

Corporate annual reports: accounting practices in transition

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ABSTRACT

Accounting practices generate accounting information that is reflected in corporate annual reports. However, these practices are in a process of transition. The word 'transition' means "change-over, conversion, development, evolution, metamorphosis, shift" (McLeod 1985). Transition includes movement and change. Corporate annual reports are the major outcomes of the accounting process and consist of two parts: the statutory required section and the contextual disclosure section. In this article, the term 'disclosures' relates to notes in the financial statements and elsewhere in corporate annual reports and presentations. Accounting practices include all practices that generate any information that is disclosed both in the traditional accounting section and in the contextual section of corporate annual reports.

The objective of this article is to investigate the transition of accounting practices and to establish whether a relationship exists between Generally Accepted Accounting Practices (GAAP) (which generates statutory disclosures in corporate annual reports) and contextual accounting practices (which generate contextual disclosures in corporate annual reports). Contextual disclosures could also be referred to as discretionary disclosures. The word 'contextual' is, however, preferred in this article. The study shows that there is, in fact, an interdependent relationship between traditional accounting practices and contextual accounting practices. Contextual accounting practices have the potential to evolve into GAAP.

Key words: accounting practices, contextual information, corporate annual reports, interrelationships

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INTRODUCTION

The accelerating growth of accounting practices over the years has changed the appearance and format of corporate annual reports. International Accounting Standards (IASs) and International Financial Reporting Standards (IFRS), along with other statutory requirements, have changed the way in which financial statements (the statutory required section of corporate annual reports) are reported. Contextual accounting practices have also evolved over time, and have led to the growth of contextual disclosures in corporate annual reports. The study shows that corporate annual reports are the products of two main interrelated accounting practices systems: GAAP and contextual accounting practices. To produce the information disclosed in corporate annual reports, one system uses GAAP; these include IFRS, IASs, Johannesburg Securities Exchange (JSE) regulations and the requirements of the Companies Act (No. 61 of 1973). The other system, in order to provide a complete picture of business entities, uses contextual accounting practices to produce the contextual information contained in corporate annual reports.

Contextual accounting practices produce information about the business environment and provide an operating and financial review, strategic overview, forward-looking information, key performance indicators and information on corporate governance and transparency, all of which are needed to obtain a complete understanding of a company's performance and position. Topazio (2007: 1) believes that, 25 years ago, 80% of the market value of companies was reflected on the balance sheet. The 20% not reflected covered intangibles and future growth opportunities. He estimates that, today, this ratio is reversed (roughly), which indicates that 80% of the market value of an entity is based on the contextual information.

The objective of this article is to investigate the transition of accounting practices and to establish whether a relationship exists between GAAP (which generates statutory disclosures in corporate annual reports) and contextual accounting practices (which generate contextual disclosures in corporate annual reports).

The article starts with the statement of the problem, which focuses on the effect and potential of contextual accounting practices. We then give an overview of the research methods that were used, including a literature review, a content analysis of corporate annual reports to establish the transition of accounting practices over time, and a section on the questionnaires that were sent out to the preparers and users of corporate annual reports. This is followed by a discussion of the perspectives surrounding accounting practices. We end the article with research results and conclusions.

STATEMENT OF THE PROBLEM

Accounting practices generate a specific type of accounting information (namely, statutory disclosures and contextual disclosures in corporate annual reports). The statutory disclosures are created by GAAP, JSE regulations and requirements of the Companies Act, while the contextual disclosures are created by contextual accounting practices, as illustrated in Table 1.

Table 1: Statutory and contextual disclosures in corporate annual reports

<p>Statutory disclosures:</p> <p>Created by:</p> <ul style="list-style-type: none"> · GAAP · JSE regulations · Requirements of the Companies Act <p>Examples:</p> <ul style="list-style-type: none"> · Statement of financial position and notes · Statement of comprehensive income and notes · Statement of changes in equity and notes · Directors' report 	<p>Contextual disclosures:</p> <p>Created by:</p> <ul style="list-style-type: none"> · Contextual accounting practices <p>Examples:</p> <ul style="list-style-type: none"> · Disclosure of economic, environmental and social aspects · Disclosure of key risk areas · Disclosure of strategies · Management commentary · Disclosure of forward-looking information
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The research problem focuses on the fact that GAAP (namely, those practices that generate statutory disclosures) tend to be seen in isolation, without considering the effect and potential of contextual accounting practices.

The research objective of this article is to investigate the transition of accounting practices and to establish whether a relationship exists between GAAP and contextual accounting practices. The research objective will be resolved through the following three processes: a literature review, a content analysis and the use of questionnaires.

RESEARCH METHOD

Introduction

For the purposes of this article, corporate annual reports are researched by treating the whole inclusive process as a system. Gouws & Lucouw (2000: 37) suggest that:

...viewing components in isolation or in small groups only provides isolated information. A full understanding can only be obtained by observing how the system operates as a whole.

This perspective, which is holistic, is used in order to understand how statutory information is formed through the utilisation of GAAP and how contextual information is formed through the utilisation of contextual accounting practices, and also to understand the relationship between GAAP and contextual accounting practices. The research is based on three processes: a literature review, a content analysis and the use of questionnaires.

Literature review

The literature study and history reveal that the nature and scope of accounting practices have experienced accelerated growth over time. The objective of the literature review was mainly to investigate the transition of accounting practices over time in order to help formulate statements connected with the themes used in the questionnaires that were distributed to preparers and users of corporate annual reports.

Content analysis

In order to understand how information disclosed in corporate annual reports created by accounting practices has evolved over time, we decided to use the content analysis research method. Mouton (2005: 165) describes content analysis as studies that analyse the *content* of texts or documents (such as letters, speeches and annual reports) and states that 'content' refers to words, meanings, pictures, symbols, themes or any message that can be communicated.

The *information content* (Smith & Taffler 2000: 639) of corporate annual reports was analysed according to the quantity and/or the number of pages of each disclosure category. Unerman (2000: 678) argues that any content analysis study that uses measurement techniques that only capture words and numbers (in other words, that ignores such aspects as pictures and graphics) is likely to result in an incomplete representation of the quantum of disclosures in corporate annual reports. The content analysis was limited to an analysis of disclosure categories (including pictures and graphs) in terms of quantity and number of pages (for both the mandatory information section and the discretionary information section).

Ten of the top 20 companies (rated according to market capitalisation) were selected on a random basis. The year-ends of these companies were 1975, 1985, 1995 and 2005, and their corporate annual reports were used to observe how information escalated with specific reference to GAAP and contextual accounting practices.

Questionnaires

Two questionnaires were used; one was aimed at the preparers and the other at the users of corporate annual reports. The questionnaire for the preparers was sent to listed companies using an Excel spreadsheet of listed groups of companies, received via e-mail from the JSE and dated 23 November 2006. A total of 45 responses were received, which equates to a response rate of 16.5%.

Convenience sampling (via returned e-mail responses) was used for the user population (to be completed by users of corporate annual reports). Since it is difficult to determine who the traditional users of corporate annual reports actually are, we decided to use accountants to reflect the viewpoint of users, especially since accountants are also major users of corporate annual reports. The South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA) electronically distributed the questionnaire for the users, dated 18 January 2007, to their members. The list of attendees of the 2006 Southern African Accounting Association (SAAA) conference in Sun City was used to represent the user population. A total of 118 questionnaires were returned, and these were processed.

LITERATURE REVIEW: PERSPECTIVES SURROUNDING ACCOUNTING PRACTICES

Introduction

From a systems perspective, the changing appearance of corporate annual reports over the years has received little attention from researchers generally (Cronjé 2007: 2). Although they are extremely important documents, Hopwood (1996: 55) makes the point that corporate annual reports are largely unresearched documents. However, since 2005, more thought has been given to the type of disclosures found in corporate annual reports (Deloitte & Touche 2005; OECD 2006; PWC 2006a; Topazio 2007). The aim of this section is to examine the operation of the accounting practices system in order to understand the various dimensions and perspectives of accounting practices.

Accounting practices through the ages

The recording of transactions dates back to 4000 BC and represented the information product of accounting practices in those times (Gouws 1982: 45). Formal codes of

practice governed the recording of transactions and events. The best-known ancient code is the Code of Hammurabi, who was king of Babylonia from 2285–2242 BC (Brown 1968: 17; Chatfield 1977: 5). Gouws (1982: 35–36) claims that this Code was one of the first attempts to standardise the business reporting process. In 1494, Luca Paciolo published *Summa de Arithmetica, Geometria Proportioni et Propotionalita* (Brown 1968: 108). Paciolo documented the accounting practices of his time. These practices (Gouws 1982: 45) can be compared to current GAAP. In short, accounting practices are not new but have developed through the ages to become the modern generators of accounting disclosures in corporate annual reports.

‘Accounting of the mind’ practices

The process of the formation of accounting practices starts with ‘accounting of the mind practices’ that capture and screen all events that have to be transformed into information. According to Gouws (2006) (in Cronjé 2007: 11), ‘accounting of the mind’ practices are those practices (grass root practices) that help people to make decisions about the control, conversion and allocation of resources. These practices entail the recording of transactions and past experiences in the human memory (for example, in the form of habits). They are our original accounting practices, and these practices have been refined and constructed into the accounting practices that generate disclosures in corporate annual reports.

Accounting practices

Accounting practices are the result of selected ‘accounting of the mind practices’, and these are the drivers of accounting information. Staubus (1995: 95) argues that accounting practices are the generators of accounting information and can be described as a set of activities intended to reduce users’ decision-making risks. According to Belkaoui (2004: 57), accounting practices are based on industry practices and the literature (for example, textbook and journal articles), but Staubus (1995: 96) points out that “the criteria on which accountants decide to account for, or ignore, events are not clearly stated in the authoritative literature of accounting”. Accounting practices include all practices and procedures used to capture and screen data to make information more understandable. Accounting practices include observing and discovering events; recording such events (for example, by identifying and recognising); and classifying, measuring and reporting (Beattie & Jones 2001: 195) such events. Wolk, Tearney & Dodd (2000: 137) point out that accounting practices include postulates, axioms, assumptions, doctrines,

conventions, constraints, principles and standards. Accounting practices develop into either contextual accounting practices that generate contextual disclosures in corporate annual reports or into GAAP that generate statutory disclosures in corporate annual reports.

Contextual accounting practices

Contextual disclosures in corporate annual reports are not a recent development (OECD 2006: 13). The contextual reporting sections in American and Canadian annual reports include Management Discussion and Analysis (MD&A) and, in Britain, the Operating and Financial Review (OFR). Contextual accounting practices use accounting practices that do not always develop into GAAP. The aim of contextual accounting practices is to complement GAAP in order to reflect certain intangibles and growth opportunities. This is why contextual disclosures have become very important (Topazio 2007: 1). The information that GAAP cannot capture and disclose is taken care of by contextual accounting practices and disclosed as contextual information in corporate annual reports in order to reflect the 'big picture'.

Examples of contextual disclosures are disclosures that include economic, environmental and social aspects of an entity's activities (King 2002a: 9; Bennett & James 1999: 477). Contextual disclosures also include disclosures using frameworks such as the balanced scorecard (Kaplan & Norton 1992) and disclosures that will contribute to (1) improved capital market efficiency, (2) a lower cost of capital, (3) a lower bid/ask spread and (4) reduced share price volatility (OECD 2006: 17). As far as the disclosure of intellectual capital is concerned, contextual reporting can: (1) make intellectual assets and their value drivers more visible; (2) reassure stakeholders that the specific risks arising from intellectual assets are properly managed; and (3) report intellectual asset-specific key performance indicators that portray the performance of the entity in terms of how it has managed its intellectual assets (OECD 2006: 17).

Roleplayers involved in the development of contextual disclosures are, for example: the Enhanced Business Reporting Consortium of the American Institute of Certified Public Accountants (AICPA), which released a contextual disclosure framework in October 2005 (EBRC 2005); the International Accounting Standards Board (IASB 2005), which released a reporting framework called Discussion Paper on Management Commentary (MC), the International Corporate Governance Network (ICGN), which reviews best practices, and PricewaterhouseCoopers LLP (limited liability partnership in the United Kingdom), which has developed guides

to key performance indicators (PWC 2006b), forward-looking information (PWC 2006c) and business illustrative examples (PWC 2006d). As can be seen from the discussion, contextual accounting practices are certainly not second-rated practices but an important complement to GAAP. Corporate annual reports now disclose more information than that contained in double-entry records.

Contextual disclosures driven by contextual accounting practices are also constantly escalating. Einhorn (2005: 593) says that “though financial regulation imposes a considerable and increasing amount of mandatory reporting via a variety of regulated financial reports, firms appear to voluntarily provide the capital market with additional relevant disclosures. Topazio (2007: 1) and Anonymous (2006: 14, 16) identify the following types of contextual disclosures: value creation, forward-looking orientation, business environment, strategy, key performance indicators, explanation of market trends and prospects, explanation of long-term objectives, understanding of short-term strategic priorities to deliver objectives, the principal risks and uncertainties that may have an impact on long-term prospects, forecasts of market trends and factors likely to impact on the business, and understanding of how previous views on market trends and prospects compare with reality. An operating and financial review (OFR) is also an example of contextual disclosures driven by the evolution of contextual accounting practices.

GAAP

GAAP refer to selected accounting practices. These are derived from the observation of good accounting practices (Paton & Littleton 1940). GAAP that generate statutory disclosures in corporate annual reports are, in fact, only the ‘tip of the iceberg’ of accounting practices, as can be seen in Figure 1. They entail exalted, established and accepted accounting practices or *institutum* used in the process of reporting. In the USA, GAAP refers to generally accepted accounting principles and, in South Africa, to generally accepted accounting practices. The IASB is committed to a principle-based approach in standard setting, rather than the rule-based US approach.

A convergence process is currently underway and is laid down in the memorandum of understanding signed in February 2006 (*A Roadmap for Convergence between IFRSs and US GAAP 2006–2008*) by the IASB and the US Financial Accounting Standards Board (FASB) (FASB & IASB 2006); this memorandum between FASB and IASB also has the ‘blessing’ of the Securities and Exchange Commission and the European Commission. Accounting principles are general approaches used in the recognition and measurement of accounting events. The term ‘general acceptance’ is a source of confusion, especially in a new situation (Belkaoui 2004: 45), because

a more recent accounting practice (which may be preferred to an older, established principle) may not have the same status as a generally accepted accounting principle. The preferred practice must first be accepted as a new standard before it achieves the status of a generally accepted accounting principle. AICPA (1970), in Wolk et al. (2000: 141), claims that generally accepted accounting principles are rooted in “experience, reason, custom, usage and practical ... necessity” and “encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time”. Accounting practices have largely evolved as a result of practical necessity, but have also appeared in theoretical works written during the formative years (1930–1946) (Wolk et al. 2000: 136).

Although there are differences in accounting practices between developed and developing countries, the IASB strives to harmonise accounting standards globally, *inter alia* for the sake of comparison (IASB 2007: Framework for the Preparation of Financial Statements, 81). Generally accepted accounting principles rest on a foundation of basic concepts and broad principles, and it is these concepts and principles that underlie financial reporting. The principles and concepts include: the going concern assumption, substance over form, neutrality, the accrual basis, conservatism and materiality. The accounting standards are based on the guidelines of the Framework for the Preparation of Financial Statements (IASB 2007). The aim of standard-setting bodies (Special Committee on Research Program 1958: 62–63, in Wolk et al. 2000: 131) is to advance the written expression of what constitutes generally accepted accounting principles.

Standard-setting bodies may consider using contextual accounting practices to develop and refine GAAP that generate statutory disclosures in corporate annual reports. For example, segmental reporting was one of many disclosure products of contextual accounting practices that were converted to become the disclosure and presentation product of a new IFRS (IASB 2007: IFRS 8). This shows that there is also an interrelationship between contextual accounting practices and GAAP.

Accounting practices in context

Figure 1 represents the contextualisation of the literature review and illustrates the kinds of accounting practices responsible for disclosures in corporate annual reports.

The process of forming accounting practices starts with accounting of the mind practices. Accounting of the mind practices, if they are found to be useful, become accounting practices, which may develop into contextual accounting practices or GAAP. In order to grasp a complete picture of an entity, the GAAP that generate

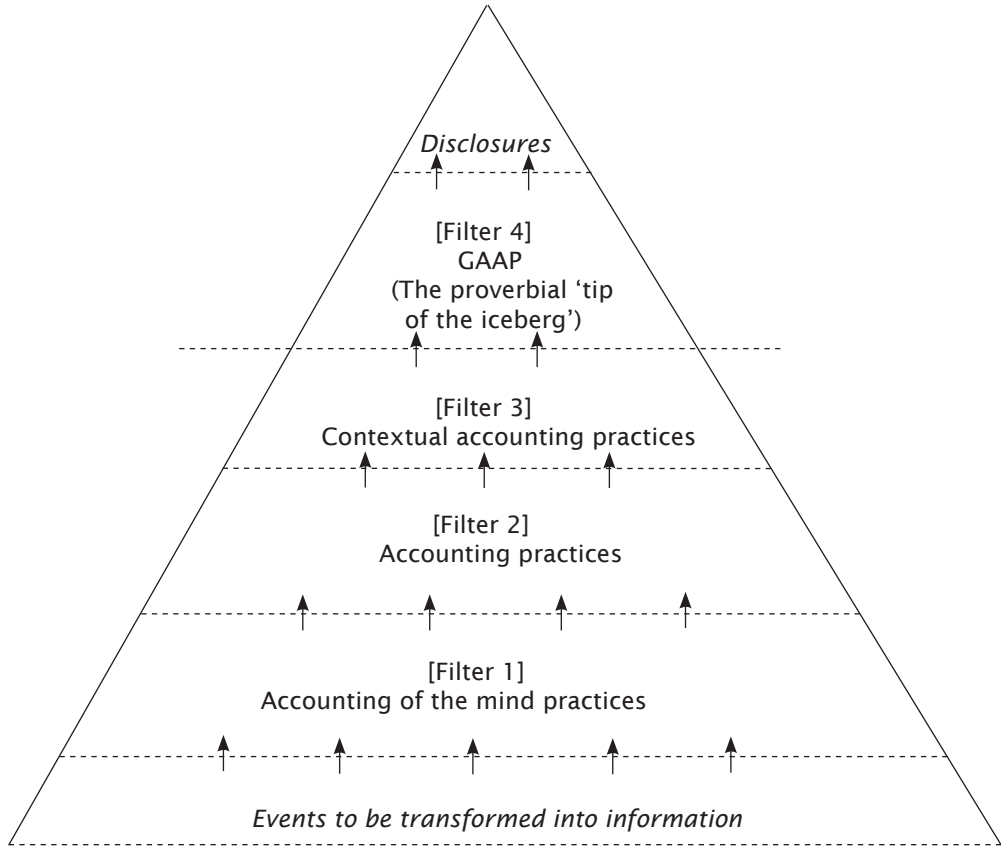


Figure 1: Accounting practices in context

statutory disclosures should not be seen in isolation (indeed, they are only the proverbial 'tip of the iceberg'); instead, these must be studied together with the contextual accounting practices that generate contextual disclosures. The borders of accounting practice systems are borders of identity, not borders of separation.

Accounting practices in isolation

Viewing components in isolation only provides us with isolated information. A full understanding can only be obtained by observing how a system operates as a whole. Statutory information created by GAAP (in isolation) can therefore only express part of reality. This, in turn, results in partial disclosure. Partial disclosure was the 'folklore' of traditional corporate annual reports, the emphasis being on the disclosures generated by GAAP. According to Gouws & Lucouw (1999: 105), it is important, in the interpretation process, to disclose information about the various inputs and

processes of the accounting and financial information presented and disclosed, since this will give an indication of the changes in those forces, processes and capabilities that determine the numbers (outputs). The disclosure of numbers alone will result in partial and isolated disclosure (not the 'big picture'). Roleplayers acknowledge contextual information in order to establish a meaningful understanding of the financial information reflected in corporate annual reports.

Accounting practices in transition

The activities of companies are changing at an accelerating pace; this means that accounting practices are undergoing a process of conversion and changeover in order to deliver meaningful and useful information. Modern corporate annual reports are currently the information products not only of GAAP, but also of both GAAP and contextual accounting practices. Other components of the accounting practices process that are subject to modification and change (and that are used to construct corporate annual reports) include numbers, words, terminology, vocabulary, graphs, photos, visual representations and colour. Gouws & Cronjé (2001: 164) make the point that illustrative ways of expressing reality include graphs, pie charts and flow diagrams. These are used in order to present a meaning-created big picture of the entity. GAAP that generate statutory disclosures in corporate annual reports and contextual accounting practices that create contextual disclosures have both undergone considerable growth over the past decades. Zeff (2005) discusses the accelerating growth of US GAAP since 1932 (following the Stock Market Crash of 1929) and shows that GAAP (which generates statutory disclosures in corporate annual reports) are (and will continue to be) in a process of sustained transition. The growth in current IFRSs and IASs confirms the evolution of GAAP. The accounting practices used result in full disclosure – the statutory disclosures as well as the contextual disclosures, including disclosures to enable/empower users with “limited authority, ability or resources” to understand the information (Objective no. 2 in the Trueblood Report 1973, in Wolk et al. 2000: 184). Statutory disclosures generated by GAAP are no longer viewed in isolation, but are complemented by contextual accounting practices that generate contextual disclosures.

RESULTS OF THE RESEARCH

Content analysis

Introduction

The aim of the content analysis was to assess how, and to what extent, information disclosure in corporate annual reports has developed over time.

A content analysis was done on the corporate annual reports of ten top companies selected from the top 20 companies listed on the JSE for the various time periods: 1975 year ends, 1985 year ends, 1995 year ends and 2005 year ends. Statutory disclosures were compared to contextual disclosures for each of the four time periods. On average, statutory disclosures increased marginally from 1975 to 1995, but escalated markedly in 2005 as IASs and IFRSs were then applicable. The contextual information increased dramatically from 1975 to 2005. Illustrations, photography and graphs contributed to the escalation of discretionary disclosures. In this regard, the introduction of disclosures concerning corporate governance and sustainable development issues also had an important role to play.

The escalation of statutory information was further analysed into the following categories: the number of notes, graphs and photos, as well as the number of pages covering the notes and the directors' report. The escalation of contextual information was further analysed into the following categories: number of illustrations, photos and graphs as well as pages covered by the chairman's statement, information about the members of the board of directors, the review of operations, the risk management assessment, the sustainable development review and corporate governance matters.

The content analysis for companies for the year ends 1975, 1985, 1995 and 2005 proves that accounting practices (GAAP in the case of statutory information) and contextual accounting practices (in the case of contextual information) are in a process of transition.

The statutory disclosure section

In the statutory section of corporate annual reports, the source and application of funds statement has been replaced with the cash flow statement. A statement of changes in equity has also been introduced. Segment information, initially disclosed as contextual information, is now disclosed as statutory information (IASB 2007: IFRS 8). Earnings per share information disclosed in the contextual section of corporate annual reports has been moved to the statutory section (IASB 2007: IAS 33). Statements that are no longer useful (for example, the source and funds statement) have been discontinued and replaced with something new, namely, the cash flow statement (IASB 2007: IAS 7).

The contextual disclosure section

In the contextual section of corporate annual reports, new types of disclosures are now frequently entering the arena (for example, embedded value disclosures, forward-looking information, pictures and graphs). Information that is difficult to measure –

such as information concerning intellectual capital (OECD 2006) – is now normally disclosed as contextual information rather than statutory information.

From the discussion, it is clear that accounting disclosures generated by accounting practices are in a process of transition. It is also clear that there is a relationship between GAAP and contextual accounting practices. Contextual accounting practices complement the statutory disclosures generated by GAAP.

Research findings from the questionnaires

The research findings from the questionnaires are summarised in Tables 2 and 3.

Responses of preparers

Statements 1 to 10 (in Table 2) reflect the responses of preparers of corporate annual reports.

Statement 1: Business reporting is in an expansionary phase

The introduction of IFRSs has resulted in expanded statutory disclosures, and companies now disclose increasing amounts of contextual information. Most respondents (68.9%) agreed with this statement. Only 6.7% of the respondents disagreed, while 4.4% were unsure. The opinions of the respondents therefore confirm that business reporting is in an expansionary phase because accounting practices, which drive business reporting, are evolving over time in response to the demands of business. The changing activities of entities and the decision-making needs of users to reduce risk have influenced the types of accounting practices being developed by standard-setters. Both GAAP and contextual accounting practices are equally important in unlocking the door to the accounting information 'kingdom'.

Statement 2: Current and emerging business practices will influence the evolution of accounting practices in the future

The research findings indicate that the vast majority of respondents agreed with statement 2. A total of 88.8% (64.4% that agree and 24.4% that strongly agree) of the financial directors agree with the statement that current and emerging business practices will influence the evolution of accounting practices in future. This is confirmation that accounting practices are in transition. Contextual disclosures generated by contextual accounting practices play a bigger role than they did in the past in complementing the statutory disclosures created by GAAP. This holistic ap-

Table 2: Responses of preparers of corporate annual reports

	Rating scale (%)					
	Strongly disagree	Disagree	Unsure	Agree	Strongly agree	Total
Statement 1: Business reporting is in an expansionary phase.	0.0	6.7	4.4	68.9	20.0	100.0
Statement 2: Current and emerging business practices will influence the evolution of accounting practices in the future.	2.3	4.5	4.4	64.4	24.4	100.0
Statement 3: The information disclosed in corporate annual reports is continually escalating and being presented in different formats.	0.0	4.5	4.4	57.8	33.3	100.0
Statement 4: Accounting practices that capture and screen information generate the statutory and contextual disclosures in corporate annual reports.	6.7	20.0	17.8	48.8	6.7	100.0
Statement 5: Corporate annual reports are normally divided into two sections, that is, the statutorily required financial information and the contextual disclosures.	0.0	13.4	2.2	62.2	22.2	100.0
Statement 6: The interdependency of interrelated systems (that is, the system that generates statutory disclosures and the system that generates contextual disclosures in corporate annual reports) results in the disclosure of balanced information in corporate annual reports.	2.2	15.6	13.3	62.2	6.7	100.0
Statement 7: Corporate annual reports that are driven by user needs represent, <i>inter alia</i> , a system responsible for generating statutory disclosures governed by GAAP and a system responsible for generating contextual disclosures.	0.0	8.9	11.1	71.1	8.9	100.0
Statement 8: There is an interrelationship between these systems (see statement 7).	2.2	6.7	17.8	71.1	2.2	100.0
Statement 9: Business information created by accounting practices has the potential to become either contextual or statutory information in corporate annual reports.	2.2	11.1	17.8	62.2	6.7	100.0
Statement 10: The contextual information reported in corporate annual reports, if proven useful over time, has the potential to be accepted and disclosed as statutory information.	6.7	13.3	15.6	60.0	4.4	100.0

proach has made corporate annual reports the mechanism for explaining the economic reality (the 'big picture') (MORI 2000) of an entity.

Statement 3: The information disclosed in corporate annual reports is continually escalating and being presented in different formats

Lee (1994: 223) has shown that information disclosed in corporate annual reports is escalating and is now presented in different formats (for example, it now includes the use of graphs, visual aids and colour). The research findings show that 57.8% of the respondents agreed, and 33.3% strongly agreed, with statement 3. Thus, a total of 91.1% of the respondents agreed that the information disclosed in corporate annual reports is continually escalating and is now being presented in different formats. The mandatory section of corporate annual reports is not flexible enough to accommodate information disclosed in different formats, but the preparers of corporate annual reports have the freedom to do this in the contextual section. This statement is also confirmed by the research results of the content analysis. The information disclosed in corporate annual reports is continually escalating simply because it is driven by evolving accounting practices. Information is disclosed in different formats by contextual accounting practices, because these practices make more use of graphs, visual aids and colour. Contextual accounting practices serve as the context in which to better understand the statutory disclosures generated by GAAP.

Statement 4: Accounting practices that capture and screen information generate the statutory and contextual disclosures in corporate annual reports

The aim of the implied question here was to establish whether accounting practices, among other things, are the drivers of information disclosed in corporate annual reports. The results show that responses to this statement varied. A total of 26.7% of the respondents disagreed with the statement (6.7% that strongly disagreed and 20.0% that disagreed), while 55.5% agreed (48.8% that agreed and 6.7% that strongly agreed). It is unclear why 26.7% of the respondents disagreed. The conclusion here is that accounting practices that capture and screen information play an important role in the generation of statutory and discretionary disclosures in corporate annual reports.

Statement 5: Corporate annual reports are normally divided into two sections, that is, the statutorily required financial information and the contextual disclosures

This statement – that corporate annual reports are normally divided into two sections, that is, the statutorily required financial information and the contextual

disclosures – was made in 2002 and again in 2004 (Stanton & Stanton 2002: 479; Stanton, Stanton & Pires 2004: 57). This was an important statement to test, since some people believe that this is not, in fact, the case. The research findings show that 13.4% of respondents disagreed with the statement, while 2.2% were unsure. The majority of respondents agree or strongly agree that the statement is valid and that corporate annual reports do indeed consist of two sections, that is, the statutorily required financial information and the contextual disclosures. Traditionally, contextual disclosures were regarded as less important than statutory disclosures. The research results of the content analysis indicate that both types of disclosures are in transition and that both are of equal importance.

Statement 6: The interdependency of interrelated systems, that is, the system that generates statutory disclosures and the system that generates contextual disclosures in corporate annual reports, results in the disclosure of balanced information in corporate annual reports

This statement links with the research question, namely, “Is there a relationship between GAAP (which generate statutory disclosures in corporate annual reports) and contextual accounting practices (which generate contextual disclosures in corporate annual reports)?” The research findings reveal that respondents’ perceptions match this statement. As illustrated in Table 2, only 2.2% strongly disagreed with the statement, while 15.6% disagreed and 13.3% were unsure. The majority of respondents agree with the statement that interrelated systems generate balanced information in corporate annual reports. Contextual accounting practices disclose contextual information in corporate annual reports and fill the gap that the statutory disclosures generated by GAAP cannot fill (for instance, because of difficulties with measurement). For example, until acceptable ways of measuring intellectual capital are found, this form of capital will be disclosed as contextual information. The two systems complement each other, and the disclosures of both systems give an understanding of the big picture. Neither system is therefore superior to the other.

Statement 7: Corporate annual reports that are driven by user needs represent, inter alia, a system responsible for generating statutory disclosures governed by GAAP and a system responsible for generating contextual disclosures

The purpose of this statement was to establish, with a large degree of certainty, that two systems do, in fact, generate disclosures in corporate annual reports. The research findings confirm that respondents agree with this viewpoint. Every user of corporate annual reports experiences some form of risk (King 2002b: 76) (for

example, investment risk and cash flow risk) that can only be managed if the right information is available. In other words, user needs are driven by uncertainty. Users need information to reduce risk and optimise opportunities. A total of 80% of respondents agreed (71.1% that agreed and 8.9% that strong agreed) with the viewpoint that the two systems discussed are responsible for the disclosures in corporate annual reports and that user needs, which are driven by uncertainty, are in turn the drivers of disclosures in corporate annual reports.

Statement 8: There is an interrelationship between these systems

The aim of this statement was to confirm the opinion that the two systems should not be seen in isolation. The responses shown in Table 2 confirm this view. The vast majority of respondents, 73.3% (71.1% that agree and 2.2% that strongly agree), confirm that there is an interrelationship between the system responsible for statutory disclosures and the system responsible for contextual disclosures. The two systems should not be considered in isolation, since the contextual disclosures, generated by contextual accounting practices, form the context of the statutory disclosures generated by GAAP. This clearly supports the view that traditional accounting practices are part of a much broader perspective.

Statement 9: Business information created by accounting practices has the potential to become either contextual or statutory information in corporate annual reports

Accounting practices, as per statement 9, should be seen in a broad sense and would generally include accepted accounting practices as well as contextual accounting practices. Business information formed by all-embracing accounting practices will be further mediated by either GAAP or contextual accounting practices (to become, respectively, either statutory or contextual disclosures – see Figure 1). For example, if intellectual capital can be measured reliably, it will be disclosed in the statutory disclosure section. If intellectual capital is difficult to measure, it will be disclosed as part of the contextual disclosure section of corporate annual reports.

Although this statement was difficult to comprehend fully without the contextual explanation (as given in the preceding paragraph), because statements in the questionnaire had to be structured as concisely as possible, the majority of respondents (see Table 2) agreed with this statement. The research results show that 68.9% of the respondents (62.2% that agreed and 6.7% that strongly agreed) agreed with the statement. This strongly indicates that business information created by all-embracing accounting practices has the potential to become either contextual or

statutory information in corporate annual reports. All events to be transformed into business information will be captured either by GAAP and disclosed as statutory information or by contextual accounting practices and disclosed as contextual information in corporate annual reports.

Statement 10: The contextual information reported in corporate annual reports, if proven useful over time, has the potential to be accepted and disclosed as statutory information

The research findings reflect the fact that the majority of respondents agreed with this statement. A total of 64.4% (60.0% that agreed and 4.4% that agreed strongly) agreed that contextual information can become statutory information. For this to happen, new IFRSs will have to be developed. One example is segment reporting, which was initially disclosed as contextual information in corporate annual reports, but is now disclosed as statutory information as part of the notes to the financial statements. Another example is earnings per share information; this information was initially disclosed in the contextual disclosure section of corporate annual reports, and has now been moved to the mandatory section, where it is presented and disclosed on the face and notes of the income statement. This confirms the findings of the content analysis: contextual information, if proven useful over time, has the potential to become statutory information. This also demonstrates the interrelatedness of the two systems responsible for disclosing statutory and contextual information in corporate annual reports using GAAP and contextual accounting practices respectively.

The following section covers the responses of users of corporate annual reports to statements 1 to 6.

Responses of users

Statements 1 to 6 cover the responses of users of corporate annual reports, which are reflected in Table 3. (Statements 5 and 6 were addressed to academics only.)

Statement 1: Since the statutory and contextual information in corporate annual reports complement each other, I make use of both these sources of information

The objective of this statement was to establish the degree to which respondents use both sections of corporate annual reports (namely, statutory and contextual disclosures). Table 3 confirms that the majority of users use both sections of corporate annual reports for their information needs. The vast majority, 78.0% (60.2% that

Table 3: Responses of users of corporate annual reports

	Rating scale (%)					
	Strongly disagree	Dis-agree	Unsure	Agree	Strongly agree	Total
Statement 1: Since the statutory and contextual information in corporate annual reports complement each other, I make use of both these sources of information.	0.8	11.9	9.3	60.2	17.8	100.0
Statement 2: It is my view that corporate annual reports provide credible statutory information.	0.0	1.7	6.8	70.3	21.2	100.0
Statement 3: It is my view that corporate annual reports provide credible contextual information.	0.0	9.3	22.9	61.0	6.8	100.0
Statement 4: I would like to see more disclosure on intellectual capital.	0.0	5.1	18.6	61.9	14.4	100.0
Statement 5: The curriculum for accounting students makes adequate provision for the study of, and research into, corporate annual reports in respect of the statutory section.	0.0	11.2	18.5	40.7	29.6	100.0
Statement 6: The curriculum for accounting students makes adequate provision for the study of, and research into, corporate annual reports in respect of the contextual section.	7.4	55.6	18.5	14.8	3.7	100.0

agreed and 17.8% that agreed strongly), of corporate annual report users use both sections of corporate annual reports, because the statutory and contextual information in corporate annual reports complement each other. One system provides the detailed rigorous information, while the contextual system provides the context for interpreting this information.

Statement 2: It is my view that corporate annual reports provide credible statutory information

The aim of this statement was to establish the degree to which users perceive statutory information to be credible. The research findings indicate that the sampled users perceive statutory information as having more credibility than contextual information. The majority of respondents, 91.5%, agree or strongly agree that the statutory information disclosed in corporate annual reports is reliable (credible). These disclosures are subject to external auditing and are influenced by the audit process, which adds to their credibility. Given that this information is subject to an external audit, it should indeed be credible. Since 91.5% of respondents agreed with statement 2, it can be concluded that GAAP generate credible statutory information.

Statement 3: It is my view that corporate annual reports provide credible contextual information

The objective of this question was to establish the degree to which users perceive the contextual disclosures as being credible. The research findings indicate that 22.9% of users are unsure about whether or not contextual disclosures are credible. Users are more confident about the credibility of the statutory disclosures in corporate annual reports than they are about the contextual disclosures. Table 3 shows that 91.5% of users felt that statutory information is credible (statement 2). The research findings reflect the fact that 67.8% of the respondents agreed with statement 3. The reason why respondents give the credibility of contextual disclosures a lower rating is probably because the contextual disclosures are not audited with the same degree of thoroughness as statutory disclosures. Some of the contextual disclosures are only subject to limited assurance. The level of assurance for contextual disclosures is high, however, bearing in mind that they are not audited (67.8% of respondents agreed).

Statement 4: I would like to see more disclosure on intellectual capital

The problem with the disclosure of intellectual capital (and other intangible assets) in corporate annual reports lies in the difficulty of measuring this form of capital (Clark 2006: 17). The OECD contends that the most important factors of production are invisible: “These intangible assets, also referred to as intellectual assets or intangibles – brand, reputation, trademarks, software, research and development, patents, staff skills, strategy, process quality, supplier and customer relationships, etc. – are delivering a fast-growing contribution to corporate competitiveness” (OECD 2006: 7). Users need this information in their decision-making, as can be seen in

the research results presented in Table 3. This includes the business environment, strategy, forward-looking information and key performance indicators (KPIs) (PWC 2006a: 1).

Until an acceptable way of measuring intellectual capital is found, this form of capital will not form part of statutory disclosures, but may form part of the contextual disclosures of corporate annual reports. A total of 76.3% of users indicated that they need information on intangible assets such as intellectual capital in order to attach a 'true' value to an entity. Standard setters and any interested parties should perhaps call for more research on this. Although there have been suggestions on how to measure intellectual capital (for example, market capitalisation minus total shareholder equity), a generally accepted measure has not yet been agreed upon. Intellectual capital can therefore not be disclosed as part of the statutory disclosures, until more acceptable ways of measurement are found. It should therefore be disclosed as contextual disclosures so that users can attach a 'true' value to an entity.

Statement 5: The curriculum for accounting students makes adequate provision for the study of, and research into, corporate annual reports in respect of the statutory section

This statement was directed at academics only (also see the discussion of responses to statement 6). Academics agreed that the curriculum for accounting students is on par as far as the study of, and research into, the statutory section of corporate annual reports is concerned. Table 3 shows the degree to which academics, as users of corporate annual reports, agree. A total of 70.3% of the academic respondents are of the opinion that the curriculum for accounting students makes adequate provision for the study of the statutory section generated by GAAP in corporate annual reports. However, based on the disagreement of 11.2% and the uncertainty expressed by 18.5%, there is room for further improvement in the curriculum for accounting students regarding the study of, and research into, the statutory section of corporate annual reports.

Statement 6: The curriculum for accounting students makes adequate provision for the study of, and research into, corporate annual reports in respect of the contextual section

This statement was also directed at academics only. A total of 63% of academics (55.6% that disagreed and 7.4% that strongly disagreed), as user respondents, disagree with statement 6. The curriculum's coverage of the contextual section of corporate annual reports could therefore be improved.

The research results so far have indicated that GAAP that create statutory disclosures in corporate annual reports and contextual accounting practices that

create contextual disclosures are interrelated and should not be viewed in isolation. Moreover, contextual disclosures are not subordinate to statutory disclosures. Although respondents agree that the two systems are interrelated, the contextual disclosures are not covered to the same extent as the statutory disclosures in the accounting curricula for students.

SUMMARY AND CONCLUSIONS

The literature review has revealed that accounting practices are not new, but have developed through the ages to become modern generators of accounting disclosures in corporate annual reports. It also showed that the process of forming accounting practices starts with accounting of the mind practices, which are those grass root practices that help people to make decisions about the control, conversion and allocation of resources. Accounting of the mind practices, if they are found to be useful, become accounting practices that may develop into contextual accounting practices or GAAP. Contextual accounting practices create the big picture of companies. The literature review confirms that accounting practices are in transition and also that there is a relationship between GAAP and contextual accounting practices.

The content analysis for companies with year ends 1975, 1985, 1995 and 2005 shows that accounting practices (GAAP in the case of statutory information) and contextual accounting practices (in the case of contextual information) are in a process of transition. The content analysis also makes it clear that there is a relationship between GAAP and contextual accounting practices and that contextual accounting practices complement the statutory disclosures generated by GAAP.

The responses to the questionnaires have demonstrated that the information disclosed in corporate annual reports is constantly escalating and being presented in different formats. They have confirmed the interrelatedness of GAAP and contextual accounting practices, which should not be viewed in isolation. The responses have also shown that contextual disclosures are not subordinate to statutory disclosures.

The research emphasised that accounting practices are in a process of transition and that GAAP and contextual accounting practices are interrelated.

CONTRIBUTION OF THE STUDY TO THE ACCOUNTING SCIENCES

From this study, it may be concluded, firstly, that information is generated by a diversity of accounting practices, all of which are therefore worth researching. Secondly, this research leads to an enhanced understanding of the fact that these practices are driven by two systems that provide the information included in corporate annual reports. This shows that practices peripheral to traditional accounting practices also have an important role to play, both for educational institutions and accounting

bodies. Thirdly, accounting practices should not be seen in isolation (that is, only from an accounting perspective), as they are multidisciplinary in nature. Fourthly, environmental practices and information, social practices and information, ethical practices and information, as well as management accounting practices and information, together with financial accounting practices and information, form the context within which reporting in corporate annual reports takes place. Fifthly, this study opens up further research opportunities for seeing corporate annual reports in a new light and for research into the quality, growth and adjustments of accounting practices that generate information in corporate annual reports. Sixthly, this study will further contribute to the body of accounting knowledge. Seventhly, the research reveals that the ‘stepchild’ of corporate annual reports (namely, discretionary accounting practices and information) is actually on the same level as statutory accounting practices and information. Eighthly, the research shows that statutory information cannot be meaningfully interpreted without contextual disclosures. Finally, this research will also be of assistance to entities in preparing their annual reports.

These contributions to the accounting sciences add to the full utilisation of corporate annual reports’ creative and innovative potential. Since statutory disclosures in corporate annual reports may, on their own, fail to give a complete picture of a company, it is necessary to complement statutory disclosures with discretionary disclosures. The GAAP that generate statutory disclosures should not be seen in isolation, therefore, but must be studied together with the contextual accounting practices that generate contextual disclosures.

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