

# An analysis of the growing length of the annual reports

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**Abstract:** *With the advent of the Internet and the information age, more and more information has been discovered and received by people. As the carrier of corporate information, financial statements are becoming longer and longer in order to meet the demands of information users and achieve the requirements of accounting information quality. This paper would adopt case analysis through selecting three groups, AstraZeneca, Barratt Developments and Hikma Pharmaceuticals with great influence in the UK. And it would use the financial reports from different financial years of them to explore the changes in the length of the reports and analyze the reasons for these changes. Finally, combined with the demands of information users, the influence caused by these changes would be analyzed.*

**Keywords:** *Length of Annual Reports, Narrative Reports, Accounting Standards, Accounting Harmonization, Special Items*

## 1. Introduction

Financial reports could be regarded as specifications of financial conditions of enterprises, to some extent. They reflect the financial position and operating results of the enterprise, including the elaboration of the company's strategies, financial statements, and other information related to the company, conforming to accounting standards and the financial reporting conceptual framework (Yu, 2019)<sup>[9]</sup>. In short, financial reports are the financial information carriers and provide effective accesses for information users to touch information.

As mentioned earlier about the relationship between information users and annual reports, the content of financial reports may connect to the information users' demand. Undoubtedly, other factors may also cause changes in the length of reports. For example, when it comes to the reporting environment in the UK, it is inevitable to consider its nature accounting regulations, FRS. Back in 2013, FRS100, 101,102 were issued to reduce relevant disclosure (pwc.com, 2013)<sup>[6]</sup>, however, the length of reports still increases yearly. As for the specific reasons, AstraZeneca (AZN), a representative company in the pharmaceutical industry, will be taken as the main example to analyze and compared with other companies in the same industry, and in other industries from narrative and financial aspects. In the remaining parts, this essay analyzes the impact of longer reporting and gives suggestions on how to overcome the problems caused by the overlength of reports.

## 2. Reasons for increase in length

The reasons for longer annual reports may consist of three. The first is about the length of narrative reports. The second is related to the improvement of accounting standards. The last one is summarized into other items about specific items in that financial year (FY) and the scale of the company.

### 2.1 The growth of narrative reports

With the development of enterprises, complex businesses increase, and enterprises would face a more complex business environment. The company needs to disclose more environmental information, to ensure reflect information fairly and truly. At the same time, to evaluate whether the management better fulfills their accountability in this increasingly complex business context, narrative reports should include more performance indicators (Iasplus.com, 2010)<sup>[7]</sup>. These actions would increase the length of the narrative reports, and then lead to an increase in the overall length of annual reports. This point could be seen through the length of AZN's narrative reports shown in Table1 and Note 1 below.

Table 1: The length of each part in AZN's annual reports

FY	Note	2000	2010	2020
Pages of overall reports		132	220	284
Pages of financial statements		86	101	116
Pages of independent auditor's report	Note2	1	1	9
Pages of narrative parts (Note1)	Note1	46	119	168

**Note1:** It is obvious that from 2000 to 2010, the structure of AZN's narrative report has changed. Compared with 2000s, 2010's narrative report was more detailed, as evidenced by the contents. The narrative report in 2000 only had Operational Review, while until 2010 it has been divided into Business Review and Corporate Governance, including more information. By 2020, compared with 2010, the Corporate Governance part of the narrative report has not changed, while the Business Review part has become Strategic Report. Such a change would provide more information that had significant impacts on the business during the year, such as COVID-19 and key performance indicators being singled out in the 2020 Strategy Report.

**Note2:** Between 2010 and 2020, there was a dramatic increase in the number of pages of AZN's audit reports, mainly because of the importance of the external audit role. According to the Deloitte website, Audit tendering changes took place successively, and the EU Audit Regulation was promulgated after 2015. This has led to independent audits being bound by more guidelines and their reports becoming longer. As part of the financial statements section, the length of the independent auditor's report increases, so does this section and the whole report.

## 2.2 The influence of improvement of accounting standards on financial statements part

Financial reports are prepared under the relevant laws and accounting standards. With the improvement of the accounting standards, financial information presented through the reports is more detailed and needs more space in reports (Deloitte.com, 2015)<sup>[1]</sup>. The influence of the improvement and the change of the accounting standards is analyzed below under the reporting environment in the UK.

### 2.2.1 The impact of the development and harmonization of standards

The development and harmonization process of accounting standards in UK is shown in Figure 1 below.

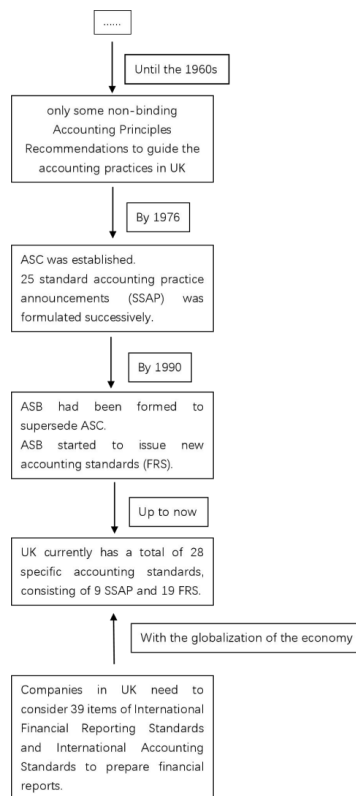


Figure 1: The development and harmonization process

Increasingly improved accounting standards require more disclosure to take up more space in reports. At the same time, to ensure the quality of this information, it is increasingly important for external auditors to give opinions from an independent and professional perspective (Deloitte.com, 2015)<sup>[1]</sup>. Therefore, longer independent auditors' reports try to provide professional opinions. These could also be observed by the length of AZN's audit report in Table 1 and Note 2 shown above.

### 2.2.2 The impact of the change of accounting standards

When the new standards are adopted, the financial reports should disclose them (Glaum, et.al, 2013)<sup>[5]</sup>. While the greater the impact is brought by the adoption, the more information needs disclosing and the length of the financial reports would increase synchronously. Taking Barratt Developments PLC (BDEV), a famous Household Goods and Home Construction group in the UK, and AZN as examples to analyze. BDEV and AZN have both mentioned IFRS 15 would replace IAS 8 in FY17's annual report and produced impacts in FY18 and FY19. Because of the explanation of the change, the length of the standards changes part would increase. And due to the duration of the revenue reorganization of BDEV are almost more than one year, the impact of IFRS15 would be larger and relevant disclosure would be longer. And this could be proved by Table 2 combined with Note 3 and Note4 below.

Table 2: Length of BDEV and AZN's annual reports

FY	Note	2017	2018	2019
Pages of BDEV's report		180	186	214
Pages of AZN's report		244	248	276
Pages of BDEV's accounting standards change part	Note3	1	3	7
Pages of AZN's accounting standards change part	Note4	2	6	3

**Note3:** The effect of the new standards on the length of the annual report is already evident in the number of pages. It is worth noting that the standards have taken up more space in the years that produce influence because they have been mentioned so many times. For example, IFRS 15 was mentioned 4 times in the 2017 annual report of BDEV, 7 times in 2018, and 41 times in 2019.

**Note4:** One of IFRS 15's obvious features is the application of the 'five-step model', especially in the construction contract, which has a greater impact on the revenue recognition with a duration of more than one year. Compared with AZN, whose payback period for most income is less than a year, B's most is longer than one year, due to the characteristics of its industry. Therefore, the change of revenue standards has a greater impact on BDEV, and it also takes longer length to explain this matter than AZN.

### 2.3 The impact of the special items

Many enterprises have been impacted by COVID-19 in FY2020, and AZN is no exception. This Black Swan event was referred 262 times in FY2020 financial report, including, responses to the COVID-19 pandemic in Strategic Report, the development of the vaccine innovation to contribute to revenue growth mentioned in performance part, and forecasts of the continued influence of COVID-19 in Important Information and so on. And this was also mentioned in Note1 in the appendix. Thus, disclosure of these issues is a motivation for a longer annual report from 276 pages in FY2019 to 288 pages in FY2020.

### 2.4 Large business scale with longer reports

A large business scale is accompanied by a large amount of information. Compared to Hikma Pharmaceuticals PLC (HIK) with a smaller scale in the same industry (finance.eastmoney.com, 2010)<sup>[8]</sup>, the report length of AZN has always been longer than that of HIK. Because AZN's scale has always been larger than HIK's and it needs to disclose more information. While more information needs to be carried by longer annual reports, so one of the reasons for the longer annual reports may be the expansion of enterprise size. This could be seen in Table3 below.

Table 3: Length of AZN and HIK's annual reports

FY	2018	2019	2020
Pages of AZN's report	248	276	288
Pages of HIK's report	180	180	180

### 3. Implications of increase in length

Longer reports mean more information. While the increased information has both benefits and problems for the users. And the enterprise as the preparer and provider for the financial reports, also affected by the increase to some extent.

#### 3.1 The benefits of the increase

Longer reports mean enterprise needs to gather more information to prepare, and users have access to more information. Profoundly, the expansion of information contact means the weakening of information asymmetry (Brown and Hillegeist, 2007)<sup>[3]</sup>. And the benefits for different stakeholders would be analyzed in detail as follows.

For the enterprise, the process of preparing the annual report is the process of reviewing the company, through which the preparers can more clearly grasp the business situation of the enterprise. And the relevant managers could response to the operating conditions timely, so that the enterprise to make wise decisions to adjust the business strategy. For the management, they could evaluate whether their performance and fiduciary duties have been done well through the key performance indicators. For employees, they could know about the development status of the enterprise and further predict their career prospects through the data and information they have access to. For investors, they could access the financial situations of enterprises and make decisions to protect their rights and interests. For the regulatory authorities, they could implement the preliminary judgment of whether the enterprise complies with the laws and regulations. For the public, they could judge the performance of corporate social responsibility in this aspect through the description of corporate social responsibility in the narrative report, and then exercise the right of public supervision.

In short, all these benefits would be strengthened when companies provide longer reports with more information.

#### 3.2 The problems caused by the increase

Although the longer annual reports may have the above benefits, the problems caused by the overload of information should not be ignored. And the problems may focus on the disturbance of the clutter of information with less linkage (Iasplus.com, 2009)<sup>[2]</sup>. And the detailed analysis from various aspects is shown below.

For the enterprise, preparing longer financial statements means finance departments should invest more time, effort, and costs for it. As a result, the costs of preparing longer reports may outweigh the benefits brought by longer reports.

For the information users, longer reports mean more information is presented in some ways. While much information would make it difficult for users to capture the important information they need. Taking the corporate social responsibility part described in AZN's narrative report in 2020 as an example, this part appears repeatedly in many smaller units of the strategy part, and its content is like that in the sustainability report issued on the company's official website. Therefore, information duplication and confusion would be caused to users, because of the overload of information.

For the annual report itself, excess, messy, and illogical information would make it unable to play its due role (frc.org.uk, 2011)<sup>[4]</sup>. In detail, this kind of information may affect the quality of the accounting information presented, and further affect the quality of the annual reports. Therefore, the annual report mixed with too much invalid information would destroy the usefulness of the annual reports and accounting to some extent.

### 4. Conclusions

As analyzed above, the main reasons for the longer annual report are: from the enterprise's external

perspective, mainly due to the improvement of accounting standards and the change of business environment; from the enterprise's perspective, mainly due to the expansion of the scale. Although there are benefits brought by longer statements, problems caused need to be overcome. This essay tries to propose the following three solutions.

Primarily, to overcome this problem without compromising the benefits of lengthening described above, companies could take advantage of nowadays increasingly widespread use of information technology to ensure that information users have adequate access to information ordinarily and reduce the information amount in the final annual reports.

Secondly, two versions of the annual reports, 'Brief' and 'Detailed', could be prepared for users to choose according to their needs, to reduce the distress caused by information overload. And importantly, companies should take the cost-benefit principle into account when implementing the methods provided above.

Thirdly, it is effective to specify the content of narrative reports. It is necessary to make it clear to the organization what is necessary and what could be avoided in providing this information. In this way, the internal logic and readability of the report could be increased, and the searching efficiency of users could be further improved.

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