



The Importance of Annual Reports in Teaching and Research

Archiving of annual reports provides an essential service over and above that provided by electronic databases of accounting data.

The valuable features of the archived annual report, not found elsewhere, are:

- 1 Full notes, not just the profit and loss, balance sheet and statement of cash flow.
- 2 Directors statements and operational reviews
- 3 Original company classification of accounting items

Electronic Databases do not contain the important information which analysts and researchers alike need on things like a company's pension liabilities, contingent liabilities and risks reduced or increased by Off Balance Sheet derivative activity. They tend not to have full segmental information or lists of Associate Companies or Joint Ventures. Past experience has shown that many of the risks of default are observable in the notes to accounts even when they are not quantifiable (e.g. Rush and Tomkins). Teachers of accounting often make the point that the best way to analyse the risks a company is running is to start with note 37. A frivolous suggestion with a strong message – the notes are very important and often overlooked. Certainly, all the commercially available accounting databases have incomplete coverage of the notes.

Archived annual reports also provide the rich text which accompanies annual financial statements. Therein lies an explanation for changes found in the numbers and importantly a section on prospects for the coming year. Analysts and Researchers alike can get information on company strategy, key directors and their ownership of stock and stock options, divisional performance, key economic factors affecting the business and a whole lot more. They are a particularly valuable resource for strategy and marketing researchers. It can also be a useful way of checking the validity of forecasts made by directors. The operational review and outlook for coming year sections often promise improvements which may or may not materialise!

One of the problems with Electronic datasets of Accounts is that they naturally have to define a limited number of fields and then allocate actual company data to the predefined fields. This can lead to a loss of meaning, or worse still, misclassification. Archived annual reports offer the opportunity to see the actual disclosure and any textual explanation, but at the price of significant extra search costs.

Previous UK research on databases has identified potential problems of accuracy (e.g. Al-Qudah and Strong, 1991). No doubt the Electronic Databases have improved over the years but there is no substitute for the actual source data: the annual report.

Dr Nick Collett
Lecturer in Financial Management
Manchester Business School

Reference:

Al-Qudah, K and Strong, N,(1991), "A comparison of Exstat and Datastream Databases"
in Databases for Accounting Research, ed. Board, Pope and Skerratt, Institute of
Chartered Accountants in England and Wales.