Week 5 – DQ 2

The concept of adequate disclosure continues to be one of the most important issues facing accountants, and disclosure may take various forms.

Discuss the various forms of disclosure available in published financial statements.

Response #1

Disclosures are a way for the company to provide more information in their financial statements. Footnotes are one great way for the company to explain account balances.

Footnotes for financial reports come in two types:

One or more footnotes are included to identify the major accounting policies and methods that the business uses. The business must reveal which accounting methods it uses for booking its revenue and expenses. In particular, the business must identify its cost of goods sold expense (and inventory) method and its depreciation methods.

Some businesses have unusual problems regarding the timing for recording sales revenue, and a footnote should clarify their revenue recognition method. Other accounting methods that have a material impact on the financial statements are disclosed in footnotes as well.

Other footnotes provide additional information and details for many assets and liabilities. For example, during the asbestos lawsuits that went on for many years, the businesses that manufactured and sold these products included long footnotes describing the lawsuits.

Details about stock option plans for executives are the main type of footnote to the capital stock account in the owners' equity section of the balance sheet http://www.dummies.com/how-to/content/disclosures-in-financial-reports-footnotes.html

Another form of disclosure is the annual report.

Accounting disclosure can take many forms. In the United States, this disclosure is most often found in the notes to financial statements. Many accounting disclosures can be found in the notes section of the corporate annual report.

Each publicly held company in the US is required by the Securities and Exchange Commission (SEC) to file an annual report with the Federal Government. Many countries outside of the United States have similar requirements. This and many other government filings are available to the public after they are submitted to the SEC
http://www.wisegeek.com/what-is-accounting-disclosure.htm

Response #2

The Facts

•Financial statement disclosures are comments and explanations listed in a company's financial reports or public filings that explain certain aspects of the company's procedures. Disclosures are governed by Generally Accepted Accounting Principles (GAAP) and the SEC for publicly traded companies. While most disclosure requirements are similar for all publicly traded companies, some industries are required to provide more specific disclosures based on the operations of a business.Mandatory Disclosures

•Disclosures are required by GAAP for certain items in a financial statement, such as accounting changes or errors, asset retirement and insurance contract modifications. By requiring disclosures for these technical items, investors will have a clearer picture of the financial health of the company. Additionally, future expenses can be calculated so investors can determine long-term growth opportunities and projected cash outflows for a business.

Voluntary Disclosures

•The Financial Accounting Standards Board (FASB) recently noted that several companies were including voluntary disclosures regarding their businesses in financial reports. Overall company health, management's analysis of company data and forward-looking statements are some of the important voluntary disclosures found by FASB. This information is disclosed for those outside the company to gauge how the company will perform in future years. This helps to draw more investors than using only mandatory financial statement disclosures.

Reference:

http://www.ehow.com/about_5156814_financial-statement-disclosures.html

Response #3

SEC Guidelines

•Publicly traded companies are required to make more financial statement disclosure (compared to privately held companies) for the benefit of outside investors. Since the accounting scandals of Enron and Worldcom, the SEC has focused on companies disclosing information about the relationship with their public audit firm to determine proper independence. Several guidelines were reviewed and published in an SEC bulletin released in 2001 outlining the importance of these non-financial disclosures.SOX Disclosures

•When the Sarbanes-Oxley Act of 2002 (SOX) was passed, the SEC added additional non-financial disclosures for publicly traded companies. The majority of these disclosures required companies to state the role of management in the business and to declare if they are considered "financial experts." Companies are also required to issue a report stating that management finds the financial information to have adequate internal controls, ensuring accurate reporting.

Reference: eHow.com

http://www.ehow.com/about_5156814_financial-statement-disclosures

Response #4

The classic forms for disclosure are (1) on the face of the financial statements, (2) in the footnotes to the financial statements and (3) in managements' voluntary discussions, typically called Operating and Financial Review (OFR) or Management's Discussion and Analysis (MD&A). The disclosures on the face of the financial statements tend to be mostly required disclosures. The footnotes would have a blend of required and voluntary disclosures and management's discussion would be primarily voluntary comments.