

Qualitative characteristics of financial information



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The purpose of financial statements is to give financial statements information about the change in financial position, financial performance and financial position of the organization. These can provide data use in decision making such as investment, credit and economic decision making which are useful for various users. There are seven main groups of users which are public, investors, lenders, employees, customers, supplies, government and other agencies and the needs of information is different for each group, for instance, employee will interest on the profitability, retirement benefits and employment opportunities and so on. Financial statement is supposed to relevant, reliable, understandable and comparable. In addition, financial statement may include other information, for example, the uncertainties and risks that influence the organization.

Evaluation of the relevance, reliability, comparability and understandability

Relevance is about the information that has the ability to influence the economic decisions of users. There are two main points relate to the relevance which are predictive value and confirmatory value. Predictive value can help users to measure the past, present or future performance. Confirmatory value can help users to confirm their past evaluations. The annual reports include ten-year statistics which have the recent ten-year figures. It includes profit and loss account, balance sheet and passenger services figures and so on. It can help the shareholders to confirm the past evaluations, measure the past performance and compare the relevance information at the same time.

The annual reports embody a part of operating network with future extensions. In this part, the report has stated all properties that they are developing, constructing, planning and the properties that owned, developed and managed by them. It can help us to predict the present and future performance and verify the past evaluations.

In the annual reports, we can find the CEO's review of operations and outlook. This part is the MTR's CEO talking about the MTR past performance which is good and which is bad, it also mentions the next year development of the MTR. It gives us a clear mind about the MTR what will do during the next year and briefly review the previous year performance.

Reliability is about the information that is a complete and true representation. There are five major issues involve in reliability, free from material error, a faithful representation, neutral, prudent and complete. MTR use one of the big 4 accounting company that is KPMG. KPMG is a large international company and has a lot of auditing experience and professional staff. Therefore, shareholder can have a great confidence on the financial statements. On the other hand, the audit report state that the KPMG give a true and fair view that means the MTR reports are properly prepared with accounting standards which means the reports are free from material, faithful representation, prudence and complete. Also, the accounting firm is an independent audit firm which can fulfill the point of neutral. As a shareholder, we can have a great confidence on that reports, because it is accuracy and do not have any creative account.

MTR is a public organization and it is managed by government. It has been required a high transparency that disclosure all information to public, such as, company policies, therefore, their information must be faithful, neutral, prudent and complete which are required by law. So, their information has a high reliability. From the view of shareholders, we can trust on it.

The MTR have an internal audit team which is responsible for the internal control, project review, fraud investigation, due diligence and management review and so forth. It can help the MTR to give us a report that is reliable, free from material error, faithful, neutral, prudent. As a shareholder, we can have great confidence on the annual reports.

Comparability is about the similarities and differences can be discerned and evaluated. There are two key matters include in the comparability which are consistency and disclosure. Inside the annual reports, we can find many figures that can give us to compare. Such as the Ten-Year Statistics, it includes ten years data for us to realize. We can see that the earnings per share are increased steadily each year from \$0.81 per share in 2000 to \$1.69 per share in 2009. Also, the profit is increased rapidly from \$7,758 on 2006 to \$15,182 on 2007.

In addition, in the CEO's Review of Operations and Outlook part, it compare a lot of data, for example, the Average weekday patronage for the Domestic Service in 2009 was 3.5 million, which represents an increase of 0.9% over 2008 and the total revenue from property rental, property management and other businesses in 2009 was HK\$2,928 million, an increase of 8.0% over 2008.

Moreover, the financial statements have provided two years figures for us to compare which is 2008 and 2009. For instance, the Loans, other obligations and bank overdrafts is decrease significantly from \$31, 289 in 2008 to \$23, 868 in 2009 which decline 23. 7%. The dividend per share is increase from 0. 48 in 2008 to 0. 52 in 2009 which increase 8. 3%. From the figure that we have analysis above, we can see that the MTR profit is increase each year and the loan decrease each year, therefore, it is a signal for us continue to keep the share or investment more.

Understandability is about the significance of the information can be perceived. There are two important points contain in the understandability, users' abilities and aggregation and classification. Inside the annual reports, it contains a glossary part. In the glossary, it explains a particular domain of knowledge that uncommon, specialized or newly introduced. For example, operating margin means operating profit from railway and related businesses before depreciation and amortization as a percentage of the turnover and ordinary shares means ordinary shares of HK\$1. 00 each in the capital of the company and so forth. As a shareholder, it helps a lot during reading the annual reports, because not every shareholder also has that much professional knowledge.

The annual report contains many picture, table and chart. An annual report is very thick, because it contains large information about the MTR performance. From the view of shareholder, if the reports are full text, it is hard for us to read it all, because it has a lot of words to read and understand. When reading the annual reports, it is not hard to find pictures, tables and charts, it can help us more easily to realize the information,

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especially the tables and charts, it convert the figures into a understandability form so that the readers can catch the main point easily.

It also includes a content page and classifies similar data to similar group. When we look at content pages, it not only states the title but also state the number page which makes the shareholders more convenience to find the information what they need.

This annual reports have different language version which can take care of different users, although this MTR is a Hong Kong organization, as a shareholders, I may be a foreigner and I can not read any Chinese words. Therefore, different language version is important as well. It is easy to find that the MTR annual reports have been prepared by two versions which are Chinese and English.

Which one of the four qualitative characteristics of financial information is the most important?

In my opinion, the reliability is the most important qualitative characteristic.

If the financial statements are not reliable, the shareholders will not have any confidence on the MTR reports, because they feel that the financial statement information of the MTR is not faithfulness and truthfulness. Hence, they will not have any interest to realize the MTR reports, so that the objective of financial statement is invalid. Even though the annual reports has higher quality of relevance, comparability and understandability, but without reliability which will cause the shareholders and potential investors run away.

In the opposite side, if the financial statements have a higher degree of reliability, the shareholders will have more confidence on the annual reports, because higher degree of reliability means the annual report have meet the requirements of free from material error, a faithful representation, neutral, prudent and complete. When the reports meet those requirements, it attracts the shareholders stay and attracts more investors.

When seeing the MTR annual reports, we can know that their reports have a good reliability. The MTR employ an external accounting firm which is KPMG to audit their accounting information, it fulfill the point of neutral. The audit firm also give a true and fair view to the MTR which means their information are faithful, complete, prudent and free form material error.

From the above discussion, we can see that reliability is the most important qualitative characteristics in the financial statement.

Conclusion

During analysis the MTR annual reports, I know that the four qualitative characteristics have a great influence to shareholders. It has a significant impact on the decision making, because it can help them to understand, realize and build up the confidence on the MTR reports. The four qualitative characteristics also affect the shareholders invest or not. In my opinion, the reliability is the most important qualitative characteristic, it represents faithfulness and truthfulness. Shareholder will depend on it to decide whether those accounting information can trust or not, thereby to planning the investment decision.

Word Count: 1553 words

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