

The Impact of Readability of Financial Statements on the Speed of Adjustment of Commercial Credit of Companies¹

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Research Paper

INTRODUCTION

Trade credit is an important source of financing for companies. Financial managers are responsible for making decisions about the use of commercial credit in different economic conditions. Trade credit as a source of financing (vs. bank financing), although the most widely used in the market, has been largely neglected to date because it is not only one of the most important sources of financing for small firms and medium, but it is used for large commercial companies. Therefore, the current research seeks to trace the role of the readability of financial statements on the speed of adjustment of companies' commercial credit.

MATERIAL AND METHOD

To achieve the objectives of the research, a sample of 135 companies admitted to the stock exchange, which were selected according to the systematic exclusion pattern, was collected for a period of 13 years from 2010 to 2022. To test the research hypotheses, a multivariate regression model with the generalized moments approach (GMM) was used. To measure the speed of trade credit adjustment, the model previously developed by Lu (2022) and Aflatooni et al (2022) and to measure the readability of financial statements, the Fog index was used.

RESULTS AND DISCUSSION

The results of the research hypothesis test showed that the speed of adjustment of commercial credit in the research sample is about 70%, that

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is, companies can compensate 70% of the gap created in each year to optimal commercial credit. Also, the readability of financial statements affects the speed of adjustment of commercial credit, and by improving this factor, the speed of companies achieving optimal commercial credit will increase. The current research provided evidence that shows that less complexity of financial statement information for credit users and suppliers can increase the speed of commercial credit adjustment in reaching the target commercial credit.

CONCLUSION

In many research and financial texts, it has been pointed out that the basis of decision-making by capital market actors, including creditors, is the same financial statements sent by companies to the capital market, and when these statements and reports are fewer complicated and the management language is understandable for users and the contents are clear and detailed, surely the creditors will be more willing to grant credit to the company and this can help the company achieve facilitate such financing.

Keywords: Target commercial credit, Commercial credit adjustment speed, Readability of financial statements, Quality of providing financial information.

JEL Classification: G32, G33, H81.

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