

A Defense on Accounting Discretion: An Empirical Inquiry based on Users' Awareness

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Abstract. *Corporate performance is a key in corporate accounting. One of the earliest accounting measures of corporate performance is accounting income. Accrual accounting enables the measurement of changes in net assets of an entity. Accounting income is neither scientifically determined nor proven. Accounting information often results from approximation and estimation when choice among alternatives is professionally judged, rather than exact measures and perceptions. Divergence in application of accounting policies in corporations under similar conditions may present different results. Some criticize corporate accounting, particularly after scandals related to financial statement fraud, for choices among procedures that accounting standards permit. However, choices in the application of accounting permitted procedures that accounting standards allow are based on professional judgment. Professional judgment enables accounting as a profession and allows accounting professionals to claim status in their respective communities. Exploring users' awareness of corporate reports in Saudi Arabia in terms of flexibility in using accounting methods when preparing corporate reports and analyzing their understanding of corporate reports, this study surveyed 72 financial statement users. Research has found that sufficient efforts must be made to obtain information when making investment decisions. As accounting income is a result of applied accounting procedures and methods, users perceive information published in the financial reports, including notes, as understandable. Flexibility in applying accounting standards is imperative for adapting to changes in the entity's business environment. Potential capital market investors must maintain a minimum level of knowledge; otherwise, they might be gambling their wealth or savings against the odds.*

Keywords: Corporation; Measuring; Corporate Performance; Accounting Income; Accrual Accounting; Choices; Accounting; Procedures and Methods; Professional Judgment; GAAP; Reality; Understandability.

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Introduction. Considering multiple roles throughout time and for centuries, accounting has always allowed businesses to safeguard their resources and evaluate performance (Al-Adeem, 2017; Chatfield, 1977). Corporations have encouraged unconventional roles for accounting to play in society. Because of the separation between ownership and management (Berle & Means, 1932), reporting to external parties about internal corporate affairs has dictated the purpose of accounting. According to Statement on Accounting Theory and Theory Acceptance (SATA) (1977, p.1), "...Accounting writers appear to agree that the

central purpose of financial accounting is the systematic provision of economic data about reporting entities. Data are provided to individuals and groups external to the reporting entity.”

As accounting is not a science (Stamp, 1981; Muats, 1963) nor is accounting income (Kelley, 1951; see also Solomons, 1961), accounting procedures involve estimates and assumptions based on which accounting measurements and disclosures are performed (Brief, 1993a; Brief & Owen, 1970; 1973). The “... historic cost allocation model that effectively silenced questions about the relevance of accounting profit and reaffirmed the primarily of ownership rights” (Previts and Merino, 1998: 271) is based on an arbitrary basis (Thomas, 1974) that is related to the “uncertainty concept” (Brief, 1993b: xii) and probably imposes critical limitations on its utility (SATTA, 1977:32). Arguably, certainty exists outside of the accounting domain.

Reporting corporate performance to external parties has been an objective that external users expect accounting to serve. Early accounting writing identified the role of corporate accounting. For example, the Report of the Study Group on Business Income (1975)¹ states that:

“...the annual financial statements of corporations are primarily reports of stewardship, and the methods of presentation should be determined with constant regard to that primary purpose; but when corporations seek the advantage of marketability for their securities they incur an obligation of disclosure to investors generally.”

Accrual accounting permits measurement of changes in net assets. The conceptual framework for financial accounting developed by the International Accounting Standards Board (IASB) emphasizes that accrual accounting reflects financial performance (see items 1.17 and 1.18, wherein level of understanding of users of financial statements must adhere to the minimum level of understanding)². Users’ limited understanding of corporate reports and their choice of forgoing efforts to acquire sufficient information to make informed decisions on the content of corporate reports does not represent an alleged reason for the lack of intellectual capacity in such reports.

“...[A]ccounting methods can be viewed as part of a measurement process which has the objective of providing the user of financial statements with information about the future” (Brief, 1993c: xx). A variety of accounting treatments for an item offers an accountant choices among them; users do not object to the flexibility that accounting permits and deem it justified if their interests are considered and do not conflict with professional and legal standards and legislation (Al-Shabeeb and Al-Adeem, 2019).

Corporate accounting has been criticized, particularly after scandals related to fraud in financial statements, for the choices among procedures that accounting standards permit. Accounting operates in a corporate economy with its own limitations, and users are assumed to possess a level of understanding that enables them to comprehend the content of corporate reports and process the disclosed corporate information. For example, item 2.36 of the IASB’s conceptual framework illustrates that reported financial information is available for users who have extensive knowledge of business and economic activities and who review and analyze the information conscientiously.³

Conceptual frameworks of financial accounting assume a level of comprehension that enables users to correctly utilize financial reports. Preparing corporate reports without the assumption that external users possess a minimum level of understanding leads to inefficiency in preparation of corporate reports (Alhomid, 2009). Cost of corporate reporting preparation may be unreasonable if users are assumed to possess no corporate reporting knowledge. Unreasonable costs affect firm value, ultimately affecting interests of stakeholders, including users, namely, shareholders. Assuming a rational level of understanding when preparing corporate reports maintains balance of the groundwork of corporate reports.

Investors’ awareness enables them to make rational financial decisions, improve their understanding, and manage risks (Bhattacharjee and Singh, 2017). In fact, when using management strategies, corporate management assumes users’ inability to understand the meaning of the numbers in financial statements and reports (Al-Shabeeb and Al-Adeem, 2019). This study explores users’ awareness of corporate reports in Saudi Arabia in terms of flexibility in using accounting methods in preparing corporate reports. Their understanding of corporate reports was also investigated.

¹ Originally published in 1952.

² <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework.html/content/dam/ifrs/publications/html-standards/english/2022/issued/cf/> last visit 7/25/2022.

³ Retrieved <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework.html/content/dam/ifrs/publications/html-standards/english/2022/issued/cf/> (last visit 7/25/2022).

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature. Section 3 describes the research method employed for the data collection. Section 4 presents and discusses the findings. Section 5 concludes that, with the agreement of surveyed users of financial statements with the items in the questionnaire, investing in the capital market requires investors' due diligence. Finally, Section 5 offers implications, highlights limitations, and suggests directions for future research.

Literature Review

Measuring Corporate Performance as an Accounting Role:

Advanced accounting systems are always injunctions of sophisticated economic systems (see Chatfield, 1977, Hendriksen and Breda 2001; Mattessich 2012; see also Suojanen, 1954). Chatfield (1977:3) observes that:

“Whether the progress of ideology governs the development of social institution or vice versa, there are obvious connections between ideas and the conditions under which people live. A study of their revolution suggests that accounting processes are reactive, that they develop mainly in response to business needs at given time, and that their growth is relative to economic progress generally...the higher the level civilization, the more elaborate the bookkeeping methods. And as record keeping needs multiply, the ability of accounting data to promote or hinder economic development also increases.”

When sole proprietorship and partnerships were the main forms of conducting business, the role of accounting in business entities was related to controlling (Al-Adeem, 2017). As Chatfield (1977:4) illustrates:

“The accumulation of private wealth led to some kind of stewardship accounting, both to assure the physical protection of assets and to prove that those who administered them had done their job properly. The need for a check on the honesty and reliability of employees made internal control a central feature of all ancient bookkeeping systems.”

With the expansion of trade and pulling capital from individuals to collaborate in conducting business, control continues to be the need of partners. Hendriksen and Breda (2001:42) stated the following:

“As trade expanded and wealth accumulated, individual trading was replaced largely by trading through agencies and partnerships. The use of partnerships permitted the risks of the long sea voyages to be shared and allowed the wealth of the capitalist to be combined with the daring of younger traders.”

Baskin and Miranti (1997:52) as well assert that, “[s]ilent partnerships were common for local business and thus easily accessible principals who could deriving monitor their performance. Sedentary partners often hired active agents to conduct overseas trade.”

As a model for conducting business, corporations have emerged in response to the need to pull capital that other business models cannot make available (Al-Adeem, 2017). As Previts and Merino (1998:42) stated:

“Corporations arose because of their capacity to support expanding markets and enterprise operations at levels of competitive efficiency called for in a nation where the tasks and risks were large and the sources of wealth and capital not highly concentrated. There was also the need to use scarce skills, both technical and managerial, wisely. The high costs of scare labor encouraged use of machinery and therefore begat relatively larger investment outlays...[reference omitted]. The appetite of such operations for capital would influence the shape of the money markets and the industrial revolution that overtook the American economy in coming decades.”

Measuring corporate performance has garnered the attention of researchers (e.g. Richard et al., 2009) as corporations are critical in accounting analysis (Sprouse, 1957). Investors experienced a lack of financial information offered by managers of manufacturing corporations (Hawkins, 1963) which would have otherwise enabled them to evaluate such investment decisions. Several corporate measures have been proposed and suggested throughout time (e.g. Garstka & Goetzmann, 1999; Rappaport, 1983; Shil, 2009). For example, corporate economic value added (EVA) (Chen & Dodd, 1997; Fernandez, 2015), earnings per share (EPS) (Islam et al. 2014), EBITDA (Zelmanovich & Hansen, 2017; Cormier, Demaria & Magnan, 2017; Brockman & Russell, 2012), triple bottom line (Norman & MacDonald, 2004; Elkington, 1997; 2004; Adams et al., 2004; Rob and Milne, 2004) as performance measures. These measures are non-GAAP methods and mandate ethical considerations (Black, 2016; Jennings, 2003), motivating researchers to

discourage their use (although not entirely) or encourage thoughtful use of the methods (e.g., Almeida, 2019; Grant & Parker, 2002; Stern, 1972) and argue for superiority of profit measurement (Egginton, 1984).

Accounting income is one of the earliest accounting measures of corporate performance. Professionally, in item 1.18 of its conceptual framework⁴, the IASB declares that:

“Information about a reporting entity’s financial performance during a period, reflected by changes in its economic resources and claims other than by obtaining additional resources directly from investors and creditors...is useful in assessing the entity’s past and future ability to generate net cash inflows. That information indicates the extent to which the reporting entity has increased its available economic resources, and thus its capacity for generating net cash inflows through its operations rather than by obtaining additional resources directly from investors and creditors. Information about a reporting entity’s financial performance during a period can also help users to assess management’s stewardship of the entity’s economic resources.”

While “proprietors were in personal contact with their affairs and the occasional computation of a Profit and Loss account in the ledger was ample for their needs” (Littleton, 1928: 138), shareholders in the corporate model detach from everyday operations calling accounting for a new, probably unconventional, role to play in the corporate economy. In 1936, the Statement of Objectives of the American Accounting Association recognized a shift in the purpose of accounting, corresponding to changes in the business model:

“Accounting, originally designed to provide internal control of business affairs by private owners, now finds itself faced with the responsibility of compiling and expressing the results of business operations in a way that will meet the needs of investors, governmental units, and the public at large, as well as those of immediate management. The mechanism of private accounting must be adapted to serve broad social and economic purposes.” (p. 1)

Such a role might remain characterized within the response of accounting to society’s needs and for accounting’s primary purpose. Burchell et al. (1980:18) argue, “accounting rose to mediate between divergent interests in an organized endeavour, to legitimize and justify particular stances and, above all, to create a symbolic structure within which action could be achieved.” DR Scott (1931: 202 as cited in Lee, 2009: 146) views, “[a]ccounting ...[as] a means of mediating conflicts of interest in business and providing ‘justice’.”

Whatever the prevailing form of conducting business in a given society is, accounting is used to assist capital and wealth providers, who contribute resources to formation of entities, with information about their invested resources and potential growth. Asserting that “[t]here seem to be certain perennial demands which every developed society makes on its accounting records” (Chatfield, 1977: 4), one can identify the purpose of accounting in the context of a given time period by inspecting needs of capital supplier (Al-Adeem, 2017). Accounting does not only aid capitalists (Al-Adeem, 2017).

Income Determination:

What constitutes accounting income has been debated for decades or even a century (e.g., Bedford, 1965; Dickinson, 1904; Gilman, 1956; Kelley, 1951; Lee, 1994; Littleton, 1937; Report of Study Group on Business Income, 1975; Schmidt, 1931; Solomons, 1961). Accounting for corporate income is significant to the extent to which it has contributed to societal inequality during crises (Sikka, 2015; see also Al-Adeem, 2018).

Several accounting writers have attempted the answer to what income for businesses and corporations over time (e.g. Bedford, 1965; Beaver & Demski, 1979; Chang, 1962; Dickinson, 1904; Edwards & Bell, 1965; Gilman 1956; Kuter et al., 2022; Lee, 1994; Saito & Fukui, 2019; Sterling, 1970). Additionally, accounting income has been compared with comprehensive income (Nishikawa et. al, 2016). Measuring income, values, and profit, as well as issues related to reporting them, have also been studied (Whittington, 2017; Lee, 1994). Some attempts to define accounting income have compared it to economic income (Alsultan, 1981; Chang, 1962; Procházka, 2006; 2009; Rayn, 2007; Solomons, 1961).

Undoubtedly, one of the predominant mechanisms for users to assess managerial efforts was the matching model that Paton and Littleton (1949) proposed, which was recently revisited (Zimmerman & Bloom, 2016).

⁴ <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework.html/content/dam/ifrs/publications/html-standards/english/2022/issued/cf/> (last visit 8/3/2022).

⁵ First published on 1952 by the Report of Study Group on Business Income.

Praising the ‘matching model’, Previts and Merino (1998: 281) argue that “[i]f accountant could accurately measure revenues, which represented managerial accomplishments, and expenses, which represented managerial efforts, then the resultant income could be used by investors to allocate economic resources.”

One of the important aspects of income determination originates in the need to calculate profit (i.e., the return on invested assets). Profit calculation is needed to determine the distributable proportion from income to investors as a return on their investments. During the era of financial and managerial capitalism, investors, particularly small ones, have focused on earning power while evaluating corporations. To signal its earning power, a corporation’s best proxy is dividend distribution. Bricker and Chandar (1998:492) affirm, “Investors during...[late ninetieth century] expected regular dividends from corporations, and as long as they received these dividends did not care about financial statements.” Lazonick (1988) reports that, in the 1920s, manufacturing corporations paid over 60% of their net income as dividends. In a speech at the American Institute of Accountants⁶, it was clarified that:

“The management would be unable to make intelligent decisions about how much it could pay for materials, about wage rates, or how much to charge for the product. Of course costs and prices are largely fixed in a competitive market, but a corporation cannot be run successfully on the blind theory that it will automatically make a profit if it pays wages and buys materials at the going rates, and sells its product at the average market price. The management must **know** whether current income is enough to show a profit on invested capital, or not.” (pp.6-7, emphasis in original).

Knowledge about income is essential for owners. After fund providers finance their corporations, executive management invests the acquired funds in operating assets. Assets that are capitalized costs should yield returns to compensate for operating costs and reward fund providers on their investments⁷. As humans are risk-averse⁸, such returns should mitigate the risk of stewarding their funds to executive management. Prospects may provide different or even better investment opportunities for investors. Hence, investors need performance measures to evaluate investment opportunities. Lee (1994:20) articulates:

“...the gradual development of a sophisticated investment community and market, and the consequent need for accounting information relevant for investor protection and decision making, resulted in the income statement eventually superseding the balance sheet as the primary reporting statement. This has now caused the measurement of accounting income to appear to predominate over the corresponding measurements of assets, liabilities, and residual equity.”

Constructed Accounting Reality

Accounting is not merely a science (Stump, 1981), despite double-entry bookkeeping being a scientific activity that is the only paradigm in accounting (Cushing, 1989). The nature of accounting as a social science (Mautz, 1963) makes it indifferent from other social sciences where “absolute ‘truth’ is forever impossible” (Kerlinger, 1979: 61). The “Generally Accepted Accounting Principles (GAAP)” are the accountants’ “truth” (Previts as cited in Al-Adeem, 2017). Corporate reports are consequently true to the extent that accounting financial standards capture transactions and events that affect and changes in the an entity’s financial position.

Accounting reality is constructed in accounting (Hines, 1988) but not representativeness, reflecting the economic reality underlying the enterprise (Al-Adeem, 2017; White et al, 2001; Brearey and Al-Adeem 2019). Accounting income is neither scientifically driven nor empirically referenced (Kelley, 1951). Accounting income differs from so-called “true, “real,” and “economic” income (Horngren, 1978: 575). Moreover, accounting concepts can only be defined operationally. Brief (1993b: xi) asserts that “...[a]ccounting concepts have special definition and loose language; ambiguity and wishful thinking about how closely accounting numbers correspond to “economic reality” had no place in accounting.”

The Financial Accounting Standard Board’s (FASB) Statement of Financial Accounting Concepts No. 1

⁶ Information of this speech is unavailable. The document is an item of American Institute of Certified Public Accountants (AICPA) Historical Collection that was made electronically available by eGrove at the University of Mississippi. Retrieved https://egrove.olemiss.edu/aicpa_guides/522/ (last visit 8/10/2022).

⁷ For a briefing on these three cycles (e.g., finance, investment, and operation cycles) and the interrelationship among financial statements of an entity (balance sheet, income statement, cash flow statement) see Weygandt et al (2012, ch.1).

⁸ “Risk averse” means that return on a risky investment should outweigh the risk involved. A risk-averse individual is willing to take risks associated with an investment if the return on such an investment compensates for an individual for such a risk. Otherwise, such an individual might be motivated in investing in such an investment.

emphasizes that accounting information often results from approximation rather than exact measures and perceptions. Immovability and occurrence of one alternative in accounting leads to positioning it in a rigid framework of procedures and reduces its usefulness (Al-Qadhiy, 2001). Financial performance is measured using accrual accounting⁹. As cash does not need to flow simultaneously when an event occurs to be recorded, financial events affecting an entity's financial position can be recoded without an association with cash. An entity's corporate performance is multidimensional. Generation of cash from operations is essential for an entity's survival. To possess cash from operations, an entity needs to earn revenue by earning the right to obtain cash by delivering goods or services. Moreover, the entity must be able to collect cash. An entity must perform both effectively and efficiently. Constraining corporate reporting on cash activities does not comprehensively reflect corporate performance. In item 1.17 of conceptual framework¹⁰, the IASB clarifies that:

“Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.”

Understanding Flexibility in Applying Accounting

Arguably, the “...application of accounting rules was often contingent on local circumstances” (Leung, 2016: 128). Ideally, flexibility provides accountants with the ability to make professional judgments to choose a suitable alternative from accounting policies, procedures, or methods for the organization's position and stakeholders' benefit. Flexibility is available in at least three areas common to modern financial reports: inventory cost determination, software revenue recognition, and goodwill amortization periods (Mulford and Comisky, 2005). Choice and application of accounting policies within the flexibility inherent in GAAP and as long as it “remains within the GAAP boundaries” is not deemed “fraudulent financial reporting” (Mulford and Comisky, 2005: 39). Empirical evidence suggests that accountants and financial analysts, as a segment of corporate report users in Saudi Arabia, find that managers' earnings management is not an issue if it is executed within GAAP (Al-Shabeeb and Al-Adeem, 2019).

Choice in applying GAAP can be viewed elastically, leaving room for judgment in specific areas. Divergence in application of accounting policies in corporations under similar conditions may yield different results. Opting to apply accounting-permitted procedures for accounting standards should be based on professional judgment. Professional judgment is what makes accounting a profession and what permits accountants to claim status in their communities as professionals (West, 2003).

Notably, a balance between the maximum delivered information accounting can deliver with a minimum level of understanding required from users to benefit from products of corporate reports is assumed in the corporate reporting environment. Comprehension measures a reader's capability of obtaining knowledge from a text and is contingent not only on syntactic complexity but also “reader characteristics such as the reader's background, prior knowledge, interest, and general reading ability” (Jones 1997: 106 as cited in Wissing et. al., 2016). The level of understanding financial information is the link between the financial information that should be useful and the users who must have a minimum level of knowledge to understand this information (Al-Husni, 1998). “Without such an understanding, financial information will not be processed efficiently and effectively and prove a relevant and reliable basis for either stewardship or financial decision-making.” (Jones, & Smith, 2014).

The IASB's conceptual framework emphasizes that corporate reports users must maintain a level of understanding of the event, while acknowledging the complex reality that reports are conveying. For example, the conceptual framework is as follows:

“2.34 Classifying, characterising and presenting information clearly and concisely makes it understandable.

⁹ Nonfinancial information disclosure is concerned with reporting corporate performance with data that is not financial in nature. Modern corporate reporting models have suggested certain nonfinancial disclosure for example Jenkins model formally known Special Committee on Financial Reporting' officially known “Improving Business Reporting - A Customer Focus (1994). Disclosure of nonfinancial information in the Saudi Capital market is low (Abdulhaq & Muhamed, 2015; Alshiban and Al-Adeem, 2022). Empirical evidence suggests that risk associated with corporations in the Saudi capital market needs to be communicated to investors (Al-Hazzani and Al-Adeem, 2022). An empirical study finds that reporting corporate risk is low in the Saudi corporate economy (Alsahaly and Al-Adeem, 2022).

¹⁰ <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework.html/content/dam/ifrs/publications/html-standards/english/2022/issued/cf/> (last visit 8/3/2022).

2.35 Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore possibly misleading.

2.36 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.”

Research Method

Additionally to financial analysts as users of financial statements (Hornigren, 1955), users of financial statements include investors and parties whose interests are communicated and informed of the content of financial statements. Opinions of financial statement users in Saudi Arabia were also surveyed. A survey from a study (Al-Aydi, 2019) published in Arabic was suitable for collecting data for investigation. The questionnaire included eight items exploring users’ understanding of financial reports. Essential improvements were made to the research instrument to enhance its usability by adapting some to the Saudi context.

The questionnaire was translated from Arabic to English to increase users’ participation in the financial statements. Three accounting academics evaluated the translated version. After their comments were addressed, a pilot study was conducted to test the usability and readability of the survey items in both languages. Thirteen graduate students with research knowledge and proficiency in both Arabic and English took the survey electronically. Their comments and concerns were addressed. The pilot study reported no major issues. The questionnaire was distributed electronically and made available in both languages to users of financial statements in Saudi Arabia through information on their LinkedIn and Twitter profiles. Therefore, data were collected from participants regarding language they preferred and felt comfortable using. The Arabic version was used as it is the main language in Saudi Arabia and was intended to reach the respondents as possible. The English version was used for users who used the English language.

Research Findings and Discussion

As Table (1) shows, seventy-two users of the financial statements voluntarily responded to the survey. Most respondents (88 %) were male, and 54% of the sample were aged between 30 and 40 years. They varied in education level, where 66% of the respondents held a bachelor’s degree, 13% held a master’s degree, and 1% held a PhD.

Table 1. Sample Demographic Data

	Frequency	Ratio
Bachelor’s degree	48	66.7%
Master’s degree	10	13.9%
Ph.D.	1	1.4%
Other	13	18.1%

Source: Compiled by the authors.

Table 2. Distribution of Years of Experience

	Frequency	Percentage
Less than 1 year	20	27.8%
From 1 year but less than 5 years	23	31.9%
From 5 years but less than 10 years	10	13.9%
From 10 years and more	11	15.3%
None	8	11.1%

Source: Compiled by the authors.

Table (2) displays the sampled subjects’ years of experience to ensure that they possessed adequate experience. Apparently, 15.3% had more than 10 years of experience, approximately 14% had 5 years but less than 10 years of experience, around 32% had more than 1 year but less than 5 years of experience, and 27.8% had less than 1 year. Hence, 89% of the sample possessed experience, leaving roughly 11% who declared that they had no experience.

Table (3) presents the values of 5-points Likert scale of the questionnaire and the five class intervals, which were calculated as follows: Class width = (maximum value–minimum value)/ number of scale points (Al-Amri, 2011; Vipinosa, 2016). Using this formula, we obtain a class width of 0.80.

Table 3. Weighted Values of 5-point Likert scale

	Strongly disagree	Disagree	Do not know	Agree	Strongly agree
5-point Likert scale	1	2	3	4	5
Class intervals	1 - 1.80	1.81-2.60	2.61-3.40	3.41-4.20	4.21 - 5

Source: (Al-Amri, 2011).

Table (4) presents the weighted values of the points and class intervals. Grand mean of all items was 3.83, indicating an overall agreement on the item included in the survey. With an average of 4.34 and a standard deviation of 2.8, surveyed subjects strongly agree that sufficient efforts must be made to obtain information when making investment decisions. With a mean as high as 3.74 and a standard deviation of 1.4, they perceive information published in the financial reports, including notes, as understandable. Ironically, they also concur that flexibility in applying accounting standards is imperative to adapt to changes in the entity's environment. The average of their responses was **4.01** with a standard deviation of 2.8.

They understand that accounting income is the result of the applied accounting procedures and methods. Generally, with a mean of 3.53 and standard deviation of 2.8, they have a broader understanding and awareness of accounting methods and variety of alternatives available and can deal and account for and report the effects of events on the performance and financial position of the entity. Specifically, surveyed subjects understand the possibility of modifying the income statement results by accelerating the recognition of revenues in the current financial year or postponing the following year. The mean of this statement is 3.80 with a standard deviation of 2.80. With a mean of 3.8 and a standard deviation of 2.8, they comprehend that the method used for recognizing revenues included in the income statement affects this statement's results through profit or loss. Additionally, they realize accounting measurement alternatives for fixed depreciable assets that affect the value of an entity's statement of financial position. This statement scored 3.72 and a standard deviation of 2.8. Moreover, they agree that multiple accounting measurement alternatives for cost inventory valuations affect the value of an entity's financial position. The mean score for this item was 3.65 with a standard deviation of 2.8.

Table 4. Descriptive Statistics

Item		Strongly Agree	Agree	I don't Know	Disagree	Strongly Disagree	Mean	SD	Max	Min
Information published in the financial reports including the notes are understandable	No	16	31	16	6	3	3.74	1.4	5	1
	%	22.2%	43.0%	22.2%	8.3%	4.1%				
I have a broader understanding and awareness of accounting methods and the variety of alternatives available and permissible to deal and to account for and report effects of events on the performance and financial position of the entity	No	18	18	25	9	2	3.53	2.8	5	1
	%	25%	25%	34.7%	12.5%	2.7%				
Flexibility in applying accounting standards is imperative to keep pace with changes in the environment surrounding the entity ¹¹ .	No	27	22	21	1	1	4.01	2.8	5	1
	%	37.5%	30.5%	29.1%	1.3%	1.3%				
Accounting measurement alternatives for fixed depreciable assets affect the value of the entity's statement of financial position	No	24	15	25	4	4	3.72	2.8	5	1
	%	33.3%	20.8%	34.7%	5.5%	5.5%				
Multiple accounting measurement alternatives for cost inventory valuation affect the value of the	No	17	21	28	4	2	3.65	2.8	5	1
	%	23.6%	29.1%	38.8%	5.5%	2.7%				

¹¹ While editing the manuscript we were advised of writing this statement this way for better English which we recommend if the survey is to be employed:

"Flexibility in applying accounting standards is imperative to maintain pace with changes in the environment surrounding the entity."

entity's financial position.										
The method used for recognizing revenue included in the income statement affects the results of this statement through profit or loss	No	25	21	20	5	1	3.86	2.8	5	1
	%	34.7%	29.1%	27.7%	6.9%	1.3%				
The possibility of modifying the income statement results by accelerating the recognition of revenues in the current financial year or postponing the following year	No	23	22	19	6	2	3.80	2.80	5	1
	%	31.9%	30.5%	26.3%	8.3%	2.7%				
Sufficient efforts must be made in obtaining the information when making investment decisions.	No	41	18	11	1	1	4.34	2.8	5	1
	%	56.9%	25%	15.2%	1.3%	1.3%				
Grand Mean	3.83									

Source: Compiled by the authors.

Using its own technology and invented methods, accounting portrays the economic reality underlying a corporation, while some users may deal with constructed reality as a concrete reality (Hines, 1988). Consequently, they may blame the accounting profession and professionals during times of crisis and corporate scandals. Accounting is not a mirror image of the economic representativeness underlying entities, and accountants are not in the business of conveying the absolute truth of financial matters of businesses, even if they want to be crystal clear for investors and other corporate stakeholders. “[E]very profit and loss to which...[an accountant] is asked to certify is in a very substantial measure an expression of opinion and therefore subject to honest divergence of views both as to substance and form” (editorial, *Journal of Accountancy*, May 1912: 360 as cited in Previts and Merino, 1998: 207).

Accounting flexibility allows the profession to account for and report outcomes of various events, whose financial consequences affect an entity’s financial position. Similar to the reconsideration of auditing, rethinking accounting leads to rethinking of the corporate model. Auditing has its own limits leading to further re-theorizing the corporation and rethinking the claim of “objectivity” and the existence of “an objective party” in the corporate model (Al-Adeem, 2022) and so accounting. Investors ought to be more concerned with the limits of the corporate model, and corporations as vehicles for their investments. Concluding with the saying “[g]uard your investment”, Al-Adeem (2022) reminded investors of their role in standing for their investments and acting vigorously for the current version of the corporate model to function effectively. “No pain, no gain” is another old saying that today’s investors need to be reminded of. Those investing in the capital market must maintain a minimum level of knowledge. Otherwise, an investor might be gambling with her wealth and savings against the odds.

Conclusions Implication, Limitation, and Further Research

Corporate performance is key in corporate accounting. Accounting income, calculated using accrual accounting, is one of the earliest accounting measures for measuring changes in an entity’s net assets to decide for users and stakeholders on corporate performance. As accounting is not a science, accounting procedures virtually implicate the estimates and assumptions based on which accounting measurements and disclosures are implemented. Variance in the application of accounting policies in corporations under similar conditions may report different results. Choices in the application of accounting permitted procedures that accounting standards allow should be based on professional judgment. Professional judgment enables accounting a profession and allows accounting professionals to claim status in their respective communities.

This study surveyed seventy-two users of financial statements and investigated users’ awareness of corporate reports in Saudi Arabia in terms of flexibility in using accounting methods in the preparation of corporate reports and examining their perceptions of their understanding of corporate reports. Users were determined to be able to understand accounting flexibility. Moreover, the surveyed users declared that they comprehended the effects of methods of revenue recognition, accounting alternatives in measuring fixed depreciable assets, and multiple accounting measurement alternatives in valuing cost inventory on the

financial position and income statement of a reporting entity. Hence, they understand that accounting income is a result of the applied accounting procedures and methods. Corporate financial reports supply understandable information. Second, flexibility in the application of accounting methods and procedures permitted by accounting standards is imperative to adapt to changes in the entity's business environment. Third, users must make sufficient effort to obtain information when making investment decisions. Users concur with the items in the survey that lead to the conclusion that investing in the capital market mandates doing one's homework.

Most of surveyed participants were financial analysts who declared their understanding of financial statements. This understanding is the minimum requirement for users of corporate reports to utilize the corporate accounting products. This evidence is derived from users in emerging capital markets. Participants in sophisticated and developed capital markets conjecturally perceive possession of basic knowledge in accounting mandatory for participating in the capital market.

Although the number of sampled users is relatively small, this was adequate for investigating the need to possess a sufficient understanding of corporate accounting. This level of comprehension, which is based on accrual accounting, is sufficient to utilize the information provided in corporate reports. It will be attention-grabbing to explore the awareness of users of corporate reports, who may not maintain such a level of understanding.

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