

# [Disclosure and financial reporting](https://assignbuster.com/disclosure-and-financial-reporting/)

[Business](https://assignbuster.com/essay-subjects/business/)

Accurate financial reporting can only produce the true reflection of enterprise standing. Enterprise is formulated to grow, govern and earn profits. However, growth of business demands an accurate financial reporting and adequate disclosure of enterprise endeavors. The financial practices have been pass-through a long time of transformation which created lenience in the financial reporting process and disclosure.

On the other hand, various legal as well as corporate rules and laws have standardized the accounting process to have the disclosures accurate especially for public limited companies. Security and Exchange Commission (SEC) is the granter to protect the interest of stakeholder (Camfferman & Zeff, 2007). History of financial reporting: Ancient accounting practices were much personal than today’s large public companies accounting systems. Accounting practices were used to record the incomings and outgoings of trading activities. The financial information was then limited to the entrepreneur and record keeper. Therefore, the ancient business activity was very limited because there were then no partnerships, no ventures and no public entities.

The double entry financial reporting system was first introduced in 15th century. In that time there was a huge growth recorded in business sector, nevertheless, it is better to say that the business then transforming its limited activity to the larger. The emerging business market needs more individuals to invest more capital then a single one. At the same time, the joint stock companies created more audience which demanded to expand the accounting practices to the large extent. With the transformation of business activities the financial reporting activities also transformed.

Now, accounting is called language of business it has expanded the wings to the financial reporting, management accounting, financial management, auditing and other reporting activities to monitor and measure the business performance (Salvary, 2005). As per the accounting definition of American Institute of Certified Public Accountants (AICPA) “ the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof.” Therefore, a true reflection of accounting activities is the prefect financial reporting. Double entry system: The first transformation of accounting complexity to the simplicity was double entry system. Double entry system was first introduced in 15th century with a set of rules and principles. In a simple definition double entry system is a correspondence of debit and credit.

With the correspondence of debit and credit the net effect will ultimately the accurate and equal. At the end of fiscal period corporations can figure out their net results in shape of assets, liabilities and equity. Therefore, double entry system was the first step to simplify the complex financial reporting system. Computerized financial reporting system: The revolutionary initiative of making the financial reporting simplest was computerized financial reporting. After the miraculous revolution of computer and online virtual linkage the financial reporting become the simplest thing to do which was hard to do before the revolution.

Nowadays, there are a lot of computerized accounting programs like Peachtree, Quick books and SAP. The software made it possible to put raw data and get final accounts with no extra effort and with a complication free process. Computerized financial reporting system is quick, comfortable and accurate mean of financial reporting which released the intense work load of double entry manual system to the interested and easy financial reporting activity. Public companies & financial reporting: The expanded form of business also expanded the ventures and public investments. Public companies have been formed to congregate the finance from different sources like through shares in stock market, debentures and other investment options. The need of securing public interest was arise to secure their investment and monitor the investor activity.

Security Exchange Commission (SEC) was incepted for the same reason to safeguard the public stakes and monitor and guarantee the investor activities. Though, SEC was ultimate but there was found many irregularities and corporate scandals till 2002 in presence of SEC reformed laws and regulation. The lacking will ultimately influence to formulate new laws for protecting the investor’s investment, therefore, Sarbanes-Oxley act was come to existence. Sarbanes–Oxley act: Sarbanes-Oxley act was enacted in 2002 formatted by Senator Paul Sarbanes and U. S.

Representative Michael G. Oxley and signed by President George W. Bush into law. The major reason behind the formation of new law for security of public investment was mammoth irregularity and corporate accounting scandals likeEnron, Tyco International, Adelphia, Peregrine Systems and WorldCom. The law has included eleven new sections to identify and rectify the corporate responsibilities and initiate criminal penalties.

The new law created provision to formulate quasi–public agency the Public Company Accounting Oversight Board (PCAOB). The agency is a nonprofit organization which has its primary responsibility to oversee the activities of auditors of public limited companies and to protect the interest of investor. The power to inspect the public accounting and auditing firms gives it edge to protect the investor’s interest properly. Therefore, the new Sarbanes-Oxley act 2002 eleven sections have clear-cut definitions to discourage and dilute the trend of corporate manipulation and corporate scandal (“ Securities lawyer’s deskbook ,” ). Eleven sections for eliminating the manipulations: Before 2002 there was a long sequence of corporate scandal.

The one after one scandal influence the government to format a new law to confront with the stock market manipulations. Then, the Sarbanes–Oxley act enhanced the powers of SEC to protect investor’s interest properly. The impact of eleven sections of Sarbanes-Oxley act is discussed below: 1. The public company accounting oversight board (PCAOB) As discussed above PCAOB is the right action to monitor the investor activity and to check the associated accounting and auditing firms and their procedures. This has applied double check to minutely oversight not only the business activities but also to check the persons and procedures of company’s accounting and auditing firms.

This has given the edge to minutely monitor the activities. 2. Auditor independence: Auditor’s independence is most critical issue in accounting manipulation. Moreover, rotation of auditor and additional check of inspection on the auditing firms by the PCAOB made it possible to work transparently. 3.

Corporate responsibility: Corporate responsibility applies on the relative accounting officers and respective management representatives. The integrity of company financial is completely applied to the principle accounting officer and or chief executive of the company. They are deemed to be responsible for any inappropriateness. 4. Enhanced financial disclosures: The addition of enhanced financial disclosures is much helpful to have timely information about the stock status to its investors. The specific reviews of accounting, auditing and internal control by the agents of SEC provides the actual guarantee to the investors and other stake holders.

5. Analyst conflicts of interest: Title V for analyst conflicts of interest has only one section which addresses the conflict of interest. The conflict of interest should be measured with the restore of investor confidence in the reporting of security analysis. 6. Commission resources and authority: This title deals with the brokerage activities and the powers to censure or bar the security professional, agents and brokerage houses. This is helpful to restore the investor confidence.

7. Studies and reports: Studies and reports is very comprehensive activity by the SEC to collect various findings about public accounting firms, auditing firms, analysis of credit rating agencies and operation of security markets. It will eventually grant enough information to take actions. 8. Corporate and criminal fraud accountability: The basic aim to incorporate the new law into the SEC regulations is to identify and accountability of corporate criminal frauds.

It has granted the power to investigate the criminal activities in the organization and impose penalties for manipulation and or ambiguous accounting records. 9. White collar crime penalty enhancement: The criminal activities performed as the white collar personal are dealt by the while collar crime penalty enhancement. This section also well-knows as “ White collar crime penalty enhancement act of 2002”. 10. Corporate Tax Returns: The new law made it mandatory to sign the corporate tax returns by the chief executive of the company.

It will eventually make the top management responsible of everything happen in the company accounts. 11. Corporate fraud accountability: This section reflects the true spirit of new law. The corporate fraud accountability was the ultimate aim to formulate the additional rules and regulation into the SEC regulations. The section identifies the corporate offences its penalties, sentences and punishments. The Sarbanes-Oxley act has comprehensively covered all the lacking in the corporate guarantees.

It gives the ultimate guarantee to the investors for the protection of their investments. Now after the implementation of Sarbanes-Oxley act the scandals and irregularities in accounting and auditing practices has been wiped-out. Enterprise resource planning (ERP): Computer has made it possible to comfort the efforts. Another, comforting initiative provided by the miraculous invention of computer is enterprise resource planning (ERP). ERP is an integrated computer based system which provides the flow of information of almost entire business activities like asset management, financial resources, material management and human resource management.

ERP and accounting practices: As accounting practice starts with vouching and ends at final accounts. Hereinafter, entire business activities have direct and indirect linkage with the accounting practices. In addition, ERP solution made it possible to access entire data with one click and reduced the paper work. It gives a centralized database to prepare and access documents, financial, profiles in simple word it consolidates all business operations into one unified computerized software. At the end of treatise, importance of accounting practices especially for public Company can be realized. Time has had transformed the systems and upgraded the conventions.

Therefore, transformation of conventional accounting to double entry system and manual accounting to computerized has been leniently resolved the enhanced business activities. On the other hand, the legal cover to the interest of investor by the Sarbanes-Oxley act has made it possible to expand the business.