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Accounting Disclosures of Related Parties' Transactions and Investment Risks

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Abstract

The company provides accounting information by various mandated and different means. These accounting disclosures are compulsory by the national legislation, government regulations, accounting GAAPs, and international financial reporting standards (IFRS) with the objectives of financial reporting. However, 'Accounting disclosures' are the primary sources of providing information to the stakeholders and Investors. It helps the users in decision-making to achieve the best possible allocation of available economic resources, investment of funds, and accessing investment risks. This study examines the impacts of accounting disclosure of related parties' transactions on the regular investment risks and irregular investment risks and also the competitive advantage. The result indicates that there is a positive correlation between the disclosure of the related parties as an independent variable, regular investment risks, and irregular investment risk as a dependent variable.

Disciplinary: Management Science (Investment and Finance Management).

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1 Introduction

Accounting disclosure is sharing accounting information and financial data for clear and reliable reporting to the investors and stakeholders. For making transparency, and complete reporting, accounting disclosures are necessary. It is also necessary for the investors and other stakeholders to interpret the accounting data and analyze risk and forecast future profit on investment. The International Accounting Standards (IAS)-24 focuses on ensuring that the financial statements of a company include the disclosures required to emphasize the fact that "its financial position and profit or loss could have been affected by the existence of related parties and by transactions and outstanding balances, including liabilities, with related parties".

However, Accountants are the gatekeepers of the financial markets (Wallman, 1995). 'Accounting Disclosures' gives information about the financial policies of a business. It is useful for both the present investors and also for potential investors. The accounting disclosure includes balance sheets, income statements, cash flow statements, changes in equity statements, and notes. According to International Financial Reporting Standards (IFRS), all the accounting policies are to be publicized. It allows transparency in the system and helps investors access the risk before the investment. Accounting disclosure is an effective way of exchanging information between management and external users, considering the separation of ownership from control. The consequence of information asymmetry and agency issues between management and investors is the need for accounting disclosure (Healy and Palepu, 2001).

2 Literature Review

Lambert et al. (2007) examined the relationship between accounting information and the cost of capital. The researchers are developing a model compatible with the pricing model for capital assets and multiple securities. The model shows that both directly and indirectly, the consistency of accounting information influences the cost of capital. Whereas, The relationship between the environmental influences selected (the degree of economic growth, the shape of the economy, the size of the equity market, the operation of the equity market, and the dispersion of equity ownership in the equity market) and the disclosure criteria for 35 stock exchanges in various countries. The overall results show that stock exchange disclosure criteria relate to the environmental factors selected in different countries (Adhikari & Tondkar, 1992). The real effect of accounting measures and disclosure on real decisions focuses on a firm's investment efficiency, derivative transactions, and assets portfolios. The results concluded that accounting standards and empirical study are necessary to find the real effects of accounting measures to generate sharper and novel insights. (Kanodia & Sapra, 2016).

On the other hand, the research on the impact of accounting disclosure on value significance in multiple levels of the firm life cycle was being investigated on 101 companies listed on the Tehran Stock Exchange (Iran) between the years 2005 to 2011 were chosen as samples. In the business life cycle, the sample firms were classified as Introduction, growth, maturity, and Shake-Out (decline) in four phases by taking advantage of the cash flow trend as a proxy for the business cycle (Mashayekhi et al., 2013). Similarly, the disclosure practices of corporate annual reports in the five ASEAN countries. The study aimed to reveal that the accounting disclosures are conducive to accounting harmonization in the ASEAN region. The result indicates that the public companies in ASEAN thought likely to benefit from operating the business (Craig & Diga, 1998). Cooke (1998) reviewed a variety of improvements, including the protocol for Rank Regression. Due to the inherent properties of ranks and their use in regression analysis, an extension is proposed, providing an alternative mapping that replaces the data with their standard scores. The usual approach to scores retains the benefits of using ranks, however, particularly in testing hypotheses, it has other desirable features. Regressions based on untransformed data, the log odds ratio of the dependent variable, and the ranks and regressions using standard ratings are applied to information disclosure data in the annual reports of companies in Japan and Saudi Arabia. Regression using usual scores has several benefits over ranks, which partially depend on the data structure. (Cooke, 1998).

Pavlopoulos et al. (2019) examined the association between the quality of integrated reporting disclosure and a firm's valuation. The study found a positive relation between firm performance and integrated disclosures. In addition, the researchers concluded that there is a positive association between earning quality and integrated reporting. Ahmed et al. (2011) discussed the disclosure or reporting practices of accounting changes in the annual report of a listed finance company on the Dhaka (Bangladesh) stock exchange (DSE). The study examined the practices of DSE-listed companies on accounting change flow for the period of one decade (1999 to 2008). The study also discussed reporting accounting changes, changes in equity, earnings per share, firm size, and audit firm. The study found a significant relationship between disclosure and audit firms. Hossain (2008) did an empirical analysis of the degree to which the listed banking companies in India have both mandatory and voluntary disclosure. The results of the relationship between company-specific attributes and complete disclosure of the sample firms, i.e., compulsory and voluntary, are also published. However, the study indicated that when disclosing mandatory items, the mean score is 88, while the average score for voluntary disclosure is 25. The findings also indicate that scale, profitability, board composition, and market discipline variables are relevant, and other factors such as age, business maturity, and asset-in-place are negligible to explain the degree of disclosure.

The research aims to study the concept and impact of the accounting disclosure of related parties' transactions and regular investment risks and irregular investment risks. This study also investigates the impacts of accounting disclosure on related party transactions and the competitive advantage. Thus, this study evaluates to test the validity of the hypotheses:

H#1: There is a relationship between the disclosure of related parties and regular investment risks.

H#2: There is a disclosure of related parties and irregular investment risks.

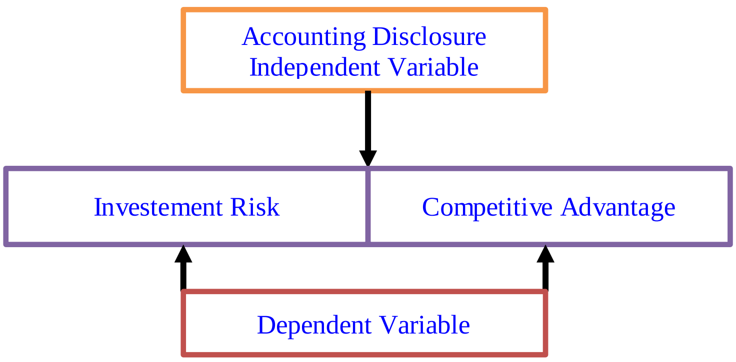

Figure 1: Conceptual Model of Variables and Hypothesis

3 Research Methodology

The study follows the deductive approach in formulating the problem, hypotheses, and study dimensions. The inductive approach was applied in testing the study's hypotheses, whereas the descriptive analytical approach was applied in the field study.

3.1 Data collection

For the research, primary data were collected through the questionnaire from various banks placed in Khartoum city during 2019, while the secondary data sources were books, references, periodicals, and university thesis. The study population includes accountants in Sudanese commercial banks in Khartoum city,165 questionnaires were distributed, and 150 questionnaires were retrieved, with a 91% recovery rate.

4 Results

4.1 Reliability Test

Alpha-Cronbach coefficient test was used to measure the stability of questionnaire questions, and simple linear regression was used to test the study hypotheses.

The value of the Cronbach's rat for all the study axes is greater than (80%), which means a high degree of "internal stability" for all the questionnaire hypotheses, whether this is for each axis separately or for all the axes of the questionnaire. This confirms that the study's measures enjoy internal stability for their phrases, which enables us to rely on these answers in achieving the study's goals and analyzing its results.

4.2 Regression Analysis

The formulated hypothesis for the given study has been tested by using a regression model through SPSS software. In this study, hypotheses have been formulated and analyzed to meet the research objectives. To validate H#1, a simple linear regression is used in constructing the model where the disclosure of the related party as an independent variable (X), and the regular investment risks (Y) as a dependent variable, and Table 1 shows.

Table 1: Simple linear regression analysis results for the first hypothesis

	Regression Coefficients	T-test	Sig.	Statistical significance
$\hat{\beta}_0$	2.083	7.032	0.000	Significance
$\hat{\beta}_1$	0.492	7.075	0.000	Significance
(R)	0.507			
(R^2)	0.457			
(F) test	100.058			
Y1= 2.083 + 0.492x				

The result of Table 1 shows a direct correlation between the disclosure of related parties as an independent variable and regular investment risks as a dependent variable, where the values of the simple correlation coefficient (0.507). The coefficient of determination value reached (0.457), and this value indicates that the disclosure of related parties (independent variable) impacts (45.7%) of regular investment risks (dependent variable). Whereas, the simple regression model was significant, as test value (F) reached (100.058), which is a function of significance level (0.000) at β=2.083. Average regular investment risks when disclosure of related party is zero at β_1 =0.492. In case of increased disclosure of related parties by one unit, the competitive advantage will increase by 49.2%. From the above, it is clear thatH#1 has been validated (sig. <0.05).

To validate H#2, a simple linear regression is used in constructing the model where the disclosure of related parties independent variable (X), and irregular investment risks (Y2) as a dependent variable, and Table 2 illustrates this.

Table 2: Simple Linear Regression Analysis results for H_{02}

	Regression Coefficients	T-test	Sig	Statistical significance
$\hat{\beta}_0$	2.051	7.544	0.000	Significance
$\hat{\beta}_1$	0.498	7.793	0.001	Significance
(R)	0.485			
(R^2)	0.354			
(F) test	119.727			
Y2= 2.051 + 0.498x				

Table 2 indicates a direct correlation between the disclosure of related parties as an independent variable and irregular investment risks as a dependent variable, where the values of the simple correlation coefficient (0.485). The coefficient of determination value reached (0.354), and this value indicates that the disclosure of related parties (independent variable) impacts (35.4%) of irregular investment risks (dependent variable). The simple regression model was significant, as the test value (F) reached (119.727), which is a function of significance level (0.001) at β=2.051. The average irregular investment risks when disclosure of related party zero at β1=0.498: Increased disclosure of related party, one unit, which increases the irregular investment risks by 49.8. The result indicates that H#2 has been validated (sig. <0.05).

5 Conclusion

The present study has evolved the view on accounting disclosures of related parties in regular and irregular investment risks. The study is concerned with the stakeholder's accounting disclosures and their impact on the investment risks. The result of the study proves that average regular and irregular investment risks have a positive relationship. In other words, the accounting disclosure of the related party increases the irregular investment risk by 49.8 on one unit and the regular income effect by 49.2 on a single unit. However, this research has many limitations. In the study on 150 Sudanese commercial banks in Khartoum city chosen disclosure items are the report's subject. In addition, the choice of things does not reflect the degree of significance perceived by users of financial statements, and the coding strategy is subject to coder bias. The study is confined only to the Sudan country in banking companies and economies. Therefore, the findings and conclusions' implications should be interpreted with caution despite these possible limitations. Future research should discuss the disclosure of investments risk in other developed countries and examine both the quality and quantity of the disclosure of investments risk.

6 Availability of Data and Material

Data can be made available by contacting the corresponding authors.

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