

Segment: Financial Reporting

Topic: Users of Financial Information

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Introduction

A financial report is the medium through which companies communicate with external parties. However, the financial report is not directed to a particular user group. Companies' financial reports and the corresponding financial statements are, in effect, produced for general purposes (i.e., for a wide variety of users). Each user group can extract information from these reports that help them in their decision making. Of course, some user groups would prefer to have reports that address their particular needs, but the cost of producing such reports for each user group would be high. For this reason, standard setters and regulators typically demand that companies produce general-purpose reports.



Learning Objectives

At the end of this topic, you will be able to:

- identify the key user group of the financial report
- identify the type of financial information relevant to each user group.

1. User Groups

The key external user groups of the financial reports and the financial statements include

- current and prospective shareholders
- current and prospective lenders
- analysts and investment brokers
- customers and community groups
- suppliers
- regulators
- tax and other governmental authorities
- environmental agencies
- labour unions and employees
- general public

Shareholders require information that helps them with their investment decisions and with the selection of companies' management. Creditors and lenders require information that assists them in assessing the liquidity and long-term risk profile of companies. Suppliers require information that helps them assess the firm's growth and performance. Community groups require information that helps them determine whether a company is making exorbitant profits, and assess whether a company is meeting community concerns and safety and environmental standards. Regulators require information that helps them in forming policies regarding tariffs and other operating restrictions. Taxing authorities require information that helps them assess a company's compliance with tax requirements and legislation.

In spite of the fact that many countries require companies to prepare general purpose financial reports, companies' financial reports have, over time, for the most part been shaped by the pressure and comparative influence of many of these user groups. In certain countries, the power of labour unions is quite high and the financial reports of companies in these countries provide additional information that is relevant to labour unions. For example, European companies, where the power of labour unions is high, provide what is called "value-added" statements. These statements show the financial contribution of all stakeholders (including employees) compared to the performance of a company. In the US, investors and creditors have the dominant influence on

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the financial reports. Companies in the US do not provide value-added statements and consider them costly to produce. Instead, they tend to provide information that is more relevant to investors and creditors.

Information that governments and governmental agencies require of companies tends to be influenced by whether the company operates in a country that adopts tax-reporting rules that are identical to financial-reporting rules. In this case, the influence of governmental authorities on the reported financial statements tends to be significant. However, even if the accounting rules were different from the tax rules, governments are still considered a primary user of the financial reports as they use the information contained in these reports for monitoring and planning purposes. In addition, the degree of governmental use of accounting information might be a function of the industry in which the company operates. For example, governments have always been interested in the financial reports of the banking industry in order to monitor and implement certain benchmarks (such as capital adequacy ratios).

2. Summary

Here is a quick recap of what we have learnt so far:

- There are many users of the financial reports and they have diverse interests and need. For example,
 - investors and creditors are interested in information that help them make investment and credit decisions and to better assess the future cash flows and earnings potential of companies
 - governmental agencies are interested in information that assists them with planning and control
 - labour unions and employees are interested in information that helps them negotiate a fair compensation for their contribution and the provision of better work environment and job security.
- Users of the financial reports are provided with general information in the financial reports.