

Study on The Influence of The Quality of Financial Statements on The Valuation of Enterprises

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Abstract: As a reflection of economic activities of enterprises, the quality of financial statements has an important impact on the accuracy and reliability of enterprise value assessment. This paper studies the concept of the quality of financial statements, the impact of the quality of financial statements on the valuation of enterprises and how to improve the quality of financial statements. Firstly, through the definition and connotation of the quality of financial statements, the characteristics of high-quality financial statements should be clarified. Secondly, it analyzes the influence mechanism of the quality of financial statements on the enterprise value assessment, and discusses how the quality of financial statements affects the accuracy and reliability of the enterprise value assessment. Finally, combined with empirical analysis and case analysis, this paper puts forward specific countermeasures and suggestions to improve the quality of financial statements, including improving the internal control system, strengthening financial management, improving the quality of accounting personnel and strengthening audit supervision. The research results of this paper are helpful to improve the quality of financial statements, so as to improve the accuracy and reliability of enterprise value assessment.

Key words: financial statement quality; Enterprise value assessment; Influence; enhance

1 Introduction

With the development of market economy, enterprise value evaluation plays a vital role in investment decision, enterprise merger and acquisition, financial management and so on. The accuracy and reliability of enterprise value assessment directly affect the interests of investors and the healthy development of the market. As the main information source of enterprise value assessment, the quality of financial statements has an obvious impact on enterprise value assessment.

This paper studies the concept of the quality of financial statements, the impact of the quality of financial statements on the evaluation of enterprise value and how to improve the quality of financial statements, aiming at providing useful reference for the evaluation of enterprise value in China. Firstly, through the definition and connotation of the quality of financial statements, the characteristics of high-quality financial statements should be clarified. Secondly, it analyzes the influence mechanism of the quality of financial statements on the enterprise value assessment, and discusses how the quality of financial statements affects the accuracy and reliability of the enterprise value assessment. Finally, combined with empirical analysis and case analysis, this paper puts forward specific countermeasures and suggestions to improve the quality of financial statements, including improving the internal control system, strengthening financial management, improving the quality of accounting personnel and strengthening audit supervision. The research results of this paper are helpful to improve the quality of financial statements, so as to improve the accuracy and reliability of enterprise value assessment.

2. Concept and connotation of the quality of financial statements

The quality of financial statements refers to the authenticity, accuracy, completeness, timeliness and reliability of economic activities reflected in financial statements. High-quality financial statements should be able to objectively and truly reflect the financial status, operating results and cash flow of the enterprise. The connotation of the quality of financial statements includes the following aspects:

(1) Authenticity: The financial statements shall truly reflect the economic activities of the enterprise, and shall not distort, tamper with or conceal the facts. The data and information in the report shall be consistent with the actual economic activities, and there is no false record.

(2) Accuracy: Financial statements should accurately reflect the financial position, operating results and cash flow of the enterprise. The data and information in the statement shall comply with the relevant accounting standards and accounting policies to ensure that the calculation is correct and the verification is correct.

(3) Integrity: Financial statements should fully reflect the economic activities of the enterprise, without missing any important information. The statement should contain all the information related to the financial status, operating results and cash flow of the enterprise, so that users can fully understand the economic status of the enterprise.

(4) Timeliness: Financial statements should be prepared, reviewed and disclosed within the prescribed time. The disclosure of the report should meet the needs of users for timeliness, so that users can make decisions in an appropriate time.

(5) Reliability: The financial statements should have a high degree of reliability, that is, the data and information in the statements are highly reliable. The reliability depends on the preparation process of the statement, the professional quality of the statement preparation personnel and the audit opinion of the audit institution.

In short, the quality of financial statements is an important indicator to reflect the authenticity, accuracy, completeness, timeliness and reliability of economic activities of enterprises. High-quality financial statements help users better understand the financial status of enterprises, and provide accurate and reliable information basis for investment decisions, mergers and acquisitions, financial management, etc.

3. The impact of the quality of financial statements on enterprise value assessment

The impact of financial statement quality on enterprise value evaluation is mainly reflected in the following aspects:

3.1 Accuracy of impact assessment results

Financial statement is an important source of information for evaluating enterprise value, and its quality directly affects the accuracy of evaluation results. If there are quality problems in financial statements, such as untrue and inaccurate data, the evaluation results will deviate from the real value of the enterprise, thus affecting the decision-making of investors.

3.2 Reliability of impact assessment results

High quality financial statements can improve the reliability of evaluation results. The reliability of financial statements mainly depends on the preparation process of the statements, the professional quality of the statement preparers and the audit opinions of the audit institutions. If the quality of financial statements is low, it will reduce the reliability of the evaluation results and increase the investment risk of investors.

3.3 Affect the reputation of the enterprise

The quality of financial statements reflects the financial transparency and integrity of an enterprise. High-quality financial statements help to establish a good reputation of the enterprise, improve the financing ability of the enterprise in the capital market, and thus improve the value of the enterprise.

3.4 Affect the business decision of the enterprise

Financial statement is an important basis for business management to make business decisions.

High-quality financial statements can provide the management with accurate and comprehensive information, help to make the right business decisions, and thus improve the value of the enterprise.

3.5 Affect the regulatory environment of enterprises

High-quality financial statements can reduce the regulatory risks of enterprises and avoid adverse consequences such as regulatory investigations and penalties caused by the quality problems of financial statements, which is conducive to the stable development of enterprises and improve the value of enterprises.

In short, the quality of financial statements has an important impact on the evaluation of enterprise value. Improving the quality of financial statements helps to improve the accuracy and reliability of enterprise value assessment, so as to provide better decision basis for investors and promote the development of capital market.

4 Case Study

The quality of financial statements plays a crucial role in the evaluation of enterprise value. This paper discusses how to improve the quality of financial statements of a listed company to improve the accuracy and reliability of enterprise value assessment by analyzing the impact of the quality of financial statements on enterprise value assessment.

4.1 Case Background

A listed company (hereinafter referred to as "A Company") has achieved rapid performance growth in recent years, attracting the attention of many investors. However, in 2019, Company A was exposed to major quality problems in its financial statements, including inflated income and hidden debts. This incident caused the stock price of A company to plummet, the market value of billions of yuan evaporated, and investors' interests were seriously affected.

4.2 Case Analysis

(1) The impact of the quality of financial statements on the evaluation results: Before the outbreak of the problem of the quality of financial statements, the financial statements of Company A showed stable growth in performance and high market valuation. However, after the problems came to light, Company A's financial statements were re-audited and its actual performance was found to be much lower than previously disclosed figures. This led to A company's enterprise value assessment results significantly decreased, and investors questioned its value.

(2) The impact of the quality of financial statements on investors' decisions: Before the outbreak of the problem of the quality of financial statements, many investors made investment decisions based on the high-quality financial statements of Company A. However, after the problems came to light, investors found themselves making bad investment decisions based on untrue financial statements, resulting in investment losses.

(3) The impact of the quality of financial statements on corporate reputation: The quality of financial statements is an important reason for the damage of Company A's reputation. After the exposure of the problem, Company A was questioned by the media and investors about its financial transparency and integrity, which led to the decline of its financing ability in the capital market and further affected its corporate value.

4.3 Conclusions and Suggestions

Improve the quality of financial statements: enterprises should strengthen internal control to ensure the authenticity, accuracy and integrity of financial statements. At the same time, improve

the professional quality of accounting personnel, strengthen the preparation of financial statements and audit work.

Strengthen supervision: The regulatory authorities should strengthen the supervision of the quality of financial statements and impose severe penalties on enterprises with quality problems to protect the interests of investors.

Improve investor education: Investors should strengthen their understanding of the quality of financial statements and learn to analyze financial statements to avoid making wrong investment decisions due to the quality of financial statements.

Improve the enterprise value evaluation system: When evaluating the enterprise value, the quality of financial statements should be taken as an important consideration to reduce the deviation between the evaluation results and the real value of the enterprise.

Through the above case analysis, we can see that the quality of financial statements has an important impact on the evaluation of enterprise value. Improving the quality of financial statements helps to improve the accuracy and reliability of enterprise value assessment, so as to provide better decision basis for investors and promote the development of capital market.

5 How to improve the quality of financial statements

Improving the quality of financial statements is the key to ensure the transparency of corporate information disclosure, safeguard the interests of investors and promote the healthy development of capital market. Here are some suggestions for improving the quality of your financial statements:

(1) **Strengthen internal control:** Enterprises should establish a sound internal control system to ensure the authenticity, accuracy and integrity of financial statements. The internal control system includes reasonable organization structure, clear division of responsibilities, perfect business process and effective supervision mechanism.

(2) **Improve the quality of accounting personnel:** enterprises should select accounting personnel with professional quality and professional ethics, strengthen the training and continuing education of accounting personnel, ensure that they are familiar with relevant accounting standards and policies, and master the correct preparation method of financial statements.

Improve the audit of financial statements: Enterprises should conduct regular audits of financial statements to ensure the independence and professionalism of audit institutions. Auditing institutions should strictly follow auditing standards, conduct objective and impartial auditing of financial statements, and reveal potential risks and problems.

(3) **Establishment of information disclosure system:** Enterprises shall establish and improve information disclosure system to ensure timely, complete and accurate disclosure of financial statements. Information disclosure system should include information collection, sorting, review, disclosure and feedback and other links.

Strengthen external supervision: the regulatory authorities should strengthen the supervision of the quality of financial statements, severely punish enterprises with quality problems, and severely crack down on violations of laws and regulations. At the same time, strengthen the coordination with other regulatory departments, form a joint force, and jointly maintain the order of the capital market.

(4) **Strengthen internal incentives and constraints:** Enterprises should establish scientific and reasonable performance appraisal and salary incentive systems, link the quality of financial statements with the interests of employees, and stimulate the enthusiasm and responsibility of

employees to improve the quality of financial statements. At the same time, strengthen the internal supervision and accountability of the quality of financial statements to ensure that the quality of financial statements is effectively guaranteed.

(5) Promote the informatization of financial statements: enterprises should strengthen the informatization of financial statements, use modern information technology means, and improve the efficiency of the preparation, review and disclosure of financial statements. The informationization of financial statements helps to improve the quality of financial statements and reduce the risk of human error and fraud.

To sum up, improving the quality of financial statements requires the joint efforts of enterprises, accountants, auditors, regulators and investors. Only when all parties assume their due responsibilities, can we ensure that the quality of financial statements is effectively improved, and provide a reliable information basis for enterprise value assessment and capital market development.

6 Conclusion

By studying the impact of financial statement quality on enterprise value assessment, this paper draws the following conclusions:

(1) The quality of financial statements has an important impact on enterprise value assessment. High-quality financial statements can provide accurate and comprehensive information, which helps evaluators to make correct enterprise value assessment results.

(2) Problems in the quality of financial statements, such as inauthentic and inaccurate data, will lead to deviations from the real value of enterprises, thus affecting investors' decision-making.

(3) Improving the quality of financial statements is the key to ensuring the accuracy and reliability of enterprise value assessment. Enterprises should strengthen internal control, improve the professional quality of accounting personnel, improve the audit of financial statements, strengthen information disclosure and external supervision, so as to improve the quality of financial statements.

(4) Investors should strengthen their understanding of the quality of financial statements and learn to analyze financial statements to avoid making wrong investment decisions due to the quality of financial statements.

The regulatory authorities should strengthen the supervision of the quality of financial statements and impose severe penalties on enterprises with quality problems to protect the interests of investors.

To sum up, the quality of financial statements has an important impact on enterprise value assessment. Improving the quality of financial statements helps to improve the accuracy and reliability of enterprise value assessment, so as to provide better decision basis for investors and promote the development of capital market. Enterprises, accountants, auditors and regulators should work together to strengthen the guarantee of the quality of financial statements so as to promote the accuracy and reliability of enterprise value assessment.

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