Full disclosure in financial reporting essays examples

Business, Company

- The accounting policies of a reporting entity are the specific accounting principles and the methods of applying those principles that are judged by the management of the entity to be the most appropriate in the circumstances to present fairly financial position, cash flows, and results of operations in accordance with generally accepted accounting principles and that, accordingly, have been adopted for preparing the financial statements (FASB, 1972). International Accounting Standards (IAS) 8 governs the disclosure of accounting policies. The standard provide guidance for IFRS compliance applying to any event , transaction or conditions on developing accounting policies for other items that results in relevant and reliable information. Changes in policies or corrections of errors are generally done retrospectively while changes in estimates are done a prospective basis. Two of the most commonly required disclosures are that of depreciation of non-current assets and the valuation of inventory. Accounting standards allow preparers of financial statements to choose between alternatives when using accounting policies. A user of the financial reports may need to use the inventory valuation for different purposes. The government might use it to calculate how much tax you should pay, while an investor may use it to calculate stock turnover. For the depreciation in non-current assets, investors would want to see the value of fixed assets at the beginning of the financial period and the speed at which it deteriorate.

Verizon failed to mention which methods they used to in their accounting policies. Therefore, in my opinion they did not disclose sufficient information to aid a financial report user to make a decision. Verizon should have disclosed the methods they used for depreciation and amortization or the method they use to depreciate fix assets. This information would help financial report user to compare Verizon’s financial reports with similar companies in the market.

- According to Investopedia. com, the Management Discussion and Analysis is a section of a company's annual report in which management discusses numerous aspects of the company, both past and present. They indicated that among other things, the Management Discussion & Analysis provides an overview of the previous year of operations and how the company fared in that time period. Management will usually also touch on the upcoming year, outlining future goals and approaches to new projects.

The three (3) items from Verizon’s management and discussion analysis of the annual report that could be useful to potential investors are its strategy and growth, risk and opportunities and its investments and financing.

The examples that could be drawn from Verizon’s management discussion analysis for their strategy and growth would be offering innovative product bundles that include broadband Internet access, digital television and local and long distance voice services, offering more robust IP products and service, and accelerating their cloud computing and machine-to-machine strategies, continue to focus on cost efficiencies to attempt to offset adverse impacts from unfavourable economic conditions and competitive pressures and introducing the More Everything plans which replaced the Share Everything plans and provide more value to our customers and

For the risk and opportunities, the managing discussion analysis highlighted changes in exchange rate as a risk to the organization, changes in tax policies as risk and growth in the wireless segment due to continuous demand for smart phones and tablets.

For the investment and financing example, Verizon entered into a purchase agreement with Vodafone Group Plc where they purchase 43% interest in Cellco Partnership which was paid for by $58. 89 billion in cash and $60. 15 billion in Verizon common stock, Common stocks are used from time to time to satisfy funding needs and they acquired wireless licenses costing $4. 9 billion.

- Segmented information is information to investors and creditors regarding the financial results and position of the most important operating units of a company, which they can use as the basis for decisions related to the company. In an article published on the website of Delloitte, it was explained that segmentation fall under IAS14 which aims to establish principles for reporting financial information by line of business and by geographical area. It applies to entities whose equity or debt securities are publicly traded and to entities in the process of issuing securities to the public. The geographical segmentation is based on the location of the entities customers and or the entities assets, while the business segmentation is based on the different divisions of the company, such as production reports as a separate entity from distribution.

- Advantages of segmentation would include; it highlights the profitability of various parts of the organization, it helps the financial users to better predict future profitability especially in areas where segments are involved in diverse activities and Operating Segments requires the disclosure of segment information within the notes of a company’s financial statements.

- The disadvantages of segmentation includes; managers might become myopic ad focus more on short term figures rather than long term goals, competitors will have significant insight on information concerning segment profitability and may also provide encouragement for further entrance of competition into the industry.

Segmenting provides a great harm than benefit to an organization because the mere fact that competitors will have insight information about key operational areas of your organization and your most profitable areas also will give the competitor a competitive advantage because they will have an idea where to focus on to build their competitiveness. Also, having manages losing sight of the overall long-term goals by focusing on making short term targets can significantly hurt the business profitability in the long run.

Verizon used the business segmentation model to segment to the company. The company is segmented in the wireless and the wirelines division. The key action that Verizon's management can take to improve the company's financial data is by using both the business model and the geographic model to segment the financial information. Verizon operates in more than 150 countries which would cover many different regions that have different need. Say for instance, a product may be in demand in one country or in a particular region but it might not be the same in another. Therefore, the company could be making a loss in a country or a region but the users of the financial reports are unable to tell because it is not reported in the financial statements.

- There are four types of auditor's reports; there are the qualified, the unqualified, the adverse opinion and the disclaimer. The qualified reports in a case where a company's financial statement is not kept in accordance with the GAAP but misrepresentations are identified, the auditor will issue an opinion similar to that of the unqualified opinion. With the unqualified auditing opinion, the auditors determine that the financial report is in accordance with GAAP and is free of any misrepresentation. The adverse opinion is where the auditors find that the financial reports are not in accordance with GAAP and there are significant misrepresentations. The auditor will issue a disclaimer opinion if the there is not sufficient information for him to complete a complete audit. An auditor’s report is key to an organizations ability to receive funding from a bank. The bank depends on the auditors reports most times to tell if the organization is a going concern. Verizon’s auditor’s report were unqualified opinion as the auditors found them to be in accordance with all the standards and regulations set out by the respective bodies. The banks will look at Verizon favourably.

Reference

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