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IJR
International Journal of Research
Available at https://edupediapublications.org/journals
e-ISSN: 2348-6848
p-ISSN: 2348-795X
Volume 05 Issue 17
July 2018

The Role of Electronic Performance in the Accounting Disclosure of Multinational Companies

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Abstract:

The term "Accounting Information System", observe, Broad and Carmichael, covers all those services by which the accounting department can assist the top management and other departments in the formation of policy, control of execution and appreciation of effectiveness. This definition points out that management is entrusted with the primary task of planning, execution and control of the operating activities of an enterprise. It constantly needs accounting information on which to base its decision. A decision based on data is usually correct and the risk of erring is minimized. Accounting information or managerial accounting is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

Accounting information is needed not only by management in directing the affairs of the co-operation but also by shareholders, who require periodic financial statement in order to appraise management performance.

Accounting information is a field distinct from public accounting – is a critical profession that drives business performance. By definition, accounting information is a profession that involves partnering in management decision-making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy The basic function of accounting information is to assist the management in performing its functions effectively.

Keywords *Accounting Information System, Generally Accepted Accounting Principles*

Introduction

Disclosure is the process through which companies communicate business and financial information to its stakeholders. Disclosures are used to enhance the usefulness of financial reporting. Disclosure in financial reporting is a potentially important means for management to communicate firm's performance and position to outside investors. Enhanced disclosure practices will help to reduce information gap between firm and its stakeholders, to improve efficiency of capital allocation and also to reduce the cost of capital. Adequate disclosure in financial reports can build climate of trust and boost confidence of investors' community. The term disclosure has many meanings. Normally, the term is used to refer to the information that is provided on a supplementary basis outside the basic financial statements. It is also used as a vehicle for communication of decision-oriented information.

The primary objective of technology based financial reporting is the disclosure of financial data within the framework of Generally Accepted Accounting Principles (GAAP). Under conventional standards, the financial reporting process means that the

reported data is not always a reliable basis for forecasting future performance, which can result in a loss in credibility from a stakeholder's perspective. Furthermore, it focuses almost exclusively on quantitative data and, typically, reveals little about issues such as investment risks and the long-term effects of capital investments. In addition, key drivers of corporate value in critical areas of the business are human capital, customer relations, innovation, research and development (R&D) and corporate reputation, which often do not get adequate reflection in published financial statements.

There are probably two ways of disclosing information in the financial statements: Mandatory and Accounting . (1). Mandatory or statutory disclosures are the minimum level of disclosures a company is bound to make in its financial statements so as to comply with the stakeholders legal requirements of disclosures. Statutory disclosures are the disclosures that are required by any statute e.g. (i) Company Law, (ii) Stock Exchange Regulation, (iii) Other Laws and (iv) Regulatory Body. The Companies Act and accounting standards normally prescribe minimum disclosure requirements, but do not prohibit companies from providing additional information.

However, 21st century opens up new challenges for the financial reporting as the economic environment of the present day is distinctly different from the earlier times. Accounting or extended or discretionary disclosures describe financial disclosures primarily outside the financial statements that is not explicitly required by GAAP or any accounting standards (Boesso, 2002). That is, it is a disclosure in excess of requirements

In general, companies, which voluntarily disclose extensive business and financial information, are trying to differentiate themselves by providing an enhanced level of information that helps investors and creditors understand the company better (Levinsohn, 2001).

It is also argued that accounting disclosures can lower agency costs, reduce'the cost of capital and improve the market price of securities (Leuz and Verrecchia, 2000; Botosan, 1997; Hossain, Tan and Adams, 1994). On the other hand, the main reasons for non-disclosure are the costs associated with such disclosures. That is, there is a direct cost associated with producing and disseminating information, as well as an indirect cost stemming from a potential loss of competitive advantage or bargaining power through disclosure (Admati and Pfleiderer, 2000).

Research Methodology

a. Method of analysis

Whereas this research aims to highlight the importance of accounting information, and test the investors' understanding and knowledge of the Securities Exchange of accounting information contained in financial reports, and the extent of use of such information in the investment decision, we will support this research on the descriptive analytical method as an one of the most methods used in the study of social phenomena and humanity, but it fits research topic and there has been relied on analysis of data collected on a program of statistical analysis (SPSS), and the application of some of the tests were accepted in order to reach some proposed conclusions and recommendations.

Result of a (Sign Test), for the table of the first area

The first scope	The number of negative signals	The number of positive signals	The number of zeros	Total	The value of Z	Sig	The value of general median
The degree of importance of The impact of electronic Performance in Accounting Disclosure	116	2	14	132	10.402-	0	4

The level of statistical significance when α = 0.05

From the previous table we can see that the value of Z is statistically significant at α = 0.05, which means that the median of the individual answers on the first table higher than the from the median used as a measurement which is (3), and enhance the result the value of general median (4) which means Significantly according to the measurement used in the questionnaire. Thus we conclude from this the respondents believe the use of accounting information to realize their investments is significant from their point of view. Accordingly, we reject H0 which stats that that investors not realize the important of accounting information and accept the hypothesis H1 that the investors realized the important of accounting information.

2- The accounting information contained in financial reports is insufficient to rationalize the investment decision.

In order to test the previous hypothesis we used the follow:

$H0: M \leq 3$ $H1: M > 3$

Whereas the H0 means that the accounting information contained in financial reports is insufficient to guide in the investment decision (less than or equal 3), while the substitutive hypothesis H1 referred that the accounting information contained in financial reports is sufficient to rationalize the investment decision (more than 3).

Result of a (Sign Test), for the table of the second area

The second scope	The number of negative signals	The number of positive signals	The number of zeros	Total	The value of Z	Sig	The value of general median
The availability of accounting information in the financial reports to guide the investment decisions	67	12	53	132	6.075-	0	4

The level of statistical significance when α = 0.05

From the previous table we can see that the value of Z is statistically significant at α = 0.05, which means that the median of the individual answers on the second table higher than from the median used as a measurement which is (3), and enhance the result the value of general median (4) which means Significantly according to the measurement used in the questionnaire.

Thus we conclude from this, the respondents believe that the firm provide different accounting information to guide their investments is significant from their point of view. Accordingly, we reject H0 which stats the accounting information contained in financial reports is insufficient to guide in the investment decision ,and accept the hypothesis H1 that the accounting information contained in financial reports is sufficient to rationalize the investment decision.

3- There is no other information not included in the financial statements affect the investment decision.

In order to test the previous hypothesis we used the follow:

H0: $M \leq 3$; H1: $M > 3$

Whereas the H0 means that no other information not included in the financial statements affect the investment decision (less than or equal 3), while the substitutive hypothesis H1 referred that there is other information not included in the financial statements affect the investment decision (more than 3).

Result of a (Sign Test), for the table of the third area

The third scope	The number of negative signals	The number of positive signals	The number of zeros	Total	The value of Z	Sig	The value of general median
The degree of influence of other information is contained in the financial statements on the investment decisions	66	12	54	132	6.001-	0	3.25

The level of statistical significance when α = 0.05

From the previous table we can see that the value of Z is statistically significant at α = 0.05, which means that the median of the individual answers on the third table higher than from the median used as a measurement which is (3), and enhance the result the value of general median (4) which means Significantly according to the measurement used in the questionnaire. Thus we conclude from this, the respondents believe that there is other information not included in the financial statements affect the investment decision is significant from their point of view. Accordingly, we reject H0 which stats that there is no other information not included in the financial statements affect the investment decision, and accept the hypothesis H1 referred that there is other information not included in the financial statements affect the investment decision.

4 .There is some obstacles limit in using of accounting information in Indian MNC's.

In order to test the previous hypothesis we used the follow:

H0: $M \leq 3$; H1: $M > 3$

Whereas the H0 means that there is no obstacles limit in using of accounting information in guiding of the decision to invest in stock market. (less than or equal 3), while the substitutive hypothesis H1 referred that there is obstacles limit in using of accounting information in guiding of the decision to invest in stock market (More than 3).

Result of a (Sign Test), for the table of the forth area

The third scope	The number of negative signals	The number of positive signals	The number of zeros	Total	The value of Z	Sig	The value of general median
The degree constraints limit the use of accounting information in limit in using of accounting information in Indian MNC's.	68	11	53	132	6.300-	0	4

The level of statistical significance when α = 0.05

From the previous table we can see that the value of Z is statistically significant at α = 0.05, which means that the median of the individual answers on the forth table higher than from the median used as a measurement which is (3), and enhance the result the value of general median (4) which means Significantly according to the measurement used in the questionnaire.

Thus we conclude from this, the respondents believe that there is some obstacles limit in using of accounting information in guiding of the decision to invest in stock market is significant from their point of view. Accordingly, we reject H0 which stats that there is no obstacles limit in using of accounting information in guiding of the decision to invest in stock market, and accept the hypothesis H1 referred that there is obstacles limit in using of accounting information in guiding of the decision to invest in stock market.

Findings & Conclusion

Results of this study also identify new drivers of Accounting disclosures and give some evidence about the nature, extent of Accounting disclosures of Indian MNC"s . In an emerging economy, disclosure of certain items are very important and relevant to facilitate -

1. Wider participation of retail investors in capital markets.
2. Wide gap between book value of shares and market value of shares can be minimized.
3. Growing importance of intangibles, some of which are not disclosed in the accounts clearly, for instance, brands.
4. Globalization and integration with foreign markets.

Demand for more information on the part of stakeholders (confirmed from our perception study).

Although some disclosures were found about internally generated intangible assets, additional data about those assets would be beneficial because of the importance of

intangibles to a company's value. Internally generated intangible assets are not always disclosed in the company's balance sheet. However, intangible assets play a significant role and hence more of such assets should be disclosed.

Accounting disclosures should cover not only good news but also disappointments. Disclosures are most useful if they report on previously closed plans and goals and the results achieved in meeting those plans and goals to ensure the feedback value of quality financial reporting. The metrics used by companies to manage their operations and drive their business strategies often are very useful. A company uses different metrics or measurements to compare its goals, strategies and to compare current performance with previous performances. These metrics or performance measurements should be explained and consistently disclosed from period-to-period to the extent they continue to be relevant to a company's success. These metrics should also be used for interfirm as well as interperiod (5-10 yrs.) comparative analysis.

The cost of disclosing additional information should be considered. This view is supported by Gray, Radebaugh and Roberts who found that, on average, financial executives tend to perceive most Accounting disclosure items in terms of their net cost. Gray, et al. (1990) also found that there is a general agreement among financial executives that the most important cost factor is the indirect cost of competitive disadvantage resulting from the disclosure of information such as future-oriented information.

It may be said that, although there have been a marked improvement in the quantity and quality of information provided in the financial statements by the Indian MNC"s over the years, there exists still some diversity in their reporting practices. For instance, in case of MNC"s, some companies are disclosing more and some disclosing less information, so a disparity exists. Thus, more efforts should be put to reducing the diversity and ambiguity in their disclosure and hence enhancing the quality, reliability, comparability and comprehensibility of accounting information.

Compilers and users of annual reports should be encouraged to communicate in order to attain a higher degree of consensus on the extent and importance of Accounting disclosure. Otherwise, the information content of annual reports will not satisfy the needs of all constituents. It will therefore remain an imperfect mechanism in the communication process.

Disclosures that are made voluntarily should be reliable and consistent and should improve the quality of corporate communication. Furthermore, the interest of the users of corporate annual reports should take precedence over the interests of the compilers. Compilers should identify what is perceived to be useful decision-making information in terms of user needs and should respond by improving the non-financial information content of the annual report and by formulating an effective disclosure policy.

Disclosure is good, and it is to be encouraged but at the same time it should be made within a common framework in order to meet the test of comparability. In many cases it has been observed that some Accounting disclosures made by the companies appear in non-comparable and inconsistent, form. This will entail some timely effort on the part of regulators and standard setters in right direction to issue some common guidelines.

e-ISSN: 2348-6848
p-ISSN: 2348-795X
Volume 05 Issue 17
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There is an apprehension that disclosure of too many items in the annual report may result in information overload. To avoid financial disclosure overload in future, it may ultimately be necessary to publish separate, supplementary or summarized reports that serve the different needs of the various stakeholders. The solution to the problem of information overload proposed by Wallman (1997) is a user customized system in which the users determine what information they wish to access from a comprehensive disaggregated database to enable them to prepare their own customized financial statements from real-time information. The publicly accessible databases include the Securities and Exchange Commission's Electronic Data

Gathering and Retrieval System and Compustat, for example, Extensive Business Reporting Language (XBRL). Electronic data will certainly be the primary source of information in the future and annual reports should already be geared to this method of disseminating information.In order to avoid confusion on the part of stakeholders, the annual report should clearly mention the items which are actual figures (i.e. backed by vouchers) and which are estimated figures (i.e. not backed by vouchers).

Limitations of the Study:

Some of the limitations of the present study are:
The study is based on the published annual reports of only three years, which makes this study a snapshot. Analysis of annual reports over a longer period of time would have given a better picture and trend in the corporate Accounting disclosure practices.

The sample consists of 10 large and established companies belonging to the BSE Sensex and 10 renowned MNC"scompanies.

If the sample size is increased to include relatively smaller and the less renowned companies, the findings are likely to be different.

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