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Disclosures regarding the risk of estimated measurement in the financial statements – behavioral aspects

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Abstract

The article presents the results of empirical research based on source material in the form of financial statements of listed companies and the results of an anonymous survey conducted among statutory auditors. The first part of the research covered the analysis of the content of financial statements for years 2010-2017, prepared by companies listed on the Warsaw Stock Exchange in accordance with the International Financial Reporting Standards (IFRS). The results show that the majority of listed companies comply with the requirements of IFRS with regard to disclosures concerning the estimated measurement risk, although the specificity of the disclosures varies. The results of surveys conducted in a group of 390 statutory auditors who audit financial statements confirm that the degree of specificity of disclosures is affected more by the experience and competence of the accounting staff than the deliberate actions of the management of the entity aimed at limiting the scope of disclosures.

Keywords: financial statements, financial audit, listed companies, risk, behavioral accounting.

Streszczenie

Ujawnienia dotyczące ryzyka wyceny szacunkowej w sprawozdaniach finansowych – aspekty behawioralne

Artykuł prezentuje wyniki badań empirycznych opartych na materiale źródłowym w postaci sprawozdań finansowych spółek giełdowych oraz wyników anonimowej ankiety przeprowadzonej wśród biegłych rewidentów. Pierwsza część badań obejmowała analizę treści sprawozdań finansowych za lata 2010–2017, sporządzanych przez spółki notowane na warszawskiej Giełdzie Papierów Wartościowych, zgodnie z Międzynarodowymi Standardami Sprawozdawczości Finansowej (MSSF). Z otrzymanych rezultatów wynika, że spółki giełdowe w zdecydowanej większości przypadków wypełniają wymogi MSSF w zakresie ujawnień dotyczących ryzyka wyceny szacunkowej, jednak szczegółowość dokonywanych ujawnień jest różna. Wyniki badań ankietowych przeprowadzonych na grupie 390 biegłych rewidentów, wykonujących badania sprawozdań finansowych, potwierdzają, że na stopień szczegółowości dokonywanych ujawnień w większym stopniu mają wpływ doświadczenie i kompetencje kadry księgowej niż celowe działania kierownictwa jednostki, zmierzające do ograniczenia zakresu ujawnianych informacji.

Keywords: sprawozdania finansowe, rewizja finansowa, spółki giełdowe, ryzyko, rachunkowość behawioralna.

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Introduction

The main source of the risk associated with measurement is estimation uncertainty, which manifests itself in assumptions being made during the measurement process based on the assessment of uncertain conditions, and the economic indefiniteness related to the inability to quantify a phenomenon without adopting significantly limiting assumptions. Both the estimates and the related disclosures in the notes to financial statements are exposed to an inherent risk of misstatement.

The purpose of the article is to present the degree to which the reporting obligations of Polish listed companies are fulfilled in the scope of risk disclosure and to provide the opinion of Polish auditors on the behavioral motives that affect the level of detail of disclosed risk information in financial statements.

The following research methods were used in the empirical research: a review of the national and foreign literature on the subject and accounting standards, and an analysis of the content of financial statements, surveys (carried out on a sample of 390 Polish statutory auditors), and statistical methods. Verification of the hypotheses was carried out using the statistical test for population proportion.

At the first stage of the research, the financial statements of selected companies listed on the Warsaw Stock Exchange for the years 2010–2017 were analyzed. The hypothesis that listed companies met the requirements of the International Financial Reporting Standards (IFRS) regarding risk disclosures with different degrees of specificity was verified. The presentation of the research results also includes a statement, as a percentage, of the application of respective disclosures by the surveyed entities.

The second part of the empirical research included surveys on a sample of statutory auditors who conduct obligatory audits of financial statements of listed companies. The formulated research hypothesis concerns the frequency of errors and inaccuracies revealed by statutory auditors in the audited entities with regard to the disclosure of information about the sources and the effects of estimation uncertainty. The remaining survey questions relate to matters aimed at determining whether the lower specificity of disclosures results from the competence of the people responsible for the preparation of financial statements or from a deliberate limitation of the scope of information disclosed to the public.

One of the research areas of behavioral accounting is accounting officers' behavior in the context of preparing and presenting financial statements is (Artienwicz, 2018, p. 63). The specificity and form of disclosures in financial statements may be influenced by elements of judgment and individual motivations. The conclusions resulting from the empirical research allow us to assess the details of the disclosures made in the practice of reporting in listed companies and the frequency of errors and inaccuracies regarding the disclosure of risk information during the audit of financial statements. The auditors' opinions resulting from the conducted research on the impact of the inexperience of the accounting staff and the intentional actions of the entity's management on limiting the details of disclosures are part of the behavioral accounting research study. They may provide a contribution to further discussions on the impact of behavioral factors on the final version of financial statements.

1. The risk of incorrect valuation and its disclosure in financial statements

Misstatements of measurement results may be caused by many factors that cannot be eliminated, such as an inaccuracy in gathering or processing data; an omission of an amount or disclosure; an overlooking, or clear misinterpretation of facts; or inappropriate judgments of the management (ISA 450, §A1). Due to the large number of factors that may lead to a deviation of the estimated result from the actual value of the measured item, both the theory and practice of accounting and auditing have adopted the concept of the risk of material misstatement of accounting estimates.

The risk associated with an estimated measurement, which results from the uncertainty of assumptions relating to the future, increases the overall risk of reflecting the property and financial situation of a given entity presented in the financial statements. Recipients of financial statements should be aware of this threat to the correct interpretation of the results. When analyzing the effects of risk, we may consider them in a negative context as a threat or a potential loss, or in a neutral context as a possibility of an effect that is contrary to the expectations, but that may be worse or better than expected (Jajuga, 1996, p. 4).

Estimated measurement requires the selection of specific accounting solutions and the application of professional judgment in the measurement. As the measurement itself may be subjective, the emergence of risk factors in this area should be considered natural. In particular, the misstatement of estimates may be deliberate, as a result of management's intentions, leading to a biased – usually more positive – presentation of the assets and capital, resulting from the financial statements, which are the final product of the accounting system.

It is assumed in the studies on the subject that the risk of material misstatement increases when significant items resulting from estimates are included in the financial statements (Kwasiborski, Lachowski, 2011, pp. 112–114). However, the high result of the estimated measurement disclosed in the financial statements might not constitute an indication of a high risk of misstatement. A seemingly trivial accounting estimate may lead to a material irregularity caused by estimation uncertainty (Towpik et al., 2011, p. 105).

Verifying estimates is a complex problem given the impossibility of directly cross-checking the result against accounting records or source documents. Therefore, only indirect verification of models and assumptions applied in the measurement seems possible. However, reconstructing the measurement process and the assumptions adopted during that process is an extremely difficult or even impossible task for the average recipient of financial statements where, apart from the result of the estimated measurement, only the main assumptions adopted in the process and basic information about the risk of inaccuracy of the estimated measurement are disclosed. In order to properly verify the method of determining the accounting estimates and to mitigate the related risk, it is necessary for the entity to define the measurement processes and the related procedures (Mazur, 2011, p. 190).

The importance of the problem of risk in estimating value is emphasized by the requirement introduced in the International Financial Reporting Standards to make appropriate risk-related disclosures in the financial statements, in particular, with regard to:

- the judgments that management has made in the process of applying the entity's accounting policies (IAS 1, §122);
- key assumptions management makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year (IAS 1, §125).

The international literature (Schipper, 2007, pp. 301–326) emphasizes that IFRS and the Financial Accounting Standards Board's conceptual framework provides neither a conceptual purpose for disclosures nor criteria to support a sharp distinction between recognized and disclosed items.

In order to determine how the outcome of an estimate may vary in response to new circumstances, entities may conduct a so-called sensitivity analysis. It could lead to the development of a number of outcome scenarios, sometimes characterized as a range of outcomes, such as "pessimistic" and "optimistic" scenarios. The analysis may also reveal to which factors the accounting estimate is more, or less, sensitive. However, it is understood that "it is whether management has assessed how estimation uncertainty may affect the accounting estimate that is important, not the specific manner in which it is done" (ISA 540, §105). No guidelines or regulations govern the approach to estimation uncertainty assessment.

Disclosures regarding the risk in financial statements are the subject of numerous empirical studies in world literature. In many cases, these studies are part of the behavioral accounting trend. Koonce, McAnally, and Mercer (2005, pp. 221–241) proposed and tested a risk model that explains how investors perceive financial risk. The model combines conventional decision-theory variables' probabilities and outcomes with behavioral variables from psychology research. The results indicate that both the decision-theory variables and the behavioral variables are important in explaining investors' risk judgments.

Research also focuses on disclosures regarding a standard benchmark for measuring financial risk, e.g., value at risk (VaR). Jorion (2002, pp. 911–931) investigated the relationship between the trading VaR disclosed by companies and the subsequent variability of their trading revenues. The results showed that VaR-based volatility forecasts based on available VaR disclosures are significantly related to future market risk. This suggests that an analyst can compare the risk profiles of different companies using their disclosed VaR.

Hung et al. (2015, pp. 11–18) analyzed how disclosures in financial statements impact consumer behavior and outcomes. In the authors' opinion, mandatory disclosures could provide a greater amount of information and transparency for investors, but this may not be a complete solution if investors do not understand or use this information correctly. Research has shown that larger, more detailed disclosure documents have not been effective in making decisions.

Dos Santos and Coelho (2018) investigated whether disclosing information on risk and its management in accounting reports affects, at the margin, firm valuations in the capital market. The findings confirmed that information about risk shows informational relevance for firm valuations. It is inferred that the disclosure of risk factors affects the perception of investors, who base their estimates of return on the availability and detail of such information.

In the literature, one can also find empirical studies which are an attempt to model managers' voluntary risk disclosures. The research objective was to investigate how a manager chooses his disclosure strategy when he has direction over whether he informs investors about the variance of his firm's cash flow. The research results (Jorgensen, Kirschenheiter, 2003, pp. 449–469) show, among others, that a disclosing firm has a lower risk premium and beta than a non-disclosing firm. The expected risk premium and expected beta of each firm are higher under a mandatory risk disclosure regime than in the partial disclosure equilibrium.

2. The disclosure of information on the estimated measurement risk in the practice of companies listed on the Warsaw Stock Exchange

Disclosure should be regarded as the process in which data from the accounting system become generally available to the recipients of financial statements. Public access to information is particularly characteristic of listed companies, where the disclosure process is additionally regulated by capital market legislation (Andrzejewski, 2002, pp. 39–40).

Although a general understanding of disclosures means publishing data from the accounting system, and that it may be applied with regard to each component of the financial statements, the studies on the subject highlight the difference between recognition and disclosure (e.g., Grabiński, 2013, p. 780). In this context, recognition is related to the presentation of the measurement result in key parts of the financial statements, such as the balance sheet and the profit and loss account, or the statement of financial position and the statement of comprehensive income. Disclosure is the presentation of information that describes a given transaction or event made in the notes to the financial statements or explanatory notes.

The scope of explanatory disclosures related to the risk associated with estimated measurement is constantly evolving. However, it should be noted that the IFRS require the disclosure of key assumptions about the future and other major sources of estimation uncertainty (IAS 1, §125). Therefore, the specificity of the risk disclosures may vary depending on the approach of the entity's management and the people responsible for preparing the financial statements.

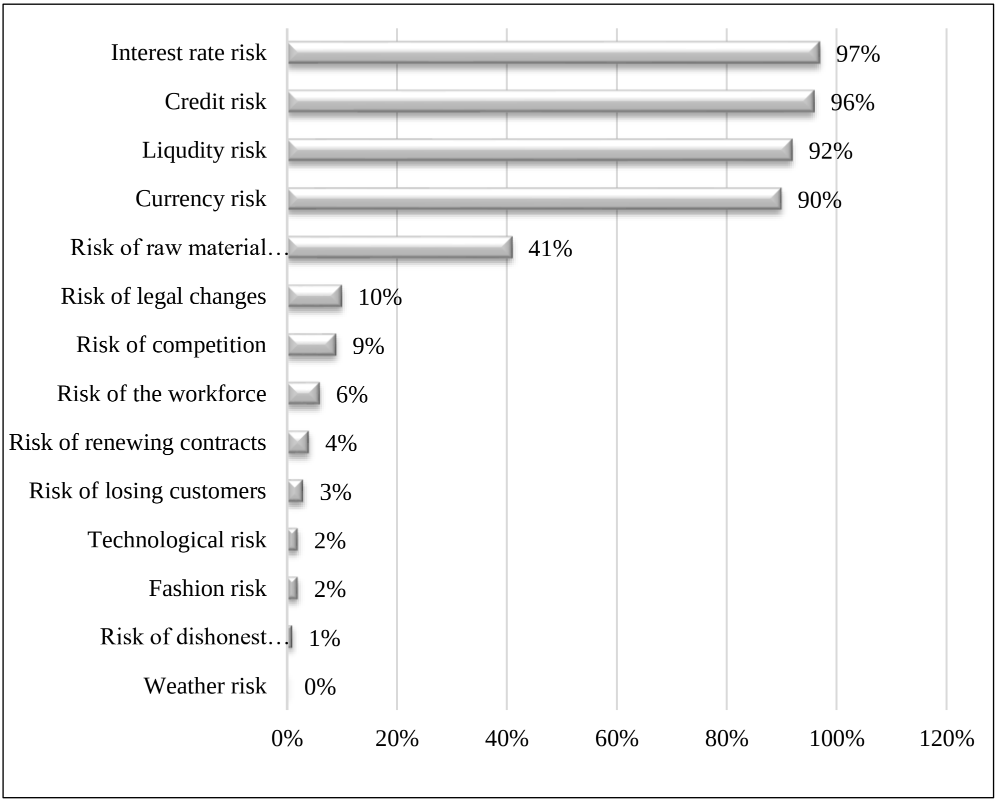
The empirical study analyzed the disclosures concerning the sources and effects of uncertainty of accounting estimates presented in the financial statements of listed companies. For the purposes of the study, the sample consisted of companies listed on the Warsaw Stock Exchange belonging to WIG20, mWIG40, and sWIG80 indices, which guaranteed that the sample included both entities with very high market capitalization and smaller listed companies. The analysis covered financial statements prepared in accordance with IFRS. Due to the specific nature of operations and different financial reporting rules, banks, insurance undertakings, and entities operating on the basis of securities trading regulations and regulations on investment funds and alternative investment fund management were rejected from the sample. In order to determine the time horizon of the study, we decided to analyze the financial statements for the reporting years 2010–2017. As a result, 78 entities were selected for the analysis, which gives a total of 624 observations in the assumed time horizon of the study. Full versions of the financial statements were analyzed, with explanatory notes forming part of the notes to the financial statements.

Content analysis was used, which allowed a subjective interpretation of the content of the text data through a systematic process of classifying identified topics (Hsieh, Shannon, 2005, p. 1278). The study applied a qualitative approach, based on the assignment of data and fragments of financial statement contents to various categories depending on the adopted criteria.

The study showed that most of the analyzed entities identified the risks described in the IFRS, i.e., market risk, which comprises interest rate risk and currency risk, as well as credit risk and liquidity risk. However, certain entities also presented other types of risk whose percentage frequency in the analyzed financial statements has been presented in Figure 1.

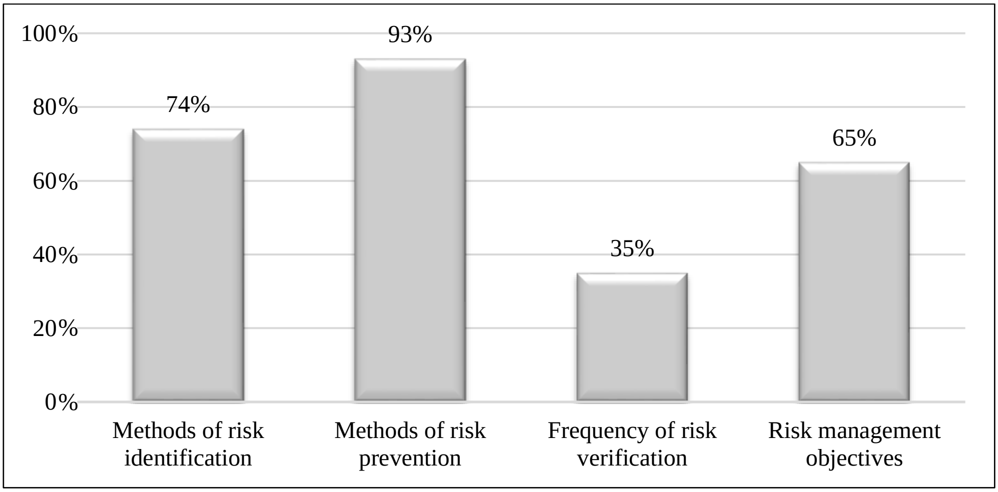
Figure 2 presents the percentage of financial statements in the analyzed sample that disclosed information about the methods of risk identification and prevention, the frequency of risk verification, and risk management objectives.

Figure 1. Types of risk disclosed in the financial statements



Source: own study.

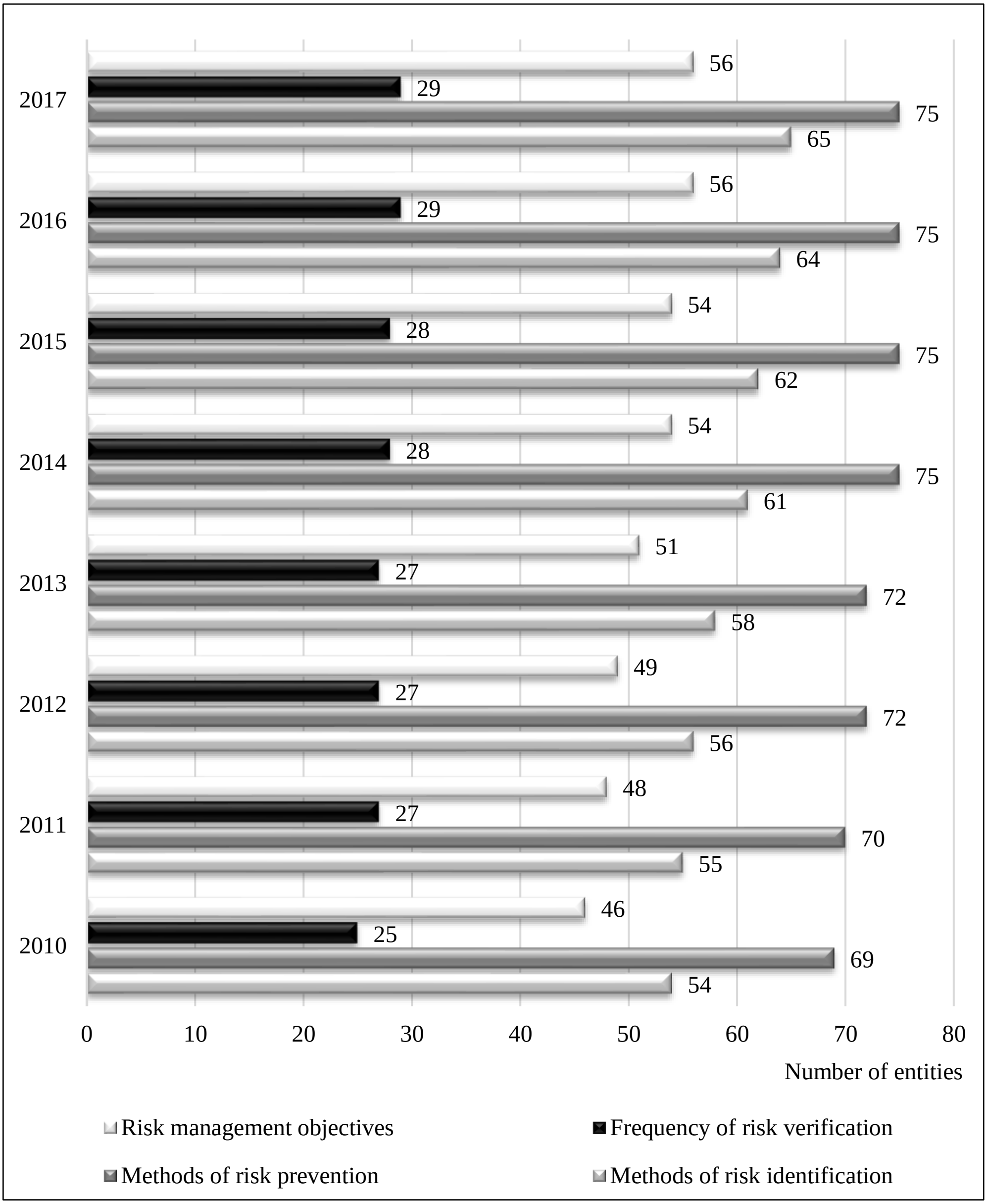
Figure 2. Risk disclosures in the analyzed financial statements



Source: own study.

Throughout the analyzed period, the level of compliance with the reporting obligations concerning risk reporting increased. This was confirmed by the number of entities disclosing selected risk data for years 2010-2017, as presented in Figure 3.

Figure 3. Number of entities disclosing risk-related information in their financial statements for years 2010–2017

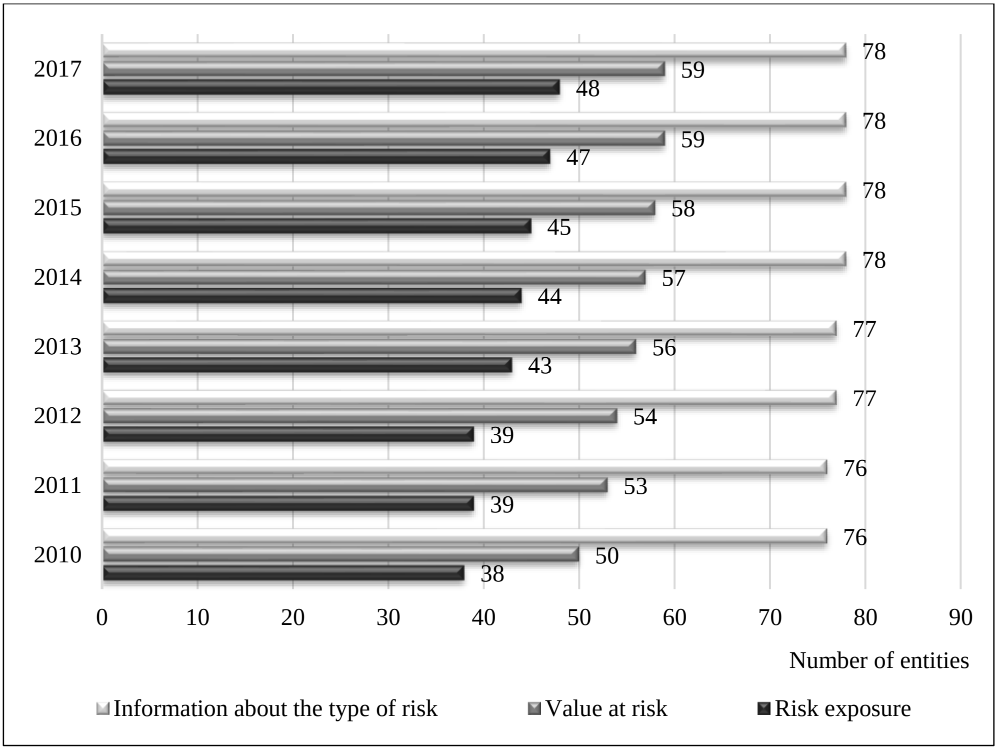


Source: own study.

The number of entities that included a separate explanatory note on risk management in their financial statements grew. It should be noted that the size and degree of specificity of such notes varied, from general information, which did not contain references to the described risks to the situation of a respective entity, to extensive, multi-page notes, the volume of which could reach up to 18 pages. The average volume of the risk-related section of the financial statements increased steadily in the analyzed period and reached 6.70 pages in the 2017 financial statements.

Figure 4 illustrates the differences in the specificity of the disclosed information. According to those data, the majority of the analyzed entities (all of them in the years 2014–2017) provided a list of the types of risk to which they were exposed. However, the disclosed information did not refer to specific values at risk in all entities. Therefore, in many cases, we found detailed definitions of respective types of risk without linking them to specific reporting items, or even without determining the level of exposure. In such cases, the information disclosed could be copied from year to year, but its usefulness for the public was negligible. However, it could be noted that the degree of specificity of disclosures in those areas grew in the analyzed period, and more and more entities introduced information tailored to their specific situation in the explanatory notes and limited the repetitive content.

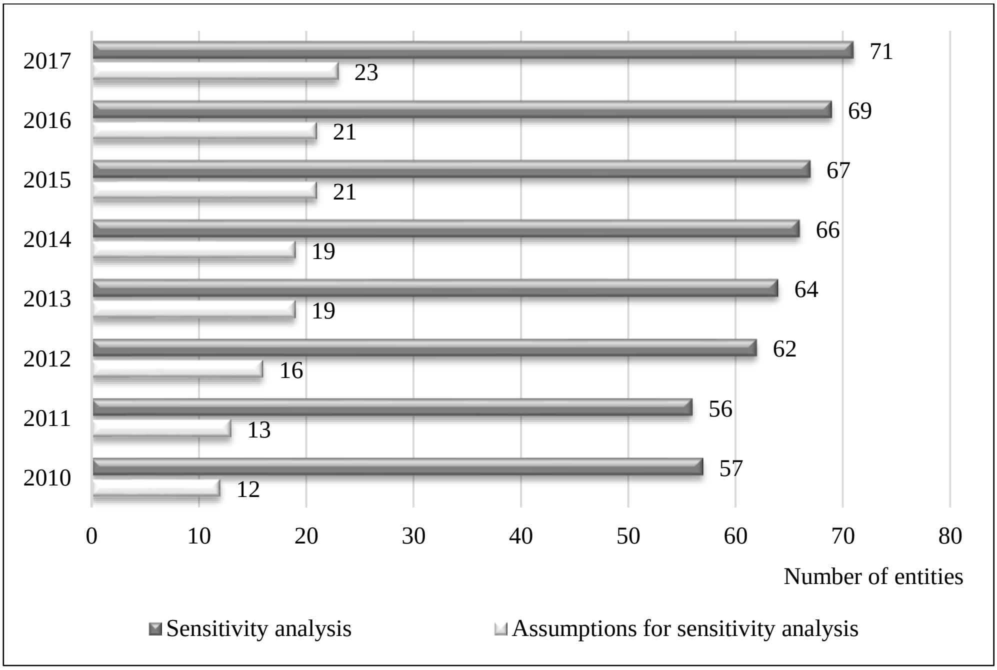
Figure 4. Specificity of risk-related disclosures



Source: own study.

The standard guidelines for disclosing the sensitivity of carrying amounts to the methods, assumptions, and estimates underlying their calculation (IAS 1, §129), and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected, were also implemented to varying degrees. In the analyzed financial statements for the years 2010–2017, a growing number of entities presented the results of the sensitivity analysis; however, in many cases, their usefulness was low due to the lack of disclosure of assumptions used in the analysis, such as the discount rate, implied volatility of exchange rates, or the interest rate used to assess sensitivity to credit risk. Figure 5 shows the number of entities in the sample that conducted the sensitivity analysis and disclosed its assumptions between 2010 and 2017.

Figure 5. Number of entities presenting the results of the sensitivity analysis in the years 2010–2017



Source: own study.

The level of disclosures of the sources and effects of estimation uncertainty can be described as satisfactory, in particular considering the fact that in the years 2014–2017 all entities in the sample disclosed risk-related information to a certain extent. As shown by the above results, the specificity of the disclosures varies. The largest problem is the focus only on interest rate risk, foreign exchange risk, and liquidity risk in the descriptive information. On the one hand, this ensures compliance with the obligations under IFRS 7; on the other hand, it results in a certain formulaicity of this part of the report.

Extensive definitions of the different types of risks increase the volume of the explanatory notes without providing information, making it possible to assess the entity's risk exposure.

A complete absence of disclosures regarding the sources and effects of estimation uncertainty applied to a few (0.9%) financial statements analyzed in the sample. Therefore, it can be concluded that in the majority of cases, companies comply with the IFRS requirements with regard to the analyzed disclosures. The only difference is the degree of specificity.

3. The practical application of the disclosure of information about the estimated measurement risk in the opinion of statutory auditors

Due to the different degree of specificity of disclosures concerning the estimated measurement risk, we attempted to assess the extent to which statutory auditors who carry out obligatory audits of financial statements of listed companies reveal irregularities related to disclosures in such financial statements. The survey was conducted on a sample of 390 randomly selected statutory auditors. As the basis for calculating the minimum sample size, it was assumed that it would be used in estimating confidence intervals for proportions (the percentage of answer variants in the questionnaires). The minimum sample size means the necessary number of elements n in the sample to estimate the p-population proportion at the confidence level $1\text{-}\alpha$, with a maximum estimation error not exceeding d. When the value of parameter p can be initially estimated, the formula for the minimum sample size takes the form:

$$n_{min} = \frac{u_{\alpha}^{2} p_0 (1 - p_0)}{d^2}$$

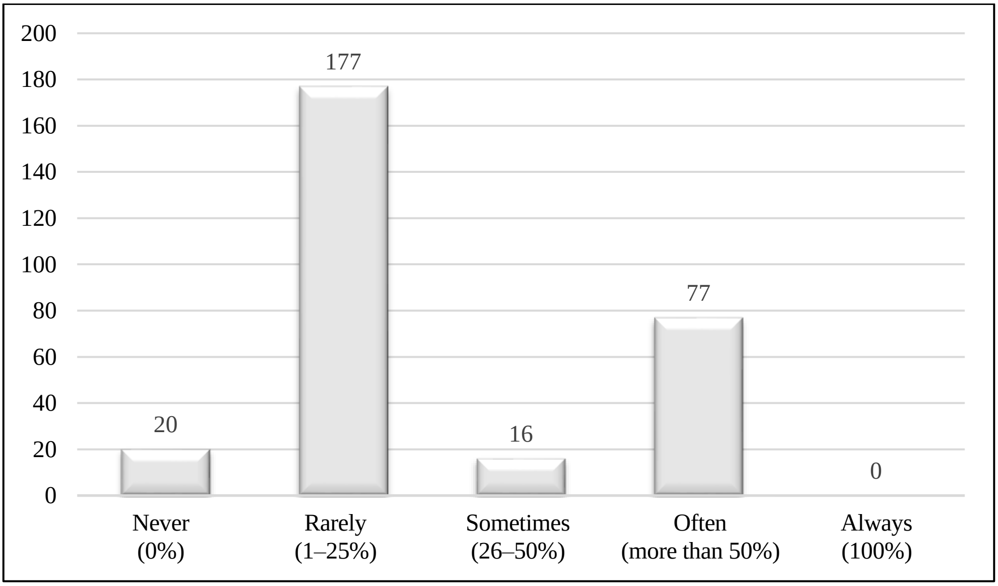
u_α – the quantile of the normal distribution calculated for the confidence level $1\text{-}\alpha$;
d – the maximum error of estimation of the percentage of responses to which we agree;
p_0 – planned proportion estimate.

The $n = 390$ sample size assumed in the study will be sufficient to estimate p-population proportion at the confidence level of 0.95, with a maximum estimation error not exceeding 5%.

Verification of the statistical hypotheses was carried out using the test for the p-population proportion. The p-population proportion is a number in the range $<0; 1>$, usually expressed as a percentage, informing what part of the general population has a certain feature. The null hypothesis was tested: H_0: $p = p_0$ an alternative hypothesis with the form: H_1: $p > p_0$. For the calculated empirical value of the test statistic, the value of the *p-value* test probability was calculated. If the *p-value* is lower than the assumed significance level α, then the null hypothesis is rejected in favor of the alternative hypothesis. Otherwise, there are no grounds to reject H_0.

Figure 6 presents the distribution of answers to the survey question.

Figure 6. Distribution of answers to the question: *How often do you find errors and inaccuracies in the audited entities related to the disclosure of information about the sources and effects of estimation uncertainty?*

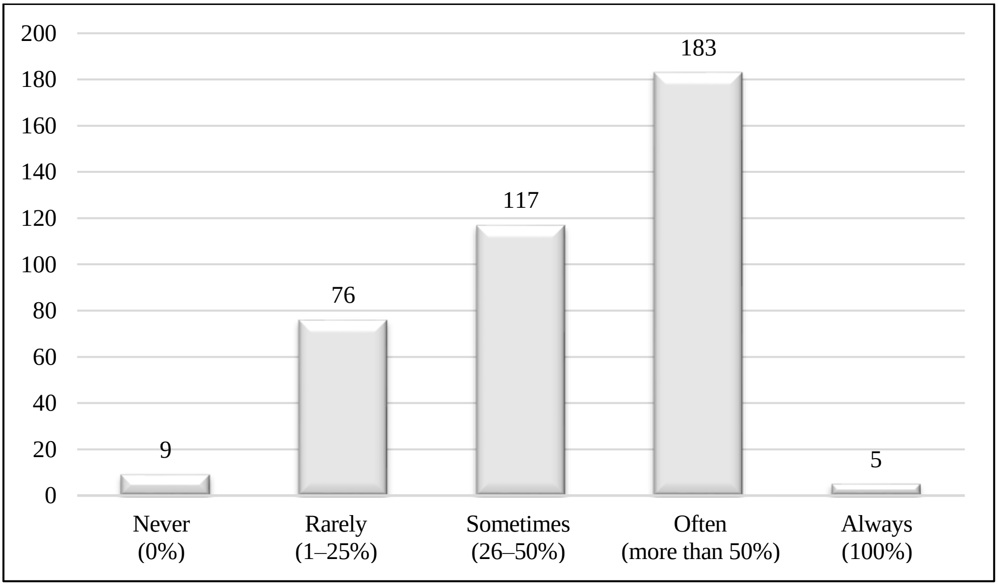


Source: own study.

The survey results showed that the majority of statutory auditor respondents (177) admitted that they rarely (1% to 25% of cases) uncovered errors and inaccuracies in the audited entities related to the disclosure of information about the sources and effects of estimation uncertainty. In order to confirm the statistical significance of the sample result, the statistical test for population proportion was applied. The zero hypothesis H_0: $p=0.5$ was verified against the alternative hypothesis H_1: $p > 0.5$, where p was the percentage of statutory auditors in the population who admitted that they at least sometimes found errors and inaccuracies in the audited entities related to the disclosure of information about the sources and effects of estimation uncertainty. The empirical value of the test statistics was $U_{emp} = 0.203$, and the corresponding test probability was *p-value* = 0.41957. Therefore, it could be concluded that the percentage of statutory auditors in the population who admitted that they at least sometimes found errors and inaccuracies in the audited entities related to the disclosure of information about the sources and effects of estimation uncertainty was significantly higher than 50% at the significance level $\alpha = 0.05$.

The distribution of answers to the question whether, in the opinion of the statutory auditors, the lack of experience of the accounting staff performing the estimated measurement reduced the specificity of risk-related disclosures in the financial statements has been presented in Figure 7.

Figure 7. Distribution of answers to the question: *How often do you think the lack of experience of the accounting staff reduces the specificity of risk-related disclosures in the financial statements of the audited entities?*

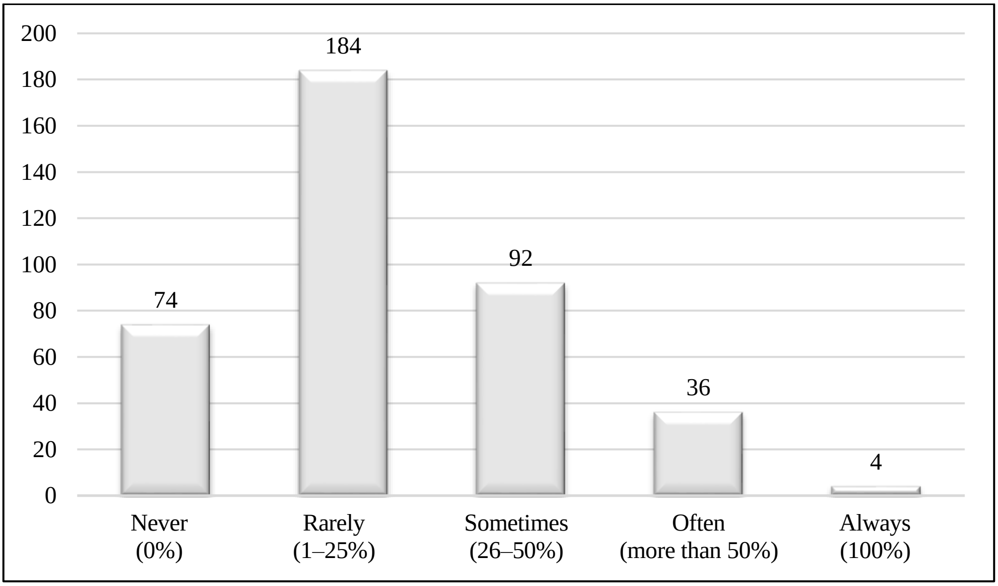


Source: own study.

The survey results showed that the largest number of statutory auditor respondents (183) believed that the lack of experience of the accounting staff performing the estimated measurement often reduced the specificity of risk-related disclosures in the financial statements, while such an impact occurred at least occasionally in the opinion of 78.2% of respondents. In order to confirm the statistical significance of the sample result, the statistical test for population proportion was applied. The zero hypothesis H_0: p = 0.5 was verified against the alternative hypothesis H_1: $p > 0.5$, where p was the percentage of statutory auditors in the population who believed that the lack of experience of the accounting staff at least sometimes reduced the specificity of risk-related disclosures in the financial statements of the audited entities. The empirical value of the test statistics was $U_{emp} = 11.140$, and the corresponding test probability was *p-value* < 0.00001. Therefore, it could be concluded that the percentage of statutory auditors in the population who believed that the accounting staff's lack of experience at least sometimes reduced the specificity of risk-related disclosures in the financial statements was significantly higher than 50% at the significance level $\alpha = 0.05$.

The distribution of answers to the question whether, in the opinion of the statutory auditors, listed companies deliberately limited the scope of risk-related information disclosed in the financial statements has been presented in Figure 8.

Figure 8. Distribution of answers to the question: *In your opinion, how often do listed companies deliberately limit the scope of risk-related information disclosed in the financial statements?*

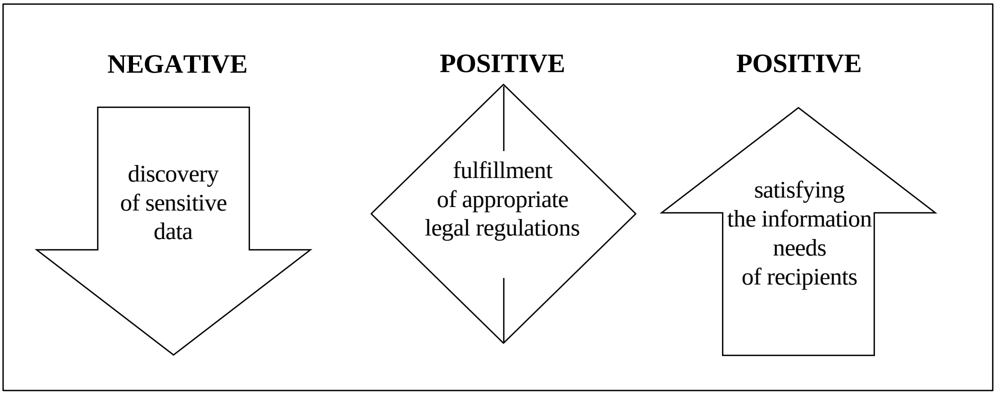


Source: own study.

The survey results showed that the largest number of statutory auditor respondents (184) believed that the audited listed companies rarely (1 to 25% of cases) deliberately limited the scope of risk-related information disclosed in the financial statements, while according to 66.2% of respondents, such a situation occurred rarely, if at all. In order to confirm the statistical significance of the sample result, the statistical test for population proportion was applied. The zero hypothesis H_0: $p = 0.5$ was verified against the alternative hypothesis H_1: $p > 0.5$, where p was the percentage of statutory auditors in the population who believed that the audited listed companies rarely, if at all, deliberately limited the scope of risk-related information disclosed in the financial statements. The empirical value of the test statistics was $U_{emp} = 6.38$, and the corresponding test probability was *p-value* < 0.00001. Therefore, it could be concluded that the percentage of statutory auditors in the population who believed that the audited listed companies rarely, if at all, deliberately limited the scope of risk-related information disclosed in the financial statements was significantly higher than 50% at the significance level $\alpha = 0.05$.

From the point of view of businesses, the disclosure obligation may be perceived differently, depending on individual preferences. Therefore, the approaches presented in the figure below should be considered.

Figure 9. Business perception of disclosures

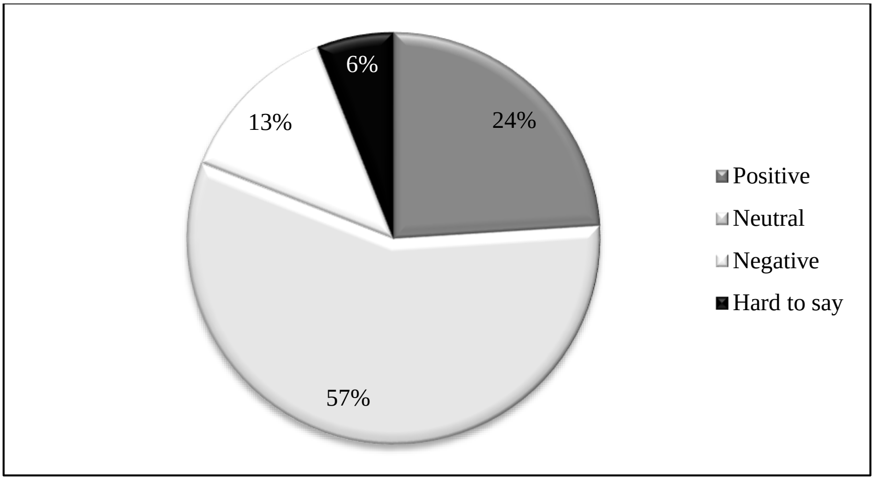


Source: own study.

The negative approach resulted from the possibility of discovering sensitive data that related to different areas of the company's operations. A large number of disclosures carried the risk of limiting the competitive position of the company. Such an approach was mainly based on concerns about the use of information by the competitive environment, cooperating entities, or even employees and trade unions, which may use such information for wage negotiations. Opponents of increasing the number of disclosures also argued against the costs of gathering and processing the necessary data and the costs related to the audit of additional disclosures. Neutral disclosures were perceived only as a method to meet the requirements imposed by the balance sheet law. Under the positive approach, the entity perceived disclosures as a method to meet the disclosure requirements, which would enable it to increase the involvement of existing investors or to attract new investors. Moreover, a broader scope of voluntary disclosures may improve the credibility of the financial statements. The arguments in favor of increasing the number of disclosures focused primarily on the need to provide up-to-date information, taking into account increasingly complex processes and events and allowing an appropriate level of control (Kieso et al., 2012, p. 1515).

The structure of answers to the question of how statutory auditors assessed the perception of the disclosures of accounting estimates made by audited entities in the notes to the financial statements has been presented in Figure 10.

Figure 10. Distribution of answers to the question: *How do you assess the perception of disclosures about the estimated measurement risk made by audited entities in the notes to the financial statements?*



Source: own study.

The survey results showed that the majority of statutory auditor respondents (57%) assessed the audited entities' perception of the disclosures about the estimated measurement risk in the notes to the financial statements as neutral; they were merely a method to fulfill their obligations. In order to confirm the statistical significance of the sample result, the statistical test for population proportion was applied. The zero hypothesis H_0: $p = 0.5$ was verified against the alternative hypothesis H_1: $p > 0.5$, where *p* was the percentage of statutory auditors in the population who considered the audited entities' perception of the disclosures about the estimated measurement risk in the notes to the financial statements as neutral.

The empirical value of the test statistics was $U_{emp} = 2.634$, and the corresponding test probability was *p-value* = 0.0042. Therefore, it could be concluded that the percentage of statutory auditors in the population who considered the audited entities' perception of the disclosures as neutral was significantly higher than 50% at the significance level $\alpha = 0.05$.

Irregularities in the disclosure of information about the risks associated with the valuation may result in a decrease in the reliability of the financial statements. The results of the study indicate that the frequency of the statutory auditors proposing corrections regarding the disclosure of information from the discussed area is relatively high (25% to 50% of cases). Errors and irregularities could be the result of the influence of various factors. The lack of experience of the accounting staff who carried out the valuation process was considered to be a more frequent cause of the lack of credibility of financial statements than intentionally made errors. Units preparing additional information most often show a neutral approach. Thus, they do not perceive the disclosures made as revealing sensitive information or satisfying the information needs of stakeholders. The proper fulfillment of information obligations could help clarify the required disclosures, which currently, especially in the case of IFRS, are dispersed in the regulations of many standards.

Conclusions

Due to the continuous increase in uncertainty in business activity, the share of estimates and measurement information in the disclosures made in the financial statements is growing. Uncertainty of the environment should, therefore, require a reassessment of the role of the measurement process, which should not only lead to the presentation of the value of a given item but also guarantee a faithful reflection of reality. Since the result of the measurement is an accounting estimate, the challenge for the accounting system is to ensure that the estimate guarantees the reliability of the reporting data. A detailed fulfillment of the reporting obligations relating to the estimated measurement risk should facilitate the assessment of the impact of the measurement uncertainty on the entity's future position.

The conclusions obtained from empirical research implement the purpose of the article. Most of the listed companies comply with reporting obligations regarding the disclosure of risk information resulting from accounting standards. However, the degree of detail of the disclosures is different. When analyzing the financial statements of listed companies, it seems that numerous repetitions, in particular, elaborate definitions of different measurement categories or types of risk to which the companies are exposed, are aimed only at increasing the volume of the annual financial statements. With such an enlargement of the financial statements, the information relating to the current situation of a particular entity is subject to quantitative and qualitative limitations. Therefore, the convergence of disclosures, often resulting from financial reporting guidelines, should not obscure the essence of financial statements, which is the presentation of an entity's assets, financial position, and operation results. Consequently, it should be recommended for the people preparing financial statements that they embed the disclosed descriptive information in the specific nature of a given entity's operations while minimizing the universal content.

The results of the survey also fulfill the purpose of the article, allowing for the formulation of a conclusion on behavioral motives affecting the level of detail of the disclosed risk information in financial statements. In our opinion, confirmed by the results of surveys conducted among a group of statutory auditors who audit the financial statements of listed companies, the fulfillment of reporting obligations related to the estimated measurement risk with varying degrees of specificity depends more on the experience and competence of the staff responsible for preparing the financial statements than on the approach of the management of the entity aimed at deliberately limiting the scope of the disclosed data. This provides room for further research of behavioral factors that affect the decisions on the information and the form of such information that should reach the users of financial statements. Such factors may include the cognitive abilities, motivations and emotions, values, beliefs, or personality traits of both the people responsible for preparing the financial statements and the management of the entity.

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