



Pergamon

International Journal of Accounting
Information Systems 4 (2003) 185–203

INTERNATIONAL JOURNAL OF
**ACCOUNTING
INFORMATION
SYSTEMS**

Web-based financial statements: hypertext links to footnotes and their effect on decisions

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Received 4 October 2000; received in revised form 26 January 2003; accepted 28 January 2003

Abstract

During the past 20 years, researchers have explored how differences in presentation format of information affect user decisions. Recently, the Internet has provided a new vehicle for companies to distribute a variety of financial information, including financial statements and annual reports. This exploratory study examines the effect of different presentation formats on users' judgments by studying the effect of hypertext links on users' decisions and predictions, the amount of information accessed, and the time used to make decisions. Two test companies (one large, one small) were used in the study. For the large company, the results show no differences when using financial statements prepared with or without hypertext links. For the small company, significant differences were found in predictions, the amount of information accessed, and the time to make decisions. These findings imply that under some circumstances, the use of hypertext links in financial statements may affect users' judgment processes. © 2003 Elsevier Science Inc. All rights reserved.

Keywords: Financial statement presentation; Hypertext links; Internet; World Wide Web

1. Introduction

Hopwood (1996) suggests that while much research has been conducted concerning the accounting *content* of financial statements, limited research has been conducted in the area of presentation. One reason the research has been limited is because many of the technologies currently available to present financial statements were not available until recently.

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One current technology advance driving the presentation of financial information on the Internet is XBRL.¹ XBRL is an XML-based financial reporting language used to assist in the migration of traditional accounting information to the World Wide Web (Web). It is emerging as a financial reporting standard through the support of accounting firms, software companies, and professional organizations² (XBRL, 2003). The Australian Prudential Regulatory Agency (APRA), which regulates super funds, insurers, and banks, was the first regulator to adopt use of XBRL in October 2001 (XBRL News, 2001). Subsequently XBRL has been adopted by regulatory agencies and/or stock exchanges in other countries, including Canada, Germany, Hong Kong, Japan, the United Kingdom, the United States, Singapore, as well as by the International Accounting Standards Board (XBRL News, 2002).

For years, companies have provided corporate information over the Internet through the use of Web pages; tools such as XBRL will make it easier to extend providing current financial information via this medium. As users of financial information begin to rely on this delivery method for financial reporting, understanding the impact of the electronic delivery format options on users' decisions becomes important.

One important formatting feature available in many documents presented via the Web is hypertext linking. Using hypertext links, the presenter of a specific piece of data can provide a direct connection to additional relevant information that may be desired by the system user. Such linking is not automatic; to include hypertext linking in a document, the link must be planned, and created when the original information is displayed. Hypertext in financial reporting is discussed by Lymer et al. (1999) in their report on the implications of Web-based financial reporting, prepared for the International Accounting Standards Committee.

The current study moves the concept of format presentation into the era of on-line financial reporting—a concept that was not practically possible until the wide acceptance of the World Wide Web. The primary purpose of the current study is to investigate possible differences in impressions, decisions, and predictions that are made based on financial statements presented over the Internet in varied formats. The study also examines the differences in the amount of information used for decisions and the time taken to make the decisions.

The remainder of the paper is organized as follows. Section 2 reviews the previous literature. Section 3 details the theoretical basis and states the hypotheses. The research methodology is described in Section 4. Section 5 presents the data analysis, and Section 6 discusses the results and conclusions for the study.

2. Literature review

Three areas of prior literature are directly relevant to the current study. The first considers the electronic delivery of financial information. The second area concerns issues of presentation format while the third addresses the use of hypertext links.

¹ For detailed information regarding XBRL, see www.xbrl.org.

² At the time of this writing a search for “XBRL” at www.google.com returned approximately 8500 worldwide sites.

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