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THE IMPACT OF REPORTS AND ACCOUNTING INFORMATION ON FORECASTING THE FINANCIAL PERFORMANCE OF A COMPANY

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Abstract:

The quality of financial reports are the main axis in which the financial performance of the company is analyzed, evaluated and forecasted; hence, decision-makers cannot rely on guesswork or randomness when making the right decision. This study aims to investigate the is the impact of the quality of financial reports and accounting information on forecasting the company financial performance. The study relied on the deductive approach in the theoretical preparation of the study and formulation of the problem and hypothesis. A ten close ended questionnaire was obtained to gather data from 17 participants. The study indicated that the quality of financial information plays a significant impact of on the assessment of the quality of the financial performance of companies, reducing the investor's exposure to industrial risks و rationalizing the decisions-making and evaluating the quality of financial performance in companies. It is recommended for market users to use financial failure prediction models to take the right investment decisions.

Keywords: Accounting, , financial forecasting, financial forecasting, quality of financial reports.

INTRODUCTION

The quality of the financial report means the credibility of the accounting information that these reports include, and the benefit such a report achieves for its users. It also required to being free from misleading and distortion, and be prepared according to a set of legal, regulatory, professional and technical standards. It is required that such report designing contributes to achieving the goal of its use. Hence, the legal standards are met in adhering to the regulations and laws governing the control standards include the practices of the concerned authorities such as audit committees, for example, boards of directors and supervisory authorities for their role. The professional standards are represented in compliance with accounting and auditing standards, ethics and professional conduct. Finally, technical standards refer to the appropriateness and confidence in accounting information (Saleh, 2010).

The financial report consists of a set of financial and non-financial statements. These reports are usually prepared by the economic unit to express the operations that took place within the unit during a specific period of time. These reports should meet the needs of users inside and outside the facility alike with their different requirements.

Therefore, the quality of the financial report is the accuracy that must be characterized by the accounting information contained in the reports, especially with regard to accounting profits and cash expenditures that supply all the beneficiary groups. The function of collecting and using accounting information is a very important function for any society.
In spite of the absence of a specific concept of quality in the accounting literature, most previous studies that dealt with the quality of financial reports (QFR) depended on its measurement by inferring the quality

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of accounting information, and that the disclosed information is the essence of the report. Originally, financial reports are only a translation of economic events and presented in the form of accounting information. Thus, these pieces of information must be characterized by quality in order to meet the purpose. Moreover, they are is completely dependent on and closely linked to the process of analyzing financial performance. Financial reports are the raw material that is processed in order to lead to manufactured materials that can be used in forecasting, performance evaluation, and setting financial and future plans. If there are no financial classified statements and authoritative, they cannot be got benefit from in the financial analysis.

The quality of reports and accounting information depends on the availability of certain features to be valuable and benefitable to internal and external users. The report quality is the main axis in which the financial performance of the company is analyzed, evaluated and forecasted; hence, decision-makers cannot rely on guesswork or randomness when making the right decision. The research problem can be crystalized in the following question:

What is the impact of the quality of reports and accounting information on forecasting the company financial performance?

Research objectives

The main objective of the study is to conduct an analytical empirical study to investigate the impact of quality of reports on predicting the financial performance of companies. This main goal is subdivided into the following objectives:

1. Studying the concept of the QFR and accounting information.
2. Studying the impact of the quality of financial reports and accounting information on forecasting the financial performance.

Research hypothesis

In light of the nature of the problem, this study hypotheses that:

There is a significant impact of the QFR and information on the assessment and forecasting of financial performance.

Research importance

The importance of this study stems in proving the importance and impact of the QFR and the accounting information they contain, on the ability to evaluate the company position and predict its financial performance

LITERATURE REVIEW

1. Financial reports

They are the financial results of the institution that are published to the public, and this task is usually the main function of the company financial controller and the investor relations officer may assist financial controller in that task if that institution is public. Financial reports typically include:

- Financial statements which include income statement, balance and sheet cash flow statement.
- Accompanying footnote disclosures include more details on some topics, as stipulated in the accounting framework.
- Footnote disclosures also contain to any other financial information that the company chooses to publish itself on its website, annual reports issued to shareholders, and any bulletin issued to potential investors regarding the issuance of securities by the organization.
- If the organization is general, the financial report will also include other elements in addition to the previous ones, namely: the quarterly model (10-e) and the annual model (10-K). They are presented to the Securities and Exchange Commission. The annual report which is issued for the shareholders called the warning, advice and reporting point (WARP Report), as well as Press Releases which contains financial information about the company, and Earnings Calls, in which the administration discusses the financial results of the company and other issues with analysts and main investors.

2. Financial reporting quality

It is found that there is no precise concept of the quality of financial reports in the accounting literature. Yet, the concept of the QFR varies according to the perspective of judgment on the level of quality.

The QFR refers to the honest expression of real and actual profits that are not exaggerated and free from fraud. Habib and Jiang (2015) believed that the QFR aim to provide more information about the characteristics of the financial performance of companies They are considered appropriate to make certain decisions through a decision-maker.

The quality of the financial reports also means the credibility of the accounting information that these reports contain, and the benefit they achieve for their users, while being free from distortion and deception. They are often prepared in light of a set of legal, regulatory, professional and technical standards that help achieve the goal of using them.

3. Financial performance

It is a subjective measure of how well a company is able to use assets from its core business and generate

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revenue. The term is also used as a general measure of a company overall financial health over a given period of time. It also can be used to compare similar companies in the same industry or to compare industries or sectors grouped.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as operating revenue, operating income, or cash flow resulted from operations can be used, as well as total sales in comparison to unit sales basis. Likewise, an analyst or investor may want to look deeper into the financial statements and searching for marginal growth rates or any decline in debt. A financial performance report is a formal record of a financial institution for short-term and long-term activities. It is presented in a structured and easy-to-understand manner that usually includes basic financial statements accompanied by management discussion and analysis. Financial performance is divided into four basic statements: balance sheet, income statement, cash flow statement, and shareholders' equity.

Forecasting

Forecasting is simply a prediction of the future. Predictions which are usually published, they are at best an attempt to communicate what the future will look like. In practice, forecasting is used to influence, to make predictions, and to support the planning process. Thus, it is important to remember that no matter how confident the forecaster is and whatever method is used in advanced forecasting. There is only one opinion of what the future will be. Such perception should be evaluated with caution, especially when predicting the distant future. Thus, forecasting means anticipating future events and determining their value for planning purposes (Davis & Boczko, 2005). Forecasting also refers to all activities that dealt with all the data which show all the possible factors, conditions and variables in the future and affect the overall activities and events performed by the company (Al-Ibrahimi & Al-waltar, 2010).

On the other hand, it is pointed out that prediction is not an accurate calculation of the future as much as it is an estimate based on technical and scientific foundations. Furthermore, it is not a kind of guesswork that is not linked to an ordered system or objective measures that determine the image of the future (Abdul Hamid, 1997).

THEORETICAL UNDERPINNING

A report is a type of functional writing which includes collecting a certain amount of facts and information on a specific topic. It also contains a description of the progress of a work or a project, whether the work is in the process of construction, or it is a completed work. A record composes everything interests the reader about that work, and it describes everything that could affect the nature of that work, including a logical analysis, suggestions, directions or recommendations, if possible, to assist officials in taking the appropriate decision based on what that report revealed. The report reflects the extent in which the work plan has been implemented for any project.

Types of reports

Reports are divided into several types. Regarding to the time of issuance, they are divided into:

1. Periodic reports (daily, weekly, monthly, quarterly, semi-annual, and annual).
2. Non-periodic (emergency) reports.

On the other hand, reports according to their content and subject matter are divided into:

1. Financial and accounting reports.
2. Administrative reports (committee reports, membership, and job cadres).
3. Reports of activities and field visits.
4. Reports of completed work.
5. Follow-up reports.
6. Evaluation reports.

Financial reports focus on information and express the performance of the institution which is measured by profitability, its components and cash flows. Financial reports are formulated according to activities and provided to assist the interested parties in the institution in evaluating the performance of management, estimating the earning capacity of the institution, forecasting future profits, and estimating the investment and lending risks related to the institution. The information contained within the report shall be of the necessary quality. Besides, the report shall include sufficient information to make these lists should not mislead the investor, conceal or delete any material or beneficial information from the investor.

Companies determine their position and reputation in the economic field by the extent of transparency and the quality of their financial reports and the information they provides to reflect the real situation of the institution without fallacies. The quality of reports helps to evaluate the financial performance and judge the efficiency of the production unit by measuring the results of the institution at the end of a certain period and comparing them with what should have been achieved.

The quality of financial reporting and accounting information

Financial reports

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In light of the daily business environment and in response to its requirements and needs, the financial statements are no longer sufficient to make any decisions. Therefore, companies prepare comprehensive financial reports that include a huge amount of accounting and non-accounting information in response to the increasing demands of their users (Al-Dinori, 2009).

Financial reports include other means of directly and indirectly communication and related information that is extracted from the accounting system; they may include financial and non-financial information, bulletins or reports to the board of directors, financial forecasts and news related to the institution. Financial reports are describing plans, expectations and the environmental or social impact the institutional work (Hammad, 2005). These reports aim to**:**

- Providing information related to the institutional resources, commitments and changes that occur to them. Hence, the users will get benefit of this information in determining the strengths and weaknesses of the institution**.**
- Providing useful information that rationalizes investment and credit decisions for current and prospective investors. It also includes management's notes and interpretations in order to maximizing the benefit of this information.
- Providing information that determines the degree of liquidity and the flow of funds and what is useful in evaluating the performance of the institution and determining its profits**.**
- Providing information that helps in estimating current and future cash flows. Such information allows comparison between them while determining the degree of uncertainty surrounding them**.**

Accounting Information

It is defined as a set of accounting data that is processed and presented in an organized and useful way in decision-making processes. It is considered useful if such information has most influential in decision-making**.**The quality is characterized by useful properties which are used to assess the level of information quality. Yet, the decision maker can differentiate between different alternatives using the qualitative characteristics of information that are characterized by the appropriateness of reliability**.**The quality of reports has qualitative characteristics, which are certain specifications that must be met by the information presented in the reports in order to become useful to users. These characteristics are as follows**:**

- Appropriateness: The information is appropriate when it leads to a change in the direction of users' economic decisions of and helps them to evaluate past, present and future events. It must possess several characteristics: *appropriate timing*; since information loses its value if it is delayed for a long time. *Predictive value*, i.e. helps the decision-maker to predict expected events, and *feedback* which refers to the extent to which decision-maker predictions are correct and the possibility of evaluating the results of decisions taken based on this information (Lotfy, 2008)
- Credibility (reliability): that is, it is relied upon. The information is characterized by credibility if it is free of errors and bias and users can rely on. In order for the information to be credible, it must possess the following characteristics: Honesty in the presentation. The most important characteristics is that the information has no value if it is inaccurate or false (Al Yafei, 2009). *Achievability*, a financial report is achieved if the results reached by the decision maker are the same as the results reached by another individual if they used the same methods of measurement and disclosure. *Impartiality*, that is, the information must be unbiased, i.e. for public use (Zarat, 2009)**.**

The quality in financial reports

QFR means credibility in the accounting and financial information included in the report and the benefits it achieves for users. To achieve this, QFR must be free from distortion and misleading and be within legal, regulatory, professional and technical standards to achieve the desired goal (Abu Hamam, 2009). The availability of useful and fundamental information is an essential and basic requirement for the stability of the financial system in the institution. Some institutions have given priority and importance to improving the quality of information to help key users in rationalizing their decisions. It suggests that valuable information is the most useful in the field of rationalizing decisions. Furthermore, the quality is one of the components of administrative organization that is concerned with collecting, classifying, processing, analyzing and communicating appropriate financial information to the concerned parties to make investment decisions**.**

Reporting quality standards

Quality is achieved through the availability of several criteria, which are summarized in the following**:**

Legal Standards

Many institutions in some countries seek to develop standards for the quality of reports by developing

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legislation and laws that institutions are bound by to control aspects of their performance in line with the legal requirements that are imposed on institutions to adequately disclose their performance.

Controlling standards

Controlling is one of the components of the administrative process and the most important element of success in institutions depends on the effectiveness of audit committees and financial and administrative control bodies in regulating financial treatment. Controlling standards play an important role in examining and evaluating the extent of adherence to policies and procedures and that will facilitate the process of resource allocation.

Professional standards

The quality of information is affected by the applied accounting practices; it is determined by testing accounting and auditing standards to adjust the performance of the accounting process. Therefore, meeting specific needs of users requires choosing accounting standards that serve this purpose. It highlights the responsibility of management towards owners to check on their investments.

Professional standards

Professional standards lead to an improvement of information quality which is reflected in the quality of reports and the reduction of uncertainty for the various users of accounting and financial information. They also help in increasing the confidence of shareholders, investors and stakeholders in the institution and leads to raising and increasing investment.

Financial performance

Financial performance represents a key axis to identify the success and failure of institutions in their decisions and investment plans. The administrative importance of financial performance has emerged due to the departments great interest in it. Financial performance focuses on the use of financial indicators to measure the extent of achievement of goals.

The performance of institutions is measured by the institution's ability to earn profits at the lowest possible cost. Financial performance aims to evaluate the institutional performance from different angles to serve the shareholders and whosoever have financial interests in the company. It aims to determine the strengths and weakness and getting benefits from it provides to make appropriate management decisions (Titman & Wessels, 1988).

Financial performance is directly related to production, whatever its nature, whether it is a product or a service. It is linked to some related terms, the most important is the terms "Effectiveness and Efficiency". The effectiveness refers to the achieved and predetermined goals regardless of the costs associated with them, while the efficiency stands for the proportion of consumed inputs to the achieved outputs. When the outputs are more than the inputs, this indicates the high efficiency.

Furthermore, the productivity is measured by the extent to which the efficiency is achieved. Good performance is what increases productivity, limits costs, reduces work turnover and the percentage of accidents (Abbas & Ali ,2003).

Financial performance achieves many goals for investors, the most important are:

1. It assists the investor in following up and identifying the activity and nature of the company and contributes to following up the surrounding economic and financial factors.
2. It contributes in conducting the process of analysis, comparison and interpretation of the financial statements to take the appropriate decisions. It t highlights the following aspects:
   - Evaluating of the profitability and liquidity of the enterprise.
   - Evaluating its activity and size of the enterprise.
   - Evaluating the distributions of the company of profits and indebtedness (Donald, 2002)

Factors affecting financial performance

The financial performance of an institution depends on the level of its sales and the returns it achieves from its investment projects. The expected rate of return from any project must be greater than the required rate of return in the capital market so that it can be said that the project is economically feasible. This plays an important role in determining the borrowing ratio of the institution. Whenever the company profitability increases, its dependence on borrowing decreases. This contributes in turn to the decision-maker to choose the appropriate capital structure. Amongst the most important factors which affect the performance of the company according to Hanafi (2004) are:

1. The ability to repay: It refers to the ability of the institution to pay any loan with its interest on its due date. This can be done via comparing the expected cash flow of the institution for the coming years with the loan burdens. The ability of company to pay off its financial obligations increases its good performance and minimizes its exposure to bankruptcy risks.

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2. Flexibility: It is defined as the ability of the institution to face changing conditions, i.e., to be able to switch from one source of funding to another with high flexibility without affecting its performance (Pandy, 1995).
3. Controlling: It is the ability of the institution to impose the greatest amount of control over the capital elements via its administrative control which arose from the preference of the old owners to finance by borrowing instead of issuing new shares. So, they do not lose part of their control over the institution to the new shareholders. Moreover, the capital requirement differs from one institution to another, according to its policy of adapting to these requirements and according to what it the company perceives to achieving its goals and interests (Pandy, 1995).
4. Organizational structure: It is the container or framework in which all the variables related to the institution and its work interact. It determines the methods of powers, communications, responsibilities and methods of exchanging activities and information. The organizational structure contains the administrative jobs, the number of administrative levels, the number of tasks that resulted from the division of work, geographical spread, and the number of branches and employees. The organizational structure affects the performance of the institution by assisting to implement plans successfully. It determines the responsibilities, actions and activities that must be carried out. It thus allocates the necessary resources for this as well as facilitates the identification of roles for individuals in the institutions within the data that facilitate the management of the company to take the appropriate decision.
5. Technology: It includes the skills, techniques and methods approved by the institution to achieve the desired goals. Technology works to link resources to needs. Technology includes some types, such as production technology according to demand and according to certain standards that the consumer required. Another type is continuous production technology that requires the principle of continuity. Thus, the institution must determine the type of appropriate technology and consistent with the nature of work, because technology is one of the main challenges that face institutions; yet companies must adapt and absorb technology use.
6. Customer satisfaction: All institutions seek to satisfy their customers by providing after-sales services in its various forms to obtain the satisfaction of its customers. The institution that is keen on the satisfaction of its customers helps to attract new customers and then increase sales, which is reflected on its financial performance well and increasing its profits. Customer satisfaction leads to a decrease in customer turnover; yet this decreases the cost of their replacement. Studies have proven that maintaining the organization customers is ten times less expensive than the cost of attracting new customers via advertising (Anderson et al., 1997).
7. Size: The size of the institution means its classification if it is large, medium or small in size, as there are several measures of the size of the institution such as the total assets, sales or nominal value. Size is one of the factors affecting financial performance, either negatively or positively. Some studies showed the negative impact of size on performance, while some other indicated to the positive impact of the institution size on its financial performance (Mukhatra, 1986).

The importance of evaluating financial performance is determined by the following reasons**:**

1. Determining the relative preference enjoyed by the available investment opportunities in line with the concept of commercial profitability, and choosing the opportunity that achieves the investor's goal**.**
2. It is a practical way to help investors make decisions for investments in specific projects, with a specific amount of capital that matches their capabilities**.**
3. It is a practical means of persuading the creditors to provide the appropriate means of financing and on the appropriate terms**.**

Evaluating financial performance

It is defined as the provision of a valuable judgment about the management of the available natural and material resources, to manage the institution in a way that satisfies the desires of its multiple parties. The evaluation of any particular institution is a measure of the achieved or expected results through specific standards (Abu Hamam, 2009). There are four stages of the evaluation process that complement each other; they are as follows**:**

1. Collecting the necessary information: It is necessary for decision-making in the institution, and it is required that the information be of high quality and in a timely manner to achieve its objective. The most important sources of data

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collection are personal notes and the oral and financial reports (Terry & Franklin, 1985).

2. Measuring actual performance: It is represented in providing the officials of the organization with numerical values regarding its performance based on measures of effectiveness and efficiency. Performance measurement and evaluation is dependent on two factors**:**
   - Performance indicators: It is a tool for measuring performance which is usually implemented in digital form. So, the officials of the institution can compare its results with the reference standards. Performance indicators should be characterized by clarity and comprehensiveness**.**
   - Types of indicators: There are many indicators (personal, objective, qualitative and quantitative**.**
3. Comparing actual performance with the desired levels of performance: This stage faces a problem, which is the reference on which to base the comparison process, and among the most important elements that are considered as references to compare performance are: time, performance of other units, goals and standards**.**
4. Studying the deviation and issuing a judgment: There are three cases for comparison, i.e.,: an appropriate deviation that is valid for the institution, such as the increase or decrease in profits. The second deviation is an inappropriate deviation and it is against the institution, such as the initiation of raw materials in quantities that exceed the standard, low productivity. As for the third deviation, it is called the zero deviation. It does not have an impact on the results of the institution. Therefore, any one of deviations must be done in order to reach the actual causes of deviation to encourage what is appropriate and treat what is inappropriate**.**

Requirements for evaluating financial performance

It is found that the performance-leading institutions are those that can plan their future based on clear goals and distribute their resources in the right place and time. Among the most important needs of evaluating the performance process are the following**:**

- The necessity of defining the main and sub-objectives of the unit**.**
- There should be clear performance standards**.**
- A sound and effective information system must be in place**.**
- There should be a continuous performance evaluation.
- Dealing with the administrative process**.**
- The evaluation of financial performance should lead to its improvement**.**

Requirements for reliable performance evaluation

In order for the evaluation process for the performance of the institution to achieve the goal for which it was conducted, a set of conditions must be met**:**

The availability of sufficient information

It has been mentioned earlier that the evaluation process goes through several stages, the first of which is the collection of information, as it is the basis of the evaluation. Therefore, the institution must obtain the data in the various available ways, by treating all the data available. It is required that information be sufficient to track performance and its development, and it should affect all the activities of the institution**.**

Determining the desired performance levels

In order to facilitate the comparison process, the institution should specify standard indicators of performance which enable the company to determine the percentage of its performance developments. Such standards enable performance rates to determine the responsibility for positive and negative deviations. It is better indulge employees while determining these indicators to share their journey in the company to be an incentive to reach them. Furthermore, the indicators must also have the means of transferring the data or the results of the evaluation to the concerned decision-making centers to take corrective steps if necessary and at the appropriate time (Al-Salami, 1978)**.**

Continuity of the evaluation process

Evaluation is not limited to a certain period of time, but it must be practiced throughout the life cycle of the institution and at periodic periods that may be limited or lengthy depending on the nature of the subject to be measured and evaluated (Al-Sisi, 1998**).**

2- The impact of quality of reports and accounting information on forecasting financial performance

This section deals with the impact of the information contained in the financial reports on forecasting the financial performance. It addresses the benefits of the financial statements in the forecasting process and how to use the accounting information contained in the financial statements in forecasting the annual net profit**.**

Forecasting the financial performance is considered as a tool that enables the optimal use of the available resources, yet, its use for the parties related to companies is largely unhelpful without predicting the main trends of the available alternatives (Awad, 2014).

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Forecasting plays a pivotal role in the process of modern management and is a necessary aid in planning and organizing. Besides, it is the backbone of effective operations, and many organizations have failed due to lack of forecasting or due to false forecasting on which planning was based. For example, Curtis-Wright Corporation, one of the major aircraft manufacturers - on a par with Douglas and Boeing combined in 1945 - decided to put their money into an improved piston engine rather than aircraft, Curtis-Wright Company did not accurately predict the market for aircraft and thus, it failed. The more accurately the future conditions can be predicted, the better and more correct are the plans and the higher the probability of the success of these plans.

Furthermore, forecasting helps the parties related to the company to draw up their policies, choose the best alternatives presented to them, and take the best decisions. Forecasting is a scientific indicator of the possibility of the continuation of the economic unit and an early warning bell that enables companies to avoid financial stumbling, which is an early stage of financial bankruptcy.

Due to the decisiveness of the topic, a number of previous studies have addressed it in different countries, including those located within the developed and developing countries. The different economic environments had an impact on the variation in the results of the studies.

Forecasting financial performance

It is the process of forecasting or estimating what will happen in the future. It is necessary for the purpose of planning and forecasting. It is not planning, but an estimation of the variables in the light of which the planning process is prepared (Al-Amiri, 2001). Forecasting it is an aid to help decision-makers, due to its ability to reduce the volume of risks and reducing uncertainty (Al-Rashed, 1999).

Since financial planning is a set of plans necessary to obtain and use resources, it refers to determining financial requirements, investments, growth, and performance during a certain period of time. It is an important element for the success of the company as it is a financial guide in the future in which the company determines the possibility of obtaining funds and how they are used. Financial planning also ensures the coordination of financial activities in order to maximize the value of the company (Karajah, 1991).

In the same vein, forecasting constitutes a basic stage on which financial planning depends in determining the financial requirements of the institution and securing the necessary funds in a balanced manner from various sources of financing.

The importance of forecasting

One of the important goals of accounting is the availability of appropriate data in the process of forecasting events related to institutions. Accordingly, the predictive approach perceives accounting as measures that must be evaluated on the basis of their predictive ability to economic events. Likewise, the predictive value criterion reflects the probability between economic events of interest to the decision maker and appropriate forecast variables derived from accounting information (Riahi-Belkaoui, 2000).

Some researchers stress the importance of forecasting; it can be said that the systematic attempt to achieve goals of future by inference from known facts helps to integrate all administrative planning. Therefore, unified comprehensive plans can be developed in which the plans of departments and departments can be placed. Forecasting enables the company to allocate its resources with the greatest guarantee of long-term profit, and by helping to identify future demand patterns, it facilitates the development of new products.

Financial forecasting methods

Straight line method

This is one of the easiest methods to use in which future revenue growth is projected from past financial records and statistics. Basically, the straight line method is used to evaluate the constant growth rate using historical data. Many prefer this method because of the minimal math requirements.

Moving average method

This method is used to determine recurring forecasts using past business data or records to predict the future value of estimates. Just like the straight line method, it requires a minimum of math.

Simple linear regression method

It requires the forecast analysts to compare and evaluate the relationship between the individual independent and dependent variables in a sample of important observations in order to predict the future revenue stream. Standard knowledge of statistics is required to implement this method.

Multiple linear regression method

Unlike simple linear regression method, this financial forecasting method analyzes and compares multiple independent and dependent variables using important observations in order to forecast future revenue.

There are basically three important forecasting tools, which are:

- Balance sheet.
- Cash flow statement.

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- Income statement.

Benefits of financial statements in the forecasting process

Forecasting is a prerequisite, necessary and prerequisite for the decision-making process, which relates to the future. Good forecasting leads to good decisions. Forecasting does not only need the proper use of accounting information, but it also needs that this information be appropriate and timely. It helps to build sound predictive models. Accounting information is considered as data or data used to build decision models. One of the most important uses of accounting information is forecasting. There are two basic inputs to increase its accuracy:

First: It focuses on improving the method in which the forecasting process is done. It also tries to build good predictive models.

Second: It is concerned with the input quality that is available to decision makers.

Third: Using the accounting information contained in the financial statements in forecasting the net profit.

Measuring and forecasting net profit using accounting information is one of the most important factors on which the investor depends on in determining the apportionment of the various investments.

The value of the net profit expresses the period efficiency of the institution managements to use the available resources. Furthermore, The net profit acquires its importance when making investment decisions from its use as a basis for forecasting for the coming financial period or periods. The value of net profit expected to be achieved in the future is an indication of the institution's ability to achieve the cash flow necessary for future distributions and as a basis for the continuation of the increase in capital. It is also a base to ensure the protection of its assets, the safety of its financial position and its liquidity, which reduces the level of risks specific to that institution.

Simple models are built to measure and predict the value of net profit, and their application is supported by using information through a long time series that reflects the development of the company activity, taking into account the nature of its activity and the economic effects on the outcome of its work. The time-series analysis method allows the application of different models to companies to conform to the nature of their activity. It means the possibility of modifying some models to reflect the seasonal nature of the activity of economic units (Omar & Rabie, 2011).

Information is evaluated in its numbers on past historical events. Decision makers rely on it in making their future decisions, on the basis that it reduces their uncertainty and helps them predict the future. The importance of forecasting has increased, especially at the level of internal users (management). The cost accounting has developed and is no longer just accounting for historical costs. Thus, accounting serves the objectives of management in planning, controlling and evaluating performance. Accountant is based mainly on forecasting the expected cost during the accounting cycle.

For external users, predictions of the future profitability of companies and their expected financial performance have become published by the model designers. The stock exchanges have obligated the companies whose shares are registered to publish these predictions. Financial forecasting is a plan for operational processes for a future period. In fact, forecasting is very similar to the financial report, except that the accountant estimates future results instead of measuring past results, and that accounting information may improve the ability of decision-makers to predict the future or improve and modify their future expectations.

Economists have been interested in the future profits achieved by profit-oriented economic projects. Therefore, this is an indicator to judge the strength of these projects. Accountants have also been concerned with future forecasts of profits in search of the best way to enable them to communicate accounting information to their beneficiaries. Moreover, the increased interest in the importance of forecasting profits has led to an increase in demand for it in recent times, especially information about the expected profits in the following year and the share of shares thereof.

The accounting thought of profitability prediction has revealed the management automatic tendency to exaggerate its predictions, which necessarily leads to negative forecast errors resulting from the increase of the predicted profit over the actual profit. Accordingly, the reduction of these errors may require at the time to follow some methods that enable to increase the desired profitability using the steps of capitalizing some elements of expenses or early recognition of some elements of revenues. Such matters cannot be achieved by the management due to the reservations expected of the auditor in this regard.

The dissemination of information amongst current and prospective investors with the necessary information to make decisions to buy or sell securities. It also facilitates the task of financial analysts by providing information on the expected profits and the share of the stock thereof. The publication of optimistic future information about the company

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affects the prices of its traded shares. This is considered a good indicator for judging the efficiency of the management**.**

The results of the accounting studies indicated that there is a clear relationship between the impact of the timing disclosure of financial forecasts, prices and trading volume on corporate securities. Results also showed that the interest in improving QFR used in forecasting, their accuracy and proximity to reality will inevitably reflect positively on the effectiveness of investment decisions. This leads to more flow of funds to the market from all possible sources, the support of the capital market, and the encouragement and attraction of investment**.**

Economic decision makers need information to help them make investment and financing decisions. However, the disclosure of future predictions may be optional, that is, the state or the responsible authority does not obligate the administrations to disclose future predictions. Disclosure remains at the choice of the administration. On the contrary, the disclosure of predictions may be compulsory, i.e. the state or the responsible authority obligates the departments to disclose future forecasts. In general, many corporate departments oppose the compulsory disclosure of future financial information, due to several reasons**:**

- The management fears of responsibility if it turns out that the forecasts are inaccurate.
- The disclosure of forecasts may harm the competitive advantages of the company, and that the continuous and frequent updating of them would be costly.
- The management's disclosure of financial forecasts and expectations may make it amend the short-term policies of the company to meet those expectations and predictions at the expense of its long-term policies.

METHODOLOGY

The study relied on the deductive approach in the theoretical preparation of the study and formulation of the problem and hypothesis. It reviewed previous studies related to the subject of the study. The inductive approach was used in collecting data, study indicators and financial reports to analyze and reach the results of the study.

The study used questionnaire to gather data from seventeen participants. The questionnaire includes ten close ended items with five percentages scales, i.e., **50%, 60%, 70%, 80%, 90%** and **100%**.

RESULTS

Table 1. Description of participants' answers

Total number of participants in the study, (no = 17)	Questions that have been answered by choosing a percentage ranging from 50% to 100%
	Accounting information is able to make a difference in predicting financial performance and decisions taken to raise the efficiency of the company by a percentage of:
2 (12%)	*60*
3 (18%)	*80*
8 (47%)	*90*
4 (24%)	*100*
	Percentage of all the necessary information availability to complete the actual activity, including any complete note:
1 (5.9%)	*60*
4 (24%)	*70*
7 (41%)	*80*
5 (29%)	*90*
	The percentage of the availability of impartial information that serves forecasting and how to raise the efficiency of the company

2 (12%)	*60*
5 (29%)	*70*
6 (35%)	*80*
3 (18%)	*90*
1 (5.9%)	*100*
	The percentage of available accurate information to ensure that decision makers are not distracted
4 (24%)	*70*
6 (35%)	*80*
5 (29%)	*90*
2 (12%)	*100*
	Availability of information about the company performance and comparing between them in time periods
2 (12%)	*60*
2 (12%)	*70*
7 (41%)	*80*
5 (29%)	*90*
1 (5.9%)	*100*
	The percentage of the company support in comparing its performance with the performance of other companies offering the same service
2 (12%)	*50*
4 (24%)	*60*
2 (12%)	*70*
2 (12%)	*80*
4 (24%)	*90*
3 (18%)	*100*
	The percentage of the impact of the change in the accounting policies of the company on the financial statements
1 (6.2%)	*50*
1 (6.2%)	*60*
3 (19%)	*70*
3 (19%)	*80*
6 (38%)	*90*
2 (12%)	*100*
	Availability of verifiable and analytical mathematical information
1 (6.2%)	*50*
1 (6.2%)	*60*
3 (19%)	*70*
4 (25%)	*80*
4 (25%)	*90*
3 (19%)	*100*
	Percentage of making accounting information available to decision makers in sufficient time so that they can forecast and raise the company performance
2 (12%)	*50*
1 (6.2%)	*70*
8 (50%)	*80*
4 (25%)	*90*
1 (6.2%)	*100*

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	Are the data in the reports interpreted for easily making decision?
15 (94%)	*Yes*
1 (5.9%)	*No*
1 n (%)	

	Mean (SD)	50	60	70	80	90	100
Q9	3.94 (1.34)	12.5%	0.0%	6.2%	50.0%	25.0%	6.2%
Q8	4.12 (1.45)	6.2%	6.2%	18.8%	25.0%	25.0%	18.8%
Q7	4.12 (1.41)	6.2%	6.2%	18.8%	18.8%	37.5%	12.5%
Q6	3.75 (1.77)	12.5%	18.8%	12.5%	12.5%	25.0%	18.8%
Q5	4.19 (0.98)	0.0%	6.2%	12.5%	43.8%	31.2%	6.2%
Q4	4.25 (1.00)	0.0%	0.0%	25.0%	37.5%	25.0%	12.5%
Q3	3.88 (1.02)	0.0%	6.2%	31.2%	37.5%	18.8%	6.2%
Q2	4.00 (0.89)	0.0%	6.2%	18.8%	43.8%	31.2%	0.0%
Q1	4.69 (1.25)	0.0%	12.5%	0.0%	18.8%	43.8%	25.0%

Percent
100
75
50
25
0

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Figure 1. Percentages of participants who answered the questionnaire items with 50%, 60%, 70%, 80%, 90%, or 100% .

1- 43.8% of the participants reported that accounting information is capable of making a difference in forecasting the financial performance and raising the performance of the company in 90%.
2- It was recorded that 43.8% of the participants reported that the information is available at 80% to complete the actual activity, including any complete note**.**
3- Amongst the participants, 37.5% reported that the neutral information is available at 80% and it serves the prediction and raise the level of the company**.**
4- 37.5% of participants ensured that the available information is accurate at 80%, so, that decision makers will not be distracted
5- 43.8% of the study participants reported that the percentage of information available on the company's performance in specific time periods is 80%**.**
6- 25% of the participants indicated that the percentage of the company's support in comparing its performance with the performance of other companies in the same activity is 90%.
7- 37.5% of the participants said that the company discloses the impact of the change in its accounting policy on the financial statements by 90%**.**
8- 25% of the participants agreed that financial statements is verifiable at 90%, and 25% of them admitted that it is available at 80%**.**
9- 50% of the participants admitted that accounting information is available to decision makers in sufficient time so that they can predict and raise the company performance by 80%**.**

CONCLUSION AND RECOMMENDATIONS

Conclusions

The study found:

1. The quality of financial information plays a significant impact of on the assessment of the quality of the financial performance of companies**.**
2. The quality of financial information has a positive impact on reducing the investor's exposure to industrial risks**.**
3. The quality of financial information positively impacts on rationalizing the decisions-making**.**
4. The quality of information is the availability of qualitative characteristics and comprehensive disclosure, and the presence of complementary clarifications to the financial statements with the commitment of the company to accounting standards. This has an impact on evaluating the quality of financial performance in companies.

Recommendations

It is recommended the necessity of:

1. Urging users at market to use financial failure prediction models to take the right investment decisions**.**
2. Increasing interest in the financial investment sector due to its effective role in the market. This can be performed by motivating companies to increase their effectiveness and their role in the economy as a whole**.**
3. Using models to predict financial failure to identify the strengths and weaknesses of the institution and to predict problems before they occur and develop appropriate treatments for them**.**
4. Regulatory authorities should conduct financial analyzes according to appropriate models to predict the financial position of companies at an early date and take appropriate decisions for them**.**
5. Announcing the indicators for predicting financial failure models to help administrators identify the financial position of their companies in the market easily and in a shorter period**.**

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Appendix

The impact of quality reports and accounting information on forecasting the financial performance

1- The ability of accounting information to make a difference in predicting financial performance and decisions taken by those responsible for using the information to raise the performance of the company:

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

2- The extent to which all the necessary information to complete the actual activity is available, including any supplementary note:

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

3- Availability of impartial information that serves forecasting and how to raise the level of the company**:**

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

4- The availablity of accurate information to ensure that decision makers are not distracted**:**

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

5- The vailability of information about the company performance in time periods and comparing them with similar companies**:**

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

6- The company supports in comparing its performance with the performance of other companies who perform the same activity:

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

7- The company disclosed the impact of the change in its accounting policies on the financial statements:

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

8- Is there verifiable and analytical account information available? In what percentage?

◯ ◯ **Yes** **No**

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

9- Is the accounting information available to decision makers in sufficient time to make predictions or raise the performance of the company? In what percentage?

◯ ◯ **Yes** **No**

50% ◯ **60%** ◯ **70%** ◯ **80%** ◯ **90%** ◯ **100%** ◯

10-Are the data in the reports interpreted to easify decision-making?

◯ **Yes** ◯ **No**