

# The Accuracy and Orientation of Consumers in Their Understanding of Selected Financial Terms

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## Abstract

*This study examine consumers' accuracy in understanding the meaning of selected financial terms, together with the orientations of such understanding. Evidence is provided of the denotative meaning accorded to financial terms found in corporate reports, using the instrument developed by Haried (1972, 1973) and further adapted by Chudry et al. (2000). To ensure effectiveness in the use of financial information for consumer decisions such as the placing of a purchase order or the reasonableness of a purchase price, it is necessary that the consumers of corporate goods and services understand the intended meaning of key financial terms communicated by corporations. The research issue addressed in this study is the extent to which consumers in the general public understand the meaning of financial terms portrayed in financial statements. A survey was conducted amongst three groups: public shoppers, non-accounting students and accounting students. The results of the study suggest that there were mixed levels of understanding amongst these groups. In general, the public shoppers claimed that they understood basic financial terms such as "profit" and "turnover". There were also different results for the public group that were investors and those who were not. Being inves-*

*tors in shares made them more accurately informed of selected financial terms. The belief orientations of the public non-shareholder group was somewhat linked to consumerism.*

## Introduction

Information is one of the most valuable resources that any business possesses. Since businesses are economic entities, much of the information of relevance to their management and stakeholders will be in financial form. A long established definition of accounting is that it is "the process of identifying, measuring and communicating financial information to permit informed judgments and decisions by users of the information" (American Accounting Association, 1966). Financial information is formally communicated by listed companies to their internal and external users through the financial statements produced in annual reports and prospectuses and through stock exchange announcements or press releases. Among the present and potential users are shareholders, lenders, suppliers, board of directors, consumers, employees, financial analysts, brokers, lawyers, regulatory authorities, labor unions, the financial press, conservationists and others interested in specific social and economic issues. To ensure effectiveness in the use of

