Research on the Motivations and Consequences of Irregular Disclosure of Accounting Information by Listed Companies

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Abstract. In today's society, the disclosure of accounting information by listed companies serves as a vital bridge for communication between these companies and information users. Despite significant progress in this area in recent years, listed companies still face critical flaws. The irregular disclosure of accounting information by the Antai Group has prompted regulatory authorities to focus on this issue. This paper primarily investigates the motivations and consequences of irregular disclosure of accounting information. The research analysis reveals that the primary motivations encompass internal and external factors, leading to severe economic losses and significant market volatility. The paper further proposes corresponding solutions, such as strict law enforcement and providing training services for investors. This study outlines requirements for listed companies to adhere to accounting information disclosure standards to ensure market efficiency. From the corporate perspective, there should be more truthful and accurate disclosure of accounting information. From the regulatory perspective, there should be enhanced oversight of such irregular practices and measures to mitigate their occurrence.

Keywords: A publicly-traded entity; Financial accounting data; Unauthorized dissemination; Underlying incentives; Remedy strategies.

1. Introduction

In recent years, there has been a growing number of cases involving irregular disclosure of accounting information by listed companies, with the Antai Group's case drawing widespread attention from society. In today's society, the disclosure of accounting information by listed companies serves as a crucial bridge for communication between these companies and information users. Despite significant progress in this area by listed companies in recent years, some fatal flaws still exist. Cases of severe irregularities in accounting information disclosure by some listed companies have not only caused huge economic losses to investors but also impacted the stability of the development of China's securities market.

Against this backdrop, numerous scholars have conducted extensive research on the irregular disclosure of accounting information by listed companies. Some scholars have focused on studying its motivations and consequences, while others have examined typical cases or collected empirical data and models for empirical research. Recently, domestic scholars have conducted numerous studies on the causes of problems in accounting information disclosure. For instance, Huang Yanjun, in response to the frequent occurrence of information disclosure violations by listed companies in China, studied temporarily noncompliant listed companies in terms of industry characteristics, ownership structure, enterprise size, profitability, and debt status, analyzing the characteristics of penalized enterprises to identify the main factors influencing their information disclosure violations [1]. Qu Wenzhou and Cai Zhiyue, from the perspectives of tunneling by major shareholders, insider trading, and earnings management, used financial leverage as the primary controlled variable and applied a logistic regression model to empirically analyze the causes of information disclosure violations by enterprises [2].

This paper conducts an in-depth analysis of the current status of accounting information disclosure systems in recent years and the motivations behind violations of accounting information disclosure. It elaborates on the consequences of such behavior and provides corresponding solutions. On the one hand, this research further expands the relevant studies in the field of accounting information disclosure by listed companies; on the other hand, it not only enables listed companies to more deeply recognize the consequences of such illegal behavior but also allows regulatory agencies to better carry out their supervisory work.

2. Main Manifestations of Irregular Accounting Information Disclosure by Listed Companies in China

Accounting information disclosure refers to the act of enterprises regularly presenting their financial conditions to shareholders and investors through financial statements, balance sheets, and other forms, accepting supervision from shareholders, and attracting investments. Accounting information disclosure can truly reflect the company's situation, regulate corporate behavior, reduce risks arising from information asymmetry, and ensure investors' returns, thereby enabling investors to find investment directions.

The disclosure of information by listed companies can increase their transparency, provide investors with investment information, protect investors' interests, and avoid illegal operations by listed companies, which is conducive to investors forming a reasonable portfolio of securities [3].

2.1. Untrue Accounting Information Disclosure

The phenomenon of disclosing false accounting information, namely untrue accounting information disclosure, still exists in the information disclosure of listed companies in China, despite the explicit prohibitions stated in a series of regulations and the various measures taken by relevant institutions. Several major accounting scandals have occurred in China, involving listed companies such as Shenzhen Yuanye and Hongguang Industry, which used false accounting information to seek personal gain, causing adverse social impacts.

The untruthfulness of information disclosure by listed companies is mainly manifested in two aspects: Firstly, distorted textual descriptions, which intentionally misrepresent the economic business content of the company by attributing unreasonable, illegal, or false transactions or revenues and expenses to others, or by converting them through various channels into reasonable, legal, and true transactions or revenues and expenses, or by making a series of false statements to conceal the true content. Secondly, untrue and ineffective numbers, where the economic business content itself is legal, but during accounting processing, the data related to the economic business is untrue, intentionally expanding or shrinking the quantity of economic business [4].

2.2. Inadequate Accounting Information Disclosure

In China, inadequate accounting information disclosure specifically manifests as companies not comprehensively disclosing the information that should be disclosed, instead adopting tactics to avoid important issues and emphasize trivial ones, deliberately exaggerating some facts while concealing others, thereby misleading investors.

The users of information from listed companies can assess the authenticity and accuracy of the accounting information of listed companies by conducting in-depth analysis of sufficient and complete accounting information. Therefore, some listed companies always adopt the strategy of disclosing as little accounting information as possible to conceal potentially false information. This can lead investors to make decisions based on incomplete understanding of the company's accounting information, resulting in losses due to being misled by false information [5].

2.3. Untimely Accounting Information Disclosure

In the stock market, a lack of timeliness in the disclosure of accounting information by listed companies essentially creates opportunities for insider trading and market manipulation. In recent years, the annual and interim reports of listed companies have generally been made public before the deadline, ensuring the timeliness of information disclosure. However, regarding the disclosure of interim reports, some listed companies tend to decide when to disclose major events based on their own interests, which affects the timeliness of related accounting information disclosure and is bound to influence investors' decision-making.

2.4. Irrelevant Accounting Information Disclosure

Irrelevant accounting information refers to accounting information that has little universal applicability and limited significance for decision-making by information users. Some listed companies interfere with the public's ability to discern and use useful information by disclosing a large amount of irrelevant information, which can also be misleading and may obscure truly relevant information, affecting predictions and decision-making. This accounting information is virtually nonexistent, lacking substantive content, resulting in the low value of accounting information disclosed by listed companies in China.

3. Motives for Violations of Information Disclosure by Listed Companies

The causes of the problems in accounting information disclosure by listed companies in China are relatively complex. Recently, domestic scholars have conducted extensive research on the causes of these problems in accounting information disclosure.

3.1. Internal Reasons

The internal reasons mainly revolve around a company's internal financial condition and ownership structure. According to information transmission theory, companies with sound financial conditions are inclined to communicate their favorable financial status to investors, thereby influencing investors' decisions.

3.1.1 Deficiencies in a Company's Internal Governance and Control

Corporate governance is a significant internal reason that influences the execution of company decisions. Lazy internal governance within a company, coupled with a lack of supervisory personnel at each level to oversee the actions of personnel at that level, contributes to this issue. There is also a lack of specialized personnel for each specific position, and no clear identification for different departments. These deficiencies result in inadequate review of accounting information by listed companies, potentially leading to damage to investors' rights and interests. Yu Xiaoqiang and Liu Shancun found through a series of studies that there is a positive relationship between corporate governance structure and information disclosure violations [6].

3.1.2 Profit-Driven Motives of Companies

Profit-driven motives are the root cause of violations in accounting information disclosure. Companies are tempted by the prospect of going public, as the establishment of the securities market provides broader financing space and channels for struggling enterprises. Among the many listed companies with information disclosure violations, several companies have falsely increased profits, produced false certification documents, and made a series of misrepresentations out of their eagerness to go public [7].

3.1.3 High Financial Pressure

Companies facing high financial pressure, high financial leverage, and poor performance are more likely to violate information disclosure regulations. Conversely, companies with high operational efficiency and profitability are less likely to violate regulations. Wu Guoping and Ma Shi conducted a series of sampling studies and found that listed companies face pressures in various aspects, which have a significant impact on their information disclosure violations. Although the impact of financial pressure is not as great as other pressures, companies facing greater financial pressure are more likely to have issues with information disclosure violations [8].

3.2. External Reasons

3.2.1 Inadequate Relevant Laws and Regulations

Firstly, the effectiveness of audit supervision in the professional auditing community is insufficient, leading to a large amount of unverified and false information being disclosed externally. Secondly, there are deficiencies in the legal responsibility system for information disclosure violations, and administrative penalties are generally imposed for illegal and noncompliant behaviors. Due to the lack of consistency in information disclosure requirements, confusion arises during implementation, providing opportunities for the disclosure of false information. Currently, China's legal system is still imperfect, which is evident in the legislation of the securities market [9].

3.2.2 Insufficient External Oversight

China still lacks a self-regulatory organization for the securities market, and exchanges rarely exercise strict constraints during operations. Secondly, the China Securities Regulatory Commission (CSRC) lacks sufficient strength and authority, and the securities market is one of the focal points of various conflicts of interest [10].

3.2.3 High Pressure from Market Competition

In the fiercely competitive market, listed companies face immense pressure to achieve performance growth. When actual operating conditions are poor, some companies choose to cover up problems by disclosing information in violation of regulations in order to meet market expectations.

4. Consequences of Illegal Disclosure of Accounting Information

4.1. Causing Severe Economic Losses

Investors, making investment decisions based on incorrect, incomplete, or inaccurate information, often suffer significant economic losses. For instance, subsequent to the investigation into Mengjie Corporation for breaches of information disclosure regulations, the entity's equity value experienced a drastic decline, culminating in substantial losses for its shareholders. Moreover, the dissemination of illicit information has the propensity to sway the investment decisions of stakeholders and amplify the inherent risks associated with their investments.

4.2. Creating Market Turbulence

Large-scale illegal disclosure of information can trigger stock market volatility and even impact the stability of the entire financial system. Investors' panic may lead to sharp declines in the stock market and even trigger systemic financial risks.

4.3. Damage to the Listed Company's Reputation

Illegal disclosure of information seriously tarnishes the reputation of listed companies, resulting in limited financing channels and constrained long-term development. For instance, after Mengjie Co, Ltd. was penalized for information disclosure violations, its share price fell sharply, and its reputation suffered severe damage.

4.4. Bearing Corresponding Legal Consequences

Listed companies and their management may face administrative penalties, civil compensation, and even criminal liability from regulatory authorities. For instance, the corporate governance of Mengjie Shares faced an investigation on charges of financial misappropriation and dereliction of fiduciary responsibilities, stemming from breaches in information disclosure regulations.

5. Conclusion

This paper investigates the issue of accounting information disclosure by listed companies and draws conclusions regarding the motives and consequences of violations in this area, along with corresponding countermeasures. The motives for violations encompass both internal and external factors, and such conduct has significant implications for investors, companies, and the securities market, including severe economic losses and significant market turbulence. Based on the research in this paper, the following countermeasures are proposed: Firstly, strict law enforcement must be implemented with increased intensity to achieve a deterrent effect. Additionally, the regulatory system for information disclosure should be continually improved, and the enforcement of relevant laws and regulations should be strengthened. Severe penalties should be imposed on units and individuals who take risks due to the low cost of falsification and violations, as well as those who dare to engage in risky behavior. Secondly, training services should be provided to investors to enhance their risk awareness and discernment abilities, enabling them to view the information disclosure of listed companies rationally and avoid blind investments. Lastly, to improve the quality of information disclosure, listed companies should enhance the authenticity, adequacy, timeliness, and relevance of their disclosures to ensure investors can obtain accurate and comprehensive information. These countermeasures not only ensure the transparency of economic activities, enabling information users to make correct judgments and scientific decisions, but also comprehensively safeguard the interests of all parties involved in economic activities and maintain the stable and healthy development of the securities market.

Nevertheless, this paper only analyzes the issue from the perspective of influence mechanisms. In future research, relevant data can be further collected for empirical testing to obtain more comprehensive research conclusions.

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