

Primary qualitative characteristics



Introduction:

The performance of any organisation depends upon its financial statements. These financial statements are helpful tools in decision making for various readers e. g investors, suppliers, government agencies, customers, and management. The main characteristics of these statements should be easy to understand. So, all the stakeholders use these financial statements according to their own desire. The underline principle for the financial statements is to fulfil the requirement of accounting standards, principles and conventions. With the help these primary qualitative characteristics, financial statements show the current, accurate, true and fair view of the business.

In section A short description is given on the listed company. Importance of financial statements have been discusses. There is a brief discussion on the financial report of Unilever in relation to the primary qualitative characteristics as given in ASB's Statement of Principle.

In section B assessment is done on the difficulties in preparing a set of useful financial statements which exhibit all of the primary qualitative characteristics mentioned before. Then some focuses on the achievements by the Unilever is being discussed.

The helping material used to compile this report is taken from websites, course books and by Accounting Standards Board December 1999 Statement. It had been tried to cover all the relevant point for the given questions.

Section A:**Defining Listed Company:**

There are two types of companies public and private. In case of public limited company, shares may be offered to the general public but private limited company cannot do so. The company which has been registered in the stock exchange is commonly known as listed company.

In United Kingdom majority of the businesses are being operated in the form of limited companies. Now a day's more than 2 million limited companies are prevailing in the current scenario. These companies are contributing in the economy and employment opportunities (Atrill, P. & McLaney, E., 2008, p. 112)

Financial statements:

“ At regular period public companies must prepare documents called financial statements. Financial statements show the financial performance of an company. They are used for both internal-, and external purposes.”

<http://hubpages.com/hub/The-Importance-of-financial-statements>

There are four types of financial statements trading, profit and loss account, balance sheet, statement of owner's equity and cash flow statements.

Trading profit and loss account deals in day to day activities, revenue and expenses for a specific period of time. Balance sheet shows financial position of the business. In statement of owner's equity we focus on starting capital, drawings, and ending capital of the owners. Cash flow statements deal in all types of in-flows and out-flow of cash in business.

Financial statements of Unilever Company are taken for the discussion. It is one of the world's leading suppliers of consumer goods. Their aim to add values to Life through meeting everyday consumer needs, helping people to feel good, look good and learn more about the life. Unilever is operating globally and their business achieves close to half of its turnover in developing and emerging markets.

Primary qualitative characteristics in ASB's statements of principles in relation to the content and presentation of Unilever's financial statements.

Relevance, reliability, comparability, understandability and materiality are the basic primary qualitative characteristics of the financial statements.

These statements should be clear and understandable to all stakeholders.

Above mentioned characteristics are being reviewed in the financial statements of Unilever.

Relevance:

Financial statements should provide relevant information to the ultimate readers so measureable action can be taken. If the points are not relevance then it is useless for mentioning in the statement. Predictive and confirmatory values depend upon relevant information which is provided by the business. The ability to influence the economic decisions and influence the users depends upon relevant information. But these have to provide timely.

In Unilever's financial statement, relevance information regarding the share of net profit/loss of joint ventures is helping to make the future decisions.

Areas in which they operate and number of people employed give the

information to the user of the financial statement who she is doing socially. Analysis of financial statements according to geographical segment increases the relevancy to user to analyze the true financial standing of the company. The percentages of the segment liabilities to the total liabilities gave a clear picture of risk associated with the company.

Reliability:

Financial statements should have information which is fully reliable. This means that information have to be faithfully represented, neutrality and should be complete and free from material errors. All the transaction should be faithfully represented in the financial statement as they were measured, recognised, and presented in those statements corresponds closely to the effect of that transaction. It also involves all the identification and obligation arising from the transaction focusing to those that likely to have commercial effect in practice.

As far as errors are concern, financial statements are useless if having errors and incomplete information. This may result in false and misleading.

In Unilever's financial statement auditor unqualified opinion gave the reasonable reliability to the financial statement. Changes on the basis to segmentation and changes accordingly to the prior year comparative figure gave the reliability to compare the performance of the company. Further classification on the basis of product gave more reliability. Then consolidated statement of changes in equity gave the clear view of changes in equity in three year. Pension fund disclosure shows the commitment company has towards his employee.

Comparability:

Information in the financial statement will be useful if it can be comparable with the similar information stated in the previous period. This will help in identifying the financial performance and position. Moreover, this will also help the users to make proper comparisons and evaluate the differences, effect on transactions, finding similarities and other events taking place time to time. Consistency of entries can be useful to have an effective comparison. There has been a consistency in comparing throughout when reporting in each accounting period from next period. If accounting policies that are adopted in making the entries gets changed then it will affect the usefulness of financial statements.

Financial statement of Unilever shows changes in the basis to segmentation and changes accordingly to the prior year comparative figure gave the reliability to compare the performance of the company. Secondly, consolidated cash flow allowed the user to evaluate the quality of the financial statement. Thirdly, segmentation on the basis of geographical and product has enabled users to compare performance of company for different products. Furthermore, calculation of basic and diluted earnings per share given in the income statement gives a clear indication of company future potential shareholders and distribution of dividends.

Understandability:

It is very necessary to have understandable information in the financial statement. It should fulfil the needs of the users. It has to be in a meaningful way so that transactions and other events will help the users to understand

the performance. Information should be well presented keeping in mind the users knowledge for business and economics activities.

Unilever's report indicates the percentage of shares in the subsidiaries and its effect on financial statement give understanding regarding profit recognized. Company disclosure of investment in financial market and the impact in the recession on this investment gave the understanding of exposure company take in this type of investments. Profits in this financial turmoil give the understandability that the company profits are recession proof and company is operating in the necessity product industry.

Materiality:

All the above discussions describe the characteristics of having a useful financial statement. Materiality can identify what information a particular set should have. This will result in making the quality of the financial statements. If there is immaterial information then it will affect other information and disturb the users to make decisions. So these should be excluded.

Unilever's disclosure on immaterial items like trade payable and material items like impairment gives information to make better economic decision. Classification of the interest in cash flow statement either as operating or financing makes material impact on the results. Accounting estimate changes the results of financial statements significantly, so disclosure of accounting estimate and the basis to working of the estimate gave the information that financial statements are materially fair.

Section B:

Difficulties in preparing a set of useful financial statements, which exhibit all of the primary qualitative characteristics identified.

In preparing a useful financial statement there will be some difficulties which occur due a conflict between the primary qualitative characteristics. These conflicts can make the report meaningless and the main objective of the financial statement cannot be achieved. In this situations a trade-off need is to identified that what will be better in favour of the company and meet the require objective of the financial statements. In some situations timeliness of information also creates difficulty in processing. Companies operating globally not able to get the financial information on time from all over the world or information set got change due to the users need. Information related to sales and profit contribution not properly managed will create difficulty. Following is the assessment for having difficulties in preparing a useful financial statement.

Relevance and Reliability:

In some stages conflict occur due to the information that is much relevant but not reliable and information which is reliable but does not seem to be relevant. Selecting the amount to measure the asset or liability sometime creates conflict. The best thing at this stage will be to use the most appropriate information which can be relevant or reliable. Timeliness of information can create a problem. This means that providing the information late which will be considered ass out of date. There will be uncertainty and affect the reliability of the transactions. Furthermore, if the information is left out from the financial statement due to reliability then there will be no

completeness. All the financial information should be made on time to avoid these difficulties keeping in mind that importance of reliability. Reliable information is important to provide so to make the users understandable.

Neutrality and Prudence:

Problems can be seen in these two aspects of reliability. This occurs when there is uncertainty, gain and assets are not overstated and liabilities are not understated. There will be judgements and exercises to overcome the uncertainty. There might be difficulties in getting the accurate transaction that need to be measured.

Understandability:

Conflicts will occur when the information is not understandable to the users. But it is not necessary that financial information which is relevant, reliable and comparable should be excluded from the financial statements. This will affect the main objectives of the report. Some users might face difficulty in understanding the financial statements but will have full record that can be used in future to identify the performance and the position. Conflicts can be sorted out by providing guide line for studying the financial statements. Company had to manage their financial statements for internal as well as for external users. So excluding the major points from the report will result in uncertainty and there will be material error also.

Achievements of Unilever:

Abbott Laboratories is a very old and successful company. It has taken care of all the issues coming its way. For giving the financial report of the company, accountants have taken care of all the criteria as relevance, reliability, comparability, understandability and materiality. Being in No. 80

of FORTUNE 500 companies there are many shareholders, investors, analysts and government looking forward in investing in the company. Therefore, accountants have given relevant and reliable information. Different users are of financial statements like customers, shareholders, bankers and general public. Company is expected to provide information in a manner understandable to all of them. Company should provide statistical data for elite class and general information i. e. future plans and director's reports for general public. Company has not shown risk opportunity analysis as it is difficult in Pharmaceutical Company. But there is big risk in this nature of business. Small mistakes in the product can levy heavy penalty on the company and can make financial statements irrelevant for the future.

Conclusion:

It is to conclude that financial reports are the main source of identifying the financial performance and financial position of any company. The primary qualitative characteristics mentioned in the ASB's Statement of Principles should be taken in view for making a financial statement. This will help the users to make suitable decisions. Unilever's financial statements have been analyzed with due consideration of the primary qualitative characteristics. The contents and the presentation of financial statements are up to the standard of ASB's statement of principles.

There are certain difficulties which are to be faced in different situations for preparing a set of useful financial statements. Conflicts occur in different situation and can be solve. Unilever being one of the largest consumer goods company with professionals and skilled employees is doing excellent and their progress in recent years is clear and encouraging. They have now great

brands and around 70% of their turnover comes from categories in which they have leadership positions.

- [http://www.unilever.com/investorrelations/annual_reports/annual_report_Form/? WT.LHNAV= Annual_Report_&_Accounts](http://www.unilever.com/investorrelations/annual_reports/annual_report_Form/?WT.LHNAV=Annual_Report_&_Accounts)
- http://www.unilever.com/images/ir-ar08-financial-statements_tcm13-163118.pdf