**The second topic: the quality of fnancial reports**

Introduction

It is known that accounting is a service activity, and the end product of this activity is a set of

Financial reports prepared by management for

the facility, and thus

Accounting objectives stem from identifying the main functions performed by these reports.

Financial reports are one of the sources of information that all investors and creditors refer to

In order to build investment and credit decisions This is when all reports contain information about the situation The organization’s financial statements, current and future cash flows, the extent to which these reports are utilized over a period of time

The quality of these reports, the suitability and reliability of the information they contain

Define the quality of financial reporting

Defined by (Al-Samarrai, 2016-) Financial reports, financial judgments of joint stock companies, a point of view expressing performed by companies In the items presented in the document Investment reports and Scale Reports are bias-free and are not included in order to be more useful to decision makers. because of the nature of the organized work carried out by the facility, and the efficiency and professionalism of those responsible for preparing these reports .

the quality of the information means the main characteristics that must be associated with the restricted accounting information therefore, defining these characteristics is a necessary link between the goal setting stage and the Other Ingredients (Shirazi, 1990, p. 195)

Quality of financial reporting: realistically expresses the company's fact that it is free from errors, distortion, forgery and fraud, prepared without exaggeration and realistic.

The conditions for the accounts of these statements are correct in accordance with the criteria for the presentation of financial statements, since the quality of the financial statements is considered the green light for decision makers because they have no influence in determining the results of the actions or decisions taken

Users of financial reports

Become the viewpoint of users of financial report this is the current prevailing view in setting accounting objectives the main objective of financial reporting depends on the information that needs by report users (Shaheen, 2011, p. 93).

(Shirazi, 1990, p. 157) Divide users of reports into three categories:

1. Users inside the facility: uses related to the management of the facility and is within the scope of what is known with management accounting, the management of the entity has the authority to obtain it has limited and known uses the information they need in the necessary time, quantity and details.

2. Users outside the facility who have authority to request it: They have specialized needs of

Information at the same time have the ability to obtain this information from its examples

(taxes, banks offering loans or credit facilities, market supervisory authorities trading in securities, syndicates and government bodies regulating the market).

3. Users outside the facility who do not have the authority to request it: the group that does not have the authority to dictate its information needs to management, and to consider the reports it issues management is the main source of information they need about the facility.

Types of financial statements (financial reports)

The financial statements can be divided into two sections, one of which relates to the results

of the establishments activities for a period of time this is done by using the income statement, and the other relates to the financial position of the facility at a specific point in time to list its assets and obligations towards others, this is done by using the statement of financial position or what is called in the balance sheet, including:

Statement of financial position: It is a statement or report that shows the financial position of the enterprise in terms of its assets and obligations towards others, as the rights of its owners appear at a specific moment, and it is among the requirements of the presentation and disclosure standard that govern the preparation of financial reports

The statement of financial position consists of three main components:

1.Assets: An asset is a resource with [economic value](https://www.investopedia.com/terms/e/economic-value.asp) that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit. Assets are reported on a company's balance sheet and are bought or created to increase a firm's value or benefit the firm's operations. An asset can be thought of as something that, in the future, can generate cash flow, reduce expenses, or improve sales, regardless of whether it's manufacturing equipment or a patent..

It is divided into:

- Current assets: convertible into cash and use during one financial period and includes (cash, receivables, short-term investments, and inventory).

- Fixed assets: They are assets owned by the establishment for the purpose of using them in the work and production and not with the intention of reselling it and includes (land, buildings, furniture, machines, cars, devices).

-Intangible assets: are what the company has paid or has committed to pay in exchange for the proceeds for a benefit that does not have a tangible physical entity, such as (store share, copyright, patents and trademarks).

2.Obligations (obligations): is the term for obligations to others, which are a present commitment to the enterprise arising from past events is expected to require an outflow of resources it is owned by the entity and has economic benefits Special are divided into two parts:

Current Liabilities (Short-Term): Obligations that are due for payment within a financial period a year usually represents a fiscal year and includes (creditors, notes payable, short term loans, any revenue collected in advance and expenses payable,)

long-term liabilities: which have to be repaid after more than one financial period, these are obligations whose repayment does not require the use of current assets items it contains (bonds, long-term loans).

Owners equity: It is the owner’s investment in the facility, that is, it is the right of the owners the remaining assets of the company after deducting all liabilities and consist of the capital and any profits accumulated with the entity, which are expressed in net assets.

The budget equation is as follows:

(Assets = Liabilities + Equity)

2. Income statement: An income statement is a financial statement that shows you the company’s income and expenditures. It also shows whether a company is making profit or loss for a given period. The income statement, along with [balance sheet](https://www.zoho.com/books/guides/what-is-a-balance-sheet.html) and [flow cash statement](https://www.zoho.com/books/guides/what-is-a-cash-flow-statement.html), helps you understand the financial health of your business.

The income statement is also known as a profit and loss statement, statement of operation, statement of financial result or income, or earnings statement.

The income statement consists of: (Ibrahim, Hegazy, 2008, pp. 53-48) •

Revenues: are the assets that the organization obtains in exchange for providing services or commodities, which represent the main activity of the enterprise.

Expenses: Assets used in exchange for providing goods and services (such as salaries, employees, rent, electricity expenses, depreciation, administrative expenses).

Net Income or Net Loss: The company generates net income (profit) when it increases revenue over expenditure.

3. The cash flow statement: It shows the sources and uses of cash during the financial period and clarifies it the cash balance at the beginning and end of the period, and the information is classified into: (Hammad, Attia, 1999, p40.)

.Cash flows from operating activities.

.Cash flows from investing activities.

.Cash flow from development activities.

4. List of notes and other lists and explanatory materials: including tables or additional information based on or derived from these lists and previous reports not included in previous reports and the like (Financial information for industrial or geographical sectors, or notes on the effects of the change prices), as well as directors' reports, board statements, analysis and discussion of management, or additional information appropriate that needs of users about budget and income statment, as well as risks and uncertainties affecting the entity and any other resources and obligations recognized in the budget as mineral reserves (Ibrahim, Hegazy, 2008, p. 54)

Objectives of financial reporting

The financial statements aim as defined (Shaheen, 2011, p. 94):

1. Providing the necessary information to external users of financial reports that are useful in making their decisions

2. Providing information that indicates the possibility of predicting the future with future cash flows.

3. Provide information that will benefit the facility in determining (the degree of liquidity, flexibility, funding source, obligations to third parties, assessment of management efficiency).

Here we can say that the main objective of financial reporting is to provide relevant useful and appropriate information for users of these reports in a simple and correct way so as not to lose their professionalism to make predictions comparisons and evaluations cash flow to help them make appropriate decisions and evaluate them ,and on references Accounts; the responsibility of examining accounting books and records to increase the degree of confidence in the information provided in those reports.

Financial reporting quality characteristics

1. The feature of relevance of information :to be relevant accounting information must be capable of making a difference in a decision.
2. The characteristic of trust (faithful representation):means that the numbers and descriptions match that really existed or happened
3. Understandability: is the quality of information that lets reasonably informed uses see its significance
4. Comparable:information that is measured and reported in a similar manner

for different companies is considered comparable