opinion (F4)

	Frequency	Percent	Cumulative Percent
Disclaimer Opinion	1	2.5	2.5
Qualified opinion	10	25.0	27.5
Unqualified opinion: Financial figures	27	67.5	95.0
Unqualified opinion: Financial figures + internal control	2	5.0	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

The results of the study pertaining to F4 indicated that 2.5%, 25%, 67.5% and 5% of the companies had included disclaimer opinion, qualified opinion, unqualified opinion on financial figures, and unqualified opinion on both financial figures plus internal control systems, respectively (see table 9). But the study showed that none of the companies included the adverse opinion in their annual reports. As depicted in table 30, the calculated mean score was 3.75 implying that the practices of including unqualified auditors' opinion in the annual reports was very good in spite of the fact that inconsistency (SD = 0.588) was there among companies in this regard.

Table 10: Extent of Existence of Information on Corporate Governance (F5)

	Frequency	Percent	Cumulative Percent
No description on CG	21	52.5	52.5
Limited information on CG	15	37.5	90.0
Apart subsection for CG	3	7.5	97.5
Extra attention paid to information concerning CG	1	2.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Regarding the actual practices of providing information on corporate governance, as depicted in table 10, the findings of the study revealed that 52.5% of the corporate entities provided no descriptive information on corporate governance in their annual reports, 37.5% of them provided limited information, 7.5% of them provided in apart subsection, and the remaining 2.5% of them paid extra attention to information concerning corporate governance in their annual reports. It can be also observed that 90 per cent of the annual reports had limited or no description on corporate governance issues in their annual reports. Table 30 showed that the mean score for F5 was 1.60 indicating that the practice of extensively providing information on corporate governance issues by corporate entities in their respective annual reports was poor with prevalence of variation (SD = 0.744) in disclosing information on corporate governance practices from entity to entity .

Table 11: Descriptive Statistics for Faithful representation

QC	N	Minimum	Maximum	Mean	Std. Deviation
F1	40	1	5	1.10	.632
F2	40	1	4	1.15	.580
F3	40	1	4	2.38	.868
F4	40	2	5	3.75	.588
F5	40	1	4	1.60	.744
Average Score	**40**	**1.40**	**3.60**	**1.9950**	**.39089**

Source: SPSS Output (2017)

Finally, the result of the study showed (see table 11) that the faithful representation total score was 1.9950 which implied that the faithful representation qualitative characteristics of financial information of corporate entities in Ethiopia has been below average with the minimum and maximum overall mean scores 1.40 and 3.60

respectively and the existence of relatively low variation (SD = 0.39089) among companies. These results, in general showed that the practices of providing valid arguments to support the decision for certain assumptions and estimates in the annual reports, providing valid arguments for choice of certain accounting principles, highlighting both the positive and negative events in the discussion of the annual reports, and providing information on corporate governance issues in the annual reports were low.

Enhancing Qualitative Characteristics

The qualitative characteristics identified as enhancing characteristics of financial information by Conceptual Framework of IASB (2010) (Understandability, Comparability and Timeliness are presents as under:

Understandability

The assessment of the understandability qualitative characteristics of the financial information in the annual reports of corporate companies in Ethiopia was made on the basis of five items developed by Beest et al (2009) for this purpose. These items were: (1) the extent the annual reports were presented in a well-organized manner (U1), (2) the extent the notes to the balance sheet and income statement were sufficiently clear (U2), (3) the extent to which graphs and tables clarify the presented information (U3), (4) the extent the use of language and technical jargon in the annual report was easy to follow (U4), and (5) the size of the glossary in the annual reports (U5).

Table 12: Extent of Presenting Well-Organized Annual Reports (U1)

	Frequency	**Percent**	**Cumulative Percent**
Not well organized annual report	15	37.5	37.5
Poor organized annual report	3	7.5	45.0
Fair organized annual report	4	10.0	55.0
Good organized annual report	16	40.0	95.0
Best organized annual report	2	5.0	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Accordingly, the findings of the study related to U1 exhibited in table 12 showed that 37.5% of the annual reports of corporate entities were not well organized, while 7.5%, 10%, 40% and 5% of them were found organized in poor, fair, good and best manner respectively. The calculated mean score for U1 was 2.68 which denoted that, on average, the annual reports of corporate companies were organized in well manner but the extent of practices in this regard differed (SD = 1.457) from company to company (see table 30).

Table 13: Extent of Explanations to Financial Statements (U2)

	Frequency	**Percent**	**Cumulative Percent**
No explanation	1	2.5	2.5
Very short description	13	32.5	35.0
Fair description of what happens	23	57.5	92.5
Terms are explained	1	2.5	95.0
Everything seems difficult is explained	2	5.0	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

The analysis made pertaining to the extent of the of making clear notes to the balance sheet and income statement of corporate entities, as shown in table 13, indicated that 57.5% of these corporate companies made a fair description of notes to their financial statements while 32.5% of them made a very short description. 2.5% of them explained terms in the annual reports and the remaining 5% of companies explained everything that seems difficult in the notes to the balance sheet and income statement. However, on the other extreme, only 2.5% of the companies did not made any explanation to their financial statements. Table 30 showed that the mean score for U2 was 2.75 which is the above average figure and implied that the notes to the balance sheet and income statement were sufficiently clear regardless of varied practices (SD = 0.776) from one company to another one.

Table 14: Extent of Presenting Information in Graphs and Tables (U3)

	Frequency	Percent	Cumulative Percent
no graphs	17	42.5	42.5
3 - 5 graphs	5	12.5	55.0
6 - 10 graphs	7	17.5	72.5
> 10 graphs	11	27.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

The result obtained related to U3 (see table 14) revealed that 42.5% of the annual reports of companies contained no graphs while 27.5% of them encompassed more than 10 graphs. 12.5% and 17.5% of the annual reports of corporate entities contained 3 – 5 graphs and 6 – 10 graphs respectively. On the other hand, majority of the annual reports (55%) contained 5 or less graphs. As indicated in table 30, the determined mean score for U3 was 2.88 which was above the average figure indicating that the practice of presenting graphs and tables in financial statements were good even if the degree of practices varied (SD = 1.742) among the companies.

Table 15: Level of Technical Jargons Used (U4)

	Frequency	Percent	Cumulative Percent
Minimum industry jargon explained	1	2.5	2.5
No much jargon or well explained	1	2.5	5.0
No jargon or extraordinary explanation	38	95.0	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

The assessment of the annual reports of corporate companies concerning their practices in using technical jargon words in their respective annual reports showed (see table 15) that 95 per cent of the companies did not use technical jargon words in their annual reports. The remaining 5% companies which used such terminology explained the same in the annual report itself. Table 30 exhibited that the mean score for U4 was 4.90 which was the highest score that implied corporate companies in Ethiopia were excellent in abandoning the usage jargon words in their respective annual reports but with certain variations (SD = 0.496).

Table 16: Size of Glossary in Annual Reports (U5)

	Frequency	Percent	Cumulative Percent
No Glossary	39	97.5	97.5
Approximately 1 page	1	2.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Regarding the size of the glossary in the annual reports of corporate companies, as depicted in table 16, the result of the study showed that the majority (97.5%) of the financial statements lacked glossary and only 2.5% of the annual reports encompassed glossary whose size was approximately about a page. The average score for U5 was very low (1.05) showing that the practices of including glossary in the annual reports by corporate companies in Ethiopia were low with minimum variation (SD = 0.16) (see table 30).

Table 17: Descriptive Statistics of Understandability

Qualitative Characteristics	N	Minimum	Maximum	Mean	Std. Deviation
U1	40	1	5	2.68	1.457
U2	40	1	5	2.75	.776
U3	40	1	5	2.88	1.742
U4	40	2	5	4.90	.496
U5	40	1	3	1.05	.316
Average Score	**40**	**1.60**	**4.60**	**2.8500**	**.69245**

Source: SPSS Output (2017)

As shown in table 17, the overall score for the understandability qualitative characteristics of financial statements of companies in Ethiopia showed above average result (mean score = 2.8500) with some variations (SD = 0.69245) demonstrating the annual reports are in good position in encompassing information that make them understandable to their users. The minimum score was 1.60 while the maximum score was 4.60 with an average range of 3.00. Therefore, the results of the study indicated that the practices of, on average, presenting annual reports in a well-organized manner, including sufficiently clear notes to the balance sheets and the income statements, presenting graphs and tables that clarify the financial information in the annual reports, and using easy language and technical jargon words in the annual reports were encouraging.

Comparability

As defined in Conceptual Framework of IASB, comparability is the qualitative characteristic that enables users to identify and understand similarities in and differences among items (IFRS Foundation, paragraph 21, 2015).

To measure the prevalence of this qualitative characteristic, Beest et al (2009) developed a six item index and these items were applied in analyzing the comparability of information reported in the annual reports of corporate companies in Ethiopia. These six items require to measure the extent of: (1) the notes to changes in accounting policies explain the implications of the change (C1), (2) the notes to revisions in accounting estimates and judgments explain the implications of revisions (C2), (3) the companies adjust previous accounting period's figures for the effect of the implementation of a change in accounting policy or revisions in accounting estimates (C3), (4) the companies provide a comparison of the results of current accounting period with previous accounting periods (C4), (5) the information in the annual report is comparable to information provided by other organizations (C5), and (6) the companies present financial index numbers and ratios in the annual reports (C6).

Table 18: Extent of Disclosing Changes in Accounting Policy (C1)

	Frequency	Percent	Cumulative Percent
Changes not explained	38	95.0	95.0
Explained why	2	5.0	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Accordingly, as depicted table 18, the finding of the study pertaining to C1 showed that 95 per cent of the companies did not explain the changes in accounting policies and the implications of the change to the notes in the financial statements while only the remaining 5% of them disclosed the changes made and the reasons for the change. Thus, as exhibited in table 30, the study found that the practices of including the extent the notes to changes in accounting policies explained the implications of change is insignificant (mean score = 1.10) with minimum variation (SD = 0.441).

Table 19: Extent of Disclosing Revisions in Accounting Estimates (C2)

	Frequency	Percent	Cumulative Percent
Revision without notes	39	97.5	97.5
Clear notes + implications (past)	1	2.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Table 19 showed that the study related to the notes to revisions in accounting estimates and judgments explain the implications of revisions found that majority of the companies' annual reports (97.5%) did not contain notes related to implications of revisions in accounting estimates and judgments, whereas the remaining 2.5% of them made a clear notes including the implications which had very small mean score (mean = 1.08) with some variations (0. 474) as shown in table 30.

Table 20: Extent of Disclosing Adjustment Made on Previous Figures Affected by Changes in Accounting Policy and Estimates (C3)

	Frequency	Percent	Cumulative Percent
No adjustments	35	87.5	87.5
Described adjustments	2	5.0	92.5
Actual adjustment (one year)	3	7.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Regarding the extent the company adjusts previous accounting period's figures for the effect of the implementation of a change in accounting policy or revisions in accounting estimates; it was found that 87.5 of the annual reports encompassed no information about adjustment and only 5% of them contained described adjustment and 7.5% provided information about one year actual adjustment (see table 20). As shown in table 30, the study also found that the practices of disclosing the effect of the implementation of a change in accounting policy or revisions in accounting estimates on the annual reports was low (score mean = 1.20) with less variability (standard deviation of 0.564).

Table 21: Extent of Disclosing Comparative Figures (C4)

	Frequency	Percent	Cumulative Percent
No comparison	2	5.0	5.0
Only with previous year	27	67.5	72.5
With 5 years	8	20.0	92.5
5 years + description of implications	1	2.5	95.0
10 years + description of Implications	2	5.0	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Concerning the extent the company provides a comparison of the results of current accounting period with previous accounting periods, the study found that 67.5% of the annual reports made a comparison only with previous figures and 20% of them had made a comparison with 5 years financial figures without any description of their implications while 2.5% with description of the implications. The study also found that 5% of the annual reports made a comparison of 10 years figures with the description of implications but the remaining 5% of the companies did not include any previous comparative figures in their annual reports (see table 21 above). Table 30 showed that the mean score for C4 was 2.35 implying that the practices of making a comparison of the results of current period accounting information with the previous accounting period is fair even though inconsistency was there (SD = 0.834).

Before rating the information in the annual reports whether they are comparable to information provided by other organizations or not, the researcher examined the measurement bases used and found that all companies followed a cost convention. Then the existence of legal framework that facilitates for comparison of financial information among companies in Ethiopia and found that Article 448(1) of the Commercial Code of Ethiopia requires entities to prepare the balance sheet and profit and loss account each year in the same form as in preceding years and the methods of valuation shall remain the same, but provides a mandate to change the format of the financial statements and valuation methods to the general meeting of the board to adopt variations in the mode of presentation of the accounts or the methods of valuation on the reasoned advice of the auditors. Further, Article 23 of Proclamation No. 286/2002 states the depreciation rate to be applied in determining taxable income and companies in Ethiopia use these depreciation rates to minimize compliance costs. According to article 23, inter alia:

> "The acquisition or construction cost, and the cost of improvement, renewal and reconstruction, of buildings and constructions shall be depreciated individually on a straight-line basis at five per cent (5%), (ii) the acquisition or construction cost, and the cost of improvement, renewal and reconstruction, of intangible assets shall be depreciated individually on a straight-line basis at ten percent (10%), (ii) the following two categories of business assets shall be depreciated according to a pooling system at the following rates: (a) Computers, information systems, software products and data storage equipment: twenty five (25%), (b) all other business assets: twenty percent (20%). The depreciation base shall be the book value of the category as recorded in the opening balance sheet of the tax period: (a) increased by the cost of assets acquired or created and the cost of improvement, renewal and reconstruction of assets in the category during the tax period, and (b) decreased by the sales price of assets disposed of and the compensation received for the loss of assets due to natural calamities or other involuntary conversion during the tax period." Article 23 sub-article 3 – 5, Proclamation No. 286/2002."

Table 22: Summary of Number (%age) of Companies as per Depreciation Rate Usage Practices for Fixed Assets

Fixed Assets	Deprecation Rates Disclosed on Annual Reports[1]							Total
	2.5%	5%	10%	12%	20%	25%	Not Available	
Building	1(2.5%)	32(80%)	0	0	0	0	7(17.5%)	40(100%)
Office Furniture	0	0	18(45%)	0	16(40%)	0	6(15%)	40(100%)
Office Equipment	0	0	17(42.5%)	2(5%)	15(37.5%)	0	6(15%)	40(100%)
Motor Vehicle	0	0	1(2.5%)	33(82.5%)	0	0	6(15%)	40(100%)
Computers and Related	0	0	4(10%)	0	6(15%)	23(57.5%)	7(17.5%)	40(100%)
Other Fixed Assets	0	0	2(10%)	0	8(20%)	1(2.5%)	29(72.5%)	40(100%)

Source: Compiled from Annual Reports of companies

Table 22 showed that 80% of the companies used 5% depreciation rate as per the legal requirements for business income tax determination stipulated by Proclamation No. 286/2002, and 2.5% of them used 2.5% depreciation rate while the remaining 17.5% of the entities didn't report the depreciation rate they applied. Regarding the depreciation rate applied to Office furniture, 45% of the companies applied 10% rate while 40% of companies applied 20% depreciation rate. 42.5%, 2.5% and 37.5% of the companies applied 10%, 12% and 20% depreciation rate respectively for office equipment. 82.5% of the companies applied 12% depreciation rate for Moto Vehicle, while only 2.5% of them applied 10% rate. 10%, 15% and 57.5% of the entities applied 10%, 20% and 25% depreciation rates respectively for the computers and related assets. The other fixed assets were depreciated using by 10%, 20% and 25% rate by 10%, 20% and 2.5% companies respectively. Although depreciation rate varied from company to company, it was observed that companies applied similar rates consistently over the study period.

The next examination was wade regarding bad debts allowance for financial institutions and it was found that National Bank of Ethiopia has had a guide line that provide for the criteria and rate to be used in determining bad debt expenses. The National Bank of Ethiopia through its directive No. SBB – 52 -2012 (sub-article 8.3) requires development financial institutions to maintain the following minimum provisions against the outstanding principal amount of each loan or advance classified under criteria set out under article 7 of the same directive. However, there is no other legal or regulatory framework that dictates the procedures, criteria or valuation methods for bad debt expenses for entities that are non-financial institutions (see table 23).

[1] Note: The Figures in the parentheses represent percentage with the total

Table 23: Regulatory Minimum Provisional Requirement for Bad Debt in Financial Institutions

Article	Classification Category	Minimum Provision for Short, Medium and Long-term Loans
8.3.1	Pass	1%
8.3.2	Special Mention	3%
8.3.3	Substandard	20%
8.3.4	Doubtful	65%
8.3.4	Loss	100%

Source: www.nbe.gov.et

After taking all these facts into consideration, the comparability of one company's financial information with others were assessed and rated as depicted in table 24 below.

Table 24: Level of Comparability of Accounting Information over Period (C5)

	Frequency	Percent	Cumulative Percent
Not totally comparable	1	2.5	2.5
Little bit comparable	9	22.5	25.0
Fairly Comparable	27	67.5	92.5
Comparable	3	7.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Accordingly, the results of the study revealed that 92.5% of the annual reports are fairly comparable and that of 7.5% annual reports are more comparable, while 22.5% of them were only little bit comparable to each other. It was also found that only 2.5% of the annual reports of the companies were not totally comparably. Table 30 showed that the average score for C5 was 2.80. As this mean was above the average, it revealed that the extent the information in the annual report is comparable to information provided by other organizations was good with some inconsistency or variability (SD 0.608).

The last item assessed for measuring the comparability characteristics was the extent to which the company presents financial ratios in annual report. As exhibited in table 6.26, the study found that 75% of the annual reports did not contain the financial ratios. However, 10%, 5%, 2.5% and 7.5% of the companies contained 1 – 2 ratios, 3 – 5 ratios, 6 – 10 ratios and more than 10 ratios, respectively.

Table 25: Extent of Presenting Financial Index Numbers and Ratios (C6)

	Frequency	Percent	Cumulative Percent
No ratios	30	75.0	75.0
1 - 2 ratios	4	10.0	85.0
3 - 5 ratios	2	5.0	90.0
6 - 10 ratios	1	2.5	92.5
> 10 ratios	3	7.5	100.0
Total	**40**	**100.0**	

Source: SPSS Output (2017)

Table 30 showed that the calculated mean score was 1.58 and Table C6 showed that 90 per cent of the annual reports contained a maximum of 5 financial ratios which means that the practices of encompassing financial index numbers and ratios in the annual reports were, on average, low with SD = 1.196. As indicated in Table 26 below, the minimum average score was 1.33 and the maximum average score 2.67.

Table 26: Descriptive Statistics for Comparability

QC	N	Minimum	Maximum	Mean	Std. Deviation
C1	40	1	3	1.10	.441
C2	40	1	4	1.08	.474
C3	40	1	3	1.20	.564
C4	40	1	5	2.35	.834
C5	40	1	4	2.80	.608
C6	40	1	5	1.58	1.196
Average Comparability	**40**	**1.33**	**2.67**	**1.6833**	**.34550**

Source: SPSS Output (2017)

Table 26 also showed that the overall average comparability score for comparability was found low (mean score = 1.6833) which was far below average figure (i.e. 2.5) indicating that the extent of the practices of the notes to changes in accounting policies explaining the implications of the change, the notes to revision in accounting estimates and judgments explain the implications of the revision, the company adjust previous accounting period's figures for the effect of the implementation of a change in accounting policy or revisions in accounting estimates, the company provide a comparison of the results of current accounting period with previous periods, the information in the annual report was comparable to information provided by other organizations, and the company presented the financial ratios in the annual reports , on average, were at low level and the practices lack uniformity (SD = 0.34550).

Timeliness

As per the IASB Conceptual Framework, timeliness refers to having information available to decision-makers in time to be capable of influencing their decision (IFRS Foundation, paragraph 29, 2015). To assess the practices of companies in Ethiopia following Beest et al (2009) procedure was followed and the following statistical data were obtained.

Table 27: Summary of Audit Lags of Companies

Audit Lags (in average days)	Frequency	Percent	Cumulative Percent
< =90	5	12.5	12.5
91 – 180	20	50	72.5
181 – 270	13	32.5	95
271 – 365	2	2.5	97.5
>365	1	25	100

Source: SPSS Output (2017)

Table 27 showed that 12.5% of the companies took up to 90 days to get the annual reports audited after the end of the fiscal year, while the audit lags for the remaining 50%, 32.5%, 2.5% and 2.5% of the entities were up to 6 months, 9 months, a year and more than a year respectively.

The study also showed that entities in Ethiopia, on average provided their annual reports within six months after the end of accounting year though Article 66(1a) of Proclamation No. 286/2002 stipulated that “Category A[1] taxpayers shall submit the tax declaration to the Tax Authority at the time of submitting the balance sheet, and the profit and loss account for that tax year within 4 months from the end of the taxpayers tax year.” However, the researcher learned from the regulators that business entities report to the regulatory bodies within the stipulated period of time as per their requirements and this implied that financial information produced for the other users had given emphasis in making them available on timely basis.

As shown in table 6.29, the study found that it took, on average, a minimum of 29 days and a maximum of 402 days to produce annual reports after the end of the fiscal period and on average 161.75 days (which is less than six months) but with high variability (SD = 78.296) from company to company. The mean score for timeliness was 3.63 which was a good performance in this regard but with certain variability (SD = 0.897) from company to company (see table 30).

Table 28: Descriptive Statistics for Timeliness

	N	Minimum	Maximum	Mean	Std. Deviation
T-Average	40	1	5	3.63	.897
Audit-Lags (in days)	40	29	402	161.75	78.296

Source: SPSS Output (2017)

As indicated in table 30, the analysis of the data showed that the relevant qualitative characteristics of financial reporting of companies on Ethiopia has scored the following scores on average: Relevance (mean = 1.8125 and a standard deviation of 0.48619), Faithful representation (mean = 1.995 and standard deviation = 0.39089), Understandability (mean = 2.85 and standard deviation = 0.69245), Comparability (mean = 1.6833 and standard deviation = 0.3455) and Timeliness (mean = 3.63 and standard deviation = 0.897).

Table 29: Summary of Descriptive Statistics for Qualitative Characteristics

	N	Minimum	Maximum	Mean	Std. Deviation
Average – Relevance	40	1.25	3.25	1.8125	.48619
Average – Faithfulness	40	1.40	3.60	1.9950	.39089
Average –Understandability	40	1.60	4.60	2.8500	.69245
Average – Comparability	40	1.33	2.67	1.6833	.34550
Average – Time	40	1	5	3.63	.897

Source: SPSS Output (2017)

Table 29 also showed that the minimum mean score recorded by companies in Ethiopia for relevance was 1.25 while the maximum was 3.25. Similarly, the minimum mean scores for faithful representation, understandability, comparability and Timeliness are 1.40, 1.60, 1.33, and 1 while the maximum mean scores are 3.60, 4.60, 2.67, and 2, respectively. The percentile result showed that 75% of the companies have scored less or equal to a mean scores 2.25, 2.15, 3.60, 1.8333 and 2 for Relevance, Faithful representation, Understandability, Comparability and timeliness, respectively, implying that except for comparability items, 75% of the companies

[1] Article 18(1) of Regulations No. 78/2002 defines Category A business entities as companies (a) companies incorporated under the laws of Ethiopia or in foreign countries, and (b) any other businesses having an annual turnover of Birr 500,000(five hundred thousand Birr) or more. Accordingly, all companies in this study are under this category as they fulfill these legal requirements.

scored a mean value below 50%. These results showed that the mean scores scored for each the five qualitative characteristics of financial information are very low. Low consistency (low variability) was observed in the understandability items (SD = 0.6245) while relatively higher consistency (low variability) was observed in comparability item (SD = 0.3455).

The detail result for each attribute is presented in table 30 below:

Table 30: Summary of Qualitative Characteristics' Score for Corporate Financial Reporting Practices in Ethiopia

Qualitative Characteristics	Items	Mean	SD	Min	Max
Relevance					
R1	The annual reports discloses forward-looking information	1.45	0.815	1	4
R2	The annual reports discloses information in relation to business opportunities and risks	2.35	0.58	2	4
R3	The company uses fair value as measurement basis	1	0	1	1
R4	The annual report provides feedback information on how various market events and significant transactions affected the company?	2.45	0.783	1	5
	Relevance Total Score	**1.8125**	**0.48619**	**1.25**	**3.25**
Faithful Representation					
F1	The annual report explains the assumptions and estimates made clearly	1.10	0.632	1	5
F2	The annual report explains the choice of accounting principles clearly	1.15	0.580	1	4
F3	The annual report highlights the positive and negative events in balanced way when discussing the annual results	2.38	0.868	1	4
F4	The annual report includes an unqualified auditor's report	3.75	0.588	2	5
F5	The annual report extensively discloses information on corporate Governance issues	1.60	0.744	1	4
	Faithful Representation Total Score	**1.9950**	**0.39089**	**1.40**	**3.60**
Understandability					
U1	The annual report is a well organized	2.68	1.457	1	5
U2	The notes to the balance sheet and the income statement are clear	2.75	0.776	1	5
U3	Graphs and tables clarify the information presented	2.88	1.742	1	5
U4	The use of language and technical jargon is easy to follow in the annual report	4.90	0.496	2	5
U5	The annual report included a comprehensive glossary	1.05	0.16	3	3
-	**Understandability Total Score**	**2.8550**	**0.69245**	**1.60**	**4.60**
Comparability					
C1	The notes to changes in accounting policies explain the implications of the change	1.10	0.441	1	3
C2	The notes to revisions in accounting estimates and judgments explain the implications of the revision	1.08	0.474	1	4
C3	The company's previous accounting period's figures are adjusted for the effect of the implementation of a change in accounting policy or revisions in accounting estimates	1.20	0.564	1	3
C4	The results of current accounting period are compared with results in previous accounting periods	2.35	0.834	1	5
C5	Information in the annual report is comparable to information provided by other organizations	2.80	0.608	1	4
C6	The annual report presents financial index numbers and ratios	1.58	1.196	1	5
	Comparability Total Score	**1.6833**	**0.3455**	**1.33**	**2.67**
Timeliness					
T1	Natural logarithm of amount of days it took for the auditor signed the auditors' report after book-year end	3.63	0.897	1	5

Source: Compiled from SPSS Output (2017)

The previous empirical studies (e.g. Teferi and Pasricha, 2017) conducted on the corporate financial reporting legal and regulatory framework in Ethiopia revealed that there were inadequate laws which stipulate the minimum requirements and formats for presentation and disclosures of non-financial and financial information in financial statements of Corporate Companies in Ethiopia.

6. CONCLUSIONS

The study found that the practices of reporting items that are considered as an indicator of 'relevance' characteristic (such as forward-looking information, non-financial information, application of fair value as a measurement basis and feedback to users as to how different transactions affected the company) by companies in Ethiopia were poor. The practice of disclosing items that are considered as proxy for 'faithful representation' characteristic (such as providing valid arguments to back the decisions for some assumptions and estimates in the annual report, providing valid arguments for choice of some accounting principles, providing the highlight of both positive and negative events and providing information on corporate governance issues in the annual report) were also low.

However, regarding the 'understandability' characteristics, the study indicated that the practices of presenting annual reports in a well-organized manner including sufficiently clear notes to the balance sheet and the income statement, presenting graphs and tables that clarify the financial information in the annual reports, and using easy language in the annual reports were encouraging. As far as 'comparability' characteristic was concerned, it was found that the extent of the practices of the notes to changes in accounting policies explaining the implications of the change, the notes to revision in accounting estimates and judgments explain the implications of the revision, the company adjust previous accounting period's figures for the effect of the implementation of a change in accounting policy or revision in accounting estimates, the company provide a comparison of the results of current accounting period with previous periods, the information in the annual report was comparable to information provided by other organizations, and the company presented the financial ratios in the annual reports , on average, were at low level and the practices lack uniformity. Regarding the 'timeliness; characteristics, the study also showed that firms in Ethiopia, on average, provided their annual reports within six months after the end of accounting year.

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