

Analyzing the trade-off between financial relevance and reliability

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A study in the *International Journal of Managerial and Financial Accounting* has looked at the relationship between relevance and reliability in annual and semi-annual financial statements. An analysis of

more than 300 manufacturing companies across a seven-year period reveals the trade-off between these two factors and sheds new light on the dynamics of financial reporting.

Alexios Kythreotis and Milad Soltani of the Department of Accounting, Economics, and Finance at the European University Cyprus, point out that relevance and reliability are critical qualities of a company's [financial statements](#). Relevance refers to the degree to which information influences economic decisions, while reliability pertains to the accuracy and faithfulness of the information being reported. The team has found, however, that these two factors are often in conflict, forcing companies to perform a delicate balancing act as they face different demands from shareholders, regulators, and standard-setting bodies.

Part of the problem is due to the way in which the quality of financial statements is defined and determined according to the framework set out by the International Financial Reporting Standards (IFRS). How reliability measures up or otherwise to the IFRS framework's rationality underscores the complexity of the challenge faced by organizations striving to simultaneously provide accurate and relevant financial information to the various stakeholders. The trade-off between relevance and reliability has remained largely ignored until this present research. The team's comprehensive analysis of panel data from a diverse range of manufacturing companies offers strong evidence and highlights this trade-off.

The implications of the work are not purely academic. Indeed, they hold practical value for companies seeking to provide meaningful and reliable financial information to the various stakeholders. They must strike the right balance between relevance and reliability without compromising the trust and confidence of investors, lenders, and other interested parties. Regulators and standard-setting bodies might also now be aware

of the trade-offs and how they affect effective [financial reporting](#) practices. Ongoing research in this area might now provide illumination for those involved in financial reporting on both the corporate and regulatory side of the coin so that a balance can be struck between the two apparently conflicting aspects of this endeavor—[reliability](#) and relevance.

More information: Alexios Kythreotis et al, Relevance and faithful representation (reliability) of annual and semi-annual financial statements; a trade-off, *International Journal of Managerial and Financial Accounting* (2023). [DOI: 10.1504/IJMFA.2023.131779](https://doi.org/10.1504/IJMFA.2023.131779)

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