Research on Information Disclosure of Notes to Financial Statements of Listed Companies

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Abstract. This paper points out the existing problems and puts forward corresponding improvement suggestions based on the status quo of the notes to financial statements in my country as the research object. Analysis helps to improve the quality of accounting information, enhance the authenticity and integrity of financial statements, and enable statement users to more comprehensively understand and understand the financial status, operating results and cash flows of the enterprise, so as to make reasonable forecasts and financial statements decision making.

Keywords: Notes to Financial Statements; Information Disclosure; Information Quality.

1. Introduction

With the maturity of my country's capital market and the intensified competition among enterprises, people pay more and more attention to the information disclosure in financial reports. In recent years, there have been frequent cases of financial fraud in listed companies, most of which are to obtain illegal benefits by whitewashing financial statements and concealing unfavorable circumstances. Balance sheets, profit and loss statements, cash flow statements, and statements of changes in owner's equity are the main components of financial statements, but it's difficult for the public to get all the information they want to know in just a few statements [1]. Annotated information of financial statements is a function to assist the reading of financial reports, which has greatly improved the scope and depth of disclosure, and has won the favor of operators and business operators through flexible and diverse forms and rich and diverse contents. Considering the impact of financial statement notes on the quality of accounting information, it has become an important basis for corporate financial inspection.

2. Summary of disclosures in the notes to the financial statements

2.1 Definitions of Disclosures in Notes to Financial Statements

The "Accounting Standards for Business Enterprises - Basic Standards" revised by the Ministry of Finance in 2014 stipulates that financial reports should at least include various accounting statements and their notes, and other necessary non-financial data information, which can provide financial statement users with useful accounting information for decision-making [2]. The notes to the financial report are to make a deeper clarification of the items listed in the financial report, and its function is to provide readers of the financial report with clear accounting information, and to improve the comprehensibility and checkability of such information.

2.2 Disclosures in Notes to Financial Statements

The CSRC's "Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 - General Provisions on Financial Reports (Revised in 2010)" stipulates the compilation format of annual reports of listed companies, and sets forth requirements for the notes to financial statements: general A listed company shall prepare and disclose the notes to the financial statements in accordance with the requirements of the Accounting Standards for Business Enterprises and other information disclosure regulations of the CSRC. By summarizing the relevant regulations of the China Securities Regulatory Commission and the Ministry of Finance, the notes to the financial statements include but are not limited to the following: basic information of the enterprise; basis for
the preparation of financial statements; statement of compliance with accounting standards for business enterprises; significant accounting policies and accounting estimates; accounting policies and Description of changes in accounting estimates and correction of errors; description of important statement items; other important matters that need to be explained, such as contingencies and commitments, non-adjusting matters after the balance sheet date, related party relationships and their transactions, etc.

3. Problems in Disclosure of Notes to Financial Statements

This paper mainly collects and analyzes 43 sample companies that were punished for financial reporting fraud from 2016 to 2019. It can be roughly seen that the types of financial statement fraud of listed companies can be divided into: income statement fraud, balance sheet fraud There are three types of fraud and false disclosure, as shown in Table 3.1. Among them, false disclosure is the most serious [3]. Subsequently, this paper conducts a detailed analysis of the false disclosures of these 43 sample listed companies, and it can be seen that undisclosed affiliated transactions occur most frequently. In addition, concealment of important matters is also a commonly used method in disclosure. The specific concealment of important matters is shown in Table 3.2.

| Table 1. Types of fraud of listed companies punished by CSRC from 2016 to 2019 |
|-----------------------------------|-----------------|-----------------|
| Fraud type                        | The number of frauds/times | The proportion of fraud/% |
| Income Statement Fraud            | 48               | 35.04           |
| balance sheet fraud               | 16               | 11.68           |
| false disclosure                  | 73               | 53.28           |
| total                             | 173              | 100             |

3.1 The information disclosure in the notes to the financial statements is untrue

In the process of disclosing the notes to the accounting statements, due to the limitations of the accounting statements themselves, many false disclosure problems are difficult to be discovered before the supervision and management department does not investigate and study, which can easily mislead investors in their decision-making and cause economic losses to investors.

3.2 The disclosure system of notes to financial statements is not perfect

At present, although the China Securities Regulatory Commission has relevant regulations on the information disclosure of listed companies, there is still a lot of room for improvement in these regulations, which are relatively basic regulations. However, there is still a lack of more detailed explanations on the disclosure requirements of the notes to the financial statements of enterprises, so that it is difficult for enterprises to unify the financial treatment standards [4]. For example, corporate shareholders facing delisting risk warnings often pay more attention to the composition of corporate revenue, but under the current situation, there are no relevant regulations that can enable such companies to meet the needs of shareholders.

3.3 The reliability of the notes to the financial statements is poor

In the actual use process, users of financial reports would prefer to obtain relevant information on important accounting subjects and related transactions through notes. However, in operation, listed companies will avoid unfavorable information in various ways. The disclosure of notes has a lot of room for manipulation, which will lead to poor reliability of information disclosure.

3.4 Insufficient disclosure of information in the notes to the financial statements

In the notes to the financial statements of an enterprise, the actual content of individual subjects is vaguely defined. If the actual content of these subjects cannot be explained, it may be difficult for users to identify which items are involved. In addition, when the company's accounting information
system is updated, it may also lead to changes in the composition of the data, and it is difficult to compare the information of different years with each other. There are also some notes that ambiguously explain the amount of money incurred. For example, some fixed assets are related to the relevant licenses that are still being processed, but the notes do not clearly indicate when the transaction will be completed and whether it will have an impact on the business situation. It is difficult for users to fully obtain information.

4. Reasons for Disclosure Issues in Notes to Financial Statements

4.1 Enterprise profit maximization motivation

The purpose of business operation is to pursue profit. Exchanging low output for high returns is the natural drive in the process of profit-seeking. Therefore, in the process of disclosing information, companies will always try to avoid disclosing information that actually occurs but may hinder the future development of the company, in order to obtain investment. The favor of the market, to maintain the continuous operation of the enterprise.

4.2 The regulatory system lags behind the development of the market

According to the statistics of the Wind database, as of March 2010, there were 1,807 listed companies in Shanghai and Shenzhen, and the number of listed companies was increasing year by year. As of February 2020, the number had reached 3,813. In the past ten years, my country's market economy has continued to grow steadily, and more and more companies have poured into the capital market for financing, which is a huge challenge for regulatory agencies. Not only the number of listed companies has increased, but also the industries involved are wider, the purposes of listing are more diversified, and the scale of financing has continued to expand. It is difficult for the existing regulatory system to make advance predictions and estimates, and more often, the regulatory system is constantly revised or expanded after violations are discovered. Listed companies may take advantage of the lag of the legal system to exploit loopholes, resulting in insufficient or even illegal disclosure of financial statements and notes.

4.3 Integrity Issues for Market Participants

The compliant operation of enterprises not only depends on the pressure from the outside world of the regulatory authorities, but also requires the business operators themselves to have a high moral level and maintain a heart of integrity. It can be seen from the information published by the regulatory authorities over the years that there are still some companies in the market who "fake against the wind", or conceal related transactions, or falsify operating income, ignoring legal policies and causing losses to stakeholders. From this point of view, the integrity of business operators is also related to the level of corporate information disclosure. Improving the integrity level of operators will help enhance the competitiveness of enterprises. In addition, the accounting firm responsible for auditing the financial statements of listed companies may also have integrity problems, shielding and assisting listed companies to disclose information in violation of regulations.

4.4 Low cost of information disclosure violations

According to the "Securities Law", if a listed company violates the rules of information disclosure, it will be ordered to make corrections, given a warning, and fined in severe cases, but the maximum fine will not exceed 600,000 yuan; the person in charge who is directly responsible for the listed company, the light A warning will be given, and a fine will be imposed, but the maximum fine will not exceed 300,000 yuan. Inquiring about the punishment results announced in similar cases in the past, although some companies had problems of information disclosure in violation of regulations in their financial reports and notes, in the end, the China Securities Regulatory Commission only issued a warning letter. Compared with the huge temptation of interests, such punishment results are more
harmful to companies. Illegal operations are really difficult to cause pressure. In addition, through the analysis of 43 listed companies punished for financial reporting fraud from 2013 to 2016, they were punished by the China Securities Regulatory Commission from 2007 to 2019. It shows that the administrative punishment announcements issued by the China Securities Regulatory Commission to the punished objects still have poor performance. timeliness.

Table 2. 2017-2019 Years of Delayed Penalty for Fraud in Accounting Statements of Listed Companies

<table>
<thead>
<tr>
<th>Deferred penalty years</th>
<th>Within 1 year</th>
<th>2-4 years</th>
<th>5 years and above</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of delay penalties / times</td>
<td>—</td>
<td>29</td>
<td>14</td>
<td>43</td>
</tr>
<tr>
<td>Proportion/%</td>
<td>—</td>
<td>67.44</td>
<td>32.56</td>
<td>100</td>
</tr>
</tbody>
</table>

5. Recommendations and measures

5.1 Strengthen the important understanding of corporate managers on the disclosure of notes to financial statements

Through the exploration of the reasons for the illegal disclosure of annotated information, we can know that the company's greater responsibility for the illegal disclosure of information in the annotations is due to the indifference of the enterprise management to the importance of the disclosure of the annotations of the financial statements. Therefore, on the one hand, it is necessary to arouse the corporate management's awareness of the disclosure of notes to financial statements by improving relevant laws and policies; quality and meet the needs of stakeholders [5].

5.2 Improve the professional quality of preparers of notes to financial statements

The quality of the notes disclosed in the financial statements is decisively affected by the financial quality of the financial practitioners themselves. Therefore, on the one hand, financial practitioners can actively learn relevant financial knowledge and improve their own skills to improve the quality of information disclosure; on the other hand, financial practitioners need to improve their own moral level, do not "know the law and break the law", and make a temporary Behavior that harms the long-term interests of shareholders.

5.3 Establish and improve the information disclosure system for notes to financial statements

To regulate the disclosure of notes to financial reports, in addition to the internal efforts of the company, the regulatory authorities need to continuously improve the supervision mechanism, improve laws, regulations and policies, and externally urge companies to improve their disclosure level. Disciplinary and law-abiding. In addition, at the level of relevant institutions, it is necessary to achieve coordination and unity, so that enterprises will not fall into the deadlock of "playing the ball" when conducting financial processing. For example, the rules and regulations of the two agencies of the Ministry of Finance and the China Securities Regulatory Commission are often inconsistent or even contradictory. Therefore, intermediary departments can be established to coordinate conflicts and reduce information asymmetry [6].

6. Conclusion

The importance of the notes to the financial report is very important in the financial report, but at present, all parties in our society have not paid attention to this project. In order to improve the management level of enterprises, to protect the interests of small and medium shareholders, and to enable fair, just, open and free competition in the capital market, Chinese enterprises need to pay attention to the notes to financial statements and play their due functions.
References


