

INFORMATION CONTENT OF FINANCIAL STATEMENT FOOTNOTE DISCLOSURES

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ABSTRACT

Accounting is a communication tool. Its primary vehicle in meeting this objective is published financial statements. Financial statements should provide information that is useful to present and potential investors, creditors, and other financial information users in making rational investment, credit, and other decisions (FASB, 1978). To achieve this, we posit that the information provided should be comprehensible to those users (FASBI978).

Developments in financial reporting have historically been more concerned with message content than with message language and presentation, minimizing the cognitive and linguistic abilities of financial information users as a potential limitation to successful communication. Research has suggested that user perception of written information may indeed be a limitation. This study provides a comprehensive evaluation of the comprehensibility of financial statement footnote disclosures and provides evidence about the presumption of comprehensibility for footnote disclosures by financial statement users and potential users. This study will test a theoretical model of proposed antecedents to textual comprehensibility in financial statement footnote disclosures.

This study develops a significant set of longitudinal data culminating with current data for a substantial sample of public corporations. The current state, trends, and correlational factors of readability of financial statement footnote disclosures will be compared to reasonable surrogates of the comprehension level of users in testing a theoretical antecedent model of readability of financial statement footnote disclosures. Prior research been primarily exploratory in nature and has examined direct correlations without the benefit of an advanced theory. Results from prior studies have been lacking, unsubstantial, inconclusive, and contradictory in nature.