

Evaluating the Understandability and Neutrality of Accounting Information: A Study on Commercial Banks in Bangladesh

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Abstract: Evaluating the understandability and neutrality of accounting information produced by AIS through annual reports of the commercial banks in Bangladesh – is the objective of the present study. A structured questionnaire-based survey has been conducted into the opinions of five groups of annual report users regarding the understandability and neutrality qualities of accounting information produced by AIS of commercial banks. Based on users' perceptions, the study reveals that accounting information, produced by AIS of the commercial banks in Bangladesh, is understandable but not neutral. The study also found that there is significant differences of opinion of the respondents regarding the understandability of accounting information; while opposite results are found in the case of neutrality. The outcomes of the study indicated that the qualities especially neutrality of accounting information of commercial banks in Bangladesh are not up to the satisfactory mark, so concern authorities should come forward to enhance the qualities of AIS. The present study conducts only on the opinions of five categories of stakeholders of commercial banks and on two explanatory variables, so there are huge opportunities for further study on other groups of annual report's users and extend on other explanatory variables.

Keywords: Qualities of accounting information, Accounting information system, Annual reports, Understandability, Neutrality.

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I. Introduction

Understandability is the quality of information that lets reasonable informed users to see its significance. Understandability is a connection between users of accounting information and the decisions they take (Al-Qadi 2001). AIS should be easy and flexible in retrieving the available information when there is a need for this information to the internal and external users'. According to Buzby (1974), accounting information should be expressed as clearly as possible and also be understood by those to whom the information is relevant. International Accounting Standard Committee (IASC) states that understandability is the concept that financial information should be presented such a way that a reader can easily comprehend it. IASC framework also states that the ability of users to understand financial information that depends upon their own capabilities and in part on the way in which information is displayed. In order to be understandable, information should be presented in the annual reports as complete, concise, clear and organized way. Understandability never allows any complex information to be omitted altogether due to its underlying difficulty in understanding. It just requires us to disclose the information systematically instead of disclosing it haphazardly. The next quality of accounting information is neutrality, which means that information disclosed in financial statements must be free from errors or from other missions. Accounting information cannot be disclosed with the purpose to influence certain decisions, i.e. its might be neutral so as users of the accounting data should have the ability or possibility to make their own decisions based on that information. FASB states that in order to achieve faithful representation, a neutral presentation is mandatory. A neutral disclosure is not manipulated in order to alter or change users' decisions or to influence them. In order for financial information to be reliability, they must be neutral. Neutrality requires that management prepare completely unbiased financial statements.

II. Need for the Study

Annual report is the backbone of a company that needs to be easily understood by the stakeholders and also needs to free from bias. External users have every right to get corporate financial information that must have the understandability and neutrality facilities (Hasan: 2011). From this perspective, managements are responsible for producing corporate financial reports that are easily understandable and neutral. Especially, accounting information of commercial banks is always characterized of its understandability and neutrality contents. Banking companies produce and sell financial services instead of products, which mean they are highly leveraged firms. They always deal with general public at large. So management of banks not only gives

attention on its growth but also to follow its various principles or obligations regarding to make the easily understandable and neutral information for the public. The study would contribute to evaluate the degree of understandability and neutrality of accounting information produced by AIS of commercial banks in Bangladesh. The outcomes of the study may expect to help better understanding of various stakeholders especially, individual and institutional investors, depositors and creditors. The findings might also help the regulatory bodies to formulate the rules, regulations and guidelines for full and fair disclosure of information. The statistical analysis of this study might also be beneficial to those that are more concerned in enhancing the quality of financial reporting in the banking sector.

III. Brief Review on Related Literature

Many of the studies have been done on the qualities of accounting information. Some of the relevant studies – especially done on understandability and neutrality are reviewed here focusing their findings. Habibollah, Karim and Aiyoub (2014) examined that understandability of accounting information have significant effect on the improvement of management decisions. In contrast, Neogy (2014) found no significant difference of opinion among the respondents regarding the understandability of accounting information provided in the corporate annual reports. Neogy (2014) also found that 34.67% of the respondents thought that the accounting information produced by accounting information systems of the selected companies is greatly understandable, 48% of the respondents mentioned that the accounting information produced by AIS of the selected companies is moderately understandable, 13.33% of the respondents opined that the accounting information produced by AIS of the selected companies is slightly understandable, 4% of the respondents were neutral and none of the respondents opined that the accounting information produced by AIS of the selected companies is not understandable. Bukenya (2014) carried out a study aimed at establishing the relationship between the quality of accounting information and financial performance of the public sector in Uganda. Researcher found that understandability is the true measures of the quality of accounting information through factor analysis. Chowdhury (1997) opined that annual reports cannot be truly and fairly presented unless they meet the qualitative characteristics like understandability, relevancy, reliability, comparability, neutrality and consistency. Hasan, Abdullah and Hossain (2014) conducted a study entitled on “Qualitative characteristics of financial reporting: An evaluation of users’ perception in Bangladesh”. Author found that the users’ perception about the qualitative characteristics of corporate financial reporting is far below the acceptable level and as such users have a negative attitude towards disclosures of financial reporting because of the lack of understandability and neutrality. Researcher also found that there exist a significant variation among the respondents’ perceptions regarding understandability and neutrality of accounting information. Researcher concluded that the quality of financial reporting in terms of neutrality of accounting information is not maintained properly by the reporting entities in Bangladesh.

Al-Momani (2012) states that outputs of an AIS is described as neutral when it is free of bias, these outputs will be more beneficial for the decision making process, because neutral information helps decision makers to be more certain about the accurateness of the decision.

IV. Research Question

The present study attempts to collect answers to the question: to what extent have commercial banks maintained understandability and neutrality in the case of providing accounting information in their annual reports?

4.1 Objectives of the Study

The specific objectives of the study are to analyze and examine the users’ perceptions on understandability and neutrality of accounting information produced by AIS of commercial banks in Bangladesh; and to provide some suggestions regarding the qualities of accounting information of commercial banks in Bangladesh.

V. Hypotheses of the Study

The present study interested to conduct an opinion survey of the respondents regarding the understandability and neutrality of accounting information produced by annual reports of commercial banks in Bangladesh and develops the following hypotheses:

H₁: There are significant differences in perceptions of the respondent groups about the understandability of accounting information produced by AIS of commercial banks in Bangladesh

H₂: There are significant differences in perceptions of the respondent groups about the neutrality of accounting information produced by AIS of commercial banks in Bangladesh

VI. Methodology of the Study

The present study has been performed basically based on primary data; few secondary data are also used here. The primary data were collected by personal visits and interviews with bank executives, professional accountants and consultants, respective other officials, investors and academicians. For collecting primary data, 250 structured questionnaires have been distributed among the total number of respondents (250) – selected into five groups: bank executives, professional accountants and consultants, respective other officials, investors and academicians (50 questionnaires in each group). Among these, 215 questionnaires are retrieved, i.e. 86% of the total number of questionnaires distributed. 205 questionnaires (41 from each group) are subjected to the statistical analysis which covers 95.35% of the total questionnaires retrieved. Before finalizing the questionnaire, great attention has been taken to ensure that respondents do not face any complexity or ambiguity regarding questions related with AIS qualities. Qualitative characteristics – understandability and neutrality of accounting information are analyzed through the opinions of respondents, hypotheses based on these are tested by the Pearson Chi-square test (χ^2). To analyze the findings, statistical tools like percentage, mode value, standard deviation, maximum value, minimum value etc are used where appropriate.

VII. Discussions and Findings

On the basis of primary data and related statistical analysis, the summaries of findings of the study are presented below:

7.1 Findings Regarding the Understandability of Accounting Information

Understandability is a quality of accounting information that helps users to comprehend its meaning and perceive its significance. It is an essential quality of the accounting information that is provided in a financial statement at the end of every accounting period. The statements should be readily understandable by users. In this study, researcher made an opinion-survey of the respondents regarding the understandability of accounting information, produced by Accounting Information Systems of the selected commercial banks, which are given in the following table:

Table No. 01
Opinions of the Respondents Regarding the Understandability of Accounting Information Produced by AIS of the Commercial Banks

Particulars	N & %	Respondent Groups					Total	Mode	SD	χ^2	df	SL
		Acad.	Inv.	BE	ROO	PA&C						
Not Understand-able at all	N	1	3	3	4	3	14	4	1.09	23.63	16	.098
	%	0.5%	1.5%	1.5%	2.0%	1.5%	6.8%					
Not understandable	N	2	11	5	8	6	32					
	%	1.0%	5.4%	2.4%	3.9%	2.9%	15.6%					
Neutral	N	9	9	4	7	6	35					
	%	4.4%	4.4%	2.0%	3.4%	2.9%	17.1%					
Understandable	N	28	13	21	16	22	100					
	%	13.7%	6.3%	10.2%	7.8%	10.7%	48.8%					
Easily understandable	N	1	5	8	6	4	24					
	%	0.5%	2.4%	3.9%	2.9%	2.0%	11.7%					
Total	N	41	41	41	41	41	205					
	%	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%					

Source: Opinion Survey

Note: Acad. = Academicians; Inv. = Investors; BE = Bank Executives; ROO = Respective Other Officials; PA&C = Professional Accountants and Consultants; SD = Standard Deviation, χ^2 = Chi-square; df = Degree of Freedom; SL = Significant Level; N = No. of Respondents

Table No. 01 shows that around half of the respondents (48.8%) think the accounting information produced by Accounting Information Systems of the commercial banks is understandable; 11.7% respondents opine that information is easily understandable; 15.6% respondents perceive that accounting information is not understandable; 17.1% respondents are in neutral position in this regard; and 6.8% respondents believe that information is not understandable at all. Based on the perceptions of the majority respondents it is proved that the information produced by AIS of the commercial banks is understandable. In order to see whether there exists any significant difference among the opinions of the respondents regarding the understandability of accounting information, produced by AIS of the commercial banks, the following alternative hypothesis is drawn: **H₁**: There are significant differences in perceptions of the respondent groups about the understandability of accounting

information produced by AIS of commercial banks in Bangladesh. In order to prove whether there exists any significant variation among the opinions of the respondents regarding the understandability of accounting information, produced by Accounting Information Systems of the selected commercial banks, Pearson Chi-square test (χ^2) using SPSS – 22 has been conducted. The result of Pearson Chi-square test (χ^2) is 23.63 (N = 205, df = 16, SD = 1.09 and mode = 4) which is significant at .098 levels (P<0.1). Therefore, the alternative hypothesis is accepted which means that there exists significant variation (no homogeneity) of opinion among the respondents regarding the understandability of accounting information produced by Accounting Information Systems of the commercial banks in Bangladesh. The finding is consistent with Hasan, Abdullah and Hossain (2014) and inconsistent with Neogy, (2014).

7.2 Findings Regarding the Neutrality of Accounting Information

Neutrality means that information should not be selected to favor one set of interested parties over another. The following table reflects the position of neutrality of accounting information produced by the Accounting Information Systems (AIS) of commercial banks in viewpoint of users’ opinion:

Table No. 02
Opinions of the Respondents Regarding the Neutrality of Accounting Information Produced by AIS of the Commercial Banks

Particulars	N & %	Respondent Groups					Total	Mode	SD	χ^2	df	SL
		Acad.	Inv.	BE	ROO	PA&C						
Highly partial	N	1	0	2	0	0	3	2	1.12	20.93	16	.181
	%	0.5%	0.0%	1.0%	0.0%	0.0%	1.5%					
Partial	N	14	14	14	18	19	79					
	%	6.8%	6.8%	6.8%	8.8%	9.3%	38.5%					
Undecided	N	10	10	3	4	4	31					
	%	4.9%	4.9%	1.5%	2.0%	2.0%	15.1%					
Neutral	N	9	11	19	14	12	65					
	%	4.4%	5.4%	9.3%	6.8%	5.9%	31.7%					
Highly Neutral	N	7	6	3	5	6	27					
	%	3.4%	2.9%	1.5%	2.4%	2.9%	13.2%					
Total	N	41	41	41	41	41	205					
	%	20.0%	20.0%	20.0%	20.0%	20.0%	100.0%					

Source: Opinion Survey

Note: Acad. = Academicians; Inv. = Investors; BE = Bank Executives; ROO = Respective other Officials; PA&C = Professional Accountants and Consultants; SD = Standard Deviation, χ^2 = Chi-square; df = Degree of Freedom; SL = Significant Level; N = No. of Respondents.

Table No. 02 shows that 31.7% respondents believe that commercial banks produce neutral information in annual reports; 13.2% respondents opine that information is highly neutral. As against this 38.5 % respondents mention that accounting information produced by the commercial banks is partial; 15.1% respondents are in undecided position in this regard; and only 1.5% respondents believe that information are highly partial. The table presents that the quality of financial reporting in terms of neutrality of accounting information is not maintained properly by the commercial banks of Bangladesh. In order to see whether there exists any significant difference among the opinions of the respondents regarding the neutrality of accounting information, produced by AIS of the selected commercial banks, the following alternative hypothesis is drawn: **H₂:** There are significant differences in perceptions of the respondent groups about the neutrality of accounting information produced by AIS of commercial banks in Bangladesh. In order to prove whether there exists any significant variation among the opinions of the respondents regarding the neutrality of accounting information, produced by Accounting Information Systems of the commercial banks, Pearson Chi-square test (χ^2) using SPSS – 22 has been conducted. The result of Pearson Chi-square test (χ^2) is 20.93 (N = 205, df = 16, SD = 1.12 and mode = 2) which is significant at .181 levels (P>0.1). Therefore, the hypothesis is rejected which means that there is no significant variation (homogeneity) of opinion among the respondents regarding the neutrality of accounting information produced by Accounting Information Systems of the commercial banks in Bangladesh. The opinion survey result is very consistent and hypothesis testing result is inconsistent with Hasan, Abdullah and Hossain (2014).

VIII. Conclusions and Recommendations

On the basis of opinion survey, secondary data and related statistical analysis, the summaries of findings are: i) accounting information, produced by AIS of the commercial banks in Bangladesh is understandable and there exists significant variation (no homogeneity) of opinion among the respondents regarding the understandability of accounting information produced by AIS, and ii) accounting information, produced by AIS of the commercial banks in Bangladesh is partial (not neutral) and there exists homogeneity of opinion among the respondents regarding the neutrality of accounting information. Researcher of this study finds that the annual report produced by commercial banks suffers lack of sufficient diagrams, appropriate figures, and available charts, absence of glossary, footnotes and references. In addition, users believe the quality of neutrality is not up to the satisfactory mark because information contained in the annual reports is dressed up for giving emphasis a special target group. So, commercial banks should expand the use of sufficient diagrams, appropriate figures, and available charts in their financial reports; and also should prepare their annual report in two languages: both English and Bangla as they facilitate the users to understand the reports more proficiently. Commercial banks also should disclose the financial information in as a faithful presentation. The present study conducts only on the five categories of stakeholders of annual reports and investigates the impact of two explanatory variables. So, there are huge opportunities for further study on the opinions of other user groups and could extend this investigation on other qualitative characteristics of accounting information of more banking companies in Bangladesh.

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