

**ANALYSIS OF THE EXTENT OF VOLUNTARY DISCLOSURE  
BEFORE AND AFTER IFRS CONVERGENCE IN INDONESIA  
(Empirical Study on Manufacturing Companies Listed in  
Indonesian Stock Exchange During the Period 2010-2013)**

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**ABSTRACT**

This research aims to prove empirically result whether there is a significant increase on the extent of voluntary disclosure after the IFRS convergence in Indonesia. This research used the manufacturing companies listed in Indonesian Stock Exchange (IDX) as the sample. The periods used in this research are two years before IFRS convergence (2010-2011) and two years after the IFRS convergence (2012-2013). A voluntary disclosure index is used to know the score of the voluntary disclosure for each company. The index of voluntary disclosure was taken from Botosan (1997) and Meek (1995). The measurement of the score also using the weight for each item disclosed from 0 until the maximum point is 3. The weighting value also different from one category to the other. This research uses Kolmogorov Smirnov test to test the normality distribution and The Wilcoxon Signed Rank Test to test the hypothesis.

From the data analysis, it is concluded that  $H_a$  is accepted. It means that there is a significant increase in the extent of voluntary disclosure after the IFRS convergence in Indonesia.

**Keywords :** International Financial Reporting Standard (IFRS) Convergence, Voluntary Disclosure

## **1. Introduction**

### **1.1. Background**

The transition of accounting standard from US GAAP to IFRS reference is because of the fact that Indonesia is one of the G-20 member where all of the G-20 members had make an agreement and one of the agreement is by synchronize or harmonized the accounting standard in each member country with the international accounting standard which can be accepted in all over the world and the accounting standard what is meant is the IFRS based accounting standard.

Ikatan Akuntan Indonesia (IAI, 2012) cited from their book that the purpose of the IFRS convergence into PSAK is to minimize the different of the financial report based on SAK and IFRS. The benefit get from this convergence is to help the users of the financial report to understand the financial report appropriate with the financial accounting standard which is internationally applicable and make the financial report forming become more efficient, increase the investment flow by transparency enhancement, and decrease the cost of capital.

History of the Indonesian accounting standard transition was begin from the adoption of the US GAAP which had been translated into the “old” PSAK. It had been used from 1974 until 1999. In 1999, IAI decided to make changes on that standard which was matched to the market condition in Indonesia that time. In 2008, the IFRS standard was announced in Indonesia. Moreover Indonesia is one of the G-20 member and should apply the accounting standard with IFRS standard. It has been announced in the agreement of G-20 Summit. Why they told all of the members to use the same accounting standard, it is because with the same accounting standard each of the country can traded easier. Moreover, the same accounting standard that will apply by the countries which are members of G-20 will help the investors to compare the financial statements in Indonesian companies and other countries companies. So, to fulfill the commitment of G-20 Indonesia had make changes in the accounting standard used with made a convergence in accounting standard in IFRS into PSAK gradually from 2009, while the first introduction of the IFRS concept in Indonesia had already declared in 2008 and it has been fully adopted since 2012.

The transition from U.S. GAAP referred into IFRS referred gave some changes on the characteristic of the accounting standard itself. The U.S. GAAP is rule-based while IFRS is principle based. Rule based involves high level of standardization while IFRS which is principle based only regulate the primary things on the standard while the procedure and policy are depend on the user (Indrawati, 2014).

The implementation of IFRS in Indonesia is expected to give difference impact on the extent of voluntary disclosure, especially it is expected to increase the extent of voluntary disclosure.

This study uses voluntary disclosure checklist with certain weighting score for each item disclosed. The total mean of the score get by the company will be used to determine whether there is an increase in the voluntary disclosure's extent after the IFRS convergence. As the sample, this study uses the manufacturing companies listed in Indonesian Stock Exchange with two periods which are two years before IFRS convergence (2010-2011) and two years after the adoption (2012-2013).

## **1.2. Research Problem**

The research problem can be formulated as follows:

- a) Does the extent of the voluntary disclosure significantly increased after IFRS adoption for the manufacturing companies listed in Indonesian Stock Exchange (IDX)?

## **1.3. Research Objective**

The objective of this research is to obtain empirical evidence that there is an increased on the score of the voluntary disclosure after IFRS convergence into Indonesian GAAP (PSAK) in the manufacturing companies listed in Indonesian Stock Exchange.

## **2. Theoretical Background and Hypothesis Development**

The agency relationship arise when both of principal (investors or owner) and agent (managers) has a contract which is binding to each other. Commonly, agent and principal have their own interest. The principal wants the agent to work hard or give some effort to provide what the principal wants. On the other side, the nature of the agent's effort is too complex for the principal to observe it directly (Scott, 2015). So, the principal probably doesn't exactly know whether the agent is already provide them sufficient and honest information or not. This caused information asymmetry because agent has more information related to the company than the principal. The information asymmetry itself can give impact to the decision's taking by the investors, so it is hoped that the company will give or disclose more information to the principal.

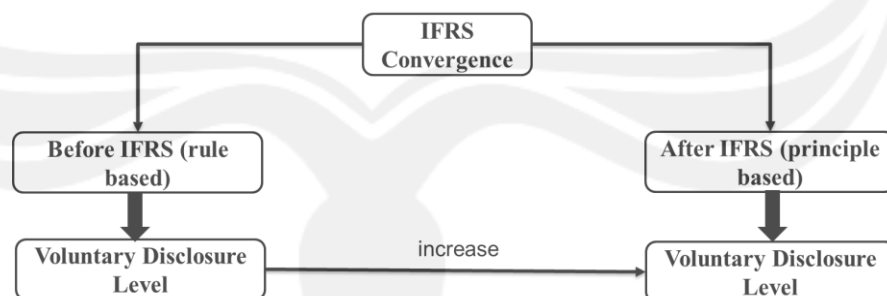
Disclosure can be interpreted as information which are not posted in the financial report itself, or the disclosed of something like management discussion and analysis, footnotes, and supplementary report (Hendriksen and Breda, 1992). The purpose of disclosure in the financial statements by Chariri and Ghazali (2007: 382) are :

1. Provide useful information to investors, creditors and other users in making rational decisions.
2. Provide information to help investors, creditors and other users assess the amount, recognition of net cash receipts.
3. Provide information about the economic resources of a company.
4. Provide information about business results (financial performance) of a company for 1 period.

5. Provide information which are useful for managers and directors in the interests of the owner.
6. To compare each company and each year to the others, which aims to provide information on incoming and outgoing cash inflows in the future.
7. To assist investors in determining return and investment.

There are 2 kinds of disclosure viewing from the obligation to share the information term which is provided by disclosure which are mandatory disclosure and voluntary disclosure. Mandatory disclosure is disclosure which is minimum required by law. Voluntary disclosure is disclosure held by the company outside what is required by law and it could be informative or sensitive information relating to the economic environment, corporate governance, management judgment, and etc.

In voluntary disclosure the company is free to disclose any kind of information related to the financial condition, outside what is required by the regulation. Managers may provide voluntary accounting disclosures in order to illustrate and communicate in further detail their financial policies, their decisions and actions and other explanatory information. The disclosure of voluntary information would seek to reduce uncertainty information asymmetry and skepticism, and would tend to reinforce investor's confidence on the company's management (Dye, 1998). Lower uncertainty would reduce the need for monitoring management actions and would consequently lead to lower debt contracting costs and higher firm value (Gietzmann and Trombetta, 2003). Companies may choose to provide voluntary disclosures in order to limit investors' potential adverse perceptions, and create expectations about the companies' future prospects (Barth et al., 2008).



There was a transition in Indonesian Accounting Standard from prefer to U.S. GAAP into prefer to IFRS. It happened because Indonesia is one of G-20 members where it is a must for the members to provide financial report with refer to IFRS to make it more comparable not only in local area but also comparable in the broader or international area. U.S. GAAP based and IFRS based accounting standard is different. The character of U.S. GAAP is rules based which means it involves high level of standardization or contains of

specific rules (Iatridis and Alexakis, 2012). On the contrary, the character of IFRS is principle-based. Principle-based doesn't have bright-line or specific rules. The principle based characteristic also make the absence of highly prescriptive financial reporting guidance, so the decision making should emphasizing on professional judgment. Professional judgment can be made correctly if the information disclose by the company are provided and can be accessed easily. It means that the more company disclose information, the better professional judgment can be made.

IFRS standards are commonly deemed to be more principle based than local GAAP in many adopting countries (Ball, 2006). Disclosure increase transparency while market transparency is observed as a fundamental mechanism in order to decrease the information asymmetry among the market's participants (Bleck et al., 2007). Companies might be motivated to provide voluntary disclosures, in order to obtain easier access to domestic and international capital markets or to facilitate their growth process (Iatridis and Alexakis, 2012).

The change in Indonesian PSAK from the US GAAP reference to the IFRS reference will give some changes to the financial and non-financial information disclosed, especially to the positive changes. One of the example showing the difference between PSAK before and after IFRS convergence which gives impact to the increase of voluntary disclosure is PSAK 22 about business combination.

PSAK 22 revision 2009 stated only about all regulation what should be disclosed while PSAK 22 revision 2012 stated about the possibility of the company to disclose more information. It is proved by a paragraph that can be found in PSAK 22 revision 2012, especially paragraph 63 on disclosure part. It is stated that if the specific disclosure which is required by this statement and other SAK didn't achieve the specified goal in paragraph 59 and 61, so the acquisition party discloses all additional information needed to achieve that. Paragraph 59 itself stated about the disclosure of information which make the user of financial report can evaluate the characteristics and financial impact on that business combination, while paragraph 61 stated about the disclosure of information that make the user of financial report can evaluate the financial impact from the adjustment which admittedly on the reprotng period related with business combination. This might be implied that the "new" PSAK 22 allows company to voluntarily disclose information relates on business combination on their reporting to fulfilled the specific goal in paragraph 59 and 61.

The previous study in Brazil, conducted by Consoni & Colauto (2016) also claim that the IFRS convergence process is presented as an exogenous factor that affected positively and significantly voluntary disclosure in the analyzed period.

Thus, from the explanation above the formulation of the hypothesis is:

**Ha: There is a significant increase on the extent of voluntary disclosure after IFRS convergence in Indonesia**

### 3. Research Methodology

#### 3.1. Population and Sample

Population used in this research is the manufacturing companies listed in IDX on the period of 2010-2013 using the purposive sampling with some criteria as follows:

**Table 3.1**  
**Research Sample**

| No. | Criteria  | Total   |
|-----|---|---------|
| 1.  | Manufacture companies listed in Indonesian Stock Exchange in a period between 2010-2013                             | 127     |
| 2.  | Manufacture companies which are delisting from Indonesian Stock Exchange between 2010-2013                          | (3)     |
| 3.  | Unavailable data in the Indonesian Stock Exchange website   | (37)    |
| 4.  | Unavailable anymore in Indonesian Stock Exchange because the companies was delisting in a period between 2014 - now | (4)     |
|     | <b>Total Sample</b>   | 83      |
|     | <b>Observation</b>  | 4 years |
|     | <b>Total Sample Observation</b>   | 332     |

#### 3.2. Type and Data Collection Method

This research used the secondary data which are the annual report of the manufacturing companies from 2010-2013 which accessed from Indonesian Stock Exchange (idx.co.id).

#### 3.3. Research Variable

The variable of this research is the total score of voluntary disclosure. The media used to know the total score of voluntary disclosure is the voluntary disclosure index by Botosan (1997) and Meek (1988) which is adjusted with the local regulation, so the items which are becoming mandatory in the local regulation will be exclude in the index. Each item disclosed has the weighting value from 0 until 3 depend on each category. The voluntary disclosure items and the consideration of the weighting score for each item are display on the appendix.

Then the total score of voluntary disclosure would be calculated become Voluntary Disclosure Ratio which can be calculated as follows (Hossain et al., 2009):

$$VDR = \sum_{i=1}^m d_i/m$$

Where :

$VD$  = Voluntary Disclosure Ratio

$d_i$  = Total items disclosed

$m$  = Total item which included in the voluntary disclosure checklist or the maximum score

To compare the result of the Voluntary Disclosure Ratio between before and after IFRS convergence is by calculating its mean from 2 years before (2010-2011) and 2 years after (2012-2013) the IFRS Convergence as follows:

$$1. VDR \text{ mean before} = \frac{VDR(t-2) + VDR(t-1)}{2}$$

Where:

$t-1$  = Voluntary Disclosure Ratio in 2011

$t-2$  = Voluntary Disclosure Ratio in 2010

$$2. VDR \text{ mean after} = \frac{VDR(t+1) + VDR(t+2)}{2}$$

Where:

$t+1$  = Voluntary Disclosure Ratio in 2012

$t+2$  = Voluntary Disclosure Ratio in 2013

### 3.4. Data Analysis Methods

Data analysis methods used in this research include the statistic descriptive analysis, normality test, and hypothesis testing.

## 4. Data Analysis and Discussion

### 4.1. Descriptive Statistics

**Table 4.1**  
Descriptive Statistics

|                    | N  | Minimum | Maximum | Mean     | Std. Deviation |
|--------------------|----|---------|---------|----------|----------------|
| beforeIFRS         | 83 | .00000  | .36364  | .1190215 | .06907449      |
| afterIFRS          | 83 | .01515  | .37879  | .1431179 | .07916410      |
| Valid N (listwise) | 83 |         |         |          |                |

From the data description table 4.2, can be known that from the variable of before IFRS Convergence the mean is 0,119, with the standard deviation of 0,069, while the minimum point is 0,00, and the maximum point is 0,3636. From the other variable, which is variable after IFRS Convergence, can be known the the mean is 0,143, with the standard deviation of 0,079, while the minimum point is 0,015, and the maximum point is 0,3787.

#### 4.2. Hypothesis Testing

The Wilcoxon Sign Rank Test is a non-parametric test which is used to proceed two related data on this research. Wilcoxon Sign Rank Test doesn't need the data to be normally distributed. The result of this Wilcoxon Sign Rank Test will be used to make an analysis whether there is an increase on the extent of voluntary disclosure after the IFRS Convergence in Indonesia or not. The criteria to test whether  $H_a$  is accepted is  $\text{sig.} < 0,05$  and also the Voluntary Disclosure Ratio's mean before IFRS Convergence  $<$  The Voluntary Disclosure Ratio's mean after IFRS Convergence.

The result of the Wilcoxon Sign Rank test proceed by using SPSS 17.0 is presented below :

**Table 4.3**  
**Wilcoxon Sign Rank Test Result**  
Test Statistics<sup>b</sup>

|                        | afterIFRS -<br>beforeIFRS |
|------------------------|---------------------------|
| Z                      | -4.667 <sup>a</sup>       |
| Asymp. Sig. (2-tailed) | .000                      |

a. Based on negative ranks.

b. Wilcoxon Signed Ranks Test

The result that can be get from table 4.3 is that the sig. (2-tailed) is 0,000. Because this research want to know whether there is an increase number on voluntary discosure ratio, the significant number which is used to know the result is by looking at the sig. (1-tailed) result. From the result's table, it is known that sig. (2-tailed) is 0,000 while the sig. (1-tailed) is the result of sig. (2-tailed) divided by 2 which the result is the same 0,00. It can be concluded that there is an increase on the extent of voluntary disclosure after IFRS convergence in Indonesia.

#### 4.3. Discussion

Based on the result from hypothesis testing using Wilcoxon Signed Rank test to test the two related samples,  $H_a$  is accepted. If  $H_a$  is accepted, it means that there is an increasing on the extent of voluntary disclosure after IFRS convergence in Indonesia. This result shows that since the IFRS had already fully implemented in Indonesia, which started on January 1, 2012, the convergence gave significant impact on the extent of voluntary disclosure among manufacturing companies listed in Indonesia Stock Exchange (IDX).

This is happened because Indonesian economic regulation has been did the convergence from referred to U.S. GAAP which is rule based into referred to IFRS which is principle based. The rule based itself has rigid regulation while principle based not so rigid in containing the regulation. Standard with principle based doesn't have bright lines or specific rules and when the principle based characteristic also make the absence of highly prescriptive financial reporting guidance, make the decision should emphasizing on professional judgment.

Because it is not so rigid in containing the regulation, investors and analysts need more detailed information to make professional judgment or



decision. To make a professional judgment, investors need more information from the company. If the company provide more information to the investors, it can also reduce the information asymmetry which means reduce uncertainty and give assurance to domestic and foreign investors about the quality of their financial reporting. When information asymmetry can be reduced, it means that the company can also reduce the agency cost which arouse because between agent and principal have their own interest. Therefore, that situation push the extent of the voluntary disclosure up.

This result is consistent with the result from the research conducted by Silvia Consoni and Romualdo Douglas Colauto (2016) which there is an increase of voluntary disclosure after the IFRS convergence in Brazil. They stated that the changes in accounting regulation in Brazil may have led companies to take greater commitment to voluntary disclosure in terms of content and extent. Moreover, cited from Leuz & Verrecchia (2000) the provision of information to the market reduces the information asymmetry and consequently leads to significant and positive relationship between liquidity and voluntary disclosure.

The increasing extent of the voluntary disclosure also might be correlated with the agency theory. Companies may be motivated to provide more voluntary disclosures with aim to be able to attract the necessary funds on better terms and effectively carry out their expansion plan in the effort to stabilize and secure their growth process (Iatridis & Alexakis, 2012). Furthermore, the more voluntary disclosure disclosed to public, the more uncertainty and skepticism reduced. It is because the voluntary accounting disclosures would give a positive signal to investors about the intention of the company to diligently inform users of accounting information and to provide them with explanatory notes and informative reports (Iatridis & Alexakis, 2012).

Firms that disclose more accounting information would tend to be positively greeted by the stock market as they would be perceived as good and honest companies (Apostolou and Nanopoulos, 2009; Goncharov et al., 2006). Firms that voluntarily disclose information would provide signals of lower earnings management and would subsequently reduce information uncertainty and satisfy investors' information needs (Anctil et al., 2004).

## **5. Conclusion and Suggestion**

The result of the test shows that  $H_a$  is accepted. It means that there is an increase on the extent of voluntary disclosure on Indonesian manufacturing companies between before and after IFRS convergence in Indonesia.

The increase of the extent of voluntary disclosure after the IFRS convergence is because the characteristic of the IFRS itself which is principle based. Principle based itself means that IFRS is more emphasize on interpretation and application of standard, moreover it requires an assessment of the substance of transaction and evaluation whether the accounting presentation reflects the economic reality. So that, it requires more professional judgment on the application of accounting standard.

Because it needs more professional judgment, of course the investors or the outside users of financial reporting need more information related to the condition of the company itself. Disclosing more information related to the

company's condition also can reduce the information asymmetry, where it also give good impacts to the company itself.

The limitations of this research are the sample used in this research only used the manufacture companies because most of the items on the disclosure checklist are only suitable for manufacture companies and the period of this research only used 2 years before and 2 years after the IFRS adoption in Indonesia.

The suggestions for the next research are that the next research can do the research by using the sample outside the manufacture companies, so that the research can give information whether the IFRS convergence also can give impact on the extent of voluntary disclosure on the companies outside manufacture companies and the period of the research can be taken for a longer time to get a more significant result.

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#### **Appendix A. Voluntary Disclosure Checklist**

##### **Voluntary Disclosure Checklist in Annual Report**

##### **A. Background Information**

1. General discussion about business strategy, goals and objectives of the company.
2. Discussion about barriers to entry.
3. Discussion about the impact of inflation into the company's assets in recent time and or in the future.
4. Discussion about competitive environment.

##### **B. Summary of Historical Results:**

1. Summary of sales and net income for most recent eight quarters.

##### **C. Key Non-Financial Statistics:**

1. Order Backlog
2. Unit Sold
3. Unit Selling Price
4. Growth in Unit Sold

##### **D. Projected Information:**

1. Forecasted Market Share
2. Forecasted and/or discussion of the future cash flows of the company
3. Capital expenditures and/or R&D expenditure forecast

##### **E. Employees Information:**

1. Discussion about the problems faced by the company on recruitment of labor process and the policies taken by company to resolve the problems.
2. Average compensation per employee.
3. Company statement or description of equal employment opportunities regardless of ethnic group, religion, and race.

Here is the information or guidance relates to the weighting score for each item disclosed by the company:

#### **Background Information**

Each item disclosed on background information will be given point 1 and will be given by 1 more additional score or the score will become 2 out of 2 if the information disclosed by the company include quantitative data not recoverable from basic financial statements. The score of each item will be 0, if the company didn't disclose the item.

### **Ten-or-Five Year Summary of Historical Results**

If the company disclose five years of annual data, the item disclosed will be given 1 for the score. If the company disclose ten years or the maximum year the company can provide due to the existence of the company itself which is less than 10 years will be given 1 additional score, so the total score will become 2 out of 2 for the maximum score. The score of each item will be 0, if the company didn't disclose the item.

### **Key-Non Financial Statistic**

The company will be given 2 points for each item disclosed and will be given 0 if the company didn't disclose the item.

### **Projected Information**

The company will be given 2 points for each directional prediction and will be given 3 points if the company can also give a point estimation.

### **Employees Information**

The company will be given 2 points for each item disclosed and will be given 0 if the company didn't disclose the item.

