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Studying the Effect of Managers' Financial Education Level on Financial Reporting

Tina Malekolkalami[1]

[1] *MSc, Accounting, Faculty of Accounting, Islamic Azad University, Tehran West Branch. Email: tina_malek_1369@yahoo.com, ORCID: 0000-0002-9737-2331*

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ABSTRACT

Purpose: In this context, the current research has sought to identify the state of application and training of fair valuation accounting in banks with a qualitative approach. In this perspective, the impact of fair value accounting on the efficiency of banks is useful in making policy decisions in order to maintain the stability of the financial system through healthy banks.

Method: Using a systematic review approach, the researcher analyzed the results and findings of previous researchers and identified the effective factors. 39 articles were selected in reliable databases.

Findings: The identified categories are: the main criteria are flexibility, supervision, rules and regulations, organizational conditions, knowledge and training, government factors, needs assessment, economic growth and performance transparency; Therefore, by combining these 9 criteria, all of which have certain sources and repetitions, it is possible to identify these conditions, therefore, to study how to implement fair value accounting methods on the efficiency of banks in different stages of the business cycle or economic conditions for policy makers to understand the health of banks as well as stability.

Conclusion: The financial system is essential. If fair value accounting practices improve banks' efficiency relative to historical cost principles, the additional improvement created by using unrealized gains can be used to generate higher returns on banks' credit portfolios. Credit growth depends on the capital level of each bank. **©authors**

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1. Introduction

Accountability demand respect for human rights (Lusardi, 2019). It is relevant at different national levels and commercial enterprises. Managers, in front of investors, creditors, and other interested parties, are obliged to inform them about the use of economic resources and the results of the business unit's operations by providing timely, transparent, and reliable information and the possibility of making decisions and judgments. provide them with logic (Call et al., 2017). It is not possible to make reasonable economic decisions and optimal allocation of limited and scarce resources towards the activities of being the top authority of timely, valid, and reliable information. Therefore, managers try to create predictable and stable results by choosing authorized accounting methods. Because, most investors and managers believe that companies that have a good profitability trend and their profit does not undergo major changes, have more value and more predictability and comparison compared to similar companies (Khawar et al., 2021).

The presence of transparent information due to the reduction of information asymmetry has an effective role in reducing financing and exchange costs and can lead to the facilitation of risk management, better identification of suitable investment opportunities, monitoring and disciplining managers, and facilitating the exchange of goods and services. To generate community savings and distribute wealth equitably (Call et al., 2017).

Financial reports are considered the most important set of financial information of companies and represent the results of their activities, and timeliness is considered one of the most important qualitative characteristics of financial information. In the sense that information should be available to users in the shortest possible time and as quickly as possible (Bamber et al., 2010).

All members of society are somehow affected by financial reporting; Because the flow of capital allocation is based on financial information provided through financial reporting (Asadi et al., 2013). Although the financial statements of companies are not the only source of financial information, currently audited financial statements are known as the most important source of providing financial information and should be of good quality, and this is possible when the factors that improve reporting financial information or the factors that reduce the quality of financial information are identified (Demerjian, 2013). Due to the expansion of international relations and the need to harmonize standards, Iran has also implemented international accounting and auditing standards. Many aspects of information production and presentation by companies are subject to regulations, and many of these regulations are regulated by accounting standards compilation institutions (Palangi & Gorganli, 2016).

Based on agency theory, financial reporting is considered a means of communication between companies and their owners. Management is responsible for financial disclosure (Call et al., 2017). Meanwhile, the characteristics of managers affect the quality of financial reporting. The level of financial education of managers causes the diversity of people's perceptions (individuals based on the type of their interests, obtaining positive or negative returns, etc.), from providing financial reporting. The level of financial education of managers forms the intellectual capital of the company. Based on the conducted studies, intellectual capital improves the financial indicators of companies. From the point of view of many scientists, management is one of the most important elements of any organization, and its proper management and planning play a significant role in the success and proper financial performance of the organization (Zhou et al., 2023).

Previous studies have examined the impact of other non-financial and qualitative variables on financial reporting (Demerjian et al., 2013). It can be said that the characteristics of the managers play a very important role in the quality of the company's financial reporting. For this purpose, the current research, inspired by the research of Call et al. (2017), considering the companies that are members of the Tehran Stock Exchange, tries to discover the role of financial education level of managers in financial reporting.

2. Literature Review

Sajadi (2008) presented a study entitled non-financial characteristics affecting the Quality of Financial Reporting in Companies Listed on the Tehran Stock Exchange. The results show that the size of the company, the age of the company, and the type of industry have a significant positive relationship and the ownership structure has a negative relationship with It has the quality of financial reporting, but the relationship between the type of audit firm and the quality of financial reporting was not statistically significant.

Asadi et al. (2013) presented research titled Investigating the Relationship between company characteristics and the Timeliness of interim financial reporting. The regression results show that during the research period, company size and profitability have a significant inverse relationship with the reporting time interval; That is, the larger the size of the company and the higher its profitability, the more timely its reporting will be. Darabi (2011), in a research on the components of intellectual capital, the effect of the two components of communication capital and human capital on the dependent variable of the quality of financial reporting is positive and significant, and the effect of structural capital on the quality of financial reporting is negative and significant. Hosseini et al. (2013) presented research entitled Improving Financial Reporting and Auditing. Finally, it was concluded that despite the high compliance of financial reporting standards with international standards, there are still many cases that cause the quality of financial and audit reports to decrease. Kamalian et al. (2012) presented research entitled the effect of Financial and non-financial variables on the quality of disclosure in companies admitted to the Tehran Stock Exchange. The regression results indicate that financial variables have a significant effect on disclosure quality and non-financial variables have no effect on disclosure quality. Madrasi et al. (2012) presented a research entitled the effect of the personalities of executive directors and financial managers on the quality of financial reporting. The research shows that the corporate governance structure designed in any company cannot achieve its desired benefits without considering the personalities of financial managers and executive managers. Athaaizad et al. (2013) presented the role of the audit committee in the quality of financial reporting. The main elements of the supply chain are financial reporting. that the audit committee and internal auditors and independent auditors can contribute a lot to the quality of this report, our goal in this research is to present theoretical discussions regarding the role of the audit committee in order to increase the quality of financial reporting. Moradi and Zakipour (2013) presented research titled Investigating the Role of ethical management, internal audit performance, and Ethical Tendencies on Accounting and financial reporting performance. The findings show that the probability that the accountant will commit an unethical act is less in the presence of weak ethical management and strong internal audit performance compared to other conditions. In general, the results indicate that people's ethical tendencies are effective in their ethical financial reporting decisions and in preventing unethical practices.

Bai et al. (2014) presented a study titled Study the Impact of Financial Factors on Financial and Tax Reporting Decisions in Companies Admitted to the Tehran Stock Exchange. Companies with more long-term financing are more likely to achieve an aggressive type of financial reporting, while companies with higher deficits or better access to capital markets are more likely to achieve an aggressive type of tax reporting. It is expected that the results of presenting its practical implications to standard setters, auditors, and users of financial statements. Moradi et al. (2014) presented research titled Investigating Factors Affecting the Timeliness of Financial Reporting using Artificial Neural Networks and Decision Tree Techniques. The results show that the variables of ownership ratio of institutional shareholders, the number of major shareholders, industry, major auditor, acceptable opinion, etc., have the greatest effect on the consolidated report and equity return. Sharifi et al. (2015) presented a study titled investigating factors affecting financial and non-financial reporting in accounting. The research examines the relationship between some characteristics of the company and the duration of the implementation and completion of audit operations. The statistical population includes manufacturing companies accepted in the Tehran Stock Exchange and the period of 1387 to 1393. Pelangi et al. (2016) presented a study entitled the relationship between collateral assets and Investment with the moderating role of financial reporting quality. The findings of this research show that there is a significant relationship between the interactive effect of collateral asset value and the quality of financial reporting with investment. This issue can strengthen the analysis that companies increase the amount of investment by increasing the quality of their financial reporting in order to increase credibility. Shalchi et al. (2016) presented research titled The Relationship between the Characteristics of Expertise and Independence of Accounting Professionals of the Audit Committee and the Quality of Financial Reporting. It seems that it should be done through measures such as increasing the independence of the audit committee, having people with financial, accounting, and auditing expertise in the audit committee, and increasing the effectiveness of the audit committee in order to ensure the honest presentation of the financial reporting process and expanding the researches done in the field. The audit committee and its characteristics, more emphasis should be placed on improving the effects of the audit committee on the financial reporting process. Kelvi et al. (2016) presented a study entitled the impact of Investment in employee training on financial indicators, non-financial performance, and equity market value. The findings show that: there is a positive and significant relationship between investment in employee training with future sales (income), financial and non-financial performance, and market value of current equity. This is while there is no significant relationship between investment in employee training and current sales (income).

Iatridis (2010) presented a research titled International Financial Reporting Standards and Financial Statement Information Quality. This case shows that less information asymmetry and profit manipulation leads to the disclosure of more qualitative and informative information, and as a result, it will help investors to make informed and unbiased judgments. Poudel et al. (2014), presented a research entitled the adoption of international financial reporting standards in a non-colonial developing country: Nepal. Based on the findings of this study, the adoption of IFRS in Nepal is not influenced by the needs of local organizations, but by the organization. sponsors such as the Asian Development Bank, the International Monetary Fund and the World Bank. The findings of this study provide evidence that IFRS adoption is likely to be difficult due to the country's contextual environment. Lu et al. (2014) presented a research entitled the role of managers' intellectual capital in the company's financial performance. In the study of 34 insurance companies for the years 2006-2011, it was concluded that intellectual capital is significantly associated with the positive efficiency of the company. Their findings show that intellectual capital can make company rich. In this dynamic business world, managers of insurance companies must fully invest in intellectual capital to gain a competitive advantage. Tseng et al. (2015) presented a research entitled the role of intellectual capital in the company's financial capital. In this research, it has been shown that there is significant information about intellectual capital and financial capital in the cycle of different businesses. Intellectual capital that is moderated by different business cycles has more explanatory capacity. Uysal (2016) presented a research entitled the role of human resources in financial performance. In reviewing the data of 100 accountants and managers of 15 companies from India, it was concluded that human resources are one of the most important assets of an organization and its identification and disclosure helps to understand and accept the creation of wealth. Sung & Choi (2018), presented a research entitled the role of senior managers' orientation in the company's financial allocation. In this research, 163 Korean manufacturing companies were examined three times during a 5-year period, and the results emphasized that the performance The company and environmental changes have significant effects on the strategic orientation of senior management towards training and development, which in turn has led to the allocation of financial resources to training and development. Nurunnabi (2017), presented a research entitled auditors' perception of the implementation of International Financial Reporting Standards (IFRS) in a developing country. The results show that policymakers should focus on several factors for effective IFRS implementation, including low audit fees, lack of qualified accountants, lack of interest in IFRS by some company managers, culture of secrecy, and family-based private sector. Kall et al. (2017) presented a research entitled employee quality and financial reporting results. The results of the research show the impact of employee education registration on the company's financial reporting. Therefore, the research hypotheses are:

1- The level of financial education of managers has a significant relationship with the quality of accruals.
2- The level of financial education of managers has a significant relationship with the quality of internal control.

3. Method

Equations
Hypothesis 1: In order to measure the quality of accruals, Dichau et al.'s (2002) method is used:

$$AQ_{i,t} = \alpha_0 + \alpha_1 EDUC_{i,t} + \sum \beta_k MSA\ Controls + \sum \theta_j Other\ Controls + \sum \gamma_m IndustryFE + \sum \lambda_n Yeras\ FE + e_{i,t}$$

Hypothesis 2: In order to measure the quality of internal control, the research of McGor et al. (2012) is used:

$$\Pr(ICW_{i.t} = 1) = \Theta(\alpha_0 + \alpha_1 EDUC_{i,t} + \sum \beta_k MSA\ Controls + \sum \theta_j Other\ Controls + \sum \gamma_m IndustryFE + \sum \lambda_n Yeras\ FE + e_{i,t})$$

The dependent variables

$AQ_{i,t}$: The quality of accruals: the focus of the accruals model of Dicho and Dicho (2002) is based on the accruals of capital in circulation, because the cash flows related to capital in circulation are generally realized within one year. Based on this, the operating profit is equal to the cash flows and related commitment items

$\Pr(ICW_{i.t} = 1)$: Quality of internal control: According to section 302 of the Sarbanes-Oxley law, the management is required to confirm the effectiveness of the internal control processes of the company. Section 404 of the Sarbanes-Oxley law, which has been in force since 2004, also requires the company's management to evaluate the effectiveness of the internal control structure; In the annual report of the company, the auditor expresses his opinion about it. The results of many studies indicate that the weakness of internal controls is related to the profit of the company and they introduce it as a sign of low quality profits.

Independent variables

$EDUC_{i,t}$:Education of board members

MSA :Average return on investment (ROA): It is calculated based on the return on investment formula.

$Other$:Type of ownership: specifies the type of ownership of the company (corporate, governmental, etc.).

$Industry$:Type of industry

$Yeras$:Size of the company: The size of the company is based on the year.

4. Findings

The summary of the descriptive statistics related to the research variables separately for each model after screening and removing outlier data is presented in Table 1. In this study, in order to remove outlying data, all variables have been winsorized at the 1% and 99% level (they are close to the floor and ceiling).

Table 1. *Descriptive statistics of research variables*

Scattering indices					Central indicators		variables and number of observations		
MAX	MIN	**Kurtosis**	Skewness	standard deviation	Middle	Average	observations	**Symbol**	Variable
0.302	-0.253	293/4	0.336	0.092	0.0033	0.008	720	**TCA**	Accrual items
1	0	063/1	0.251	0.496	0.000	0.437	864	**CV**	Profit smoothing
180/3	826/1-	820/5	1/000	0.771	0.094	0.196	864	**EARN**	Sustainability of profits
1	0	098/2	0/092	0.293	0.600	0.544	864	**EDUC**	The level of financial education of managers
152/18	165/11	910/3	0.750	351/1	786/13	970/13	864	**SIZE**	size of the company
034/2	0.365	0.504	-0.257	0.133	0.083	0.097	864	**ROA**	profitability
121/1	0.170	758/3	0.373	0.210	0.623	0.620	864	**LEV**	Financial Leverage

According to Table 1, the amount of accruals of the sample companies measured based on the accruals of Dicho and Dicho (2002) is equal to -0.0008 and the median is -0.0033. The standard deviation of this variable is equal to 0.092 and its skewness and kurtosis are 0.336 and 4.293, respectively, so it can be said that the data distribution of this variable is close to the normal distribution.

As stated in the previous part, the first hypothesis of the research will be estimated through model number (1) and using the panel data method:

$$TCA_{i,t} = \alpha_0 + \alpha_1 EDUC_{i,t} + \alpha_2 ROA_{i,t} + \alpha_3 LEV_{i,t} + \alpha_4 SIZE_{i,t} + \varepsilon_{i,t} \quad (١)$$

In this model, in order to be able to determine whether the use of panel data method in estimating the model will be efficient or not, Limer's F test is used and in order to determine which method (fixed effects or random effects) is more suitable for estimation than the test Hausmann was used. The results of these tests are shown in Table 2.

Table 2. *The results of model selection to estimate model (1) of the research*

P-Value	**Degrees of freedom**	**Test statistic value**	**Test statistics**	**Test type**
0.000	(572,143)	535/19	F	Limer's F test
0.000	4	108/1010	χ^2	Hausman test

According to the results of Limer's F test, since the P-value of this test is less than 0.05 (0.0000), the homogeneity of the origin is rejected and it is necessary to estimate the model using the data method. Also, according to the results of the Hausman test, since the P-Value of this test is less than 0.05 (0.0000), therefore, the fixed effects method should be used in the estimation. Table 3 presents the results of the estimation of the research model.

***Table 3**. The results of model estimation (1) research*

Dependent variable: accruals				
VIF	*P-Value*	t statistic	Coefficient	Variable
-	0.0491	1.972	2.4747	Fixed coefficient
1.043	0.0054	2.790	0.1599-	The level of financial education of managers
1.523	0.0000	49.079	11.767	profitability
1.576	0.0000	4.744	0.7661	Financial Leverage
1.092	0.4780	0.709	0.0614	size of the company
The adjusted coefficient of determination of the model is 0.8731				
33.512 0.000		Jarque-Bera (*P-Value*)	34.656 0.000	F (*P-Value*)
1.944		Durbin Watson's statistic	0.918 0.6451	White's test (*P-Value*)

According to the results presented in Table 3, the significance level (P-Value) of the t statistic related to the variable "managers' financial education level" is less than 0.05 (0.0054) and its coefficient is negative (-0.1599), so at the level with 95% certainty, it can be said that there is an inverse and significant relationship between the level of financial education of managers and accruals of companies. As the level of financial education of managers increases, the level of accruals decreases and the quality of accruals increases, so the first hypothesis of the research is confirmed at the confidence level of 95%.

In examining the overall significance of the model, considering that the probability value (P-VALUE) of the F statistic is smaller than 0.05 (0.0000), the overall significance of the model is confirmed with 95% confidence. The adjusted coefficient of determination of the model also indicates that 87.31% of the changes in accrual items of the companies are explained by the variables entered in the model. Also, in the examination of the assumptions of classical regression, the results of the Jarque-Bera test indicate that the residuals from the estimation of the model are at the confidence level. 95% do not have a normal distribution, so the probability value (P-VALUE) of this test is smaller than 0.05 (0.0000). In this connection, according to the high number of observations and the central limit theorem, it can be said that the data tend towards a normal distribution, and therefore, the non-normality of the distribution of the residuals can be ignored, while this issue is clearly evident in the analysis of the distribution of the residuals (dissertation appendix). Regarding the homogeneity of the variance of the residuals, considering that the probability value (P-VALUE) related to White's test is greater than 0.05 (0.6451), the homogeneity of the variance of the residuals of the model is confirmed. In addition, since the value of Durbin Watson's statistic is between 1.5 and 2.5 (1.994), the independence of the model residuals is also accepted. Regarding the collinearity between the variables of the model, since the value of the VIF statistic for all variables is less than 10, it can be said that there is no strong collinearity between them, and this assumption is also confirmed by the classical regression assumptions.

The second hypothesis of the research is also estimated through model number (2) and using the logistic regression method:

$$CV_{i,t} = \alpha_0 + \alpha_1 EDUC_{i,t} + \alpha_2 ROA_{i,t} + \alpha_3 LEV_{i,t} + \alpha_4 SIZE_{i,t} + \varepsilon_{i,t} \quad (2)$$

This test is the significance test of the model and it states whether the model fitting results are significant or not. In fact, the null hypothesis of this test is that the coefficients of all variables are zero. In examining the significance of the whole model, if the significance level (P-Value) of the precision ratio statistic is less than 0.05, the significance of the whole model is confirmed at the confidence level of 95%. Considering that the significance level of this statistic is equal to 0.0000 according to Table 4, it can be said that the whole model is significant at the 95% confidence level.

Table 4. *Likelihood ratio test of the research model*

Result	The significance level	statistics	Test
confirmation	0.0000	581/149	likelihood ratio

This index compares the value of the observed dependent variable with the predicted dependent variable based on the model, and if this difference is not significant, the goodness of fit is the result. If the probability value (P-Value) of this statistic is more than 5%, the hypothesis is accepted and indicates that the difference between the observed dependent variable and the predicted dependent variable is not significant and the goodness of fit has been achieved. The results of this test are presented in Table 5.

Table 5. *Goodness of fit test of the research model*

Result	The significance level	Statistics	Test
confirmation	0.003	3.743	Hosmer-Lemeshow

According to Table 5, since the significance level (P-Value) of this statistic is equal to 0.3574, it can be said that the goodness of fit of the model has been obtained.

In this section, according to the results of the likelihood ratio, goodness of fit and VIF tests, the model has been estimated. The estimation results are as described in Table 7. The value of the t statistic for the fixed coefficient equals 1.073 (meaningless), for the level of financial education of managers equals 0.712 (significant and positive), for company size equals -0.052 (meaningless), for financial leverage It is equal to -0.430 (meaningless) and for profitability it is equal to -111.8 (negative and significant).

Table 6. *Estimation of the logistic model of the second hypothesis of the research*

The significance level	Z statistic	Coefficient	Variable
1924/0	303/1	1.073	Fixed coefficient
0.0099	578/2	0.712	Education and training of managers
0.0000	8/816	8/111	profitability
0.3769	0.884-	- 0.430	Financial Leverage
0.3961	0.848	0.052	size of the company
0.1263			McFadden coefficient of determination

McFadden's coefficient of determination is the same as the coefficient of determination in normal regression and its range is between 1 and 0, so that the number one indicates the complete explanation of the observed variables by the model.

Based on the results presented in Table 6, since the significance level (P-VALUE) of the Z statistic related to the variable "managers' financial education level" is less than 0.05 (0.0099) and its coefficient is positive (0.712), so The hypothesis was rejected and at the confidence level of 95%, it can be said that there is a significant and direct relationship between the level of financial education of managers and profit smoothing, so that with the increase in the level of financial education of managers of companies admitted to the stock market, their level of smoothing increases. Therefore, the second research hypothesis is confirmed with 95% certainty.

5. Discussion

The purpose of this research is to investigate the effect of the level of financial education of managers on the financial reporting of companies admitted to the Tehran Stock Exchange. The education and training of managers has also been an independent variable. In general, there are 494 member companies of the stock exchange, based on the conditions of the research, 144 companies were selected using screening. Data collected using Tadbir software were analyzed by EVIEWS 7 software. Based on the results obtained at the 95% confidence level, it can be said that there is an inverse and significant relationship between the level of financial education of managers and accruals of companies. In such a way that by increasing the level of financial education of managers, the level of their accruals is reduced and the quality of accruals is increased.

Considering that managers' experience and knowledge affects the company's decisions, since managers with financial knowledge are more familiar with profit management standards and techniques, it is expected that they have more ability to manipulate and manage profits. The results of the present hypothesis showed that the level of financial education of managers has an inverse effect on accruals. In terms of theory, the ability of management has a direct relationship with the quality of accruals. While the results of this research are in conflict with this fact. This conflict between theory and reality in the Iranian market can be justified through the instability of economic conditions. Because in the conditions of instability, the ability of managers to estimate and judge in relation to factors related to future conditions, such as accruals, is greatly reduced. Based on the results obtained at the 95% confidence level, it can be said that there is a significant and direct relationship between the level of financial education of managers and profit smoothing, so that with the increase in the level of financial education of managers of companies admitted to the stock market, their level of smoothing increases. In general, managers of economic and commercial units try to intervene in the process of profit determination so that the profit figure is reported in line with their desired goals. Educated managers prefer low profits to volatile profits. Based on the obtained results, the following suggestions are provided:

Based on the results of the first hypothesis, investors are suggested to pay a lot of attention to the education and training of managers in order to invest. Managers with high education have financial expertise and try to provide quality accruals.

Considering that profit smoothing is one of the indicators of financial reporting and the level of financial education of managers has a positive effect on profit smoothing, investors are advised to pay close attention to the scientific qualifications of managers in order to invest, because according to the statistical results Research, the higher the level of financial education of the managers, the higher the profit smoothing.

6. Conclusion

In conclusion, the level of financial education among managers has a significant impact on financial reporting. As companies increasingly rely on financial reports to make strategic decisions, it is important for managers to have a deeper understanding of financial concepts and principles that are relevant to their industries. Managers with higher levels of financial education level are an important factor that affects financial reporting in organizations. The findings of our research suggest that managers who have a higher level of financial education are more likely to make informed decisions related to financial reporting, resulting in more accurate and reliable financial statements. High-level financial education enables managers to better understand the complex financial reporting policies and regulations, which ultimately results in better decision making.

However, it is important to note that having a high level of financial education alone may not necessarily guarantee accurate and reliable financial reporting. Other factors, such as ethical considerations and the company's culture, also play a significant role in ensuring the integrity of financial statements. It is, therefore, crucial for organizations to prioritize education on ethical principles and create a culture of transparency and integrity to complement the financial education of their managers. Overall, managers' financial education level is an essential factor to consider in ensuring the accuracy and reliability of financial reporting, but it is not a stand-alone solution.

To increase the level of financial education of managers and improve the quality of accruals, here are a few suggestions:

1. Provide training programs: Conduct training programs and workshops on various financial concepts and accounting practices to enhance the financial literacy of managers.

2. Encourage certifications: Encourage managers to obtain financial certifications such as Certified Public Accountant (CPA), Chartered Financial Analyst (CFA), or Certified Management Accountant (CMA).

3. Assign mentors: Assign financial mentors to help managers understand complex financial concepts and provide guidance on financial decision-making.

4. Foster a culture of financial transparency: Encourage managers to prioritize financial transparency and make it a core value in their decision making process.

5. Ensure access to financial experts: Establish a framework to ensure managers have access to financial experts for advice and guidance on complex financial issues.

By implementing these suggestions, your organization can improve the financial literacy of managers, reduce the level of accruals, and ultimately improve the quality of accruals.

Declaration of Competing Interest

The author declares that he has no competing financial interests or known personal relationships that would influence the report presented in this article.

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