

Research on Contingent Liabilities Information Disclosure

Jiadi Qian*

School of Economics and Management, Nanjing University of Science and Technology, Nanjing, China

*Corresponding author: 2461881265@qq.com

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Abstract: With the rapid development of economy, the business of the enterprise is also diversified. Some business impact on the enterprise's formation is potential, which needs to be determined by whether the event occurs in the future. So, the contingent liabilities of the enterprise are formed. Contingent liabilities are the important risk source for enterprises because of their uncertainty. Improving the information disclosure of contingent liabilities can enable enterprises to correctly treat the level of contingent liabilities, carry out effective risk prevention and control them. This paper analyzes the reasons for the non-standard and insufficient information disclosure of contingent liability of listed companies, and puts forward corresponding suggestions.

1. Introduction

At present, China has higher requirements for corporate information disclosure. As an uncertain accounting information, there are great subjective judgments in the recognition and measurement of contingent liabilities. Contingent liability information disclosure has an important impact on the improvement of the transparency and quality of accounting information. China's Ministry of finance, China Securities Regulatory Commission, the stock exchange departments have made different regulations on the contingent liability information disclosure of listed companies. However, there are still many listed companies that violate the contingent liability information disclosure. These companies expose a series of disclosure problems [1].

2. Concept and characteristics of contingent liabilities

The study of contingent liabilities abroad began with Karro, who first put forward the concept of contingent liabilities [2]. Then Chan and Kanatas (1985) studied the characteristics, types, quantification and disclosure of contingent liabilities on the basis of Karro, and analyzed the impact and harm of contingent liabilities [3]. However, different countries have formulated various accounting treatment methods for contingencies according to their actual situation, and some countries have also formulated specific accounting standards. The accounting treatment methods of various countries have similarities and differences. Financial Accounting Standards Board has made the following statements on the three fundamental elements that a contingent project should have:(I) The conditions or a set of environments for the occurrence of a contingent project already exist;(II) The results are uncertain;(III) Contingent items will be clarified by the occurrence or non-occurrence of one or more events in the future [4]. France stipulates those contingent liabilities should be disclosed in the notes to the financial report. French Stock Exchange Commission requires that listed companies with important activities in the capital market should provide detailed information about their exposure to interest rate, foreign exchange and share risks, including the amount and analysis of each type of risk of assets and liabilities in the company's balance sheet. In addition, these companies are also required to provide an analysis of the impact of changes in interest rates, exchange rates and stock prices on the company's profits and losses. However, the response of listed companies is very slow, mainly due to the lack of specific accounting systems or standards.

The earliest research on contingent liabilities in China began with Wang (1997). He analyzed the concept, nature and types of contingent liabilities, but he did not carry out empirical research and

only expounded contingent liabilities from theoretical analysis [5]. At present, accounting standards for business enterprises-contingencies' issued by the Ministry of finance has been implemented in all enterprises in China since July 1, 2000. This standard defines "contingent liabilities" as: "the existence of potential obligations formed by past transactions or events and must be confirmed by the occurrence or non-occurrence of future uncertain events, or the actual obligations formed by past transactions or events. The performance of such obligations is not likely to lead to the outflow of economic benefits from the enterprise, or the amount of such obligations cannot be measured reliably"[6].

Contingent liabilities are not real liabilities of an enterprise, but only a possibility. The contingent liabilities of an enterprise are different from the expected liabilities and real liabilities of an enterprise. The fundamental difference between it and general liabilities lies in whether the existence of the debt is conclusive, rather than whether the amount is determined. Therefore, contingent liabilities have their own characteristics: (1) Arising from past transactions or events. (2) Obligatory. The content of contingent liabilities includes two types of obligations: one is potential obligations, and the other is special practical obligations [7]. (3) The results are uncertain. (4) The factors affecting the uncertainty of the result of contingent liabilities are beyond the control of the enterprise. (5) The final result of a transaction or event depends on whether a certain event occurs in the future. (6) Concealment. (7) Hazard. Contingent liabilities such as external guarantee, property mortgage, litigation disputes and large purchase contracts of enterprises have characteristics of large amount, frequent occurrence and serious consequences. Therefore, once they occur, they will seriously affect the production, operation and financial status of enterprises and cause significant economic losses to enterprises, banks and investors [8].

3. Information disclosure of contingent liabilities

Contingent liabilities are caused by past transactions or events. In terms of nature, there are two situations on the accounting statement date: one is current obligations, but its amount cannot be measured reliably, such as after-sales service expenses of commodities; The other is the potential obligation, which may lead to the outflow of future economic benefits from the enterprise. Only by correctly understanding the nature of contingent liabilities can we judge whether the information disclosure of enterprises is fair.

3.1 Basic principles and contents of disclosure

The basic principle of information disclosure of contingent liabilities is: contingent liabilities that may cause economic benefits to flow out of the enterprise are generally not disclosed. However, for some contingent liabilities that often occur or have a great impact on the financial status and operating results of the enterprise, they should be disclosed even if they are very unlikely to cause economic benefits to flow out of the enterprise. According to 'Enterprise accounting system, the contingent liabilities that the enterprise should disclose in the notes to the accounting statements should include contingent liabilities formed by discounted commercial acceptance bills, contingent liabilities formed by pending litigation and arbitration, contingent liabilities formed by providing debt guarantee for other units, and other contingent liabilities (excluding contingent liabilities that may cause economic benefits to flow out of the enterprise) [9].

The contents that should be disclosed for contingent liabilities include the causes of formation, the expected financial impact and the possibility of obtaining compensation.

3.2 Problems in Information Disclosure

3.2.1 Covering up contingent liabilities information disclosure

Contingent liabilities are potential risks of the company, which may lead to the future cash outflow of the enterprise. The enterprise is worried that the disclosure of too many contingent liabilities may have an adverse impact on the company. Many enterprises cover up or delay the disclosure of contingent liability information. Timeliness is one of the important characteristics of accounting

information quality. Due to the potential risks of enterprises, timely information disclosure of contingent liability is more important [10].

3.2.2 Non-standard contingent liabilities information disclosure

The dispersion of contingent liability information disclosure is a prominent non-standard problem. Decentralized disclosure makes information users unable to fully understand the company's contingent liability level, which reduces the decision-making usefulness of contingent liability information disclosure. In addition, some listed companies do not disclose contingent liability information strictly at will, such as taking estimated liabilities as current liabilities; Debt reserves arising from debt disputes are recorded in bad debt reserves rather than estimated liabilities.

3.2.3 Insufficient contingent liabilities information disclosure

Different industries have different disclosure levels of contingent liabilities due to their own business characteristics and different types of contingent liabilities. Because there are many types of contingent liabilities, debt guarantee and pending litigation may occur in all industries, but environmental pollution control may only involve polluting industries. If other industries do not have these types of contingent liabilities, it is not necessary to disclose them. However, the disclosure of contingent liabilities due to the industry but not available to the company is not fully disclosed in time, that is the quality problem of information disclosure [11].

3.2.4 Low content of contingent liabilities information disclosure

The contingency standard stipulates that listed companies should explain the uncertainty of the outflow of economic benefits caused by the estimated liabilities, the expected compensation amount of the estimated liabilities and the amount recognized in the current period. However, few companies disclose the possibility of the occurrence of the estimated liabilities, and do not really explain the reasons affecting the change of the estimated liabilities.

3.3 Analysis on the causes of information disclosure problems

From the comparison between prediction data and actual data, the BP neural network has better prediction performance and relatively small error, which can meet the demand completely, and has fast prediction speed and convenient operation.

3.3.1 Insufficient understanding of contingent liabilities

Contingent liabilities are not paid enough attention in the enterprise. As a provision project, both theoretical and practical circles pay much attention to the estimated liabilities, which lags far behind the provision for asset impairment. Insufficient understanding of contingent liabilities and the impact of contingent liabilities risk on the enterprise will naturally affect the information disclosure of contingent liabilities.

3.3.2 Imperfect information disclosure system of contingent liabilities

The systems related to the information disclosure of contingent liabilities include the accounting standards of the finance department and several systems and methods of China Securities Regulatory Commission, the stock exchange departments. Some imperfections in these systems also affect the information disclosure of contingent liabilities. The criterion of contingencies is the criterion most relevant to contingent liabilities, and the judgment on possibility in the criterion is too subjective. This division seems perfect in form, but it is not easy to be strictly distinguished and easy to be manipulated in practice.

There are also exceptions and other system defects. The standard stipulates that if the disclosure of the pending litigation and arbitration involved by the enterprise may have a significant adverse impact on the enterprise, the enterprise may not disclose the financial impact and only explain the reasons for the formation of contingent liabilities. This provision is obviously not conducive to the

improvement of the quality of contingent liability information disclosure and the protection of the interests of investors and creditors.

3.3.3 Implicit motivation of voluntary information disclosure

Considering the costs and benefits of contingent liabilities information disclosure, the motivation of voluntary disclosure of listed companies is not strong. According to the current market situation in China, the income of contingent liabilities information disclosure is not clear and the cost of disclosure is very high. On the one hand, it needs the cooperation of multiple departments to make an accurate and reasonable judgment on the identification of estimated liabilities, initial measurement and reassessment, product quality assurance and other contingent liabilities. These will undoubtedly increase the cost of information disclosure of contingent liabilities; On the other hand, the disclosure of contingent liabilities may have a negative impact on the enterprise.

3.3.4 Weak supervision of mandatory information disclosure

The supervision of information disclosure of contingent liabilities involves the supervision of the public, the government and relevant institutions, and the internal supervision of the unit. Firstly, because the audit fee as the main economic source of the firm in the annual report audit is provided by the audited object, the supervision of Certified Public Accountants in the social public supervision is not conducive to maintain their independence and lose their due regulatory role in the disclosure of contingent liability information. Secondly, the supervision of the government and relevant institutions mainly includes the supervision of China's Ministry of finance, China Securities Regulatory Commission, banks and other institutions. If the mechanism is unreasonable and the responsibilities and rights of each subject are not clear, multi sectoral supervision cannot achieve good supervision results in many cases. Finally, the internal supervision of the unit is mainly the supervision of the board of supervisors, independent directors and internal audit. In China, the internal supervision of units is the first line of defense to control the disclosure of contingent liabilities. However, the internal supervision of most companies does not play its due role [12].

4. Suggestionss

Firstly, our country should improve the contingent liability information disclosure system, involving the system provisions of China's Ministry of finance, China Securities Regulatory Commission, stock exchange departments. But the most centralized and comprehensive system provision is accounting standards. In the accounting standard system, we should strengthen the improvement of the accounting standard system related to contingent liabilities, and further standardize the accounting and disclosure forms of contingent liabilities. At present, there are still imperfections in the accounting standards, which should be revised in time according to the implementation of the standards for contingencies of listed companies and with reference to foreign developments.

Compared with the items on the balance sheet, the notes receive less attention. As for the information disclosure of contingent liabilities, the disclosure form is arbitrary, non-standard and scattered, which greatly reduces the quality of information disclosure. at present, estimated liabilities and contingent liabilities are disclosed separately in the notes to the statements. In order to enhance the contrast and increase the quality of information disclosure of contingent liabilities, the contingent liabilities can be combined with the off-balance sheet disclosure of estimated liabilities [10].

Secondly, our country should straighten out the relationship between regulatory subjects and improve the regulatory incentive mechanism. In order to meet the needs of stakeholders and the challenge of increasing transparency in the disclosure of contingent environmental liabilities, the United States has determined through federal legislation that Financial Accounting Standards Board (FASB), the Internal Revenue Service (IRS) and Securities and Exchange Commission (SEC) jointly explore this regulatory framework and analyze the risks related to the disclosure of environmental liabilities. At present, China's Securities Regulatory Commission, the Ministry of Finance and the

stock exchange departments still have some disharmonious factors on the information disclosure of contingent liabilities. For example, the part related to the information disclosure of contingent liabilities mentioned by the Securities Regulatory Commission is more about debt guarantee and pending litigation, which is far less than the scope of accounting standards.

To improve the quality of contingent liabilities information disclosure, we also need to "fight a combination fist" and improve the supervision and incentive mechanism of contingent liability information disclosure of listed companies. Contingent liabilities are called mandatory disclosure. But due to their own uncertainty and the characteristics of off-balance sheet items, enterprises have a large component of voluntary disclosure, and can master themselves many times. The most fundamental problem of how to enhance the motivation of contingent liability information disclosure is the issue of interests. If the disclosure income is greater than the disclosure cost, the motivation of voluntary disclosure is strong. To make the information disclosure earnings of contingent liabilities higher than cost, we need awesome external environment such as capital market improvement, investors' maturity and information transmission mechanism, which is not a short process.

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