

Critical Accounting Estimates and Transparency in Financial Reporting: An Observation Financial Reporting under US GAAP

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Abstract : Estimates are very critical in accounting and Financial Reporting cannot be complete without these estimates. There is a long list of accounting estimates that are required to be made to compute Net Income and to determine the value of assets and liabilities. To name a few, valuation of inventory, depreciation, valuation of goodwill, provision for bad debts and estimated warranties, etc. require the use of different valuation models and forecasts. Different business entities under the same industry may use different approaches to measure the value of financial items being reported in Income Statement and Balance Sheet. The disclosure notes do not provide enough details of the approach used by a business entity to arrive at the value of a financial item. Lack of details in the disclosure notes makes it difficult to compare the financial performance of one business entity with the other in the same industry. This paper is an attempt to identify the lack of enough information about accounting estimates in disclosure notes, the impact of the absence of details of accounting estimates on the comparability of financial data and financial analysis. An attempt is made to suggest the detailed disclosure while taking care of the cost and benefit of making such disclosure.

Keywords : accounting estimates, disclosure notes, financial reporting, transparency

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