

The Relationship between Adjusting Financial Statements and the Shortcomings in These Statements: A Case Study of Sudan

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Abstract

The financial statements in Sudan as one of the developing countries are subject to several adjustments made by users to overcome the deficiencies and shortcomings surrounding these statements, so the aim of this study is to examine the relationship between the shortcomings and the adjustment made by users to these statements and also to identify the types of the adjustments made. The questionnaire was used as an instrument to collect the primary data, descriptive statistics; Mann Whitney U test and Spearman's Rank-Order (R_{ho}) were used to analyze the collected data. The very important findings the study ended up with were that; There is a strong relationship between the deficiencies and shortcomings in the financial statements in Sudan on one side and adjusting these statements on the other side, the adjustments have been made ranging between adding back, removing, recalculating, reclassifying some items and adjusting some of the content and structure depending on other sources of information obtained by the users and changing the format, ways and methods of disclosure. The study recommended that standardized adjustments for each financial statement and for each item in the financial statements should be developed so as to harmonize the process of adjusting those statements, in addition to that, rating agencies should be established to serve the users and also to enhance transparency and efficiency of the Khartoum stock exchange by providing reliable frame of reference helping in investment-making decision process.

Keywords: Financial Statements; Shortcomings; Tax Authority and accounting information.

1. INTRODUCTION

The main role of accounting is to communicate the financial information about the company to several users such as shareholders, creditors, managers, government and other users. The information generally communicates in the form of financial statements that depict in money terms the economic resources by providing the information that relevant and reliable to the users [1]

Under decision-useful approach, the financial statements should serve primarily those users who have limited authority, sources and ability to read the information and who rely heavily on financial statements as an essential source of information about the economic activities of the companies. The information in financial statements should be useful for comparing, predicting and evaluating enterprise earning

power and potential cash flow. Users' information needs should be satisfied by these statements [2]. The users in some cases cannot rely on the financial statement, as it is, to portray the true value of the business, it may not reflect the economic reality even it was prepared based on the accounting principles or income tax regulations that are designed for purpose other than portraying economic reality [3]. Those users may resort to treat and adjust the financial statements provided by the companies to better reflect economic reality and increase the comparability of these statements. Of course, a situation of completed, perfect and reliable true statements is unreachable, but we must understand the shortcomings in the statements to accomplish this goal.

2. STUDY PROBLEM

The reliance on the financial statements in the developing countries by creditors, banks, investors and financial analysts falls more financial and psychological burden on these users to verify the fairness of information. In addition, the figures in these statements need to be adjusted in order to be comparable [4]. Like other developing countries, the financial statements in Sudan are characterized by several inherent weaknesses and shortcomings, which affect the use of the content of these statements negatively. Commonly, the users are suffering from a lack of trust, transparency, timeliness, relevance, and credibility of information involved in these statements [5], that why these statements fail and become incapable of satisfying the information needs of users.

The dimensions of this failure and incapability of financial statements to respond to users' needs encourage the user to undertake many actions to adapt the content and structure of these statements. Despite that the financial statements in Sudan are prepared under applicable local generally acceptable accounting principles (local GAAP) and the taxation authority rules are taken on consideration, they are subject to several treatments and adjustments to their items to better reflect the economic reality and provide sufficient information to the users. Conducting these adjustments to financial statements imply that there are many defects and shortcoming surrounding these statements and prevent them from being appropriate and useful to the users in decision-making.

3. STUDY OBJECTIVES:

This study aimed at achieving two goals:

- 1- To study the relationship between the shortcomings surrounds the financial statements in Sudan and the users resorting to adjust and treat these statements.
- 2- To identify the types of adjustments made by users to financial statements to better reflect the real economic fact that suits their needs.

4. STUDY HYPOTHESIS:

To accomplish its first aim, the study adopted the following hypothesis:

- H₁- The deficiencies and shortcomings of financial statements in Sudan may be effective enough to encourage the users to adjust and treat as untrustworthy most information in the financial statements provided by the companies.

This hypothesis suggests that there is a causal relationship or association between the deficiencies and shortcomings of financial statements in Sudan on one side, and adjusting the statements provided by the companies as untrustworthy on the other side. Most users of accounting information (e.g. taxation) are obliged to treat and adjust the financial statements provided by the companies because they are not satisfied with the amount and the quality of information they received. Hence, treating and adjusting the accounting information is the dependent variable and the deficiencies and shortcomings are the independent variables which cause a change. The direction of the correlation is positive relationship.

5. STUDY QUESTION:

To accomplish its second aim, the study adopted the following question:

What are the types and nature of adjustments made by users to the financial statements in Sudan?

6. LITERATURE REVIEW

6-1 The Parties Concerned with Adjusting the Financial Statements and the Reasons For:

There are many parties that have reasonable incentives and justifications to make adjustments to the financial statements, the common reasons are represented in the misrepresentation of the financial statements to the real position and result of the business and consequently the real value of the company. It is unexpected to heavily rely on the financial statements as it is prepared by the issuers. The lack of comparability, predictivity, relevance and confidence on these statements is widely exist [6].

Tax Authority:

Despite that the tax authority imposes its standardized treatments on preparation of financial statements, the

companies may tend to manipulate the system to minimize taxable income [7]. The companies are doing this by eliminating tax expenses that are not directly related to the business operations such as travel and entertainment, transportation, medical care, which were incurred primarily for the benefit of the owners, in addition to that, they also tend to detect the revenue. These items must be reviewed and adjusted by the tax authority in order for the financial statements to portray the actual numbers. In this case, the expenses (discretionary, non-recurring and non-operating) must be added back, and the revenue (extraordinary and non-operating) must be removed [3 and 7].

6-1-1 Analysts and Adjusting Financial Statement for the Business Valuation Process:

To value the business, analysts tend to adjust the historical financial statements using standardized valuation procedures to portray the real value of these companies. There are many reasons prevent the company's historical financial statements to reflect the business true value, these statements are prepared under accounting and reporting concerns than economic, where it is permitted to use estimates, based on assumptions, not real events and also permitted to choose from the allowable options of the different measurements methods [3].

That why it's difficult to rely on these financial statements to reflect the real position without any adjustments. Certain statements need to be normalized. Not only this but also preparing these statements under income tax regulations may result in the same problem, the company may tend to proceed with the treatments imposed by the tax rules without paying attention to portraying the real income and situation [3]. The companies required to be valued for several parties, it may become necessary for lender when making decision of funding through mortgages or loan, and for tax authority to assess the taxable income of that companies intended to minimize tax, and for companies when transferred to public companies, also for insurance companies to assess their ability to meet obligations, and for the buyers as well to help them make decisions of selling and buying a business [8]. all these required comprehensive adjustments to financial statements. Investors also need to develop alternative financial statements which better suited for business valuation and credit analysis [9 and 10].

6-1-2 Rating Agencies and Adjusting the Financial Statements for Bondholders and Other Users:

Adjusting financial statements considered as an integral part of the rating process [11]. The rating agencies act as an estimator of the business financial strength, they concentrate on their ability to meet interest and principal payments on credit instruments [12]. Their function is to collect and process issuers' financial information and assess the default risk in the form of rating. Hence, rating agencies considered as information intermediaries for bond holders [13].

But issuers' financial statements cannot be considered as a truth that fully portraying the accurate and actual picture of the economic reality of the issuers' financial performance and position [11]. A fact which necessitates making

comprehensive adjustments to the historical financial statements by the rating agencies.

According to the Moody's investors services [14], and Standard and Poor's [15], these adjustments neither reveal that the compliance of the financial statements with the applicable accounting rules is doubtful nor imply that the agencies challenging the application of generally accepted accounting principles by the issuers or its appropriateness to fairly depict the issuers' financial position and results for other purposes. Rather it is an attempt to enhance the analytical value of financial data figures.

In their looking for good analysis, standard and poor's utilize adjustment as an analytical technique aimed at portraying a status and situation for a specific purpose or to gain another point of view.

The rating agencies seek to accomplish variety of goals from making adjustment to the financial statements: for example, they aim to arrive at more reflective measures of creditors, risk, right and benefits, also to provide a better analytical comparison between large numbers of companies both peer comparison and period over period comparison. In addition to facilitate more robust forecasts [14 and 11].

Taking in consideration the inability to reconcile the generally accepted accounting principal and the international financial reporting standards (IFRS), the analysis of investment target or competitors still require comparison of financial statements based on the two distinct accounting regimes [15].

Due to the different accounting practice that exist within and across different countries, regions, and accounting regimes, it seems to be very difficult to accomplish the goal of full comparability of financial figures of statements on a global basis unless the adjustments to financial statements reported by issuers under the applicable GAAP or IFRS have been made for aligning the accounting principle so as to improve the quality and comparability of such statements. Commonly, Moody's investors services make analytical non-GAAP adjustments to better portray reality, while Standard and Poor's make these adjustments to better reflect the underlying economic of transactions and events [13].

6-2 Common Adjustments Made to the Financial Statements:

According to Mood's [14], Standard and Poor [15 and 9] there are three primary statements subject to adjustments; balance sheet, income statements and cash flow statements.

- i- Balance sheet: the items in this statement are subject to adjustments for removing the artificial effects of smoothing allowed by accounting rules.
- ii- Income statements: the adjustments to this statement aims at eliminating certain smoothing, recognizing additional expenses, segregating the impact of exceptional (abnormal) or non-recurring items.
- iii- Cash flow statements: this statement is subject to adjustment to be consistent with the adjustments made to the balance sheet and income statement.

Unlike preparers of financial statements, users have the freedom to choose any desired or appropriate adjustments, accordingly, the types of adjustments made to the financial statements differ from one user to another. Taken on account

the differences that may appear between different parties, here are some common adjustments might be made to the three financial statements:

1- Discretionary or Unnecessary Expenses:

Which business paid primarily for the benefit of the owner and may not be continued by a new owner (personal automobile, internet costs, fuel, travel and entertainment, insurance, medical care, etc...), if these expenses are eliminated by the owner must be added back (by appraiser) to the company earnings [12].

2- Non-recurring Items / Non-core Operations:

Non-recurring expenses and revenues are abnormal events that are unrelated to the business core operations, they are one-time in nature (one-time gains or losses). It is unlikely to reoccur (occur) in the future (items include discontinued operations) such as effects of the closing of locations, gains or losses on assets disposal, sale/lease back, insurance settlements. One-time gains should be removed from the financial statements and one-time expenses should be added back to the business revenues to portray the business's real financial performance (during the year).

3- Wages, Benefits, Salaries, Rent Expenses:

These expenses should be adjusted for current levels to reflect the prevailing value, while the rental income should be eliminated from the financial statements.

4- Uncollectable Accounts Receivable: should not be removed completely, companies may have it again, but some time eliminated.

5- Unpaid Obligations with Accrued Interest: may be added in if not already accounted for.

6- Accrued Interest and Dividends:

Accrued interest should be classified as debt, this adjustment is necessary for achieving consistency and comparison of companies' financial liabilities, accrued dividends should be treated as debt as well.

7- Capitalized Interest:

Capitalized interest viewed as a cost for getting financing, for the income statement, after determining the amount of this item (capitalized interest during the period), it should be added to the interest expenses and removed from applicable tax expenses. For the balance sheet, capital expenditures, property plant and equipment should be reduced by the amount of capitalized interest during the period.

8- Capitalized Development Cost:

Concerning the balance sheet, the cumulative amount of the development cost capitalized should be used to reduce intangible assets, according to that, deferred taxes should be reduced by the cumulative amount of development cost capitalized. With regard to income statements, the amount of the development cost capitalized for the period should be used to increase operating expenses, the amortization charge related to the development cost capitalized should be removed, and applicable tax expenses should be adjusted. In the cash flow statement, the development cost capitalized which classified as an investing cash outflow should be reclassified to an operating cash outflow.

6-3 Users in Sudan and the needs for Adjusting and Normalizing Financial Statements:

The shape financial statements presented will mainly decide the strength of those financial statements and their reliability as with regard to users. Simultaneously, the social and cultural background of those users will determine the degree of utilizing the financial statements” [16].

The classifications of users in Sudan were different from those reported in the literature particularly in their sub-groups. The fact that users in Sudan originated in an Islamic environment, introduces new users of accounting information such as the Zakat authorities [17].

- The Taxation Department (Chamber):

The Taxation Chamber in Sudan is one of the very important parts of government authorities -besides the Zakat Chamber and Labor Office- which uses accounting information.

It was argued that the taxation chamber adopted different ways for the different sectors to establish the amount of tax according to the availability of information provided [18]. The taxpayers do not oblige themselves to submit sound, precise and fair accounting statements. Taxation Chamber always fails to get the true and correct information from the client who submits the financial reports (e.g. large private firms and companies). The same is true with individual taxpayers who lack the understanding of the tax system as a result of the absence of contact between them and taxation offices. As a result, the majority of tax assessments based on estimation according to information obtained through field surveys made by the taxation officials [17]. almost all companies concerned with the existence of an accounting system and there are specialist accountants to prepare it because the companies Act oblige them to keep books of accounts and then prepare audited accounts, but the provided financial statements are not accurate and regular [19]. As a result, all the accounts submitted to the tax authorities were subject to adjustments in some legal aspects in addition to the adjustment of some elements of the accounts [20].

- Creditors (Bankers and Suppliers):

The creditors in Sudan classified into two categories, Bankers and suppliers.

(i) Bankers:

Banks in Sudan are conducting their business under the Islamic legislation (Shariah) so, the Banks system were Islamized. Islamic Banks operate under a profit and loss sharing system where the borrowers are regarded as more important than the financial statements. Accordingly, it can be said that the historical background of the banks can affect the use of accounting information. bankers as the main sub-group use accounting information differently as far as differences in ownership, ideology, objectives and the historical background of banks are concerned. The most interesting finding is that the more

Islamized the banks are the less the use of accounting information. The investment and lending decision in Islamic system need future-oriented information which the historical financial statements fail to provide. The need is for profit-sharing accounts that provide forecast information. There are some problems inherent in the historic financial statements which may contribute to the adjusting and treating of accounting information [17 and 18].

Another factor that affects the use of accounting information is the financial statements’ failure to disclose subjective and intangible factors of great importance for bankers.

(ii) Suppliers:

Suppliers at the institutional level in Sudan use accounting information in their supplying decision. Such a group depends greatly on the information provided by the clients... they start credit-control before goods are dispatched through the assessment of the credit worthiness of the customers who are regarded as trade debtors. The published accounts of such customers may form part of the assessment... suppliers at institutional level need information concerning client reliability, credit standing and client ability to repay. This information is typically obtained from the financial statements of businesses and partly from the credit agency [17].

- Investors:

Investors at the institutional level perceive accounting information as of a great importance. It is possible to say that shareholder at the institutional level does apply accounting information in their investment decisions. They examine accounting to know the positions of the business in which they invest their money, to predict future profits, dividends, the level of risk and the progress and continuity of such business [17].

- The Zakat Chamber:

The Zakat Chamber was not regarded by the modern accounting theory, which emanates from the western style economic base, as one of the users of accounts. Thus, the requirements of Zakat as a user of financial statements are not taken into consideration while preparing the currently prevailing financial statements [16].

Zakat is like taxation in that it is payable to the government, compulsory, and not associated with direct consideration in this life. Yet it differs from taxation in many aspects, mainly Zakat is not collected based on citizenship like the case of taxation, but it is based on Islam [16].

The Zakat amount assessment depends on the field survey by the Zakat officials in all sectors of the economy. During the field survey, financial reports kept by large firms were taken as a base to assess Zakat. For unseen activities, a declaration to be filled by Zakat payers (Elmokalaf) is regarded as one way to get information together with the chamber's information obtained from

other government units (e.g. taxation, customs House and Banks).to measure the Zakat amount, the figures of the statement of financial position along with the profit and loss account figures are considered as the most important items [16]. The ability to pay Zakat and the amount of Zakat to be paid should be decided according to the financial position of the payer (Elmokalaf). Thus, the assessment of Zakat is absolutely dependent upon the accounting reports".

But again, the lack of trust in this information provided by Zakat payers made the Zakat chamber officials less keen to take them as true. Comprehensive adjustments are made to such information [17].

- Labor Offices:

The use of accounting information by labor offices as government regulatory agencies is extremely limited. Although the labor offices have to be interested in the financial statements of companies to know whether such companies have complied with minimum wage, laws, and provision for maximum working hours and overtime pay [17].

- Employees:

Most employees in private firms use accounting information. Some employees in private firms do not understand the language of accounting. As less-sophisticated users they find financial information presented in language which they do not understand". Such groups of users are lacking the understanding of the published financial statements and hence depend on informal information in taking their decisions [17].

7. METHODOLOGY

Data Collection:

The study has used two major approaches to collecting data about the situation of adjusting the financial statements by the user, primary data and secondary data, to measure the opinions and attitudes of the respondents, the primary data have been collected by the researcher for the first time and in crude form. the questionnaire has been adopted as the most relevant tool to gather the primary data for the purpose of the study. To collect the secondary data, the study has focused on earlier research, journals, companies' reports, references, mass media, professional bodies responsible for accounting standard setting, articles and internet websites to collect the secondary data.

Data Collection Tools:

The study has chosen the questionnaire as an appropriate tool for collecting data; the questionnaire has been developed to investigate the attitudes and opinions of respondents (selected sample) towards the relationship between the deficiencies and shortcomings of financial statements and the adjustments made to these statements in Sudan. To do so, rating scales (the opinions or attitudes scales) has been designed to measure attitudes of respondents [21].

The study has adopted the method of summated ratings developed by Likert, more commonly known as the Likert scale because it is one of the most frequently used methods for the measurement of social attitude [22].

The actual Likert scale technique has five points of scale positions being assigned to a scale value. All favorable statements have been scored from maximum to minimum as [21].

Statement	Scale value
Strongly agree	5
Agree	4
Uncertain	3
Disagree	2
Strongly disagree	1

For statements opposing the position, the items have scored out in the opposite order as 1, 2, 3, 4, and 5.

Sampling Technique and Sample Size:

Stratified sampling has been an appropriate method for the sake of this study; because the population embraces a number of distinct categories. Hence, the sampling frame has been organized by these categories into separate "strata". Each stratum has been then sampled as an independent sub-population, out of which individual elements can be randomly selected [23]. Because the number of members of the population was not known, this study has used a disproportionate stratified sample.

The population from which the sample has been drawn in this study has consisted of the most important users of accounting information in Sudan (Owners, Creditors, Managers, Investors in Capital Market, Taxation Chamber, Zakat Chamber, Auditor General and Employees, and their union). Each user represents a stratum; these strata are different among them and homogeneous internally.

To determine the appropriate sample size for the sake of this study it has been calculated by the following formula:

$$n = \frac{z^2 P (1-P)}{d^2}$$

Where:

- n= the required sample size
- z= z-value statistic for level of confidence. (1.96 for %95 confidence level)
- p= percentage of population picking a choice, expressed as decimal (0.5 used for sample size needed).
- d²= precision (margin of error at .07) = ±% 7

The sample size according to the previous equation therefore equal:

$$n = \frac{(1.96)^2 \times .5 \times .5}{(.07)^2} = 196$$

The study has determined the number of elements to be selected from each stratum with Simple Random Sampling (SRS) technique, {Kumar (2005)}.

According to (SRS) technique:

$$\frac{\text{Sample size (n)}}{\text{No. of strata (k)}} = \frac{196}{10} = 19.6$$

approximately = 20

Data Analysis:

After the data have been entered and checked for inaccuracies, to analyze the data collected, the study has adopted two statistical methods, descriptive statistics, and empirical methods.

Descriptive Statistical Analysis:

This study has calculated frequency distribution in percentages of items under study, tested data for normality of distribution skewness, calculated measures of central tendency -mean, mode and establishing norms, the calculated measure of dispersion-standard deviation, and calculated measures of relationship-coefficient of correlation.

For the questions with a linear, numeric scale (Likert scale) it is feasible to calculate types of descriptive statistics such as the frequency distribution, the mean, the mode, standard deviation, the minimum, the maximum and coefficient of skewness.

For the questions without linear, numeric scale, but there are only names for the categories which are called nominal data, the percentage frequency distribution is an acceptable indicator for distribution of nominal data.

Measurement of Association:

To measure and examine the association (or relationship) between the variables, the study has adopted the bi-variate analysis which involves the analysis of two variables (often denoted as x, y) for the purpose of determining the empirical relationship between them [22]. It has been appropriate to the nature of this study because it could be helpful in testing the simple hypothesis of association and causality.

The forms of bi-variate analysis involve creating a percentage table, a scatter plot graph or the computation of a simple correlation coefficient.

Because the types of scale are ordinal and nominal, the study has adopted the Spearman’s Rank-Order (Rh_o) to examine the relationship between two variables.

Empirical Method:

Mann Whitney U test has been adopted by the researcher as an appropriate technique to test the difference in perceptions between both groups; users and auditors.

8. ANALYSIS AND DISCUSSION:

This part of the study concerned with analyzing and discussing the collected data, it encompasses the three types of analysis adopted by the study, descriptive statistics, Mann Whitney U test and Spearman’s Rank-Order (Rh_o).

8-1 Aspects of Deficiencies of the Financial Reports:

The following table illustrates the opinions and perceptions of the users and auditors regarding the aspects of deficiencies of the financial statements:

Table 1: Aspects of Shortcomings and Inability of the Financial statements to meet the User’s Needs

Shortcoming	Mean	Mode	SD	Min	Max	Skewness	M-W Sig.
1/ Poor arrangement of the contents of the statement in a logical and useful way.	4.16	3	.92	2	5	-1.129	0.041*
2/ Lack of directing the content of the statement in a way that helps in decision-making.	4.13	3	.88	2	5	-1.067	0.237
3/ The content and style of the statement were not designed in a way that responds to the users’ needs and interests.	4.17	4	.92	2	5	-1.002	0.741
4/ Difficulty of reading the contents of the statement.	3.90	3	.99	1	5	-0.990	0.982
5/ Difficulty in understanding the contents of the statement.	3.96	4	1.08	1	5	-0.800	0.683
6/ The statements contain information that is not important to the user.	3.86	3	.92	2	5	-0.695	0.693
7/ The financial statements are unable to disclose adequately all the important aspects and	4.29	4	.88	2	5	-1.283	0.771

Shortcoming	Mean	Mode	SD	Min	Max	Skewness	M-W Sig.
information that the user needs it in decision-making.							
8/ Lack of means of communication between the preparers of the financial information and the users (ineffective communication).	3.96	3	.92	1	5	-0.867	0.487
9/ Difficulty in obtaining the financial statements themselves.	4.91	3	1.07	1	5	-1.013	0.025*
10/ The failure to provide the information in appropriate time.	4.05	3	.84	2	5	-0.788	0.625*
11/ The financial statements contain wrong and misleading information (false).	4.02	3	.1.05	1	5	-1.074	0.595
12/ The reliance on the financial statements places more financial and psychological burden on users to trust the information	3.81	3	.97	2	5	-0.562	0.036*
13/ the financial statements bias to specific parties or to specific purposes.	3.93	3	1.03	1	5	-1.027	0.004**

Source: Prepared by the researchers (2018)

From table (1) above, looking at the descriptive statistics, it appears that the highest mean is 4.29 and the lowest is 3.81, the Mode is 4 in all the cases except in the cases of the third, fifth and seventh deficiencies which is 5. There is a negative coefficient of skewness for all deficiencies.

Once again by looking at table 1, one can see that there is no significant difference in the perceptions of both groups except in the cases of the first, ninth, twelfth and thirteenth deficiencies.

Concerning the first deficiency, there is a significant difference in the responses of the two groups at a 0.05 level of significance. The majority of the users of financial statements gave more stronger agreement than the auditors that the poor arrangement of the contents of the statements in a logical and useful way results in making the financial statements incapable of meeting the users' needs, while 44.7% of the users strongly agree and 41.2% tend to agree that the contents of the financial statements were not arranged in a logical and useful way, only 19% of the auditors strongly agree and 61.9% tend to agree that this is the case.

Another example of the significant difference in the responses and perceptions of both groups (at a 0.05 level of significance) is the ninth deficiency. Here 34% of the users strongly agree that the difficulty in obtaining financial information leads to the gap between the financial statements' contents and the users' needs. Also, 45.6% of the users tend to agree against 42.9% of the auditors' tendency to agree. On the other side, only 10.5% of the users either strongly disagree or tend to disagree, while, 38.1% of the auditors either strongly disagree or tend to disagree.

With respect to the eleventh deficiency, it appears that there is a significant difference in perceptions between the two surveyed groups about whether the reliance on the current financial statements places a more financial and psychological burden on the users in trusting the information or not at a 0.05

level of significance. While 27.2% of the users strongly agree this is the case, only 9.5% of the auditors gave a strong agreement, there is a closer agreement given by the two groups (45.4% of the users and 47.6% of the auditors). On the other hand, only 11.4% of the users tend to disagree that this is the case, against 28.6% of the auditors who disagree.

The last example of significant difference in perceptions between both groups about the deficiencies of the financial reports is the thirteenth one as shown by the results of the Mann-Whitney u test. It seems that 35.1% of the users strongly agree that the contents of the financial statements are biased to specific parties or/and specific purposes, whereas only 14.3% of the auditors, strongly agree that this is the case, a closer tendency to agree is given by the users and the auditors (44.7% and 42.9% respectively). On the other hand, only 6.2% of the users either strongly disagree or tend to disagree against 42.9% of the auditors who either strongly disagree or tend to disagree.

The results of the descriptive statistics and Mann-Whitney u test reveal that there is a consensus between the two surveyed groups of the sample about the aspects of deficiencies of financial statements which -by its turn- result in the gap between the financial statements information contents and the user's needs except in the cases of the first, ninth, twelfth and thirteenth deficiencies. One can thus conclude that, despite the high reliance on the financial statements, the users believe that such statements are characterized by deficiencies.

8-2 The Actions Taken by Users to avoid the Shortcomings in the Financial Statements:

The following table summarizes in the opinions and perceptions of the two groups (users and auditors) regarding the actions taken to avoid the deficiencies of the financial statements:

Table 2: The actions taken by the User in order to avoid the Shortcomings of the financial statements

Actions	Mean	Mode	SD	Min	Max	Skewnes s	M-W Sig.
1/ Adjusting the financial statements.	3.95	4	1.09	1	5	-1.063	.043*
2/ Relying on parts of the financial statements that user thinks it is useful and appropriate to him and ignoring the rest of the information in the statements.	3.83	4	1.10	1	5	-0.908	.324
3/ Accepting financial statements by confirming and adapting their information depending on other sources of information.	4.14	4	.84	2	5	-0.888	.477
4/ Rejecting and ignoring the financial statements completely.	3.21	4	1.39	1	5	-0.175	.000**

Source: Prepared by the researchers (2018)

Table (2), which reports the perceptions of the users and auditors regarding the actions taken in order to overcome the failure of the traditional financial statements, shows clearly that there are varying degrees of support given to these actions. As can be seen from the descriptive statistics, the mean values for the first three actions ranging between 4.12 and 3.83, but it is only 3.21 for the last one. The mode is 4 in all cases, and the coefficient of skewness is negative in all cases too, a fact which reflects clearly the support given by the respondents to all the actions which can be taken. However, the strongest support was given in the case of the third action namely accepting the financial statements with confirming and adapting their information depending on using other informal sources. This action comes with a mean value of 4.14, and then the support was given to resort to adjust the financial statements with a mean value of 3.95, and relying on the useful and relevant parts to the users and ignoring the rest of the parts in the statement with a mean value of 3.83. But the least support was given to the complete rejection and neglect of the financial statements where the mean is only 3.21 and the coefficient of skewness is only -0.175. The low rating and low values of statistics regarding this action reflect this little support.

Looking once again to table 2 shown earlier, the Mann-Whitney u test shows that there is a significant difference in the perceptions between the users and auditors about the first and last actions, but there is no significant difference concerning the third and fourth actions where there are a closer agreement and disagreement.

In the first action, more than one-third of the users (38.6%) strongly agree while there is less than one-fifth (19.0%) of the

auditors strongly agree and there is a closer agreement between the two groups. On the other hand, only 13.1% of the users gave either a strong disagreement or a tendency to disagree, whereas 28.6% of the auditors gave either a strong disagreement or a tendency to disagree. For the last action, nearly one-quarter (25.4%) of the users strongly agree and nearly one-third tend to agree, while no one of the auditors gave a strong agreement, nearly one-quarter tend to agree. On the other side, about one-third of the users (34.1%) either strongly disagree or tend to disagree, while three-quarters of the auditor (76.2%) either strongly disagree or tend to disagree.

The results of the descriptive statistics reveal that there is a consensus between the two groups (the users and auditors) that there are many actions taken by the users to avoid the deficiencies of the financial reports despite the varying degrees of support shown by each group in the case of the second and third actions. All these actions taken imply that the financial statements need to be adapted and adjusted to become appropriate to the users' needs.

8-3 The Adjustments Made to the Financial Statements:

This part of the study provides an analysis of the opinions and perceptions of the users and auditors about the adjustments made to the financial statements:

Table 3: The types of adjustments made by users to the financial statements

Adjustment	Mean	Mode	SD	Min	Max	Skewness	M-W Sig.
1 / Adding back some items.	4.12	4	.98	1	5	-1.262	.141
2 / Deleting (remove or eliminate) some items.	3.70	4	1.08	1	5	-0.685	.036*
3 / Recalculating some items according to new bases suit the needs of the user (modifying measurement and evaluation methods).	4.21	4	.83	1	5	-1.202	.234
4 / Rearranging some items.	4.01	4	.79	2	5	-0.851	.964
5 / adjusting some of the content depending on other information obtained by the user.	4.00	4	.98	1	5	-0.951	.009**
6/ Changing the format of the financial statements to view other types of information have not been disclosed in the current format of the statements provided by the company.	3.78	4	.97	1	5	-0.745	.179
7/ Modification in the ways and methods of disclosure (review and reclassification).	4.00	4	.96	1	5	-0.970	.107

Source: Prepared by the researchers (2018)

Table (3) above provides a summary of the percentage opinions of the users and auditors about the adjustments that can be made in the financial statements. As shown by the table, the descriptive statistics show that the highest mean is 4.21 and the lowest is 3.70, the Mode is 4 for all the types of adjustment, the coefficient of skewness is negative for all the adjustments too. This implies that the agreement with making some adjustments to the financial statements by users is prevalent.

As per table (3), the results of Mann-Whitney u test show that there is no significant difference in perceptions in all the adjustments except in the case of the second and fifth ones. There are a closer agreement and disagreement between the two groups regarding adjustments like: adding some items, recalculating some items, rearranging some items, changing the format of the financial statements and modifying the ways and methods of disclosure. The majority of both groups (not less than two-thirds) expressed similar perceptions that the users are doing these adjustments to the financial statements. As mentioned earlier, the good examples here are the taxation authorities and the Zakat Chamber.

For the second adjustment, there is a significant statistical difference in the perceptions between the users and auditors, indeed 27.2% of the users strongly agree while only 4.8% of the auditors strongly agree. The agree option in both groups is close (42.1% of the users, 52.4% of the auditors). On the other side, only 0.9% of the users strongly disagree whereas 14.3%

of the auditors strongly disagree. The disagree option of the users and auditors is 15.8% and 9.5% respectively.

For the fifth type of adjustments, there is a significant statistical difference in the perceptions between the users and auditors, 39.5% of the users gave a strong agreement while only 4.8% of the auditors gave a strong agreement. In addition, only 41.2% of the users tend to agree whereas 66.7% of the auditors tend to agree. On the other hand, there is a closer disagreement between the users and auditors (12.3%, 4.3 % respectively).

From the above findings, it can be concluded that since the users feel that the financial statements cannot provide them with reliable, relevant, trustful and enough information they need, adjustments that should be made to the type of information provided by financial statements, and to the format in which it is disseminated and how often it is made available.

8-4 Testing the Study Hypothesis:

This part of the study aimed at testing the hypothesis of the study in order to investigate the effects of the deficiencies and shortcomings in financial statements on the desire of the users to resort to adjust the content of these statements.

Table 4: Spearman's Correlation Coefficient between the shortcomings in financial statements and the adjustments made by users

Shortcoming		Making adjustments to the financial statements
1 / Poor arrangement of the contents of the statements in a logical and useful way.	CC Sig.	.998** .000
2/ Lack of directing the content of the statements in a way that helps in decision-making.	CC Sig.	.995** .000
3 / The content and style of the statements are not designed in a way that responds to users' needs and interests.	CC Sig.	.951* .013
4 / Difficulty of reading the contents of the statements.	CC Sig.	.945* .015
5 / Difficulty in understanding the contents of the statements.	CC Sig.	.970** .006
6 / The statements contain information that is not important to the user.	CC Sig.	.900* .037
7 / The financial statements are unable to disclose adequately all the important aspects and information that the user needs it in decision-making.	CC Sig.	.933* .020
8 / Lack of means of communication between the preparers of financial information and the users (ineffective communication).	CC Sig.	.945* .015
9 / Difficulty in obtaining the financial statements themselves.	CC Sig.	.988** .002
10 / The failure to provide the information at the appropriate time.	CC Sig.	.950* .013
11 / Financial statements contain wrong and misleading information.	CC Sig.	.990* .001
12_/ Reliance on the financial statements places a more financial and psychological burden on users to trust the information.	CC Sig.	.898* .039
13 / the financial statements bias to specific parties or to specific purposes.	CC Sig.	.973** .005
The correlation between the variable (adjusting financial statements) and all 13 shortcomings	CC Sig.	.984** .002

Source: Prepared by the researchers (2018)

CC: Correlation Coefficient (Spearman's bivariate)

Sig.: Significance (two- tailed)

** : Correlation is significant at the 0.01 level (two- tailed)

*: Correlation is significant at the 0.05 level (two- tailed)

H₁- The deficiencies and shortcomings of financial statements in Sudan may be effective enough to encourage the users to adjust and treat as untrustworthy most information in the financial statements provided by the companies.

From table (4) above, since the correlation coefficient between the variable (13 shortcomings as a hole) and the variable (making adjustments to the financial statements) is .984 and the level of significance is .002, it appears that there is a very strong positive correlation between the two variables at a 0.01 level of significance. Therefore, the results of Spearman's correlation test accept this hypothesis and reject the null hypothesis that the deficiencies and shortcomings in the financial statements in Sudan may not be effective enough to encourage the users to adjust and treat -as untrustworthy-most information in the financial reports provided by the companies at 99% confidence.

These results are attributed to and supported by very strong positive correlation coefficients with varying levels of significance between the variable (making adjustments to the financial statements) and all the shortcomings.

These results also imply that the respondents see that there is a causal relationship or an association between the deficiencies and shortcomings in the financial statements in Sudan and the adjustment and treatment to the accounting information provided by the companies as untrustworthy because the users are not satisfied with the amount and quality of information they receive.

From all the above, one can conclude that the defects in the financial statements are playing a great role in encouraging the users to adjust and treat the information provided through such statements because they are not satisfied with the amount and quality of the information provided through these statements.

9. STUDY RESULTS:

After analyzing the data and discussing the results, the paper is ended up with many findings as follows:

1- The financial statements in Sudan characterized by many deficiencies and shortcomings which prevent the users from benefiting from their content of information when they conduct the decision- making the process. There are problems in arranging, directing, reading, understanding, communicating and designing the content of these statements in addition to the problems of providing biased, delayed information and inadequate disclosures.

2- The deficiencies and shortcomings in financial statements in Sudan forced the users to undertake many actions in order to avoid these deficiencies and defects. They may either make adjustments to the financial statements or rely on parts of the financial statements that they think are useful and appropriate to them and ignore the rest of the information in the statement. Also, they may accept the financial statements by confirming and adapting their information depending on other sources of

information or reject and ignore the financial statements completely.

3- There is a strong relationship between the deficiencies and shortcomings in the financial statements in Sudan on one side and the adjustments made by users to these statements on the other side.

4- Many types of adjustments have been made by users to the financial statements in Sudan ranging between adding back, removing, recalculating, reclassifying some items and adjusting some of the content depending on other sources of information obtained by the users and changing the format, ways and methods of the disclosure.

10. RECOMMENDATIONS:

1- There is a need to develop standardized adjustments for each financial statement and for each item in the financial statements to harmonize the process of adjusting those statements.

2- Because of the high tendency to adjust the financial statements by users in the Sudan resulting from the deficiencies and shortcomings of these statements, it is necessary to establish rating agencies to serve the users, who may fail to make appropriate adjustments, to get adjusted financial statements encompass information relevant to their decision- making, and also enhancing transparency and efficiency of Khartoum security exchange by providing reliable frame of reference helping in investment-making decision process.

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