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FINANCIAL STATEMENT QUALITY AS A FACTOR OF STRATEGIC BUSINESS DEVELOPMENT

Abstract: In an increasingly complex and competitive business environment, the quality of financial statements has become a critical determinant of sustainable growth and long-term organizational success. High-quality financial reporting enhances transparency, reduces information asymmetry, strengthens stakeholder trust, and supports more effective strategic decision-making. This paper explores financial statement quality as a strategic tool for business development, emphasizing its role not only as a compliance requirement but also as a driver of organizational performance and competitive advantage.

This study examines the quality of financial statements in accordance with the requirements of professional accounting regulation. Financial statement quality will be assessed through key qualitative characteristics defined by professional accounting standards, such as relevance, faithful representation, comparability, verifiability, timeliness, and understandability. Particular attention will be given to the extent to which financial reports comply with regulatory requirements and reflect a true and fair view of an entity's financial position and performance.

Beyond the normative and regulatory perspective, the research aims to empirically investigate whether financial statement quality has a measurable impact on organizational performance. To achieve this objective, regression analysis will be employed to test the relationship between financial reporting quality and selected performance indicators. Organizational performance will be evaluated using relevant financial metrics, such as profitability, return on assets, return on equity, and other appropriate measures of business success.

Importantly, the empirical model will incorporate a set of relevant control variables to ensure the robustness and reliability of the findings. These control variables may include firm size, leverage, industry affiliation, ownership structure, and other contextual factors that could influence performance outcomes. By controlling for these variables, the study seeks to isolate the specific effect of financial statement quality on business performance and provide more accurate and meaningful conclusions.

The expected contribution of this research is twofold. First, it provides a structured framework for assessing financial statement quality in line with professional accounting regulation, thereby reinforcing the importance of regulatory compliance and high reporting standards. Second, it offers empirical evidence on whether and to what extent financial reporting quality serves as a strategic resource that enhances organizational performance and supports long-term business development.

By integrating regulatory analysis with quantitative empirical testing, this paper aims to demonstrate that financial statement quality is not merely a formal requirement, but a strategic instrument that can significantly influence enterprise growth, market credibility, and overall business sustainability.

Keywords: Quality of Financial Statements, Strategic, Business Performances

INTRODUCTION

The quality of financial reporting represents one of the fundamental pillars of modern business operations and corporate governance. In an increasingly globalized and competitive business environment, financial statements are not merely formal documents prepared to comply with legal requirements; they are essential communication tools that convey vital information about a company's financial position, performance, and cash flows. High-quality financial reports enable stakeholders to make informed economic decisions, reduce uncertainty, and enhance trust between companies and their investors, creditors, regulators, and other interested parties. Consequently, the quality of financial reporting has a direct and significant impact on the overall success and sustainability of an enterprise.

Financial statements, typically consisting of the balance sheet, income statement, cash flow statement, and statement of changes in equity, serve as the primary source of financial information for both internal and external users. For management, these reports provide a structured overview of operational results and financial stability, supporting strategic planning, budgeting, performance evaluation, and risk management. For external stakeholders, such as shareholders, banks, suppliers, and potential investors, financial statements are a key basis for assessing profitability, solvency, liquidity, and growth potential (Andrić et al., 2024). When financial reports are prepared in accordance with recognized accounting standards and present a true and fair view of the company's financial condition, they significantly reduce information asymmetry and strengthen market confidence.

The impact of financial reporting quality on business operations is multifaceted. First, high-quality financial reports improve access to capital. Investors and lenders are more willing to provide funds to companies that demonstrate transparency and accountability through accurate and comprehensive reporting. This can lead to lower costs of capital, improved credit ratings, and greater financial flexibility. Second, reliable financial information enhances internal decision-making processes. Managers rely on accurate data to allocate resources efficiently, evaluate investment projects, control costs, and identify areas requiring improvement. Inaccurate or manipulated financial information can distort managerial decisions, leading to inefficient resource allocation and long-term financial instability.

Furthermore, the quality of financial reporting significantly influences corporate reputation and long-term sustainability. Companies known for transparent and ethical reporting practices are more likely to build strong relationships with stakeholders and maintain a positive public image. Conversely, cases of financial misstatement, fraud, or lack of transparency can severely damage a company's credibility and result in legal consequences, financial losses, and even bankruptcy. Numerous historical corporate scandals have clearly demonstrated that poor financial reporting practices can undermine not only individual companies but also broader market stability. (Irwandi, Pamungkas, 2020)

In addition, high-quality financial reporting contributes to effective corporate governance. It supports oversight mechanisms, such as audits and regulatory supervision, and promotes accountability of management to shareholders (Hong, Hanh, 2022). By providing clear and accurate information, financial reports enable boards of directors and supervisory bodies to monitor performance and ensure that management actions align with the company's strategic objectives and stakeholders' interests.

The quality of financial reporting plays a crucial role in shaping business performance, financial stability, and long-term growth. It affects decision-making processes, access to capital, stakeholder trust, corporate reputation, and governance effectiveness. Therefore, ensuring high standards in financial reporting is not only a regulatory obligation but also a strategic necessity for companies striving to achieve sustainable success in today's dynamic business environment.

1. REGULATION OF FINANCIAL STATEMENTS QUALITY

The financial reporting framework represents the conceptual and regulatory foundation upon which high-quality financial statements are prepared and presented. Within the system of professional regulation, the framework defines the objectives, principles, qualitative characteristics, and elements of financial reporting. It ensures that financial statements are not prepared arbitrarily, but rather in accordance with clearly established rules and concepts that promote transparency, consistency, and comparability. A well-defined financial reporting framework is therefore essential for achieving and maintaining the quality of financial statements.

At the international level, one of the most influential frameworks is the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board. This framework underpins the development of International Financial Reporting Standards (IFRS) and provides guidance in situations where no specific standard applies. It establishes the objective of general-purpose financial reporting, which is to provide financial information about an entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. By clearly defining this objective, the framework ensures that financial statements are prepared with a focus on decision usefulness.

The conceptual framework identifies fundamental qualitative characteristics of useful financial information: relevance and faithful representation. Relevance means that information must be capable of influencing users' decisions by helping them evaluate past, present, or future events. Faithful representation requires that financial information accurately reflects the economic substance of transactions, rather than merely their legal form (IFRS Foundation, 2018). This principle is particularly important in preventing creative accounting practices that may comply with formal requirements but distort economic reality. Enhancing qualitative characteristics: comparability, verifiability, timeliness, and understandability further strengthen the overall quality of financial reporting.

In addition to defining qualitative characteristics, the financial reporting framework establishes the elements of financial statements: assets, liabilities, equity, income, and expenses. Clear definitions of these elements are crucial for consistent recognition and measurement. For example, an asset is defined as a present economic resource controlled by the entity as a result of past events, while a liability represents a present obligation to transfer an economic resource. These definitions guide accountants in determining whether specific transactions should be recognized in the financial statements and how they should be measured. Without such definitions, financial reporting would lack coherence and comparability across entities.

Measurement bases represent another key component of the financial reporting framework. The framework recognizes different measurement approaches, including historical cost, current cost, fair value, and value in use. The selection of an appropriate measurement basis significantly affects the reported financial position and performance of a company. Professional regulation provides guidance on when and how each measurement basis should be applied in order to ensure reliability and relevance. For example, fair value measurement may provide more relevant information in certain circumstances, but it must be supported by reliable valuation techniques and adequate disclosures to maintain faithful representation.

The financial reporting framework also addresses presentation and disclosure requirements. Transparent presentation ensures that financial statements are structured in a way that facilitates understanding and analysis. Disclosure requirements provide additional explanations about accounting policies, estimates, risks, and uncertainties (IFRS Foundation, 2018). These disclosures reduce information asymmetry between management and external users and enable stakeholders to better assess the financial health and risk profile of the entity. Comprehensive disclosure is especially important in complex areas such as financial instruments, revenue recognition, and contingent liabilities.

In addition to professional regulation, the quality of financial reporting is also determined by legal and internal regulations. Legal regulation, enacted at the level of each national economy, more closely defines issues such as the content and form of financial statements, the frequency of financial reporting, entities required to prepare a full or abridged set of financial statements, entities subject to audit, and similar matters. At the final level, in terms of direct accounting regulation, the quality of financial statements is determined by internal regulations within each organization. Internal regulations are adopted by each organization and relate to the selection and application of accounting policies, such as the choice of depreciation methods, depreciation rates, asset valuation methods, and other issues that further specify professional and legal regulations.

2. LITERATURE REVIEW

According to Morris (1987) agency theory and signalling theory are two important theoretical frameworks used to explain the quality of financial reporting. Agency theory is a theory that examines the design of contracts aimed at resolving agency problems and reducing agency costs that arise from agency relationships, particularly when decision-making authority is delegated from principals to agents (Hendrastuti, Harahap, 2023). In modern companies, owners usually delegate decision-making responsibilities to managers. However, managers may sometimes act in their own interests rather than in the best interests of shareholders. This creates what is known as an agency problem. High-quality financial reporting helps reduce this problem by providing transparent, accurate, and reliable information about the company's financial performance and position. When financial reports are clear and trustworthy, shareholders can better monitor management's actions and make informed decisions. Therefore, agency theory suggests that better financial reporting quality reduces information asymmetry and conflicts of interest between managers and owners.

Signalling theory explains how companies use financial reporting to send signals to investors, creditors, and other stakeholders. Since external users do not have the same level of information as managers, companies with strong financial performance often use high-quality financial reports to signal their stability, profitability, and future growth potential. Transparent and reliable financial statements help build investor confidence and improve the company's reputation in the market. On the other hand, poor-quality reporting may create suspicion and reduce trust. Therefore, signalling theory assumes that efficient companies provide investors with more relevant, accurate, and higher-quality information (Al-Sartawi, Reyad, 2018)

The quality of financial reporting has a significant impact on an organization's performance across several dimensions (Muzira, 2019). First, it contributes to improved profitability, as accurate and reliable financial statements enable management to make better decisions regarding costs, pricing, and investments. As a result, organizations can optimize their operations and enhance overall profit levels. Second, high-quality financial reporting supports revenue growth. Transparent and credible financial information increases the trust of investors, creditors, and business partners, facilitating easier access to capital and enabling business expansion, which ultimately leads to higher sales revenues. Third, it enhances the efficiency of resource management. Precise and timely financial data allow organizations to plan and control the use of assets, inventories, and cash flows more effectively, improving operational efficiency. Finally, quality financial reporting reduces risk and strengthens organizational stability. By minimizing information asymmetry and the likelihood of poor decision-making, and by ensuring compliance with regulations, it contributes to the long-term financial sustainability and stability of the organization.

Given the above, numerous authors have examined how the quality of financial reporting affects organizational performance. For example, Saković et al. (2024) analyzed the impact of the quality of financial reporting on biological assets and real estate on the business performance of organizations, measured by return on assets. The research was based on a sample of 186 observations over the period from 2020 to 2021. The results indicate that the quality of reporting on biological assets and real estate in agricultural enterprises has a significant positive effect on return on assets. In addition, firm growth and size are highlighted as key variables influencing business performance.

Alsmady (2022) examined the impact of quality of financial reporting, external audit, and earnings power on company performance. Using regression analysis, the author found that the quality of financial reporting has a positive effect on organizational performance, which was measured through several indicators, including profitability, market-to-book value, and market-based measures.

Rathnayake et al. (2021) investigated the relationship between the quality of financial reporting on one side and return on assets, return on equity, and market-to-book ratio as measures of organizational performance on the other. When the models include control variables, a positive and statistically significant relationship is observed between the quality of financial reporting and organizational performance.

Aruobogha et al. (2024) examined the impact of financial reporting quality on the business performance of publicly listed companies in Sub-Saharan Africa. The study covered a sample of 112 companies over the period from 2012 to 2022. The results also indicate the existence of a positive relationship between the quality of financial reporting and organizational performance when control variables are included. Among the significant control variables, the authors highlight firm size as particularly important.

Mittal (2024) demonstrates that financial reporting quality positively influences firm performance in emerging markets, enhancing both profitability and market valuation. Similarly, Sarioglu et al. (2025) find that integrated reporting practices contribute to higher financial performance metrics, including ROA and ROE, in both developed and emerging economies. Abu Hamour et al. (2024) emphasize that high-quality financial reporting improves earnings quality, which in turn supports more reliable performance measurement and decision-making.

The interplay between financial reporting quality and ESG (Environmental, Social, and Governance) disclosure has also been highlighted in recent research. Wu and Abeysekera (2023) show that ESG-focused firms exhibit higher quality reporting, which positively correlates with financial performance in China. ESG regulations similarly appear to enhance reporting quality without undermining firm efficiency (Palas et al., 2025). Moreover, Pascaru and Hategan (2024) provide a bibliometric analysis indicating that firms with robust audit and reporting systems consistently achieve superior operational outcomes.

Li et al. (2024) explore how CEO characteristics interact with reporting quality to affect investment efficiency in the U.S., suggesting that strong reporting practices reduce managerial discretion errors and enhance strategic decision-making. Global board reforms also have a measurable impact on reporting quality, as indicated by research on institutional changes worldwide (Chen et al., 2024). Finally, the systematic review of IFRS adoption confirms that standardized, high-quality reporting frameworks improve firm performance across various sectors and legal environments (Salah, 2020).

Taken together, this body of research highlights a clear and consistent pattern: high-quality financial reporting is a critical determinant of organizational performance, not only through traditional profitability and growth channels but also via enhanced transparency, resource efficiency, regulatory compliance, and the integration of ESG considerations (Mittal, 2024; Sarioglu et al., 2025; Wu & Abeysekera, 2023; Abu Hamour et al., 2024).

3. METHODOLOGY AND SAMPLE

The main objective of this paper is to examine the quality of financial statements as a factor of the strategic development of organizations. The sample consists of 180 companies from the manufacturing sector and the trade sector in the Republic of Serbia during the period 2022-2024. According to the rule of thumb, the minimum sample size is at least 10 times greater than the number of predictor variables (Seabrooke, 2025). In the study, four predictive variables were included, indicating that the sample size is adequate. These sectors were selected because they are the largest in terms of the number of companies and employees during the observed period, according to data from the Statistical Office of the Republic of Serbia (2026). Therefore, it is expected that these sectors make a significant contribution to economic development and are of interest to numerous stakeholders. Data from the financial statements were obtained from the publicly available website of the Business Registers Agency (2026). In order to achieve the stated objective, the following research hypotheses are set:

H1: The quality of financial reporting has a positive effect on the profitability of companies.
H2: The quality of financial reporting has a positive effect on the growth of companies.

There are different methodologies for measuring the quality of financial reporting, such as earnings management (Ilić et al., 2024; Debbianita, 2024), the financial reporting index (Goncalves, 2017), the internet financial reporting index

(Khan, Ismail, 2010). In this study, the quality of financial reporting was measured based on the financial reporting quality index for two categories of assets: property, plant and equipment, and inventories based on Goncalves (2017). Considering the nature of business operations in companies from the trade and manufacturing sectors, property and inventories represent significant items in the balance sheet, and the quality of reporting on them significantly affects business decision-making. The financial reporting quality index represents the ratio between actual (realized) and required (observed) disclosures in financial statements. The index ranges from 0 to 1, where values closer to 0, including 0 itself, indicate non-disclosure of information and thus low (poor) quality of financial reporting, while values closer to 1 indicate high-quality financial reporting. If all observed information is adequately disclosed in the reports, the index takes the value of 1, in which case the quality of reporting is considered extremely high (Goncalves, 2017). Property, plant and equipment, as well as inventories, represent significant categories within the total assets of manufacturing companies; therefore, it is assumed that the performance achieved by companies ultimately depends on the quality of reporting on these categories. International Accounting Standard 16 – Property, Plant and Equipment (hereinafter: IAS 16) and International Accounting Standard 2 – Inventories (hereinafter: IAS 2) provide detailed requirements regarding mandatory and voluntary disclosures for these asset categories. Companies are required to present all mandatory disclosures in their reports, specifically within the notes to the financial statements. The disclosure of all required information in accordance with professional regulations directly affects the quality of financial reporting by providing more complete and accurate information for business decision-making. It should be noted that non-disclosure of certain information does not necessarily mean that a particular situation does not exist within a company; it may also be the result of intentional or unintentional omission of information (Peštović, 2026). Given the extensive scope of disclosure requirements under IAS 16 and IAS 2, the following mandatory disclosures were analyzed for the purposes of this research:

1) According to IAS 16 requirements:
- The measurement bases used for determining the gross carrying amount
- The depreciation methods used
- The useful lives or depreciation rates applied
- The gross carrying amount and accumulated depreciation at the beginning and end of the period, including all adjustments to carrying value

2) According to IAS 2 requirements:
- Accounting policies for measuring inventories
- The total carrying amount of inventories by classification

In addition to the quality of financial reporting as the independent variable, the study also considers company size, company liquidity, and leverage. Company profitability is measured by return on assets, which represents the ratio between net income and total assets and indicates the company's earning power (Rodić et al., 2024). Company growth is observed through the growth of operating revenues across two time periods.

In order to test the proposed hypotheses, the following two regression models were specified:

$$Y1 = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon i$$

Where:
Y1 – profitability (return on assets)
X1 – quality of financial statements (based on index)
X2 – size
X3 – liquidity
X4 – debt ratio

$$Y2 = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon i$$

Where:
Y2 – growth
X1 – quality of financial statements (based on index)
X2 – size
X3 – liquidity
X4 – debt ratio

In the following table, the methodology for calculating the dependent and independent variables defined in the research models is presented.

Table 1: Methodology of variables

Label	Variables name	Methodology
Y_1	Profitability (ROA)	Net Result / Total Assets
Y_2	Growth	Operating Revenue$_t$ / Operating Revenue$_{t-1}$
X_1	Quality of financial statements	Completed Disclosures / Total Disclosures
X_2	Size	nLog of Total Assets
X_3	Liquidity	Current Assets / Current Liabilities
X_4	Debt ratio	Total Liabilities / Capital

Source: Authors' calculations

4. RESULTS AND DISCUSSIONS

The following table presents the descriptive statistics of dependent and independent variables.

Table 2: Descriptive statistics

Label	Variables	Average value	Minimum	Maximum
Y_1	Profitability (ROA)	0.0793	-0.0251	0.6625
Y_2	Growth	1.0379	0.0928	1.4510
X_1	Quality of financial statements	0.6190	0.3333	1.0000
X_2	Size	12.2163	8.0091	16.8908
X_3	Liquidity	3.2719	0.1839	25.0980
X_4	Debt ratio	0.4871	0.0277	3.5537

Source: Authors' calculations

Observing the results of the descriptive statistical analysis, it is noticeable that manufacturing companies in the sample achieved, on average, a positive profitability of 7.93% in the period 2022–2024, as well as a sales revenue growth of 3.79%. It is also evident that there are companies operating at a net loss, as well as companies that generated lower sales revenue compared to the previous year.

Regarding the quality of financial reporting, companies disclose on average about 61.90% of the observed disclosures. To the greatest extent, companies disclose information related to the valuation methods used for both property, plant and equipment, and inventories. This is followed by disclosures related to the depreciation methods applied and the depreciation rates of property, plant and equipment. The least frequently disclosed information relates to value adjustments during the period for property, plant and equipment, as well as information on inventory values by specific classifications (Table 3).

Table 3: Percentage of disclosure of certain information

Information	Percentage of disclosure of certain information
The measurement bases used for determining the gross carrying amount (IAS 16)	93,33%
The depreciation methods used (IAS 16)	91,67%
The period or depreciation rates applied (IAS 16)	91,67%
The gross carrying amount and accumulated depreciation at the beginning and end of the period, including all adjustments to carrying value (IAS 16)	48,89%
Accounting policies for measuring inventories (IAS 2)	91,67%
The total carrying amount of inventories by classification (IAS 2)	44,44%

Source: Authors' calculations

The results of the regression analysis are presented in Table 4 and Table 5. Prior to analyzing the regression results, model adequacy tests were conducted. The testing results indicate the absence of multicollinearity, as well as no presence of autocorrelation. Additionally, for the first model the Anova results (F=46.970, p=0.000) indicates that the model is significant. Furthermore, first model summary indicate that 51.9% of the variation in the dependent variable is explained by the independent variables (R=0.721; R square=0.519; Adjusted R square=0.508).

Table 4: Results of the Regression Analysis of the Impact of Financial Reporting Quality on Profitability

Model (ROA)	Beta	St. er.	t	Sig.
Cons	-0.261	0.029	-8.868	0.000
Quality of financial statements	0.370	0.031	11.763	**0.000**
Size	0.007	0.002	2.902	**0.004**
Liquidity	0.003	0.002	1.927	0.056
Debt ratio	0.078	0.018	4.421	**0.000**

Source: Authors' calculations

The results of the analysis of the first regression model indicate that the quality of financial reporting, size and debt have a significant impact on the profitability of manufacturing companies. All three indicators have a positive statistically significant impact on profitability. Companies with better financial report quality achieve better performance measured based on return on assets. These findings are according to the previous research (Saković et al, 2024; Alsmady, 2022) Larger companies have more resources that can be implemented into the accounting and therefore the quality of financial statements can provide better performances. Companies with additional borrowing directed toward business activities can achieve better profitability. On the other hand, if additional borrowing is used to service existing debt, such borrowing will not lead to an improvement in profitability (Jakšić, Mijić, 2013). According to the results the H_1 is accepted.

For the second model the Anova results (F=16.917, p=0.000) indicates that the model is significant. Furthermore, second model summary indicate that 28% of the variation in the dependent variable is explained by the independent variables (R=0.529; R square=0.280; Adjusted R square=0.263).

Table 5: Results of regression analysis of the impact of financial reporting quality on growth

Model (Growth)	Beta	St. er.	t	Sig.
Cons	0.636	0.065	9.772	0.000
Quality of financial statements	0.511	0.069	7.364	**0.000**
Size	0.006	0.005	1.169	0.244
Liquidity	-0.003	0.003	-.836	0.404
Debt ratio	0.078	0.039	1.983	**0.049**

Source: Authors' calculations

The results of the second regression model indicate that the quality of financial reporting and debt ratio have significant positive impact on growth. This suggests that companies with higher-quality financial reporting are more likely to achieve stronger growth, as transparent and reliable financial information improves decision-making, investor confidence, and access to external financing. At the same time, a higher debt ratio may contribute positively to growth when borrowed funds are effectively used to finance productive business activities, expansion, and investment opportunities. Leverage refers to the increased level of financing from external sources, which is sustainable in the long run only if the companies concerned achieve a higher return on total equity than the cost of using those external sources of capital (Vuković et al., 2022). Liquidity does not have significant impact on growth and these findings indicate that ensuring short-term liquidity will not lead to growth (Bashir et al., 2020). The non-significant effect of liquidity on company growth may suggest that short-term solvency alone is insufficient to generate long-term strategic expansion. Growth is more strongly influenced by investment capacity, market opportunities, and financing structure than by current liquidity positions. Therefore, the findings imply that both financial reporting quality and appropriate use of debt play an important role in supporting business growth and long-term development. According to the results the H_2 is accepted.

CONCLUSION

The quality of financial statements represents a key factor in modern business, as it provides reliable and relevant information for decision-making. Transparent and accurate reports increase the trust of investors, creditors, and other stakeholders. In this way, a company can more easily access sources of financing under more favorable conditions. High-quality financial reporting enables management to gain better insight into business performance and identify weaknesses. Timely and precise information facilitates planning and control of business activities. It also reduces the risk of making incorrect decisions based on inaccurate data. High-quality reports contribute to compliance with legal and regulatory requirements. This helps avoid potential penalties and reputational risks.

In order to ensure the quality of financial statements, it is necessary to adequately comply with the requirements of the entire accounting regulatory framework, including professional, legal, and internal regulations. Additionally,

accountants, as the preparers of financial statements, face an additional burden of meeting disclosure requirements within a relatively short period of time, while ensuring that the information presented is accurate and clear.
Research on the quality of financial reporting in the Republic of Serbia indicates that companies, on average, disclose less than two-thirds of the observed information in accordance with the requirements of IAS 16 and IAS 2. Additionally, two areas requiring improvement in reporting quality have been identified: information on value adjustments in accordance with IAS 16, and information on inventory values by classification in accordance with IAS 2. Regarding whether the quality of financial statements affects business performance, the results indicate a positive impact of reporting quality on profitability and the growth of companies. The quality of financial statements is not merely an accounting obligation, but an important strategic tool for sustainable growth and development of a company.
This study contributes to the existing literature by strengthening the theoretical understanding of the relationship between financial reporting quality and organizational performance through the application of agency theory and signalling theory. From the perspective of agency theory, the findings confirm that higher-quality financial reporting reduces information asymmetry between managers and owners, improves monitoring mechanisms, and supports more efficient managerial decision-making, which ultimately enhances profitability and growth. From the perspective of signalling theory, transparent and reliable financial statements serve as positive signals to investors, creditors, and other stakeholders, increasing trust, improving access to external financing, and supporting long-term business expansion.
Furthermore, the study extends prior research by demonstrating that disclosure quality related to specific balance sheet categories, such as property, plant and equipment and inventories, can serve as an important determinant of business performance. This suggests that financial reporting quality should not be observed only through aggregate financial indicators, but also through compliance with disclosure requirements at the micro-accounting level.
The novelty of this study lies in its micro-level analysis of financial reporting quality in the context of a developing market, specifically the Republic of Serbia. This approach enables a more detailed evaluation of how the quality of disclosures in economically significant balance sheet positions affects organizational profitability and growth. The limitations of this research are reflected in the narrow selection of financial reporting quality measurement related to IAS 16 and IAS 2. However, it should be taken into account that these two asset positions are the most significant items in the balance sheet of companies in the manufacturing and trade sectors. The results also provide significant insight for managers and other stakeholders regarding critical issues that need to be improved for reporting in accordance with the mentioned standards. Future research should include the disclosures of other standards in order to conduct a more comprehensive analysis of financial reporting quality and provide greater usefulness for stakeholders, as well as comparative analysis among the countries with similar level of economic development.

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