

Current Problems in Accounting Information Disclosure Quality and the Causes Analysis

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Abstract: Public companies play a significant role in the business world and contribute a lot to the world economy. However, In the process of rapid development of public companies, the problem of accounting information disclosure quality gradually emerged and has become highly concerned by the society. This paper takes accounting information from public companies as the research object, makes a comprehensive analysis and research on the problems emerged in recent years, takes the analysis of causes of these problems as the breakthrough point, and hopes to give enlightenment on how to improve accounting information quality, how to increase competitiveness of public companies, and finally how to protect investors' and information users' interest.

1. Introduction

The accounting information quality is very important to both investors and listed companies, especially the competitiveness of listed companies, including operation, financing, profitability and many other aspects. The major problem that affects the quality of accounting information is the information asymmetry like inadequate disclosure or distortion of accounting information, along with other problems including financial fraud or untrue information, untimely disclosure, nonstandard disclosure, and different accounting rules make the accounting information incomparable, etc. These problems could severely damage the social image and market value of listed companies. A better quality of disclosed information can improve financing, improve the liquidity of listed companies and save financing costs. At the same time, a better quality of disclosed information can lower investment risk, strengthen investors' confidence, and ultimately have a profound impact on the business images and value of listed companies.

2. Problem Statement

A good quality of accounting information is important. However, many listed companies around the world only disclose limited amount of accounting information under the pressure of supervisors and investors. This kind of involuntary disclosure may cause quality problem, such as incomplete and untimely financial report. At present, many listed companies have not taken information disclosure to a strategic level. They do not want to disclose accounting information voluntarily, which may make themselves facing difficulties in the future.

3. Research Objectives

This paper aims at the research of information disclosure quality of listed companies, trying to find out the existing problems and what causes these problems, hoping to give enlightenment on how to improve accounting information quality and how to increase competitiveness of public companies.

4. Literature Review

Wang Xiangming (2020) concluded that Investors rely on all kinds of accounting information provided by listed companies to make investment decisions. The quality of information disclosure will naturally affect investors' confidence. Nowadays, the problem of accounting information quality distortion is increasing, which has seriously hit the confidence of investors.^[1]

Chen Na (2020) concluded that Accounting information distortion and fraud still exist in listed companies, and inadequate disclosure of accounting information is common. The quality of accounting information has become a particular concern of the society. The application of blockchain in internal control, external audit and accounting information system has changed the influencing factors of accounting quality and ensured the quality of accounting information from the source.^[2]

Huang Xianye, Zhu Xinrong (2020) concluded when there is whitewash behavior, the quality of accounting information of listed companies is negatively correlated with financial performance.^[3]

He Jing (2017) concluded by improving the quality of accounting information of listed companies, it will promote the confidence of investors in the financial ability of listed companies, and then form a benign mechanism to promote the improvement of the capital market. With the gradual improvement of capital market, investors have higher requirements for the accounting quality of listed companies. Improving the quality of accounting information of listed companies is of great significance for safeguarding investors' rights and interests, enhancing investors' confidence and building a fair competition market environment.^[4]

Yan Tianli (2020) concluded that improving the quality of accounting information of Listed Companies is conducive to the improvement of enterprise management and the good operation of national economy. At present, the factors that affect the quality of accounting information of Listed Companies include the dominance of major shareholders, the excessive pursuit of profits by managers, the virtual existence of independent directors and board of supervisors, and the failure of internal control. In order to improve the quality of accounting information of listed companies, they should take measures such as reducing intensively holding shares, improving corporate governance structure, perfecting laws and regulations, and strengthening moral education of financial personnel.^[5]

Wen Jiahao (2019) concluded that the quality of accounting information of listed companies is a major problem in the current financial management. Accounting information fraud not only brings financial crisis to listed companies, but also affects the normal order of the whole financial market. Standardizing the accounting information disclosure system and improving the quality of accounting information are the core work in the development of listed companies.^[6]

Zhang Haiyan (2018) concluded that Listed companies have played a great role in the national economy and promoted the prosperity of the capital market. At the same time, the information disclosed by listed companies also plays a positive role in promoting social progress and social harmony. Through the analysis of accounting fraud case, it shows that the quality of accounting information is not only affected by the integrity of accounting personnel, or professional ethics, but also needs to be explored and analyzed from the theoretical level. Under the condition of market economy, the internal law of capital operation determines the profit pursuit of listed companies and

other enterprises in the operation process, which is the root of accounting information distortion.^[7]

5. Theoretical Framework

5.1 Major Problems of Accounting Information Quality

5.1.1 Information Asymmetry

The most common problem related with the quality of accounting information is the information asymmetry between listed companies and investors, or called incomplete content of accounting information. The published accounting information should reflect the overall financial position and corporate governance of public companies, and these information should be disclosed in a timely and complete manner for investors to make decision. However, some companies published their accounting information incompletely and many important issues were never showed to the public, which could seriously mislead investors. For example, potential debt or lawsuit, potential merger and acquisition chance, important asset purchase plan, possible inventory impairment loss or property, plant and equipment value change, important high level management personnel change, management stock incentive scheme, employee redundancy plan, change of external economic or market condition, change of supply chain or loss of major customers, related party transaction, and some other issues have not been publicly announced, which does not comply with the requirements of information disclosure for listed companies and could probably make investors suffer from economic losses.

5.1.2 Financial Fraud or Untrue Information

It is a mandatory requirement for listed enterprises to publish real accounting information in every country. If it is difficult to guarantee the authenticity of accounting information announced, it will certainly have an adverse impact on the investment decision-making of investor. Untrue information usually relates to financial fraud, which includes financial report manipulation through removing “peaks” and “troughs” to achieve a desired profit, provisions subsequently reversed, cut off manipulation (e.g. invoicing in advance to boost revenue, “bed and breakfast” (e.g. selling an asset to realized a profit and repurchasing post year-end), “off-balance sheet finance” (e.g. sale and operating leaseback), “window dressing” (e.g. paying back a loan just before the year-end, but taking it out again at the beginning of next year). Untrue information can do a devastating harm to investors’ confidence because it can easily mislead them to make an unwanted investment, following with a great suffering of economic loss. In order to acquire huge profit or to achieve annual operational goal, some companies use these measures from time to time, eventually harm investors’ and stockholders’ interest.

5.1.3 Untimely Disclosure

Listed companies should publish financial report within the time limit required by laws and regulations. Even though delaying the disclosure is prohibited, many public companies still do not publish their annual report on time. Some of them even have not engaged an audit firm by the time of annual report deadline. Another issue concerned with time is that a company’s business may be seasonal within a year. If a company position its year-end just after the busy season, its financial report may be misleading to investors because at that time its financial position and operation result is the best in the whole year. Besides, if there is any major asset acquisition or disposition, or any accounting adjustment happening just before the year-end, the figures in the financial report may be misleading too because these would change the revenue and cost.

5.1.4 Different Accounting Rules Make the Accounting Information Incomparable

Most of the countries now require IFRS (International Financial Reporting Standards) for financial statements of public companies. However some countries like America is still using its own set of accounting rules called the U.S. GAAP. IFRS is principle based and the U.S. GAAP use a rule based approach. The gap between IFRS and U.S. GAAP is huge enough to affect the reported accounting results. If one issue is reported under IFRS and U.S GAAP at the same time then the result may different from each other obviously. For example, the treatment of inventory valuation, property revaluation, impairment loss, revenue recognition, cost of fixed assets, tax, and many other aspects, they are all different under the two sets of rules. In the past decades the convergence to IFRS is progressing gradually across the nations except the U.S, but we still see no timeline of changing from the U.S itself. In the foreseeable future, the IFRS and the U.S. GAAP may probably coexist and this may make investors confusing when they read the financial statements of one company both listed on an European capital market and the U.S. capital markets.

5.1.5 Other Disclosure Issues

The information released by listed companies should be complete in content, standard in format, and no omission of material matters. Except for these, there are other matters related with disclosure. The first is historical information problem. Since financial statement only report past data, it is not always relevant to investors because there is no guarantee that the performance of company will continue in the future. The company's business, strategy or management style may change in the next year. As a result, historical information published by companies is not always useful to investors. They expect more anticipated data from companies and companies should put these future data into their report. Second, in an annual report, financial statements play the major role, like statement of financial position, comprehensive income statement and cash flow statement. This could make investors focus so much on the numbers that they would miss some important illustrative information. Public companies have the responsibility to highlight to investors any of these qualitative information they need to know. Third, important related party transactions may be a problem if they are unnoticed. The transaction prices between related parties may be artificial which could make disclosed revenue costs higher or lower than normal. Some supplier condition or loan interest rates may also influenced by related party relationships. What's worse, some revenue or costs may not even occur if without the influence of related party relationships, which could make disclosed information more misleading to investors.

5.2 Analysis of the Causes of the Problems

5.2.1 Pressure Driven

The information disclosed by public companies greatly affects their interests as well as many stakeholders. The annual report is like a final exam from investors and creditors every year. Naturally they want satisfactory results as they have invested or lent money to these companies. If companies could not get a good score in the annual report, shareholders would dispose their stocks at low prices and creditors like banks or other financial institutions would require to take back their loans and interests before the repayment date. Under these pressure, public companies could possibly make the accounting information disclosed as what investors and creditors want to see, resulting in a distortion of images of the companies' real operational and financial status.

5.2.2 Interest Driven

Companies usually give priority to their own interests. Almost every company wants to be profitable, maintain its position in the market, or to attract more funds, which gives it motive to do some tricks on the information disclosed. In the company management is the most important group of people. They are agents of shareholders and responsible for them to operate the company in a satisfactory manner. However, when facing a big chance to acquire huge benefits the management may pursue their own interests rather than the shareholders. Because of their own interests, the management may manipulate the reported information and make it quite misleading to information users. Some of them even deliberately falsifies and adjusts the profits, in order to get more financial support from investors and creditors, thus falsely increasing the company's performance and disclosing inaccurate financial information. This becomes even worse when management's salary package, annual award or stock incentive plan is tied to the performance of the company. To get what they think they deserve to get, management could use any means to manipulate the disclosed information, which makes the information less referable to the users.

5.2.3 Other Causes and Solution Suggestion

Other reasons including imperfect corporate governance structure, incomplete or no individual non-executive director, ineffective board of supervisors, unqualified internal or external auditors, undivided job positions, irresponsible officers, incompetent employees, etc. They separately or jointly contribute to the problem of information quality defection and need to be addressed immediately when found. One of the ways to solve above problems is setting up a sound corporate governance structure and enhancing internal control mechanism, such as setting up an effective internal audit department to monitor financial issues within the company. Another suggestion is using full compliance rules on public companies and increasing the cost of the offence such as increasing punitive damages so that public companies would not break the relevant law easily.

6. Conclusion

We are now entering the second decade of the 21st century. The information disclosure should have been more standardized than before, but there are still many problems towards information quality. Actually, the problems we have found before never diminished. Even though the new business format emerges one by one, the old tricks are still there. Problems like information asymmetry, inadequate disclosure, distortion of accounting information, financial fraud or untrue information, untimely disclosure, nonstandard disclosure are endangering investors' benefit and confidence all the time. Good news is that, we know the causes of these problems. If we start from the causes of these problems, correct the root, prevent them from the beginning, we believe there will be less and less accounting information quality problems and investors' interest will be more protected.

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