

**EXAMINING THE ACCOUNTANTS PERCEPTION TOWARDS FINANCIAL
REPORTING QUALITY: QUALITATIVE CHARACTERISTICS**

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The purpose of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investor. Lenders and other creditor in making decision about providing resources to the entity (AASB.2016, P.29). Financial information to be use full , it must be relevant and faithfully represent what it purports to represent. The use fullness of financial information is enhanced if it is cooperate, verifiable, timely and understandable (AASB, 2016.P.36).

Financial reporting quality is the extent to which financial reports of a company communicate its underlying economic state and its performance. Due to the market and business globalization geographical expansion and the greater demand for information and transparency among investors stock market, agents and society in general find their toehold in the quality of their financial reporting and their main source knowledge on the company strategy (Penrose, 2008).

Even though, companies may generate financial statements in accordance with generally accepted accounting principles, these statements, may present differing levels of quality (Choir and pae, 2011). The quality of financial statements is not an indicator that can be easily quantified, as it cannot be observed directly, being based on the user of the financial information each category of user has its own expectations regarding what information is useful and of good quality. Financial information issued by a company has become an essential resource for any market participant, investors, regulatory agencies, society and other stock holders. Therefore, one of the main questions that arise about the quality of financial reporting is its effect of subsequent performance of a company.

One of the main objectives of the large number of papers up on this subject consists of finding an appropriate measure for it. That is why, it is important to understand what financial reporting

quality represents and how it can be explained and quantified. A commonly accepted definition is provided by Jonas and Blanchet (2000), who argue that quality financial reporting is full and transparent financial information that is not designed to obfuscate or mislead.

There are several qualitative characteristics of financial reporting quality among them understand ability. the (IASB, 2010) defined it as the quality of information that enables users to comprehend its meaning. The (IASB, 2010) argues that understand ability is enhanced when information is classified, characterized and presented clearly and concisely. In addition (Boelens et al., 2011) argues that graphs can be used as a measure for understand ability. Comparability is considered as a quality attribute of information that enables users to identify similarities, and difference between, two sets of economic phenomena (IASB, 2010). In addition, comparability as a quality attribute helps users identify the main trends and the analysis of a firm's performance over time (IASB, 2006).

Timeliness defined in the conceptual framework means "having information available to decision-makers before it loses its capacity of influencing decisions" (IASB, 2010). Timeliness refers to the time it takes to reveal the information and is related to decision usefulness in general (IASB, 2010). Relevance information is considered relevant "if it is capable of making a difference in the decisions made by users" (IASB, 2010). The IFRS also provide a more specific definition of relevance: "financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both" (IASB, 2010). Verifiability is the ability through consensus. Among measures to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias. Reliability is information has the quality of reliability when it is free from material error and bias can be depended up on by users to present faithfully with either purports to represent.

The Ethiopian financial reporting environment has shown a continues development because of following different international standards followed in order to prepare the financial report and government also recently give a good attitude towards the financial report. Plenty of studies were conducted in developed countries like United Kingdom, Australia, Newzeland. Only a limited study had been conducted in the area from developing countries as far as the researcher knowledge is concerned like Nigeria, Ghana and also Lan Anh Thi Nguyen (2016) conducted on perception of accountant financial reporting quality by using the factors ethical decision making

processes, earnings management, and cultural influences on the ethical process in a developing country using Vietnam as a context.

1.2. STATEMENT OF THE PROBLEM

Quality financial report, allows financial analysts to conduct a financial analysis and interpretation. It helps to examine relationships among financial elements and making comparisons with relevant information. It is a valuable tool used by investors and creditors. Financial analysis and other in their decision-making processes related to stocks, bonds and other financial statements. The goal in analyzing financial statements is to assess past performance of a company (business and finance encyclopedia.2001). The primary qualities that make accounting information useful for decision -making are relevance and faithful representation.

Financial reporting helps the reporting entity to communicate with its intended user these means the financial reporting helps to report its operational result it may be losses or gain to report to external user these in return helps the external user to evaluate the performance of the entity it may be to invest on it or used to tax purpose.

Ethiopian financial reporting is mainly underdeveloped means it is not totally followed the standards that established internationally due to the reason of economical, government consideration of the sector, the need to head information for the external party users because of tax and other related things are comes after the computation of income of the entity. Many studies are conducted related to this like; Kirubel Asegdew(2016) conducted a study on the determinant of financial reporting quality this study is assess the determinants of financial reporting quality in large manufacturing share companies in Addis Ababa. Accordingly, the study used documentary analysis of companies audited financial statements and in-depth interview with directors of manufacturing firms' .JagongoAmbrose (2013) conducted a study on institutional investors' perceptions on quality of financial reporting in Kenya. Financial reports are formal records of business financial activities. They provide an overview of a business profitability and financial condition in both short and long term. There are four basic financial statements namely the balance sheet which also referred to as statement of financial condition. Cash flow statement and statement of change in company's shareholder equity. The objective of the study where to determine the type of information in the financial reports that is regarded as

very useful by the institutional investors in Kenya, to determine institutional investors perception on information reported in the financial report with respect to usefulness in decision making and to identify the challenges facing investor as: they use financial reports of the companies in Kenya.

According to this; the study want not doing the research on determinants of financial reporting quality and the study want not doing the research in institutional investor's perception on the quality of financial report. The study want to know the perception of accountants by using the primary measurement of financial reporting quality like relevance, reliability, verifiability, comparability, understand ability, timeliness.

In the context of Ethiopia, the related study conducted by Mekonnen (2011) assessed the impact of private ownership on financial reporting quality in privately owned companies in Addis Ababa-Ethiopia. This study exists in the area as far as it considers only one variable (private ownership) and ignores other firm related variables affecting financial reporting quality. However, per the knowledge of the researcher there is no research conducted in Ethiopian context to examine to see accountant's perception towards to financial reporting quality with some variables like: relevance, verifiability, timeliness, understandability, comparability, reliability.

In line with the problems highlighted above, the general purpose of this study would try to fill this gap by studying the accountant's perception towards to financial reporting quality by using such like variables relevance, reliability, verifiability, timeliness, comparability and understandability. Because they are the main producer of financial report due to this conducting study on the accountant can increase the quality of the financial report. Thus, this research paper study on the perception of accountant toward financial reporting quality using above variables in Wolkite -Ethiopia.

Research question

As a result, this study tried to answer the following questions.

1. How does an accountant perceive understandability?
2. In what way accountants perceive comparability?

3. How does an accountant perceive timeliness?
4. In what way accountants perceive verifiability?
5. How does an accountant perceive relevance?
6. In what way accountants perceive reliability?

1.3. OBJECTIVE OF THE STUDY

1.3.1 GENERAL OBJECTIVE

The broad objective of the study was to establish the accountant's perception on the quality of financial reporting in Wolkite town.

1.3.2 SPECIFIC OBJECTIVE OF THE STUDY

Based on the above general objective the following are the specific objective of the study

- ❖ To examine accountants Perception to the understandability characteristics of financial reporting quality
- ❖ To assess the accountants perception to the reliability characteristics of financial reporting quality in preparation of financial statement..
- ❖ To identify accountants perception to the relevance characteristics of financial report quality.
- ❖ To examine the accountants perception to the timeliness characteristics of financial reporting quality
- ❖ To evaluate accountants perception to the comparability characteristics of financial reporting quality
- ❖ To assess accountants perception to the verify ability characteristics of financial reporting quality

1.4 SIGNIFICANCE OF THE STUDY

The main purpose of this research study is to find out the perception of accountants to financial reporting quality by gathering evidence from Wolkite town. In turn, the findings of the research

add to the existing knowledge on the area of reporting quality. Specifically, this study is significant in the sense that:

For the city administration

Create meaningful awareness among the concerned body about financial reporting quality for optimal reporting quality.

For scholars

The study finding helps to seek more knowledge about the reporting quality in many other companies in order to shot light on reporting quality for sound financial reporting.

For other researchers

The finding are also helpful in building on the already existing literature about accountants perception towards financial reporting quality and it show the ability of the model used to capture financial reporting quality.

For government

The policy makers and the government can use the findings in building and widening the awareness of financial reporting quality.

For policy makers

It will be also help to the policy maker to establish the financial report standard.

1.5 SCOPE OF THE STUDY

The scope of this study is limited to the accountant’s perception and qualitative characteristics of financial reporting quality in Wolkite city category “B” tax payer. The study focused on accountants because they are the main producer of the financial report, the government also giving a special attention to the profession.

1.6. Organization of the study

This study comprises five chapters. The first chapter contains; background of the study, statement of the problem, objectives of the study, significance and scope of the study. The second chapter comprises the theoretical reviews and literature review of the study. Chapter three contains the research methodology, source of data and sampling method. Chapter four contain data presentation and interpretation and the last chapter contain conclusion and recommendation

CHAPTER TWO

LITRATURE REVIEW

INTRODUCTION

In order to put the study with in the context of the existing literature, the subsequent sections of this chapter present the theoretical review, empirical review and gap identification of the study.

2.1 THEORETICAL REVIEWS

2.1. 1 DEFINITION OF FINANCIAL REPORTING QUALITY

Quality financial reporting should posse's high degree of excellence in terms of information disclosed and the standard of usefulness in the context of the need of users. For financial reporting to be effective all relevant information should be represented in unbiased understandable and timely manner. Accountants should go beyond the timely reporting and the interpretation of past events. Timely report and the interpretation of past events. There is need to aid in the creation of useful forecasts of future operation. The users of accounting information must understand the content of the financial statements and reports in order to use it effectively. The quality of financial reporting is judged on how it aids the accountant to determine the quality of their work. Magrath and weld (2002) noted the accountant to determine the quality of their work. Magrath and weld (2002) noted that fraudulent accounting lead that fraudulent accounting lead to staggering loss.

The standards for financial reporting in the united states known as GAAP and are established by the financial accounting standards board (FASB). Financial reporting is driven by the general purpose of meeting the needs of external users that lack the ability to describe the information they need information and, therefore, must rely on information that companies provide (Baxter, 2007).

2.1.2 OBJECTIVE OF FINANCIAL REPORTING

The objective of financial reporting is to provide useful information to vary user groups, all of whom have different information needs. (IASB, 2006; IASB, 2008) asserted that the fundamental objective of financial reports is to communicate economic measurements of any

information about the resources and performance of the reporting entity, useful to those having reasonable rights to such information. The intention of financial reporting is to show what is actually happened to an entity, expressing the salient facts as far as practicable in financial terms. Financial statements provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

According to international accounting standard board (IASB) the objective of financial reporting is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decision. Providing information to management of an organization useful for the purpose of planning, analysis bench-marking and decision -making. Providing information to investor's debt provider and creditor which is useful to enable them to male rational and prudent decisions regarding investment and credit. Providing information for share-holders and public at large in case of listed companies about various aspect of an organization. Providing information about the economic resources of an organization claims to those resources (liabilities and owners' equity) and how this resources and claims have undergone change over a period of time (EduPristine, 2017).

Providing information as to how an organization procuring and using various resources and providing information to various stakeholders regarding performance management of an organization as to how diligently and ethically they are discharging their fiduciary duties and responsibilities. Enhancing social welfare by looking the interest of employee's trade union and government. Providing information to the statutory auditors which intern facilitates audit (EduPristine, 2017).

2.1.3 FUNCTIONS OF FINANCIAL REPORTING

Financial reporting should posse's high degree of excellence in terms of information disclosed and the standard of usefulness in the context of the need of users. For financial information to be effective all relevant information should be represented in unbiased understandable and timely manner. The accountants should go beyond the timely reporting and the interpretation of past events. In helps and organization to comply with various statues and regulatory requirements and for the purpose of bidding, labor contract government supplies organizations are required to

furnish their financial reports and statements. Financial reporting also used as a way of communication between your business and the shareholders (EduPristine, 2017).

2.1.4 DISCUSSION ABOUT VARIABLES

Relevance, it is considered financial information is relevant if it is capable of making a difference in the decision-making process. In order to make difference in decisions, financial information should have predictive value, confirmatory value or both of them. Financial information has predictive value if it can predict future outcomes, being employed by users in making their own predictions. Empirical accounting researchers supporting relevance and faithful represented financial information through correlation with change in the market prices of entities equity or debt instruments. (IASB 2008) Comparability means users decisions involve choosing between alternatives. That is why information is useful if it can be compared with similar information about other entities or the same, from previous periods. Comparability helps users to identify and understand similarities and difference and to fundamental their decisions. This term also refers to how easily varies companies can be compared with each other. According to Braan and Beest (2013), the quality of comparability is measured by means of items related to consistent application of accounting policies and procedures and inter-company comparability.

Verifiability statement of financial accounting concepts defines verifiability as ability statement consensus among measure to ensure that information represents what it purpose to represent or that the chosen method of measurement has been used without error or bias. Timeliness means having information available before it loses its capacity to influence decisions (IASB, 2008). Generally, the older the information is, the less useful becomes. Anyway, there are cases when information continues to be timely long after the end of a reporting period. This happens when users need to identify and assess trends, to make prediction based on what has happen in the past (IASB 2008).

Understandability, conceptual frame work for financial reporting affirms that classifying. Characterizing and presenting information clearly and concisely makes it understandable. Some transactions are very complex and contain many details and, consequently, cannot be understood very quickly. In these cases, any available information may help the user to understand the transaction. The solution is not to exclude the information from the financial statement in order

to not to confuse the user, but to display all the available details. It is assumed that the user of the financial statement has at least a basic knowledge of business and economics and a willingness to study the information with reasonable diligence. Regarding understandability, there are some opinions according to which no new accounting doing this and selecting the appropriate ones accordingly is to the specific market that is to be analyzed (IASB, 2008).

2.1.5 MEASUREMENT OF FINANCIAL REPORTING QUALITY

A key issue that impact directly to the nature of research in financial reporting quality is the measurement of the quality of reports. A useful categorization of measurement tools is provided by Van beast., *et al.* (2009) that identifies four broad and not restrictive categories: accrual models, value relevance models, specific element of financial reports methods that operationalize the qualitative characteristics. While numerous researches made in the first three categories, research combining all qualitative characteristics in the assessment of financial reporting quality is limited with most research efforts focusing on one or more qualitative characteristic. Earning management is the purposeful intervention in the external financial reporting process with the intent of obtaining some private gain. A widely used model by many researchers is the jones model or its modified versions. This model has been used in the literature to capture earning management, which viewed as an inverse measure of earning quality (Bartove., *et al.* 2001, Gul., *et al.* 2003, Dowdell and Krishnan, 2004).

2.2 EMPIRICAL REVIEWS

Stergios Tasios and Mechalis bekiaris (2012), study on auditor's perception of financial reporting quality. The study aims to investigate auditor's perception of the quality of financial reports. Based on the qualitative characteristics of financial reporting information defined by IASB in its conceptual framework. In addition, the study aims to identify the key factors that influence and improve the quality of financial reports, as well as the factor that lead to poor quality. Finally, an effort is made to assess the quality of financial reporting of Greek companies according to each qualitative characteristics of financial reporting information. Results indicate that auditors perceive the qualitative characteristics of financial reporting information as important quality elements of financial reports. As far as the quality of financial report of Greek companies is concerned auditors perceive it to be of moderate quality attributed mainly to

earnings management, poor corporate governance, family ownership and deviation from accounting principles.

Kariuki Grace and Jagongo Ambrose. (2013), study on institutional investors' perceptions on quality of financial reporting in Kenya. The key objectives of the study were to determine the type of information in the financial reports that is regarded as very useful by the institutional investors in Kenya, to determine the institutional investors perception on information reported in the financial reports with respect to usefulness in decision making and to identify the challenges facing investors as: they use financial reports of the companies in Kenya. The design of the study was the descriptive survey design. The target population consisted of all the institutional investors participating at the NSE. The researcher sample two respondents from each of the 24 institutions in trading NSE. The overall sample size of 48 respondents be selected from the target population. Data was collected using semi-structured questioners and was analyzed using descriptive statistics. the researcher found out that the type of information in the financial reports that was regarded as very useful by institutional investors in Kenya was total assets, non-current liabilities, retain earnings, cash flows from investing activities, and dividend per share. The institutional investors also perceived the financial report in terms of completeness, comparability, and consistency as good, while in terms of understandability, relevance, faithful representation, neutrality, predictive ability and timeliness it was regarded as fair. It was also found that the biggest challenge that faces users of financial reports in Kenya is the technical nature of language of presentation (Kariuki Grace and Jagongo Ambrose, 2013).

Nyor and terzungwe (2013), conducted a study on financial reporting quality of annual report of Nigerian firms from the perspective of users of such accounting information. The study administered one hundred (100) questionnaires to respondents from seven user group selected at random with a minimum qualification of first degree or higher national diploma (HND) to ensure high quality of responses. Taking the qualities of accounting information of understandability, relevance, consistency, comparability, reliability, objectivity, and completeness and using percentage scale and chi-square for test of hypothesis, the study provides evidence that, the quality of annual reports and accounts of Nigerian firms should strive to achieve higher financial reporting quality.

Beest., *et al* (2009), are conducted a study on quality of financial reporting :measuring qualitative characteristics they construct a compound tool to comprehensively assess the quality of financial reporting in terms of the underlying fundamental qualitative characteristics that are understand ability, comparability, verify ability, and timeliness. As defined in an improved conceptual framework for financial reporting of the IASB (2008). The operation of these qualitative characteristics results in a 21-item index. Using 231 annual reports from companies listed at US, UK, and Dutch stock markets in 2005 and 2007, to test the compound measurement tool on internal validity, inter-rater reliability (Krippendorff alpha) and internal consistency (Cronbach alpha). There finding suggests that the measurement tool used in this study is a valid and reliable approach to assess the quality of financial reports. The measurement tool contributes to improving the quality assessment of financial reporting information, fulfilling a request from both the FASB and the IASB (2008) to make the qualitative characteristics operationally measurable.

Nyor andTerzungwe (2013), Conducted to assesses the quality of annual reports and accounts of Nigerian firms from the perspective of users of such accounting information. The study administered one hundred (100) questionnaires to respondents from seven (7) user group selected at random with a minimum qualification of first degree or Higher National Diploma (HND) to ensure high quality of responses. Taking the qualities of accounting information of understandability, relevance, consistency, comparability, reliability, objectivity and completeness and using a five point Likert scale and Chi-Square for test of hypothesis, the study provides evidence that, the quality of annual reports and accounts of Nigerian firms is only moderate. Consequently, the study recommends that Nigerian firms should strive to achieve higher financial reporting quality.

Sheh Usman and Ahmad Bello (2010), Published accounting information in financial statements are required to provide various users - shareholders, employees, suppliers, creditors, financial analysts, stockbrokers and government agencies – with timely and reliable information useful for making prudent, effective and efficient decisions. The widespread failure in the financial information quality has created the need to improve the financial information quality and to strengthen the control of managers by setting up good firms structures. This paper investigates firms“ characteristics from perspective of structure, monitoring and performance elements and

the quality of financial reporting measured by modified model of Dechow and Dechev (2002) of listed manufacturing firms in Nigeria. The study adopted correlation 1 research design with pooled balanced panel data of 24 firms served as sample of the study using multiple regression as a tool of analysis. The result reveals that larger and more leveraged firms in Nigerian manufacturing sector are less likely to manage earnings and increase in sales as well as institutional investors serve as a monitoring tool of preventing managers from opportunistic behavior in managing earnings. In addition, profitability and independent directors are positively associated with earnings quality while liquidity is inversely related with quality of financial reporting despite significant at 1% level of significance. In sum, firm characteristics of listed manufacturing firms in Nigeria have impacted significantly on their financial reporting quality. Therefore, it is recommended among others that the shareholders of Nigerian listed manufacturing firms should ensure all the seven firm characteristics used in this study keep on improving to decrease manipulative accounting and increase the quality of financial reporting (Shesh Usman Hassan and Ahmad Bello, 2010).

The paper examines effect of firms' structure on the financial reporting quality of Bangladesh quoted manufacturing firms using assets, leverage and share dispersion and residuals of modified EBO model as proxies of firm's structure and financial reporting quality respectively. The data is extracted from 12 sample firms representing the all quoted manufacturing companies in Bangladesh as the population of the study. Multiple regressions are used as a tool of analysis for the study. The result reveals a positive strong relationship between firm structure and financial reporting quality of quoted manufacturing firms in Bangladesh. It is therefore, recommended among others that the regulators should enforce more on the financial statements disclosure and transparency among companies quoted on the DSE as to ensure a higher quality of financial reporting (Ayub Ahmed, 2012).

Financial reporting purposes stem from information needs and demands of outside the organization users. The main goal is economic effects of events and financial operations on the status and performance of the business unit for help to foreign entities and financial decision making in connection with the business unit. This research deals to investigate the relationship between the quality of financial reporting and investment efficiency. Expected higher qualities of financial reporting improve investment performance by reducing information asymmetries

between business unit and external suppliers. Quality of financial reporting can improve investment efficiency from two ways: First, through reducing information asymmetries between company and investors, thus reduce financial costs. Second, through reducing information asymmetries between investors and managers thus reduce monitoring costs and improving project selection (Rodrigo S.Verdi, 2006).

2.3 CONCLUSION AND KNOWLEDGE GAP

Financial reporting quality has been the focus of theoretical and empirical auditing research. Most studies on financial reporting qualities of auditor's perception and investor's perception on financial reporting quality have been conceptual in nature, often drawing the theoretical link between good financial reporting quality and its return. There are limited studies providing empirical evidence to the accountant's perception towards to the financial reporting quality.

Plenty of studies were conducted in developed countries like United Kingdom, Australia, and New Zealand. Only a limited study had been conducted in the area from developing countries as far as the researcher knowledge is concerned like Nigeria, Ghana and also Lan Anh Thi Nguyen (2016) conducted on perception of accountant financial reporting quality by using the factors ethical decision making processes, earnings management, and cultural influences on the ethical process in a developing country using Vietnam as a context.

In the context of Ethiopia, the related study conducted by Mekonnen (2011) assessed the impact of private ownership on financial reporting quality in privately owned companies in Addis Ababa-Ethiopia. This study exists in the area as far as it considers only one variable (private ownership) and ignores other firm related variables affecting financial reporting quality. However, per the knowledge of the researcher there is no research conducted in Ethiopian context to examine to see accountant's perception towards to financial reporting quality with some variables like: relevance, verifiability, timeliness, understandability, comparability, reliability.

In line with the problems highlighted above, the general purpose of this study would try to fill this gap by studying the accountant's perception towards to financial reporting quality by using such like variables relevance, reliability, verifiability, timelines, comparability and understandability. Because they are the main producer of financial report due to this conducting

study on the accountant can increase the quality of the financial report. Thus, this research paper would study on the perception of accountant toward financial reporting quality using above variables in Wolkite -Ethiopia.

CHAPTER THREE

METHODOLOGY

INTRODUCTION

This chapter follows on from Chapter2 **Conceptual Model** and discusses the research methodology will employ in this **thesis**. As mentioned in prior this chapter gives a brief description of the research method that will explore the perception of accountants towards financial reporting quality qualitative elements. This include research approach, research approach adopted and data sources. A detail description of research design tools with their sample and sampling procedure, sources of data, data type and the data collection Procedures and type of data analysis description are also discussing.

3.1 DESCRIPTION OF THE STUDY AREA

The study was carried out from December 2019 to April 2020 in Wolkite town on accountant's perception towards financial report quality. Qualitative characteristics evidence from the accountants of category "B" taxpayer in Wolkite town which is located in south western direction of Addis Ababa in Guraghe zone southern regional states. It situated 154 km far away from Addis Ababa and has a latitude and longitude of 8 17N 37 47E and an elevation between 1910 and 1935 meters above sea level. Wolkite is a living place of different ethnic group and a well-known city by her cultural gurage kitfo .most of the people are trader and lead their life by trade.

3.2 RESEARCH DESIGN

Research design is a plan and structure of investigation to conceive as to obtain answer to research questions. The plan is an overall scheme or program of the research process. It is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the blue print for the collection measurement and analysis of data. In assessing accountant's perception on financial quality cross-sectional descriptive research design was used. Because it helped to determine and report the ways, things are (gay 1981). This design is appropriate because the study involved fact-finding and inquiries to establish the accountant's perception on financial reporting quality.

In order to identify the accountant's perception towards to Financial Reporting Quality (FRQ) qualitative research approach was used. Because this approach seeks to describe various aspects about behavior and other factors studied in the social science. It also generates results either in non-quantitative form or in the form which are not subject to rigorous quantitative analysis.

3.3 DATA TYPE, SOURCE AND METHOD OF COLLECTION

3.3.1 TYPE OF DATA

Primary data were used to collect the necessary data to conduct the research because primary data are more reliable when they are compared to the other type of data. Those which are collect a fresh and for the first time and thus happen to be original in character.

3.3.2 SOURCE OF DATA

This research adopted the questionnaire as a tool to gather the primary information needed to achieve its objectives because it helps to mailed to respondents who are expected to read and understand the questions and write down the reply in the space meant for the purpose in the questioner itself. The Survey (questionnaire) was distributed to the accountants who works at different place in Wolkite city which ensured high quality of responses and that, the respondents are actually knowledgeable on the subject of discussion.

3.3.3 METHOD OF DATA COLLECTION

The task of data collection was begin after a research problem has defined and research designs or plan chalk out while deciding about the method of data collection used for the study. The study used questionnaires by using both open-ended and closed questions covering issues on accountant's perception on financial reports. Because it is easy to administer to respondents scattered over a large area and convenient for collecting more information within a short period. Open-ended questions permit free responses from the respondents, without providing or suggesting any structure for the replies. The closed ended questions enable responses of the respondents to be limit to state alternatives.

3.4 TARGET POPULATION OF THE STUDY

Target population is that population to whom a researcher requires to generalize result of the study. The target populations for this study include all the accountants participating in the office of category “B” tax payer in Wolkite town. The population of accountants on Category “B’ tax payer in the town will take a total of 189 participants. The study was target accountants because they are the main participants who make financial report. As noted in Jonker and Pennink (2010) it is obvious that researchers are typically unable to study the entire population. Therefore, researchers typically study a subset of the population which known as a sample. A sample is a portion of the population that infer about the population. However, it is important that the sample be representative of the population from which it was selected.

3.4 SAMPLING AND SAMPLE SIZE DETERMINATION

Random sampling was applied to select the sample for the study. Because random sampling gives equal chance of being included in the selection among the population, this can reduce bias.

$$n = \frac{N}{1 + N(e^2)}$$

$$= \frac{189}{1 + 189(0.1^2)}$$

$$= 65.398 \sim 66$$

3.5 METHOD OF DATA ANALYSIS

To achieve the objective of the study the researcher tried to analyses the raw data that collects from the questionnaire participants. All the questioners was adequately checked for accuracy and completeness before analysis. The data have coded and enter in to a spread sheet and analyze using Statistical package for social sciences (spss). Descriptive analysis was perform first to ensure that the output is free from error.

CHAPTER FOUR

RESULTS AND DISCUSSION

INTRODUCTION

In this chapter, the study analyses the collected data using various tools and presents the result of the data and discussion accordingly. The chapter is organized in to two sub section; the first sub section presents the demographic characteristics of the respondents and the second sub section presents results and discussion of the study.

4.1 RESPONSE RATE

Sixty-six questionnaires were distributed to the respondent and all of them are answered and collected with a response rate of 100%. The research study is reliable since the respondent was selected based on their duty and responsibility and their past experience on preparing financial report and those directly relate with the financial report. All of the questionnaires which is answered by respondents are counted and stated in percentile in order to provide a measure of the perception of the accountants towards financial reporting quality. The sequence of the questionnaire was arranged in order of topic and not randomly dispersed so that the subjects would concentrate on each qualitative characteristic providing consistent and focused response.

4.2 BACKGROUND INFORMATION OF RESPONDENT

Respondent's demographic characters include job title, level of education, field of specialization and work experience. Table 1 up to table 4 below shows details of background information of respondents. Due consideration is given to obtain consent from each participant about their participation in the study. The finding of the research was presented without any variation from the outcome of the research.

Table 1 frequency of respondents by educational status

Educational level	Frequency	percent
Master (MSc)	15	22.7%
Degree	40	60.6%
Diploma	11	16.6%
Total	66	100%

Source: (field survey, 2013)

Regarding the respondent education qualification as indicated on above table-1 (22.7) of the respondents are post graduate master (MSC) holders and 60.6% of respondents are undergraduate degree holder and the remaining 16.6% respondents are diploma holders. the research tries to identifies the respondents by educational level in order to know the qualification of the respondents to analyze weather their response is pertinent. from this it is possible to suppose that the composition of the respondents includes well qualified to explain about the subject matter of the study..

Table 2.frequency of respondents by field of specialization

field of specialization	Frequency	Percent
Accounting and finance	50	75.7%
Economics	6	9%
Management	10	15.1%
Total	66	100%

Source;(field survey,2013)

As shown from above table-2 75.7% are studied accounting and finance. 15.1% studied management and the rest 9 % are graduate of economics. Therefore, the background of all respondents is from business and economics department and it is possible for them to understand the term raised on the questioners that contributed to validity of the information they provided.

Table 3.frequency of respondents by current position

Position	Frequency	percent
Financial	38	57.5%
Accountant	28	42.4%
Total	66	100%

Source;(field survey 2013).

As shown on above table- 3 from the two respondents 57.5% of them was financial head and 42.4% are accountant. Such segregation of the respondent is important to suppose the researcher choose the right professionals which have direct relationship with the subject matter and in order to gather the necessary information regarding financial reports of the organization..

Table 4.frequency of respondents by work experience

Work experience	Frequency	Percent
0-5	34	51.5%
6-10	18	27.2 %
11-20	8	12.1%
More than 20 years	6	9 %
Total	66	100 %

Source: (field survey, 2013)

As presented on the above table-4 majority of the respondents (51.5%) of accountants have been worked in category " B " tax payers for 0-5 years and 27.2% of them have been worked for the organization for 6-10 years and 12.1% of them have been worked 11-20 years the rest 9% worked above 20 years.

As the result shown in table 4 almost more than half of the respondents have been working for less than 5 years in category “B” tax payer’s organization, which indicates most of the respondents are not working a long period of time in category “B” tax payer’s organization.

4.3 RESULTS AND DISCUSSION

Interpretation of the results is based up on the percentage value of the response to each individual item. The higher the percentage the greater the importance or higher the degree in the response of the question.

4.3.1 OVERVIEW OF FINANCIAL REPORTING.

The first part of the questionnaire consists of ten questions and to provide an overall view on the subject under examination. The first question that the accountants were asked to answer was the importance of the qualitative characteristics of financial reporting.

Table5 frequency of the importance of relevance

relevance	frequency	percentage
Very important	45	68%
important	21	32%
Less important	-	-
total	66	100%

According to the respondent the importance of the relevance qualitative characteristics of financial reporting shows 68 % very important and 32% important; this implies relevance qualitative characteristics of a financial report have a great importance in their financial report.

Table 6 frequency of the importance of reliability

reliability	Frequency	percentage
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Very important	60	90%
important	6	10%
Less important	–	–
total	66	100%

Results under the importance of qualitative characteristics of reliability indicates almost all of the respondent assures that reliability is very important in preparation of financial report.

Table7 frequency of the importance of comparability

comparability	Frequency	Percentage
Very important	42	63.6%
important	20	30.3%
Less important	4	6%
total	66	100%

The above table show the importance of comparability qualitative characteristics of the financial report. the result according to their response shows 63.6% of respondent strongly agree with the very importance of comparability and 30.3% agree with the importance of comparability and the other 6% agree with the less importance of comparability. this indicates comparability qualitative characteristics of the financial report have a great importance in their financial report.

Table 8 frequency of the importance of verify ability.

Verify ability	Frequency	Percentage
Very important	50	75.7%
important	13	19.6%
Less important	3	4.5%
total	66	100%

As the respondent asked about one of the importance of qualitative characteristics of the financial report of verify ability, 75% of them answered that verify ability is very important and 19.6% of them answered that it is important, the rest of them (4.5%) answered verify ability have less important in financial reporting quality. this implies verify ability qualitative characteristic of the financial report have a great importance in their financial report according to the result.

Table 9; frequency of the importance of timeliness.

timeliness	frequency	Percentage
Very important	52	78.7%
important	14	21.2%
Less important	–	–
total	66	100%

The other question which is presented to respondent is about the importance of the qualitative characteristics the financial report called timeliness, the result under this indicates 78% of the respondent answered by saying very important and 21.2% answered important. This implies a high degree of the importance of the timeliness of the qualitative characteristics in their financial report according to the response rate of the respondent.

Table 10; frequency of the importance of understand ability

Understand ability	Frequency	Percentage
Very important	40	60.6%
important	20	30.3
Less important	6	9%
total	66	100%

The last question the respondent asked under this section about the importance of the understand ability qualitative characteristics of the financial report, the result shows 60% very important and 30% important. This indicate understand ability qualitative characteristics have a great importance in their financial report.

Accountants perceive all characteristics as very important quality elements of financial reports. This is consistent with the definition of financial reporting quality given by most the respondents, who used the term “to represent reliability of the financial position” in their comments on the non-mandatory field in which they were asked to give their own definition of financial reporting quality.

4.3.2 ASSESSMENT OF PERCEPTION OF RESPONDENT ON FINANCIAL REPORTING QUALITY

The second part of the questionnaires aim to provide further insights on the issue of financial reporting quality utilizing questions according to each qualitative characteristics of financial reporting information. Several questions of this part were adopted from the items of the financial reporting index developed by van beest et al (2009) with the objective to capture the perceived quality of the reports of accountants on category “B” tax payer. Questions in this section of the questionnaire are arranged in order of each qualitative characteristic and responses were provided and stated in percentile.

- **RELEVANCE**

The first question under relevance is asked the respondents about the contribution of forward looking statements of the organization regarding the future expectation and prediction. The

question is implied that the ability of the financial report of the organization to help in order to predict about the future.

Table 11; contribution of relevance for future expectation and prediction

Relevance contribution	Frequency	Percentile
Great contribution	46	69.6%
Low contribution	20	30.4%
No contribution	-	-
total	66	100%

The result shows that 69.4% great contribution and 30.4% low contribution. This implies relevance has a great contribution of forward looking statements to the organization in order to predict about the future.

The concept that asked under the second question is the contribution of non-financial information in order to create the business opportunity increase the fulfillment of the financial information. This question implies how match non-financial information can increase the attractiveness in terms of creating opportunity and reduction in risk for the business. the result under this question show 33% very useful and 33% useless. This indicates the moderate contribution of non-financial information in order to create the business opportunity.

The last question under relevance is about the ability of reported earning providing feedback to the users of the annual reports regarding how various events and significant transaction affected the company. This implies the extent of the reported earning that can imply the events and significant transaction affected the company. The result under this question indicates the reported earning greatly provides feedback.

- **COMPARABILITY**

The first question under comparability wants to ask the respondent about the ability of change in accounting policies explain the effect of the change. The company that can explain the change in accounting policies is more comparable with the previous one.

Table12; comparability of change in accounting policies

Change in policies	Frequency	Percentage
High comparability	66	100%
No comparability	–	–
total	66	100%

The indicates the ability of explaining the effect of the change in accounting policies is high comparability in their financial report.

The other question asked about the extent of the report provided is explain the revision. The report that can clearly show the revision simplifies the comparability of the previous with the current one.

The other question asks the respondent about the extent of the data provided currently is comparable with the previous accounting period. This implies the company that can provide comparable data with the previous accounting period simplifies the work undertaken in order to compare with the previous accounting period profit or loss with the current period.

As we know all business is operating in a competitive environment the respondent is asked to respond the extent of information provided in their report is comparable with their competitors. The information provided is comparable with their competitor helps to get competitive advantage with in an industry.

The last question under comparability is asked the respondents about the extent of financial ratios and other indexes support the comparability. The financial report that convey financial ratios and other indexes increase the comparability of the report. Result implies a low degree of support of ratios and other indexes in the comparability of their report.

- VERIFIABILITY

The question asked under this topic is the financial report faithfully represents the reality. Way of verification are different direct; verification implies verifies an amount or other representation through direct means like observation counting or measurement. All the respondent agree with high degree of verifiability in their financial report.

- **TIMELINESS**

The question asked under this ;the respondent that the information provided is available before it loses its capacity to influence decision. The respondent clearly state that information must be presented timely in order to be valid. Generally the older the information is, the less useful it become.

- **RELIABILITY**

The first question asked the respondents about assumptions regarding estimates, like valuation in the preparation of financial statements. This implies the valuation of the elements in the financial statements have a great effect on the quality of the financial report provided. Almost all respondent answered yes with the reliability of financial report .

The question under this asked the respondent is your company followed accounting principle during preparation of the financial statements. This wants to know the extent of the company that followed the accounting principle, in order to prepare the financial statements. The company that followed the accounting principle, when preparing the financial statement increases the reliability of the financial report by the users. this implies a highly accounting principle is followed during preparation of financial statements.

- **UNDERSTANDABILITY**

The concept that asked in the first question is to know the respondents for their preparation of financial statements in an organized manner. This question implies to the higher the quality of the financial information, when it is presented in an organized manner. The respondent answered all information must be presented in an organized manner in order to be understandable.

The second question asked the extent of the notes of the financial statements is clear and understandable. This implies the notes that are presented in clear and understandable manner is

understandable. Any available information may help the user to understand the transaction. the higher degree of the notes of the financial statements is clear the higher understandable.

The third question ask the extent of graphs, pictures and tables enhance the understanding of the information provided. This implies the tables, pictures and graphs can enhance the quality of the financial information when they are presented in understandable manner. a higher degree of graphs, pictures and tables enhance the understand ability of the information provided.

The last question under understandability ask the respondents about the extent of technical and other terms of financial statements are understandable. The technical and other terms that used during preparation of financial statements can increase the understandability of the financial reports. The respondent answered that the technical and other terms in their financial statements lower the degree of understandability because they are not simply understand able.

Accountants perceptions of the quality of financial reports based on the qualitative result of this part of the questionnaire indicate moderate quality of financial reporting on accountants of category "B" tax payer in Welkite town, which is not consistent with the overall assessment provided through the first part of the questionnaire.

As shown in the discussion under the six variables the respondents are asked according to each qualitative characteristics of the financial report result shows the lowest and highest value in different questions this result helps to reach as a whole value of the questionnaires.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

INTRODUCTION

This chapter deals with the conclusions and recommendations based on the findings of the study. Accordingly, the chapter is organized into two sub-sections. The first section presents the conclusions and the second presents the recommendation.

5.1 CONCLUSIONS

Financial reporting is central to economic activities. Recently there is an increasing interest in research on financial reporting quality. Nevertheless, the characteristics of financial reporting quality are not well understood in the current accounting literature because the meaning of quality in accounting is rather different from those in many other fields. Furthermore, different accounting environments and regulations are one of the main causes and consequences of the variety of quality level in financial reporting. The basic question is can we know financial reporting quality by using qualitative characteristics and identify the accountant's perception. Extensive research has attempted to identify their quality in respect of different parties those who participate in the preparation of the financial statement; however, the findings of prior empirical studies have provided varying evidence related to the perception regarding the financial reporting quality. Furthermore, the majority of these studies have been conducted in developed countries that have many institutional similarities and developed regulatory framework.

In light of the above the main objective of this study is to know the accountant's perception towards the financial reporting quality by using the qualitative characteristics like reliability, understandability, verifiability, timeliness, comparability, relevance.

To achieve the intended objective, the study used qualitative methods. The data collected through questionnaires was used for the discussion of the result gained from the respondent

In order to conduct the analysis, the financial reporting quality (FRQ), and the variables were relevance, reliability, verifiability, comparability, timeliness, understandability. The results of the questionnaires indicate the higher value are shown in comparability of the financial reporting quality and the lower value is shown under understandability of the financial report.

5.2 RECOMMENDATION

The analysis indicates that accountants perceive the variables are an important thing to enhance the quality of the financial report and also improper using of the variables amount as a decrease in the quality of the financial report. It is Therefore recommended that the accountants and others those who have involved in the preparation of the financial statements should perform an intensive investigation of the sources that helps to prepare the financial report of the organization in order to enhance its quality.

Since an improper communication and preparation of the financial information with the internal and external users affect the firm negatively. The study strongly recommended not only preparing financial statements by using its qualitative characteristics but also using of international standards and automated system of preparation of the financial statement. As the result of the study indicates most business organizations focused on their profit rather than the quality of the financial report because they are not know their profit is depends on the financial information they provided. The researcher recommends those business gives high care for the preparation and communication of the financial information related to their business. Most of the financial information is a low quality due to lack independence of the person preparing the financial statements. The study recommends a business employees a person those who have a knowledge on the field and an independence from other department.

This study examined accountant's perception towards financial reporting quality in wolkite town because of resource and time limitation. Thus, future researcher may address the deficiencies by identifying different parties involved in preparing the financial statements and conducting more qualitative investigation of companies. Further the study explained the financial reporting quality by using the six qualitative characteristics other researcher shall identify and clarify by including other variables.

Reference

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