



# THE ROLE OF DISCLOSURE OF FUTURE INFORMATION IN IMPROVING THE QUALITY OF ACCOUNTING PROFITS-APPLIED STUDY IN BAGHDAD SOFT DRINKS COMPANY

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Article history:		Abstract:
Received:	8 <sup>th</sup> November 2024	The research aims to study the cognitive foundations of both future information and the quality of accounting profits, as well as the role of disclosure of future information in improving the quality of accounting profits, as the clarity of management policies helps to improve the predictability of the future financial situation, which leads to the efficiency of future decisions, especially if management can justify its views and future assumptions. Research applied in Baghdad Soft Drinks Company. It is a company for the production and marketing of soft drinks in Iraq. The company has an exclusive license to sell Pepsi products in Iraq. The research for the years (2021-2024) was applied. The research reached several conclusions, the most important of which was that the quality of accounting disclosure of future information depends on the extent to which the company adopts good governance mechanisms, and accordingly, the quality of governance mechanisms is important in improving the quality of accounting disclosure of future information, financial and non-financial information, and the risks faced by the company and how to face them, which is reflected in enhancing the confidence of stakeholders in financial reports.
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## INTRODUCTION:

The subject of future financial information has attracted the attention of many entities, such as accounting and auditing standards associations, the American Securities Commission and other professional institutes. International Standard on Auditing Future Financial Information 810 sets out a set of rules and guidelines related to the auditor's functions when auditing future financial information. Regarding the disclosure of such information, the aforementioned standard stipulates that the auditor must make sure that the information is presented truthfully, that pertinent accounting policies and any changes made to them are disclosed in a clear and understandable manner, and that assumptions have been suitably disclosed in notes to future financial information. According to ASA301, future financial information is either financial perceptions or financial forecasts based on management's beliefs and the best available information. This means that management's assumptions about expected events and actions serve as the basis for forecasting, and since management is accountable for these expectations, they should have a reasonable, objective basis for creating such a financial forecast or perception. During this research, the role of disclosure of future information in improving the quality of accounting profits will be demonstrated.

## THE FIRST TOPIC: THE THEORETICAL FRAMEWORK OF THE RESEARCH

### First: The research problem:

The low quality of accounting profits in many economic units is the research problem. To improve the quality of accounting profits, researchers and professional and academic bodies have become more interested in disclosing future information in recent years. This is because disclosing future information gives stakeholders information about the company's strategic plans, objectives, and forecasts, which serves as a signal from the company to all stakeholders about its ability to continue and deal with future changes.

### Second: The importance of research:

The significance of research stemmed from the significance of future information. By disclosing future information, financial reports are created and disseminated to meet the needs of its users for accounting data that accurately depicts the economic events that impacted the company during a specific time period. The data also provides management's plans and expectations for the future, which can enhance the quality of accounting profits.



### **Third: Research Objectives:**

The study intends to investigate the cognitive underpinnings of future information and accounting profit quality. It also aims to show how future information disclosure contributes to better accounting profit quality because clear management policies increase the predictability of future financial conditions, which in turn improves the efficiency of future decisions—especially if management can support its opinions and future assumptions.

### **Fourth: Research hypothesis:**

The research is based on the following premise: Disclosure of future information can help improve the quality of accounting profits.

### **Fifth: Research Sample:**

The Baghdad Soft Drinks Company, which produces and markets soft drinks in Iraq, used the research. The business is the only one authorized to sell Pepsi goods in Iraq. The study was conducted between 2021 and 2024.

## **THE SECOND TOPIC: THE THEORETICAL FRAMEWORK OF THE RESEARCH**

### **First: The concept and importance of disclosing future information:**

Future information is optional information based on assumptions about events that are likely to occur in the future, and the reaction of the facility towards it, and it is by its nature characterized by a high degree of subjectivity and personal judgment, and there are some main factors that management relies on in preparing future information such as the resources available to the company, risks and uncertainty, inflation rates, tax changes, and the state of the national economy. The disclosure of future information is one of the most important types of optional disclosure of information (Kiliç & Kuzey, 2018:51).

The disclosure of future information includes financial information such as cash flows, revenues, expected profits, and non-financial information such as risks and uncertainties, which can significantly affect the actual results and cause them to differ from the expected results, and it should be noted that the disclosure of future information is one of the dimensions of optional disclosure, which expresses the company's desire to provide users of its financial reports with some information related to the company's financial performance in the future, and the extent of its ability to create value, and improve the level of its revenues, reflecting that There is no agreement on the content of disclosure, but such disclosure often includes information related to future management plans and financial forecasts (Liu, 2015:161).

The disclosure of future information covers different short or long-term time periods and in different quantitative and qualitative or financial and non-financial forms, and the preparation of this information requires a great deal of personal judgment of management, as well as the need to use forecasting methods and statistical methods for its preparation, as these disclosures involve a degree of uncertainty due to their dependence to a large extent on the estimates and speculations of the management that prepares them (Bozanic, et.al., 2016:72).

In many cases, the concept of future disclosure is associated with many concepts such as forecasting - visualization - expectation or estimation, and future information may take the form of forecasts or perceptions or both together, and in this context clarified the International Standard for Assurance Tasks No. 3400 issued by the International Federation of Accountants (IFAC, 2010) Future information may take one of two patterns: the first is forecast or forecast, which means that future information is prepared based on assumptions about future events that management expects to occur and the actions it is likely to take towards these future events. Second, estimates or perceptions mean that future information has been prepared on the basis of hypothetical situations about future events and management actions that are not necessarily expected to occur (Elgammal, et.al., 2018:145).

Disclosure of future financial information helps convince investors of the fairness of financial statements. Disclosure of expected future changes in accounting policies can enhance investors' conviction of the fairness of financial statements (Aljifri & Hussainey, 2007:33).

### **Second: The concept and importance of the quality of accounting profits:**

The concept of "quality of accounting profits " has been interpreted differently in the accounting literature, high-quality profits have been defined as those due to perseverance, stability, predictability, conservatism, and accuracy in reflecting the economic state of an economic unit, and are believed to be strongly correlated with past, present and future cash flows Zabihollah & Ling, 2019:763).

The quality of accounting profits was highlighted in this context as a crucial indicator for the parties using the financial statements and as a way to boost their trust in the statements that were made public. As a result, in order to differentiate between banks with high and low profit quality, the focus shifted to measuring the quality of receivables and their components, including ordinary and extraordinary receivables (Ortar, 2016:45)

Some researchers believe that the importance of the quality of accounting profits is clearly visible in several areas, and this importance can be summarized as follows: (Takacs, et.al., 2020:99)



1- The importance of the quality of profits for government agencies: The quality of accounting profits plays a vital role in the process of determining the taxes that economic units have to pay. This contributes to reducing the phenomenon of tax evasion by accurately determining which profits should be taxed.

2- The importance of the quality of profits for the economic unit: The importance of the quality of profits is clearly shown by the increase in the value of the economic unit in the market, as this quality plays a crucial role in attracting investments at low costs. This is achieved by increasing the value of shares, which encourages investors to inject capital into the economic unit. The quality of accounting profits is an important indicator of the effectiveness of managing available resources, as it reflects its ability to utilize them efficiently. In addition, the distribution of Incentives and rewards based on earnings performance, which encourages the team to improve performance and achieve positive results. This approach makes it possible to motivate employees to better achieve the goals of the economic unit.

3- The importance of profit quality for the stock market: It reduces the cost of capital and equity costs by facilitating the process of distinguishing between successful investments and those that do not carry added value.

### **Third: The relationship between the disclosure of future information and the quality of accounting profits:**

Even though it is voluntary, there are a number of benefits that encourage businesses to voluntarily reveal future information, such as giving present and potential investors the knowledge they need to make decisions instead of relying on forecasts based on erroneous data (Uyar & Kilic, 2012:43).

In addition, the disclosure of future information facilitates the task of financial analysts by providing information on the expected profits and share of them, in addition to that the publication of future information will contribute to reducing the degree of information asymmetry between managers and investors, and also affects the prices of traded shares, which indicates that the disclosure of future information is a value host (Tan, et.al.,2015:156).

The disclosure of future information leads to an increase in the quality of disclosure in companies and thus improve the quality of accounting profits as one of the most important dimensions of the quality of financial reporting, and perhaps the most important and prominent justification in explaining the importance of disclosure of future information is to reduce the asymmetry of information between the company's management and stakeholders and thus reduce agency costs (Mathuva,2012:4).

In this context, the disclosure of future information brings many benefits to each category of stakeholders, especially the categories of investors, lenders and financial analysts, as it provides information that helps them estimate and predict future profits, expected cash flows and the future value of the company, enabling them to make rational decisions (Bozanic, et.al., 2018:113).

As well as the benefits it achieves for the management itself, most notably reducing fluctuations in stock returns, which can lead to a higher awareness of the company's risks and negatively affect the value of the company, as well as improving the liquidity of shares, which increases the market value of the share price (Charumathi & Suraj, 2014:78).

This is in addition to reducing the cost of capital as a result of reducing the additional rate of return required by investors or lenders to meet the risk of lack of information and reducing the investment risks related to the company, as well as giving a positive signal of the company's ability to attract more investments and enhance its reputation in the market (Elshandidy & Neri, 2017:237).

### **THE THIRD TOPIC: THE PRACTICAL SIDE OF THE RESEARCH**

#### **First: About Baghdad Soft Drinks Company:**

Baghdad Soft Drinks Company is a soft drinks production and marketing company in Iraq. The company has an exclusive license to sell Pepsi products in Iraq. The agreement with PepsiCo authorizes Baghdad Company to produce and distribute PepsiCo, Seven Up and Miranda soft drinks. Iraq's Pepsi currently sells about 7.2 million cans a month, although that figure is falling due to power outages. The company was established in 1989 with a seed capital of 70 million Iraqi dinars. In 1984, it signed an exclusive concession contract with Pepsi, making it the exclusive producer and distributor, but the relationship ended in 1990 due to US sanctions and the economic blockade, and because of this the company was forced to replace the original Pepsi concentrates with counterfeit items smuggled from Eastern Europe. In 2004, the concession agreement was concluded again.

#### **Second: Disclosure of future information in Baghdad Soft Drinks Company and its role in improving the quality of accounting profits:**

In order to disclose future information in Baghdad Soft Drinks Company, it is necessary to determine the categories of information that must be disclosed, and after research and analysis, it was found that there are four categories of information that must be disclosed, namely information on opportunities and risks, information on strategy, allocation

of resources, future financial information and future non-financial information. Thus, the proposed indicator for the disclosure of future information in Baghdad Soft Drinks Company can be clarified, as shown in the following table:

Table (1)

Proposed indicator on the disclosure of future information in Baghdad Soft Drinks Company

First: Information on opportunities and risks	
1	Available growth and investment opportunities.
2	Available funding opportunities.
3	Economic outlook for the industry to which the company belongs.
4	The competitive position of the company and the ability to negotiate with customer and supplier chains.
5	Expected returns from opening new areas of investment in foreign markets.
6	Future challenges and threats of the company.
7	Growth rates in the production technology used compared to industry.
8	Industry growth rates and product development potential.
9	Risk management policy for future investments.
10	Future contracts and agreements.
Second: Information on Strategy and Resource Allocation	
1	The vision, mission and strategic objectives of the company.
2	Link the company's strategy with resource allocation plans.
3	Training plans and investment in human capital.
4	Mergers and acquisitions plans for the company.
5	R&D plans for the company.
6	Capital expenditure plans for the company.
7	Energy investment plans.
8	Evaluate customer satisfaction.
9	New products, services and patents
10	Company Organizational Structure
Third: Future Financial Information	
1	Expected profits of the company.
2	Targeted sales of the company.
3	Expected cash flows of the company.
4	The expected share price of the company.
5	The expected cost of production of the company.
6	Expected dividends for the company.
7	Expected financial ratios and indicators of the company.
8	The expected liquidity position of the company.
9	The expected market share of the company.
10	Projected capital expenditure of the company
Fourth: Future Non-Financial Information	
1	Disclosure of performance indicators related to the social dimension of the company.
2	Disclosure of transactions with related parties.
3	Disclosure of policies, standards and assumptions on which future expectations are based.
4	Discuss and comment management on last year's performance compared to previous forecasts.
5	The Board of Directors and its committees.
6	Governance mechanisms in the company.
7	Disclosure of the company's efficiency in exploiting available resources.
8	Disclosure of the company's internal control systems.
9	Disclosure of economic and political variables that have a substantial impact on the company's objectives.
10	Disclosure of environmental impact mitigation initiatives for the company's products.

The table above shows that there are four categories of information that must be disclosed: opportunity and risk information, strategy information, resource allocation, future financial information, and future non-financial information. The level of disclosure of future information in Baghdad Soft Drinks Company for the period (2021-2024) can be clarified through the following table:

Table (2)  
 Level of Disclosure of Future Information in Baghdad Soft Drinks Company for the Period (2021-2024)

Details	2021	2022	2023	2024
Information on opportunities and risks	40%	48%	52%	55%
Information on strategy and resource allocation	60%	66%	70%	75%
Future Financial Information	45%	59%	64%	72%
Future Non-Financial Information	65%	73%	77%	83%
Average	53%	62%	66%	71%

The table above shows the level of disclosure of future information in Baghdad Soft Drinks Company for the years 2021, 2022, 2023, and 2024 (53%), (62%), (66%), and (71%) respectively. This indicates that the research sample company is committed to disclosing future information and is in continuous development during the research years. Using the modified Jones (1995) model, the following steps can be taken to measure the quality of accounting profits in Baghdad Soft Drinks Company, expressed in the value of optional receivables for the period (2021-2024): calculating the total dues, estimating the model's parameters, calculating the non-optional receivables, and finally calculating the optional receivables that allow for profit management measurement:

- 1- Calculation of total receivables: Total receivables are that non-cash part of the income, and the total receivables are measured by the difference between operating income on the basis of accrual and income on the cash basis of the research sample company.
- 2- Calculation of non-optional receivables: It is that part of the receivables that the company's management does not have the ability to influence and does not have the ability to influence through it the accounting figures by reducing or increasing them because it is the result of the company's natural activity.
- 3- Calculation of optional dues: Optional receivables are represented by the difference between the total dues and the non-optional dues of the research sample company. The optional dues of the banks of the research sample can be calculated according to the following model:  $DAC_{it} / A_{it-1} = TAC_{ijt} / A_{ijt-1} - NDAC_{ijt} / A_{ijt-1}$ , whereas:  $DAC_{it} / A_{it-1}$  : Voluntary receivables of Bank (i) during the year (t) on the total assets of the bank (i) at the beginning of the year (t).  $\epsilon_{it}$ : random error.  $\alpha_1, \alpha_2, \alpha_3$  : bank model parameters (i) .

After determining the optional receivables of the company sample of the research will be classified about the existence of the quality of profits or the lack of quality of profits depending on the practice of profit management in the company, if the company practices profit management, this indicates the lack of quality of profits and vice versa, and The comparison between the absolute value of optional receivables and the average absolute value of these obligations determines this classification; if the absolute value of the receivables is less than the optional receivables' average absolute value, the company can be classified as having practiced profit management during each year of research and therefore there is no quality of profits for the company, and these practices came through the adoption of administrative decisions that are compatible with the objectives set by the bank's management when disclosing information in the financial statements with the intention of achieving special benefits and objectives, as well as manipulating the Accounting by exploiting the flexibility of accounting rules and measurement and disclosure practice options to convert financial information into the preferences of the preparers to obtain the required results instead of reporting in an impartial and fair manner. Should the total worth of the optional receivables exceed the mean total worth of the optional receivables, the company can be classified as non-profit management practice during each year of research and thus there is a quality of profits for the company, meaning that the company's management does not deliberately manipulate the preparation of external financial statements and reports in order to obtain special gains and benefits for the bank and its management during a certain period, as well as Not to shade



shareholders and other decision makers and influence contracts that depend on the accounting figures included in those reports, and therefore if the absolute value of optional receivables is less than the average absolute value of optional receivables, the company can be classified as a profit management practice and therefore there is no quality in the company's profits and vice versa. with the company's profits. Thus, the level of quality of accounting profits of the research sample company for the period (2021-2024) can be measured, as shown in the following table:

Table (3)

Measuring the level of quality of accounting profits in Baghdad Soft Drinks Company for the period (2021-2022)

Years	Absolute value of optional receivables	medium Absolute value of optional receivables	"The difference between the absolute value of the optional receivables and their average"	Quality of accounting profits (found/none)
2021	1.273680	8.586342	-7.312662	None
2022	1.688304	8.586342	-6.898038	None
2023	26.72940	8.586342	18.143058	There are
2024	4.653984	8.586342	-3.932358	None

It is clear from the above table that there is no quality of profits for the years 2021, 2022, 2024, either in 2023 there is a quality of profits

After measuring the level of disclosure of future information and measuring the quality of accounting profits in Baghdad Soft Drinks Company, the impact of the level of disclosure of future information on the quality of accounting profits of this company can be shown using the correlation coefficient ( $R^2$ ) and other tests, as shown in the following table:

Table (4)

The impact of disclosure of future information on the quality of accounting profits

Independent variable (X)	Correlation	F. table	F. cal	P.value	$R^2$	B	Dependent variable (Y)
Disclosure of future information	0.933	5.569	12.242	0.541	0.825	4.203	Quality of accounting profits

It is clear from the above table that the correlation between the disclosure of future information and the quality of accounting profits is a positive relationship, and therefore the significance of this table clearly indicates the acceptance of the research hypothesis, as the reliability and credibility of financial information for future information directly affects the quality of accounting profits and thus reflects on the value of the company through the presence of a significant impact of the reliability of financial information on the value of the company's share, and it is clear from the table above, that the disclosure of future information can help in Improving the quality of accounting profits, so the research hypothesis has been proved.

#### FOURTH TOPIC: CONCLUSIONS AND RECOMMENDATIONS

##### First: Conclusions:

1- Future information is optional information based on assumptions about events that are likely to occur in the future, and the reaction of the entity towards them, and is by its nature characterized by a high degree of subjectivity and personal judgment.

2. Disclosure of future information covers different short or long-term periods of time and in different quantitative and qualitative or financial and non-financial forms, and the preparation of such information requires a great deal of personal judgment of management.

3- High-quality profits are those due to perseverance, stability, predictability, reservation and accuracy in reflecting the economic situation of the economic unit, and it is believed that they are strongly related to past, current and future cash flows..



4- Disclosure of future information facilitates the task of financial analysts by providing information on the expected profits and share of them, in addition to that the publication of future information will contribute to reducing the degree of information asymmetry between managers and investors..

5- Disclosure of future information leads to increasing the quality of disclosure in companies and thus improving the quality of accounting profits as one of the most important dimensions of the quality of financial reporting, by reducing information asymmetry and reducing agency costs.

### **Second: Recommendations:**

1- Issuing legislation to ensure legal protection from litigation risks when disclosing future information and the failure to achieve such future predictions as long as prepared by the administration based on reasonable assumptions, which may provide an incentive for the administration to disclose this information.

2- Preparing an indicator for accounting disclosure of future information and granting incentives to companies that achieve a strong level of disclosure electronically, and in return, sanctions and penalties are imposed on companies in which the level of disclosure of future information is low.

3- Expanding the disclosure of future information and not relying on the traditional model in preparing annual financial reports, which contributes to improving the level of transparency, increases investor confidence and helps achieve the quality of financial reports.

4- Holding training courses and workshops periodically for company managers and financial managers in the field of how to prepare and present future information to train them on forecasting methods, making assumptions and sensitivity analysis to help them disclose future information.

5- The need to analyze the relationship between the characteristics of the audit committee and the quality of the level of disclosure of future information and its impact on the value of the company and work to provide appropriate accounting information that can serve all relevant parties.

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