The readability of footnotes in annual reports

The purpose of this study was to determine the readability of footnotes to the average stockholder. The study consisted of two major issues: the traits of the average stockholder and the readability of annual reports, in particular, footnotes. The portrait of the average stockholder is impressive. The stockholder is more highly educated than the average U.S. citizen, is theoretically capable of reading material from a "difficult" to "very difficult" level because of educational attainment, and shows an increasing interest in various sources of financial information, especially, in financial statements. These positive traits are tempered by the stockholder's reading preference and financial background. Reading material one or more degrees below actual educational attainment level is preferred. Education or experience in technical matters is lacking. Readability of financial information is therefore especially important to ensure the average stockholder's comprehension. An effort has been made to provide readable financial communication. Originally, annual reports were scant in content and gruesome in format. The accounting profession was one of the forces behind content and format changes to improve annual reports. However, some professionals (e.g. financial analysts and professors of accounting) expressed dissatisfaction. One common criticism was that annual report changes, in particular the increased content, decreased annual report readability to the average stockholder. Quantitative measures of readability were also made. Readability formulas (e.g. Flesch and Dale-Chall formulas) were applied to narrative portions of footnotes. Low reading ease scores indicated poor readability of these narrative portions. The present study measured footnote readability in quantitative and qualitative terms. Quantitatively, using the Flesch formula, reading ease scores were low due to sentence, and especially, word length. Qualitatively, using the stylistic advice of Strunk-White, low readability was due to writing techniques involving word choice, sentence structure, and punctuation. Conclusion. Footnotes are by nature difficult to understand because of their highly technical content. This content consists of narrative elaborations of previously presented quantitative data. Writing readable footnotes is therefore a challenge to the accountant. The importance of footnote readability is dual. For the stockholder, it facilitates decision-making by providing essential information. For the business enterprise, it facilitates capital formation. The average stockholder is more likely to provide funds to a sound enterprise whose operations were described in a readable, and by extension, understandable manner.

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The footnotes present required disclosures, accounting methodologies used, any modifications to methodologies from previous reporting periods, and upcoming transactions that may affect future profitability. Footnotes are important for investors and other users of the financial statements as they may reveal issues with a company’s financial health. 0:56. Footnotes To The Financial Statements. Understanding Footnotes to the Financial Statements. Types of Footnotes to the Financial Statements. Footnotes may provide additional information used to clarify various points. This can include further details about items used as a reference, clarification of any applicable policies, a variety of required disclosures, or adjustments made to certain figures. Annual reports led by publicly traded rms pursuant to the Securities Ex-change Act of 1934, Form 10-Ks, are the primary source of information for capi-tal market participants such as shareholders, creditors, and nancial analysts. The readability and other textual properties of nancial disclosures thus have a great impact on the effective communication of valuation-relevant information between the rm and the market (Loughran and McDonald (LM) (2014)). Yet an important question remains unanswered: Does the readability of an annual report matter to creditors and affect a rm’s borrowing cost? The answer to this question is crucial to understanding the cost of less readable annual reports and the wealth implications for shareholders. What Are Footnotes? Pick up any financial report and you’ll always find references to the footnotes of the financial statements. The footnotes describe in detail the practices and reporting policies of the company’s accounting methods and disclose additional information that can’t be shown in the statements themselves. The financial statements in an annual report are supposed to be clean and easy to follow. To maintain this cleanliness, other calculations are left for the footnotes. The disclosure segment gives details about long-term debt, such as maturity dates and interest rates, which can give you a better idea of how borrowing costs are laid out. It also covers details regarding employee stock ownership and stock options issued, which are also important to investors. Tutorial updated in April 2019. Highlights. This tutorial provides information on the rules to be followed when creating notes and footnotes attached to graphs and tables in Statistics Explained articles and other publications. Full article. When describing information of a general nature which is applicable to all countries and/or years, it is recommended to use ‘Notes’. These should be placed first, before regular footnotes. This avoids introducing a footnote attached to the title. Ranking order or