

# [Good example of financial information: comparability and consistency essay](https://assignbuster.com/good-example-of-financial-information-comparability-and-consistency-essay/)

[Business](https://assignbuster.com/essay-subjects/business/), [Company](https://assignbuster.com/essay-subjects/business/company/)

The comparability of financial information can be described as the quality that makes it possible for the user to do an analysis of two or more organizations and assess similarities and variances. Comparability is the method by which users can made comparisons between two business groups/companies/organizations. On the other hand, consistency of the financial information is the quality that makes it possible for the user to make comparisons between two or more financial periods for a company. In simple words, consistency allows the users to compare the accounting period of a single company with the subsequent accounting period. Both the mentioned qualities are closely related as there is a “ relationship between two numbers – comparability between numbers of different companies (usually for the same period) and comparability between the numbers of a single company for different periods” (Porter & Norton, 1995, p. 62). Nevertheless, it is important to mention here that financial information/statements are mostly consistent but not comparable. This is because the accounting methods are mostly changed by the companies due to different reasons. Thus, there can be no easy comparability as the switching over of methods makes it difficult for the user to compare the financial information even if it is consistent. The main factor behind this difficulty is that when accounting changes are made by companies, a number of disclosures are needed by the accounting standards for facilitating the user for correct evaluation of the changes and their impacts.
Thus, if a company wants to make comparability feasible, it must make sure that one accounting method is used for two or more periods to allow both consistency and comparability possible (Needles & Anderson, 1991).

## References

Needles, B. E., & Anderson, H. R. (1991). Financial & Managerial Accounting (2nd ed.). Boston: Houghton Mifflin Co..
Porter, G. A., & Norton, C. L. (1995). Financial Accounting: The Impact on Decision Makers. Fort Worth, Tex.: Dryden Press.