

## Reading and Understanding Financial Reports in the Sudan: Extent and Difficulties

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### Abstract

There are many factors that are having an adverse effect on the readability and comprehension of financial reports in the Sudan. Therefore, this study aimed mainly to explore and assess the ability of financial reports in the Sudan to accomplish the goal of providing information to the users in a readable and understandable manner. The tool used to collect the data was the questionnaire which has been distributed to a sample of 175 users of financial reports and 21 auditors. To analyze the data, the study depended on a variety of methods including percentage frequencies, skewness, measures of central tendency, standard deviation, and the minimum and maximum values. In addition, Chi-square (X<sup>2</sup>) and Mann Whitney U test were also used as appropriate techniques to test the difference in perceptions between both users and auditors. The most important results the study ended up with were that; the users in the Sudan were faced by either a high or a moderate level of difficulty in reading financial reports when they deal with such report. Such readers, however, attached a high importance to the reading of such reports. This high level of difficulty in reading was attributed to the complexity and difficulty of the language used in preparing the financial reports, weakness of the users' ability to read and understand them, in addition to the use of vague and unclear terms which lead to confusion and misunderstanding. Another finding is that the "not understanding" and "inappropriateness to decision- making" of some reports were attributed to some problems related to the characteristics and amount of information in the reports themselves and, the language and format of these reports, in addition to the weak ability of the users to understand such reports. The study recommended that the professional bodies of accounting and educational institutions should reconsider the language used to prepare the financial reports in the Sudan and the format adopted to review their contents of information, in addition to reconsidering the amount of information involved in such reports.

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## قراءة التقارير المالية وفهمها في السودان: المدى والصعوبات

## المستخلص

هنالك عدد من العوامل ذات الأثر السالب على مقروئية وفهم التقارير المالية في السودان. وقد هدفت هذه الدراسة إلى استكشاف وتقويم قدرة التقارير المالية في السودان على تحقيق هدف تقديم المعلومات المالية إلى مستخدمي التقارير بأسلوب مقروء ومفهوم. تمثلت الأداة المستخدمة في جمع المعلومات في الاستبيان والذي وُزِعَ على عينة من مستخدمي التقارير المالية شملت 175 مستخدماً وعينة أخرى من المراجعين شملت 21 مراجعاً. وتحليل البيانات تبنت الدراسة أساليب حساب الجداول التكرارية، معامل الالتواء، مقاييس النزعة المركزية، الانحراف المعياري، الحد الأعلى والحد الأدنى. كما تبني الباحث كذلك استخدام اختباري مربع كاي ومان ويتني كأسلوبين مناسبين لقياس الاختلاف في آراء كل من المستخدمين والمراجعين. تمثلت أهم النتائج التي انتهت إليها الدراسة في؛ أن المستخدمين في السودان يواجهون إما مستوى مرتفعاً أو متوسطاً من الصعوبة عند قراءتهم للتقارير المالية، ومع ذلك فالمستخدمون يولون اهتماماً عالياً لقراءة هذه التقارير. ويعزى هذا المستوى العالي من صعوبة القراءة إلى تعقيد وصعوبة اللغة المستخدمة في إعداد التقارير المالية، ضعف قدرة المستخدمين أنفسهم على قراءة وفهم هذه التقارير، بالإضافة لاستخدام مصطلحات غامضة وغير واضحة في هذه التقارير مما يؤدي إلى اللبس وعدم الفهم. كما عزت الدراسة عدم فهم بعض التقارير المالية وعدم ملاءمتها لعملية اتخاذ القرار إلى بعض المشكلات المتعلقة بخصائص وكمية المعلومات التي تحتويها هذه التقارير، وإلى لغة وشكل التقارير بجانب ضعف قدرة المستخدمين على فهم هذه التقارير. اوصت الدراسة جمعيات المحاسبة المهنية والمؤسسات التعليمية بإعادة النظر في اللغة التي تعد بها التقارير في السودان والشكل الذي تعرض به المعلومات وحجمها.

## INTRODUCTION

Under the decision-usefulness approach, the main role of financial reporting is the provision of financial information that will be useful to those directly (and to some extent indirectly) connected with an enterprise; collectively known as users.

But provision does not just mean 'sending'. It is not enough to send, or to deliver, sheets of paper with words and figures on them. There has to be communication, and there has to be an understanding by the user. The point about communication, and hence the point about information, is that the recipient is genuinely informed, [Alexander and Britton (1993)]. To do so, on one side the accountant needs to be skilled in identifying the information that is needed and conveying its implication and meaning to the users. The users need to be confident that the accountant understands his information needs and satisfies them in a language that is understandable to them, [Elliott and Elliott (1993)]. On the other side, every investor, manager, and business decision-maker needs a clear understanding of accounting terms and concepts, {Meigs (undated)}. There is a great emphasis on financial reports as an essential tool for communicating the useful information to the intended parties.

If financial reports are to succeed in being a primary means of communication between the business enterprise and its shareholders, they must be both readable and understandable to such shareholders. If the financial reports lost either of these two characteristics, the shareholders (users) would not be able to judge and evaluate the economic and financial condition of the company (with the possibility of harmful results both for themselves and for the company), [Lee and Tweedy (1975)].

Along a similar line, and through the years, there were many indicators that appear to judge the effectiveness of the financial reporting as a good communicator of information. The most important indicators were the extent to which the financial reports are encompassing the lower level of information that should be disclosed and the extent to which the users depend upon the financial reports as sources of financial information. Also, the extent to which users should read any of these reports and understand the information they contain, in addition to developing quantitative measurements to measure the readability and understandability of the financial reports, [Turki (1995)].

Annual reports to security holders are potentially best suited for communicating information in an informative, readable and understandable form to security holders (both current and potential investors), {Schroeder and Gibson(1990)} narrated from [Exchange Act Release 10591(1974)]. Unfortunately, there is convincing and consistent evidence that many users neither understand nor read the accounting data in financial reports, preferring instead to rely upon the chairman's report or even to use alternative information from newspapers or professional advisors", [Mautz and May (1987)]. For example, the difficulty of financial reports readability and understandability, which has been attributed to the writing of these reports in not understandable language to the layman reader, is one of the most important obstacles faced investors, creditors and banks in developing countries when they depend upon financial reports to make a decision of purchasing or selling shares or to make a decision of giving short-term or long-term loans, [Turki (1995)]. The problem of financial report readability and understandability also face many users in the Sudan. Such users (for example, suppliers at the individual level, employees,... etc.), who were considered as less-sophisticated users find financial information presented in a language which they do not understand, [Siddig (1994)]. Empirical research suggests, for example, that the average non-expert reader of published accounts doesn't understand most of it- in fact that he/she doesn't even read most of it!, [Alexander (1990)]. Therefore, sources of non-financial reports based information such as

advices from the bank, consulting firms, companies' websites and corporate staff (which characterized by ease of language used to prepare it and ease of understanding its content of information) are applied in the Sudan, [Abdalla and Al-Basri (2015)].

### **Problem of the Study:**

Based on the above mentioned, the problem of the study stems from the existence of many difficulties and shortcomings related to the process of reading and understanding the contents of the financial reports in the Sudan, a factor which may affect the possibility of benefiting from them.

### **Objectives of the Study:**

The aim of this study is mainly to explore and assess the ability of financial reports in the Sudan to accomplish the goal of providing the information to the user in a readable and understandable manner. To do so, it intends to explain the extent to which the users read and understand every part of financial reports, and to enumerate the difficulties experienced by users when reading such reports and moreover, to trace the reasons for the lack of understanding these reports.

### **Decision Makers (Users) and Understandability:**

Most people, perhaps, are interested in accounting solely as a useful tool in managing a business or in handling personal investment. Business management at all levels must have an understanding of accounting, its meaning, its potential uses, and its limitations. If they are to do their work properly, probably every reader will at one time or another be required to interpret accounting information about the business in which he works or whose stock he owns or is thinking of buying, or the church school, or governmental unit in whose affairs he is interested, [Meigs and Meigs (undated)]. This implies the expression, with clarity, of accounting information in such a way that it will be understandable to users- who are generally assumed to have a reasonable knowledge of business and economic activities.

It would be pleasing to report that the users of accounting information had clear ideas of what they wanted and definite opinions on what they are presently provided with, [Mautz and May (1978)]. If not, there is a need somehow to educate the users of accounts better as to what the accountants actually do. The reader of accounts must understand what the figures on financial reports do and don't mean, [Alexander (1990)]. And given that understandability is a key enhancing characteristic of information, hence, ease of understanding is an important feature of effective financial reports, [Schroeder and Gibson (1990)], and the benefits of information can be increased by making it more understandable and, hence, useful to a wider circle of users, [FASB (1980)].

Users will differ in their ability to comprehend any set of information. Different users will obviously have different levels of ability as regards understanding accounting information, [Alexander (1990)]. They vary widely with respect to the decisions they make, the methods of decision-making they employ, the information they already possess or can obtain from other sources, and their ability to process the information. Consequently, for information to be useful, there must be a connection (linkage) between these users and the decisions they make. This linkage is provided by communicating the appropriate information in an understandable fashion. This link, understandability, is the quality of information that permits reasonably informed users to perceive its significance, [Kieso and Weggandt (1989)].

Understandability means that users must understand the information within the context of the decision being made. It does not necessarily mean simplicity. It means that the reports must be geared to the abilities and knowledge of the users concerned. Complex economic activities being reported to an expert user may well require extremely complicated reports. Simple

aspects being reported to users with little or no background knowledge will need to be very simple. The problem really arises when we have the task of reporting on complex activities but to the non-expert user, [Alexander (1990)]. Based on this consideration, one can conclude that the complexity of the financial reports is a reality we have to live with. But there are things we can do to make complexity more manageable, [Baskerville and Rhys (2014)] narrated from Hoogervorst (2014)]. Whereas, Keynes once said that it is better to be vaguely right than precisely wrong, Alexander (1990) paraphrased this and suggested that it is better to be approximate, but understood, than to be exact and incomprehensible.

Many reasons may lie behind the less or miss understanding of financial reports by users, the investor may ignore using the information available even it is adequate and reliable, because either it is too complex or voluminous for him/her to comprehend satisfactorily. This failure to use the information available may lead the investor to rely instead on other bases for making investment decisions, [Mautz and May (1978)]. In addition to that, the poor design of the standards has accused by some authors that may have been causing the difficulties experienced by investors and analysts in understanding the information provided with financial reports, [Baskerville and Rhys (2014)].

McGregor (2012) stated that "poorly designed standards when applied, may not produce information about complex transactions that is transparent and understandable and may have the perceived effect on making the financial statements complex".

#### **Accounting Reports Readability:**

Readability is that quality in writing which results in quick and easy communication. Readable writing communicates precisely and with a single reading, [Schroeder and Gibson (1990)]. With this view in mind, to be useful to the users, the reports produced by accounting and other sources should be written in a language that is readable and understandable to intended users.

Although some people think of accounting as a highly technical field which can be understood only by professional accountants, every investor, manager, and business decision-maker needs a clear understanding of accounting terms and concepts, [Meigs (undated)]. Actually, nearly everyone practices accounting in one form or another on an almost daily basis. Accounting is the art of measuring, describing, and interpreting economic activity. Whether you are preparing, a household budget balancing your checkbook, preparing your income tax return, or running general motors, you are working with accounting concepts and accounting information, [Meigs (undated)].

Accounting has often been called the "language of Business" such terms as assets, liabilities, revenue, expense, cash flow, inventory turnover, and earnings per share are a few examples of technical accounting term widely used in the business community.

This language (accounting language) is comprehensive enough to warrant the transmission of information to a great many potential users. It is a language that- though it may change in dialect- is well proven... The chief problem is to find the golden middle between the quest for simplicity of language and diversity of its application, [Salvary (2005) narrated from Littlejohn (1983)]. But, accounting language, like other technical languages, has certain unique symbols, together with rules for relating them to each other. This language is further complicated by divergent terminology for the same object or event, although for communication between accountants and other finance people (e.g. bankers, financial analysts, and stockholders) in the one country, this may not always be a problem. It is evident, however, that a term in accounting language may possess a quite different meaning to the same term in the vernacular. This problem of accounting jargon can cause some accounting report readers to interpret messages differently from accountant's intended meaning, [Parker (1989)]. Not only can technical

accounting jargon limited the social accessibility of financial reports to the intended audience, but the readability of narrative disclosures can have a similar effect. [Lewis et al (1986)].

A variety of remedies to the difficulties of financial report readability have been suggested. These include obtaining reader feedback on their interpretations of reports. Attempts at greater consistency in accounting terminology, increased use of "layman's language" in reports, reduced technical notes and briefer sentences, [Parker (1989)]. Furthermore, Schroeder and Gibson (1990) suggested that "writers concerned with readability need to choose their words and write their sentence with the reader in mind. Readability can be improved by limiting vocabulary to common words whenever technical terminology is not required. Writing sentence in the active voice will help hold the reader's interest. Readability can also be improved by using the shorter word when synonyms exist. Furthermore, holding down average sentence length will improve the reader's understanding of the narrative".

A variety of techniques exist that can be used to estimate the ease with which a financial report to managers, notes to the accounts, or a chairman's report shareholders can be read. Techniques such as the Dalechall, flesh, fog, Kwolek And lix formulate assess word and sentence difficulty and have been employed in a range of accounting research studies, [Lewis et al. (1986)].

Parker et al. (1989) surveyed many studies concerning the readability of accounting language, they reported that in 1971 American study of the readability of notes to the accounts classified 26 percent as difficult and 74 percent as very difficult to read. At that time less than 20 percent of the adult population in the United States was believed to have attained the educational level required to read those notes. A similar New Zealand study, carried out in 1977, found that notes were understandable to only 20 percent of the population. Again in 1976, thirty companies on the fortune 500 list contained notes on replacement costs that scored at the "very difficult" level of readability.

In 1979 and 1980, studies by Adelberg found that notes to the accounts were not even well understood by sophisticated financial statement users and audit seniors. In 1971, 66 percent of samples of American corporate chairmen's statements were found to be difficult to read.

In 1978 and 1980 Adelberg found that even sophisticated users had difficulty with such statements.

The message from all this is fairly clear, Alexander (1990) stated that "empirical research suggests that accountants are not producing particularly useful information, and it does not appear to be used as extensively as it should be". He is wondering whether it is a problem of lack of understanding of the reports, or it is because the reports contain the wrong information.

## MATERIALS AND METHODOLOGY

A limited body of research into readability and understandability of financial reports has been conducted over the time. Most lines of such research in this area concentrated solely on studying each of them (readability and understandability) separately, ignoring the possible impact of one of them on the other suggesting a view that readability and understandability are the same. But there were many debates among authors about the relation between understandability and readability, with some of them suggesting that they are the same [e.g. Hellman's et al. (2010)], others have an opposite idea, with Baskerville and Rhys (2014) suggesting that "readability may be derived from weighted index (much used in research) but understandability is different. It is culturally bound and depends on expertise and specialist knowledge". Furthermore, they stated that "readability and understandability has been treated as synonymous by other authors, we suggested that they are not the same but are related".

This study goes far beyond such research and adopts the view of Baskerville and Rhys (2014) that readability and understandability are related. It looks into both of them simultaneously because of the nexus between them.

Many formulas and techniques have been used to measure the ease of readability of financial reports in the advanced world and have been employed in a range of accounting research studies such as the fog index, Dalechall, Kwolek, felsch And lix readability formulas. These formulas in most cases have been used to test reports written in English languages (for example, reports from U.S.A, U.K, Canada, Australia and New Zealand). Whereas, this study did not use such measurements to assess the readability of the reports in the Sudan because:

1. The application of the readability formulas as a single measurement of understanding is too simplistic because of its limitation, [Baskerville and Rhys (2014)].
2. The inappropriateness of these formulas to Arabic language. This language is lacking readability formulas such as which available to many widespread languages in the world, [Turki (2005)].

Therefore, to measure the ease of financial reports readability and understandability in the Sudan, the study asks the users and auditors of financial reports to give their opinions on the extent of reading and understanding such reports, the difficulties encountered by them in reading and understanding such reports and then on analyzing the collected data.

The tool used to collect the data was the questionnaire which has been distributed to a sample of users of financial reports in the Sudan consisted of 175 users and a sample of auditors consisted of 21 auditors. 114 responses (65%) were received from the users and 21 responses (100%) were received from the auditors.

To analyze the data, the study adopted the calculation of percentage frequencies, skewness, measures of central tendency, standard deviation, the minimum, and the maximum. Also Chi-square ( $X^2$ ) and Mann Whitney U test has been adopted by the researcher as appropriate techniques to test the difference in perceptions between both users and auditors.

The equation used to calculate the Chi-square ( $X^2$ ) is as follows:

$$X^2 = \sum \frac{(\text{Observed Value} - \text{Expected Value})^2}{(\text{Expected Value})}$$

The equation used to calculate the U test is as follows:

$$U = N_1 N_2 + \frac{N_1(N_1 + 1)}{2} - R_1$$

Where:

$U$  is the Mann-Whitney statistic,

$N_1$  is the number of cases in sample 1

$N_2$  is the number of cases in sample 2

$R_1$  is the sum of the ranks for the first sample

## RESULTS AND DISCUSSION

The analysis starts by looking into readability first and then move on to look into the understandability of financial reports in the Sudanese context.

### The Extent of Reading the Financial Reports:

This part of the study provides analysis of the opinions and perceptions of the users and auditors about the extent of reading the financial reports:

Table (1) The Extent of Reading the Financial Reports

Financial Report	The Users			The auditors			Chi-square	Asymp. Sig.
	Full Reading	Brief Reading	Not Being Read	Full Reading	Brief Reading	Not Being Read		
Income Statement (profit and loss account).	93.0%	7.0%	00.0	95.2	00.0	4.8%	6.912*	.032*
Statement of Financial Position (balance sheet).	73.7	25.4	.9	95.2	00.0	4.8	8.218*	.016*
Report of the Board of Directors.	62.3	31.6	6.1	42.9	47.6	9.5	2.773	.250
Managers Reports.	54.4	40.4	5.3	52.4	42.9	4.8	.049	.976
Notes to the Financial Statements.	72.8	22.8	3.5	71.4	28.6	00.0	1.174	.759
Statistical Data.	73.7	22.8	1.8	71.4	24.6	00.0	.494	.781
Auditor's Report.	73.7	26.3	00.0	90.5	9.5	00.0	2.765	.096

Source: prepared by the researchers (2013)

Table (1) above shows the extent to which the users of financial reports read each type of such reports. The table provides some sufficient evidence that the users are concerned with giving a full reading to most types of the financial reports and their contents, and giving a brief reading to some of them. The percentage frequencies show that more than 90% of the users give a full reading in the case of the income statement, and about three-quarters of them (between 73.7% and 72.8%) give a full reading to the statement of financial position, notes to the financial statements, statistical data and the auditors reports. And about one-quarter of them give a brief reading to the same four types of the financial reports. And just nearly one-half give a full reading to the report of the board of directors and the managers' reports, while close to one-half of the users give a brief reading to those reports. On the other side, more than 90% of the auditors believe that the users give a full reading in the case of the income statement, statement of the financial position and the auditor's report. While nearly three-quarters (71.4%) of the auditors think that the users give a full reading to the notes to the financial statements and the statistical data. Whereas about one-quarter of the auditors see that the users give a brief reading to the same two reports. The remaining two reports (the board of director's report and the managers' report) are given a full reading by about one-half of the auditors and a brief reading by about another one-half of them. Only 9.5% or less of both groups believe that the users tend to ignore reading the financial reports completely.

This result implies that the two groups believe that the users attached high importance to the reading of the financial reports; this is evident from the fact that the users read them either fully or briefly.

Talk here about testing the differences between the two groups (users and auditors) using  $X^2$ . The test in general shows a statistically significant difference between the two groups with respect to income statement and balance sheet. No differences are shown between the two groups with respect to the rest of the reports.

### The Level of Difficulty in Reading the Financial Reports:

This part of the study provides analysis of the opinions and perceptions of the users and the auditors of the financial reports about the level of difficulty in reading the financial reports:

Table (2) The Level of Difficulty in Reading the Financial Reports  
Which the Users face in the Suda

Degree Of Difficulty	Percentage	
	The users	The auditors
1/ High Difficulty	21.1	33.3
2/ Moderate Difficulty	58.8	47.6
3/ Do Not Know	4.4	9.5
4/ Little Difficulty	7.0	4.8
5/ No Difficulty	8.8	4.8

Source:  
prepared by the researchers (2013) Chi-Square = 2.940  
Significance level = .568

From table (2) above, the percentage frequencies show that one- third of the users (33.3%) and nearly one-fifth of the auditors (21.1%) think that the users in the Sudan face a high level of difficulty in reading the content of the financial reports, whereas about one-half of the users (47.6%) and three- fifths of the auditors (58.8%) think that the users encounter nearly a moderate level of difficulty when they read such reports. Only 9.5% and less of both groups either they don't know or they see that there is a little difficulty in that reading or no difficulty at all. As shown by chi-square test, there is an insignificant difference in perceptions between both groups at a 0.05 level.

The results of the percentage frequencies and chi-square test indicate that the users of the financial reports find either a high or a moderate level of difficulty in reading when they deal with such reports. And also indicate no statistically significant difference between the two groups.

### Difficulties Related to the Reading of the Financial Reports:

The table below reports the results of the descriptive statistics and Mann-Whitney u test with regard to the direction of the responses of the surveyed groups of the sample about the difficulties related to the reading of the financial reports:

Table (3) Difficulties of Reading the Financial Reports

Difficulty	Mean	Mode	SD	Min	Max	Skewness	M-W Sig.
Complexity and difficulty of the language used in preparing the financial reports	3.98	5	1.20	1	5	-0.956	.023*
The accounting term in the report contains more than one meaning	3.93	4	0.94	2	5	-0.851	.976
Preparation of the report in a language incomprehensible to the average reader (layman).	4.34	5	0.89	1	5	-1.436	.058
Financial report contains technical terms that can only be understood by professional users.	4.11	4	0.81	1	5	-1.156	.700
Weakness of the user's ability to read and understand the reports.	4.13	5	1.07	2	5	-0.964	.312
Using of multiple terms for the same item.	3.87	4	1.02	1	5	-0.864	.958
Using vague and unclear terms which lead to confusion and misunderstanding.	4.04	5	1.13	1	5	-0.997	.082

**Source: prepared by the researchers (2013)**

Looking at table (3) above, and based on the descriptive statistics used to analyze this part, one can note that the respondents agree with the difficulties facing the users when they read the contents of the financial reports. This is evident from the mean values ranging between 4.34 and 3.87 and the mode values ranging between 5 and 4 and the negative coefficient of skewness for all the potential difficulties shown in the table.

As per table (3) above, there is no significant difference in the perceptions of the surveyed groups about the difficulties encountered by the users except in the case of the first difficulty where the perceptions differ at a 0.05 level of significance as shown by the Mann-Whitney u test. With respect to the first difficulty, while about one half of the users (49.1%) strongly agree that the complex and difficult language which is used to prepare the financial reports is one of the obstacles which stand in the face of the users to read and understand the messages which the firms seek to send, only about one-quarter (23.8%) of the auditors strongly agree that this is the case. In contrast to that, only 27.2% of the users tend to agree while about two-fifths of the auditors (42.9%) tend to agree. On the other side, only 16.7% of the users either strongly disagree or tend to disagree, whereas one-third of the auditors (33.3%) either strongly disagree or tend to disagree.

The low support given by the auditors to this difficulty may be attributed to the fact that the auditors are more aware of the technical language of accounting than the users.

With regard to the remaining six difficulties, the Mann-Whitney u test reveals that the difference in the responses is insignificant at a 0.05 level. More than three-quarters (between 75.5% and 86.8) of both groups believe that the multi-meaning of the terms in accounting, preparing the reports in not understandable and incomprehensible language to the average users (laymen), preparing the reports in technical terms that can only be understood by professional users, the weakness of the user's ability to read and understand the reports, and finally, the use of multiple terms for the same item, all these are factors result in difficulties in reading the contents of the financial reports. While only between 5.3% and 14.9% of the users and between 9.5% and 23.8% of the auditors believe that this is not the case.

For the last difficulty, about three-quarters of the users (76.3%) and two-thirds of the auditors (66.7%) think that one of the difficulties of reading the financial reports is the use of vague and unclear terms which leads to the confusion and misunderstanding of such reports. Only 13.2% of the users and 23.2% of the auditors see that this is not the case.

The indication from the above results is that there is consensus between the two groups that the difficulty of reading the content of the reports is attributed to all the factors listed in the above table, but the difference is that the users felt more strongly than the auditors that the complexity and difficulty of the language which is used in preparing the financial reports leads to the difficulty in reading the contents of such reports.

### The Extent of Understanding the Contents of the Financial Reports by the Users:

This part of the study provides an analysis of the opinions and perceptions of the users and the auditors of the financial reports about the extent of understanding the contents of the financial reports:

Table (4) Extent of Understandability and Appropriateness of the Contents of the Financial Reports to Users

Financial Reports	Users(percentage)			External Auditors(percentage)			Chi-Square	Sig.
	Understandable and Appropriate to Decisions Making	Understandable but Not Appropriate to Decisions Making	Not Understandable	Understandable and Appropriate to Decisions Making	Understandable but Not Appropriate to Decisions Making	Not Understandable		
Income statement (profit and loss account).	86	13.2	9	85.7	9.5	4.8	1.993	.369
Statement of Financial position.	69.3	28.9	1.8	81.0	19.0	0.0	1.341	.511
Report of the Board of Directors.	54.4	43.0	2.6	57.1	33.3	9.5	2.697	.260
Managers Reports	50.9	46.5	2.6	38.1	57.1	4.8	1.282	.527
5/Notes on the Financial statements	64.0	31.6	4.4	71.4	28.6	0.0	1.121	.571
Statistical Data.	61.4	33.3	5.3	61.9	28.6	9.5	0.667	.716

Source: prepared by the researchers (2013)

As table (4) above illustrates, there is a consensus among the majority of the two surveyed groups that the income statement is the most understandable and also appropriate to decision-making compared with the others reports. It obtained the highest score; actually 85.7% of the users and 86.0% of the auditor perceive it as understandable and appropriate to them. The second of the financial reports in the rating is the statement of the financial position (balance sheet); 69.3% of the users and 81% of the auditors believe that it is understandable and appropriate to decision-making. Then, the notes to the financial statements come at the third rating; 64% of the users and 71.4% of the auditors see it as understandable and appropriate. That perhaps is due to the fact that the notes to the financial statements are more related to the first-two statements and interpret the figures in these statements. The Statistical data come before the report of the board of directors and the managers' report; approximately two-thirds of both groups (61.9% of the users and 61.4% of the auditors) suggest that statistical data are understandable and appropriate to decision-making. Nearly one-half of the respondents in both surveyed groups of the sample perceived the report of the board of directors and the managers' report either as understandable but not appropriate, or not understandable at all.

On the other hand, a considerable percentage of each group has negative perceptions with regard to such reports. Only 9% and less of the users and 9.5% of the auditors perceive these reports as not understandable.

The results of the chi-square test reveal that there is no significant difference in perceptions between the two groups, the users and auditors, in all the cases at a 0.05 level.

Based on the above results, the two groups see the income statement and the balance sheet as understandable and appropriate to decision-making, but they see the other reports (the Report of the Board of Directors, the Managers' Report, Notes to the financial statements and the Statistical Data) either as understandable and appropriate or understandable but not appropriate to decision-making.

### Reasons for the Lack of Understanding (misunderstanding) the Financial Reports:

This part of the study provides an analysis of the opinions and perceptions of the users of the financial reports on the one hand and the auditors (as representative of the accounting profession) on the other hand, about the reasons for the lack of understanding the financial reports:

Table (5) The Reasons for the Lack of Understanding (Misunderstanding) the Financial Reports

Statement	Mean	Mode	SD	Min	Max	Skewness	M-W Sig.
Information in the report can sometimes be too much briefer than usual.	4.30	5	.915	1	5	-1.456	.002**
The report is written in a complex language.	3.82	4	1.085	1	5	-0.884	.746
Preparing the financial report in a formula confusing to the user.	4.06	5	1.131	1	5	-0.965	.006**
Financial report overcrowded by information more than necessary.	3.97	4	.954	1	5	-1.093	.170
Excessive details in the financial report.	3.85	4	1.143	1	5	-0.679	.041*
Ambiguity of the information contained in the financial report.	3.90	4	1.021	1	5	-0.786	.055
Information in the financial report is characterized by complexity.	3.86	5	1.198	1	5	-0.834	.004**
The Information in the report is greater than the ability of user to understand.	3.99	4	1.040	1	5	-1.035	.626

Source: prepared by the researchers (2013)

From table (5) above, the descriptive statistics show that the options of strongly agree and agree with the reasons for the Lack of understanding (Misunderstanding) the financial reports are prevalent. This can be drawn from the mean values ranging between 4.30 and 3.82 and the mode ranging between 5 and 4 and the negative coefficient of skewness in all the cases.

The same table (5) above shows the results of Mann-Whitney u test which suggests that there is a significant difference in the responses and perceptions of the two surveyed groups (the users and auditors) of the first, third, fifth and seventh reasons, while there is no significant difference in their perceptions of the remaining reasons (the second, fourth, sixth and eighth).

The result of the Mann-Whitney u test for the first reason shows that the perceptions of the two groups about the sufficiency of the quantity of information in the reports are significantly

different at a 0.01 level. More than one-half of the users (56%) gave a strong agreement and one-third of them (34.2%) gave a tendency to agree with the fact that the information in the financial reports can sometimes be too much briefer than usual which leads to misunderstanding the messages that the preparers seek to communicate. But there is only about one-quarter (23.8%) of the auditors who strongly agree and about one-half (47.6%) of them who tend to agree that this is the case. On the other hand, only 5.3% of the users tend to disagree, against 19.0% of the auditors disagreeing.

In the third reason, the greatest support came from the users of the financial reports, more than one-half of the users strongly agree and about one-quarter (27.2%) tend to agree that the format (the form) used in preparing the current financial reports in the Sudan confuses them when they try to read and understand the reports and consequently, they may commit mistakes. While the least support for this reason is given by the auditors where there is only about one-fifth (19.0%) of the auditors strongly agreeing and nearly two-fifths of them (42.9%) tend to agree that this is the case. Not only this, but also a difference exists on the other side. Only 0.9% of the users strongly disagree and (4.9%) tend to disagree, while about one-quarter (28.6%) of the auditors tend to disagree.

With regard to the fifth reason, the difference is significant at a 0.05 level. More than one-third (37.7%) of the users strongly agree and an equal percentage of them (37.7%) tend to agree that the excessive details in the financial reports stand as an obstacle in the face of the users resulting in the not understanding (misunderstanding) the messages in such reports, whereas only about one-quarter of the auditors (23.8%) strongly agree and only about one-quarter of them (28.6%) tend to agree that this is the case. On the other hand, only 16.7% of the users tend to disagree, against 42.9% of the auditors disagreeing.

In the seventh reason, nearly two-fifths (41.2%) of the users strongly agree and about one-third of them tend to agree that the financial reports contain complex information which leads to misunderstanding the messages in the reports. Whereas only about one-fifth (19.0%) of the auditors strongly agree and less than one-third (28.6%) tend to agree that this is the case.

On the other side, while only 2.6% of the users strongly disagree and 12.3% of them tend to disagree, only 9.5% of the auditors strongly disagree and 40.0% of them tend to disagree.

The results of Mann-Whitney u test -which was used to analyze the reasons of not understanding the financial reports- also show that the difference in the perceptions between the two surveyed groups of the second, fourth, sixth and eighth reasons is not significant at 0.05 level.

More than three-quarters of the users (between 77.2% and 85%) either strongly agree or tend to agree that the complex language used to prepare the financial reports, the overcrowding of the reports by more than necessary information, ambiguity of the information provided by the financial reports and providing Information greater than the ability of the user to understand are simply some of the reasons which lead to the misunderstanding of the messages provided by the financial reports in the Sudan. Overall, nearly between three-fifths (61.9%) and four-fifths (81.0%) of the auditors either strongly agree or tend to agree that this is the case. On the other hand, only 16.7% and less of the users either strongly disagree or tend to disagree, while about one-third of the auditors either strongly disagree or tend to disagree with the second, fourth and sixth reasons and about one-fifth (19.0%) of them either strongly disagree or tend to disagree with the eighth reason.

The results reveal that there is a consensus between the two groups about supporting the reasons of not understanding the financial reports despite the significant difference in the degrees of the agreement between them about the first, third, fifth and eighth reasons.

## RESULTS AND DISCUSSION

Based on the data collected and analyzed, the study concludes with the following results:

1. The users in the Sudan are faced by either a high or a moderate level of difficulty in reading the financial reports when they deal with it. However, they attach a high importance to the reading of such reports; this is evident from the fact that the users read them either fully or briefly. This high level of difficulty in reading is attributed to:
  - a. The complexity and difficulty of the language used in preparing the financial reports.
  - b. The fact that accounting terms in the reports carry more than one meaning.
  - c. Preparation of the reports in a language incomprehensible to the average reader (layman).
  - d. The financial reports contain technical terms that can only be understood by professional users.
  - e. The weakness of the users' ability to read and understand the reports.
  - f. The use of multiple terms for the same item.
  - g. The use of vague and unclear terms which lead to confusion and misunderstanding.
2. Both users and auditors perceived the income statement and the balance sheet as understandable and appropriate to decision-making, but they see the other reports either as understandable and appropriate or understandable but not appropriate. The two groups attributed the “non understandability” and “inappropriateness” of some reports to the following reasons:
  - a. The information in the report can sometimes be too much briefer than usual.
  - b. The report is written in a complex language.
  - c. The financial reports were prepared in a format confusing to the user.
  - d. The financial reports were overcrowded with information more than necessary.
  - e. The excessive details in the financial report.
  - f. The information in the financial report is characterized by complexity and Ambiguity. It also may be greater than the ability of the user to understand.

### Implications and Recommendations of the Study:

The implication and recommendations from these results are that:

1. There is a need to reconsider the language used to prepare the financial reports in the Sudan and the format adopted to review their contents of information, in addition to reconsidering the amount of information involved in such reports.
2. The problems relating to reading and understanding the financial reports in the Sudan have two sides; the financial reports themselves on one side, and the users of such reports on the other, which implies that the problem in some parts of it stems from the inability of the users to deal with the contents of the financial reports. Hence, they need to develop their skills and competencies so as to easily read, understand and ultimately benefit from it.
3. The accounting department in universities, accounting institutes and other educational institutions should conduct more research into the field of readability and understandability of financial reporting in the Sudan so as to develop a frame of reference with respect to the language and format used to prepare the financial reports and the amount, quality, length and ease /difficulty of information produced by such reports.
4. The professional bodies responsible for organizing accounting profession and issuing accounting standards should hold periodic workshops and training programs in order to raise the awareness and competencies of users in reading and understanding financial reports.

5. There is a need to establish a professional body to be responsible for issuing and enforcing accounting rules that organize the listing of businesses in the Khartoum Stock Exchange (similar to the SEC in the U.S.A) so as to determine the language and types of information to be disclosed according to the needs of investors in this market.
6. There is a need to develop many formulas to assess the ease /difficulty of readability of the financial reports written in the Arabic language such as these available to many widespread languages in the world.

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