

Study on Optimization of Information Disclosure of Biological Assets in Agricultural Listed Companies

-- Based on External Information User Perspective

Yantao Wang, Tong Sheng*, Yifei Che, Yixuan Hu

College of Business, Qingdao University of Technology, Qingdao, Shandong, China

Abstract

Biological assets are the most important assets of listed agricultural companies, and high-quality disclosure of biological assets information can help reduce information asymmetry of listed agricultural companies and reduce investors' investment risk. Based on the external information user perspective to explore the disclosure of biological assets information of listed agricultural companies, taking Shennong Group as an example, the analysis finds that the disclosure of biological assets of newly listed companies has problems such as incomplete disclosure content and not meeting the understandability requirement of accounting information quality. According to the existing problems, the optimization paths of refining biological assets for the selection of measurement model regulations, improving the information disclosure system of biological assets and strengthening supervision are proposed to make the information disclosure in China more in line with the requirements of the development of the current era and enhance the comparability of information.

Keywords

Listed Agricultural Companies; Biological Assets; Information Disclosure.

1. Introduction

On March 18, 2021, the China Securities Regulatory Commission (hereinafter referred to as "CSRC") announced the newly revised "Measures for the Administration of Information Disclosure of Listed Companies", which became effective on May 1, 2021. Although the SFC announced the new information disclosure regulations, on November 22, 2021, Geng Zhimin, Vice Chairman of Anhui Longping Hi-Tech (Xinqiao) Seed Co., Ltd (hereinafter referred to as Anhui Xinqiao), was punished by the SFC for using the insider information to engage in the transaction before the matter was disclosed in a timely manner, as an insider knowledge of Longping Hi-Tech's intention to issue shares to purchase 90% of the equity interest in Lianchuang Seed Industry. The timely disclosure of information is crucial for external information users to understand the development of enterprises, especially agricultural enterprises, whose most important assets are biological assets. Disclosure of biological assets helps reduce information asymmetry, helps external information users to obtain enterprise information in a timely manner, grasp the financial status of enterprises and reduce investment risks. In addition, biological assets have the characteristics of growth, so the information disclosure of agricultural enterprises needs extra attention.

2. The Status of Accounting Information Disclosure Research

Understanding the development status of enterprises through the relevant information disclosed by enterprises is an important channel for external information users to understand enterprises. Regarding the disclosure of corporate information, existing scholars have found

that if a company discloses more information related to the company's operation in the media, the more adequate the information obtained by information users, the more it helps the company's financing (Li Xianghua, and Zhang Min, 2021)[1]. Now that information technology is basically mature, companies can use social media and other channels to disclose corporate information, and the multi-channel disclosure helps reduce the asymmetry of information, external information users can obtain information about the enterprise instantly, which improves investors' understanding of the development status of the enterprise and increases investors' confidence (Lin, Jianxiu, 2021)[2].

The quality of accounting information disclosure is affected by a variety of factors, such as CEO career concerns, CEO career concerns will make corporate management tend to surplus management, and the existence of surplus management will affect the quality of corporate accounting information disclosure, mostly by reducing the quality of accounting information disclosure (Li Wei, Li Haiqi and et al., 2021)[3]. However, information publisher disclosure will enhance the accounting information if it has an accounting background readability and enhance the quality of accounting information disclosure in terms of the professionalism of the disclosed accounting information (Sun Wenzhang, 2021)[4]. The external environment also affects the quality of corporate accounting information disclosure, if the institutional environment in which the company is located is better, the corresponding accounting information disclosure quality is higher (Xie Bangsheng, Liu Meijuan et al., 2020)[5]. In addition, the quality of accounting information is also affected by social trust, the level of rule of law The quality of accounting information is also influenced by factors such as social trust and the level of rule of law (Wang Jiachen, Liu Xiguo et al., 2021)[6].

Accounting information disclosure is divided into financial information disclosure and non-financial information disclosure. Social responsibility information, sales volume growth rate, production volume growth rate, etc. belong to non-financial information, and compulsory disclosure of social responsibility information by enterprises will enhance the risk-taking level of enterprises (Xue Jiao, 2021)[7]. The accounting information that we usually refer to is generally financial information, and the accounting information referred to in this paper is financial information. Accounting information disclosed by enterprises with high quality can significantly improve the level of corporate governance and promote the innovative performance of enterprises, but there are still some problems in financial information disclosure in China, for example, the information disclosure requirements of biological assets of listed agricultural companies are not specific, there are irregularities in disclosure, and the quality of disclosure needs to be improved (Miao Kepao, Shi Daojin, 2021)[8].

The information disclosure of biological assets of listed agricultural companies, in general, meets the minimum requirements of the SEC, but most companies do not take the initiative to disclose or disclose more specific content than the minimum requirements of the SEC (Wu Fanlu, Fu Gang, 2016)[9]. The quality of accounting information is affected by a variety of factors, and in order to make the quality of accounting information disclosure less disturbed by other factors, the requirements for accounting information disclosure should be more improved. Otherwise, agricultural enterprises may avoid disclosing unfavorable information about biological assets through selective disclosure (Li Can, and Yin Zhanhong, 2021)[10]. The requirements for accounting information disclosure quality are not consistent in different industries, and the frequent occurrence of information disclosure violations in agricultural listed companies makes it all the more necessary to impose strict regulations on them.

At present, many scholars' research on biological assets focuses on the impact of biological asset information disclosure on enterprise value, such as "The impact of biological asset information disclosure on enterprise value" by Miao Kepao (2019), "Analysis of the impact of biological asset information disclosure on enterprise value - based on agricultural listed companies, and disclosure quality related studies, such as Wang Jiachen, Liu XiGuo, and Wu

Dong (2021), "Does social trust affect the quality of accounting information of listed companies - Moderating effect based on the level of regional rule of law," by Wu Fanlu, Fu Gang, Ren Qiqi et al. (2016), "Agricultural listed companies Biological Assets Disclosure Quality Evaluation", "Executive Agricultural Industry Expertise and Biological Assets Disclosure Quality-Based on Empirical Evidence of China's Agricultural Listed Companies from 2007-2016" by Xie Bangsheng, Liu Meijuan, and Quan Jin et al. (2020), and separate studies on separate types of biological assets, such as "Analysis of information disclosure and regulatory issues of expendable biological assets - Taking Swertia Island as an example" by Wang Xingfen and Liu Qiuyan (2019), and also scholars' studies related to information disclosure when different measurement models are used for biological assets, which are relatively abundant, but the disclosure related to biological assets. Most of the studies only focus on one aspect, for example, some only focus on the impact of information disclosure on enterprise value without considering whether managers have the tendency of surplus management; some scholars are studying the issues related to information disclosure and regulation without considering the issues related to the quality of information disclosure. In addition, after the implementation of the new information disclosure regulations in May 2021, few scholars have studied whether the information disclosure of listed companies is implemented in accordance with the relevant regulations.

Based on the previous research, this paper will study the information disclosure of biological assets in terms of the implementation of disclosure regulations normality, disclosure time, disclosure content and other aspects, and consider the impact of information disclosure on enterprises in many aspects, in addition to the selection of newly listed agricultural companies as a research case, which is more in line with the information technology applicable to modern enterprises and more representative. The study of the implementation of disclosure regulations normative mainly considers whether it meets the most basic requirements, followed by a comparative analysis of the time before and after the implementation of the new information disclosure regulations, and in terms of disclosure content, the analysis of the comprehensiveness and detail of the disclosure content, respectively.

3. Case Studies

Due to the special nature of agricultural assets, financial fraud, insider trading and audit failures have been occurring in recent years, so agricultural enterprises need higher requirements for accounting information disclosure than general enterprises. External information users pay more attention to financial information in accounting information, and this paper starts a study on financial information disclosure of biological assets of listed agricultural companies based on the perspective of external information users.

3.1. The Basis for Choosing Shennong Group

Shennong Group made an online and offline subscription on May 18, 2021, and was listed and traded on May 28, 2021, with the stock abbreviation of "Shennong Group". The prospectus of the initial public offering on April 27, 2021 contains financial information, and the distance from the 2021 semi-annual report is the shortest, and The half-yearly report of 2021 will be disclosed after the implementation of the newly revised "Measures for the Administration of Information Disclosure of Listed Companies" on May 1, 2021, and the disclosure content should be disclosed in accordance with the "Measures for the Administration of Information Disclosure of Listed Companies". In addition, Shennong Group is an enterprise in the livestock industry among the listed agricultural companies, which has just been listed and the relevant regulations are strictly enforcing the new regulations. If there are problems with the information disclosure of the newly listed companies, the relevant enforcement regulations of the previously listed companies may not have been changed in time, so similar problems must also exist with the

previously listed companies, so the comparison of Shennong Group is representative, and the information disclosure situation in To a certain extent, the information disclosure can represent the accounting disclosure status of listed agricultural companies.

3.2. Overview of Shennong Group

Yunnan Shennong Agricultural Industry Group Co., LTD. (hereinafter referred to as "Shennong Group") is a listed animal husbandry agricultural company whose main business is feed processing, pig breeding and pig slaughtering. Shennong Group filed its IPO prospectus on June 21, 2016 and its IPO prospectus on April 27, 2021, and disclosed the financial information of Shennong Group from 2018 to 2020 in the IPO prospectus.

3.3. Status of Information Disclosure on Biological Assets of Shennong Group

As of February 8, 2022, Shennong Group has not yet announced its 2021 annual report. This article conducts research based on the 2021 semi-annual report announced in 2021 and the latest 2021 annual earnings forecast announced on January 29, 2022.

1. Half-yearly report disclosure time

Based on the semi-annual report announced by Shennong Group on August 17, 2021, the study of biological assets information disclosure was launched. According to the newly revised "Measures for the Administration of Information Disclosure of Listed Companies", the semi-annual report should be prepared and disclosed within two months from the date of the end of the first half year, and Shennong Group completed the disclosure on August 17, which is in line with the regulations of the SEC in terms of timing.

2. Disclosure of information related to biological assets

a. According to the relevant national regulations, due to the special nature of biological assets of agricultural listed companies, enterprises should make detailed disclosure and presentation of the risks related to biological assets. However, according to the forecast of Shennong Group's performance in 2021, the performance in 2021 is expected to decrease by 75%-77% due to the impact of hog price, breeding cost, market hog price and hog stock. However, the decline in the overall performance of Shennong indicates that the strategy adopted to make up for the loss is weak, and the enterprise did not disclose the adoption of this strategy before the announcement of the 2021 performance forecast, so the enterprise should bear some responsibility for not fully disclosing the information related to biological assets in time for this performance decline.

b. Shennong Group Disclosure

According to the content of the 2021 semi-annual report, Shennong Group only disclosed the definition of biological assets, the depreciation method of breeding pigs, the useful life of productive biological assets, and the basis for determining the estimated net residual value. For biological assets, according to China's biological assets guidelines should disclose the different ways of acquiring biological assets, for example, outsourcing and self-production, and the different costs under different ways, Shennong Group did not disclose the ways of acquiring biological assets and the quantity of existing physical assets, and the disclosure is not comprehensive, which affects the external information users' understanding of the enterprise.

c. Semi-annual reports compared to prospectuses

The prospectus of Shennong Group disclosed the definition of biological assets, depreciation method, basis for determining the net residual value of useful life, cost accounting method, accounting treatment of biological assets that die before sale, provision for decline in value, treatment of immature breeding pigs to mature breeding pigs, the semi-annual report of 2021 is too simple compared with the prospectus, and the semi-annual report of 2021 does not disclose the accounting method of biological assets. The cost accounting method of biological assets is not disclosed in the 2021 semi-annual report. External informants may not be able to know the specific accounting method of Shennong Group if they only read the 2021 semi-annual

report, and if the semi-annual report issued by the enterprise needs to be read in conjunction with the prospectus, the disclosure does not meet the understandable content in the accounting information quality requirements.

3.4. Analysis of Disclosure of Biological Assets of Shennong Group

a. For information disclosure, it will first consider the provisions of relevant national standards, and the reference basis for listed enterprises in China is accounting standards. China's accounting standards have clear requirements for most accounting elements accounting and disclosure, but the requirements for biological assets elements accounting and disclosure related processing guidelines need to be refined. The conditions are: (1) there is an active trading market in the place where the biological assets are located, but the accounting standards in China do not specify what is an active trading market; (2) market prices and other relevant information of similar biological assets can be obtained from the trading market; in addition, there is a need to have conclusive evidence to prove that the above two conditions are established at the same time. Since the definition of an active market is not clear, companies generally cannot demonstrate conclusively that the conditions of the fair value measurement model are met.

In the forecast of 2021 annual results disclosed by the Group on January 29, 2022, it disclosed that the price of pigs at the end of the period decreased by 46.15% compared with the beginning of the year, and it is expected that the net profit attributable to shareholders of the listed company for the year 2021 will be down 75.31%-77.68% compared with the same period last year, and a provision for inventory impairment was made for the stock of consumable biological assets at the end of the period. With such a big fluctuation in the performance of Shennong Group and disclosing the provision for impairment at the end of the period, investors will see such a big fluctuation in the investment units at the end of the period or at the end of the quarter, which will undermine investors' confidence. If Shennong Group adopts the fair value measurement model for biological assets, adjusts the carrying value of biological assets accordingly with the fluctuation of market value, and publishes and discloses the information of biological assets in a timely manner, instead of disclosing the relevant status at the end of quarter or year-end as required by the state, investors already have a mental expectation of the general performance of Shennong's assets and will not have significant expectation difference. Based on the situation of Shennong Group, it can be seen that the timely publication of information that is materially related to the performance of the company is essential to create a good general environment for social investment.

b. According to China's standards, Shennong Group is required to disclose the actual amount of biological assets and the corresponding book value by category, but the semi-annual report of Shennong Group in 2021 did not disclose in accordance with the relevant standards, which seriously affects external information users' understanding of Shennong Group's biological assets. China's standards require that enterprises should make disclosures, but there are no corresponding penalties for enterprises that fail to make disclosures in accordance with the requirements, and the legal gap makes the disclosure of biological assets a selective disclosure of accounting elements. From the disclosure content of Shennong Group's 2021 semi-annual report, it can be seen that the imperfect disclosure content of listed companies will make the external information users' effect of horizontal comparison between different enterprises greatly weakened, which will further discourage investors' investment.

4. Optimization Path

4.1. Refinement of Accounting Standards for Biological Assets

Different enterprises can choose the appropriate measurement model according to their needs so that they can disclose the value of biological assets more accurately when making information disclosure. Since biological assets are different from other general biological assets and are highly susceptible to factors such as market supply and demand, animal epidemics, etc., in order to enable investors to more accurately understand the value of biological assets of an enterprise, enterprises that meet the fair value measurement model, accounting standards should encourage the fair value measurement model in the first place, so that changes in the value of biological assets can be readily noticed by investors, and Shennong Group only The disclosure of biological assets at the end of the quarter and the end of the year, between the beginning of the quarter and the end of the quarter, investors have no way to know what kind of changes occur in biological assets, and the disclosure of a significant drop in the value of biological assets at the end of the quarter or the end of the year will greatly dampen investors' confidence and affect the order of financial market. If an enterprise adopts the fair value measurement model, the value fluctuations are transmitted to investors in a timely manner, and investors are aware of the changes in the value of biological assets in a gradual manner throughout the accounting cycle, and they have prior expectations of significant fluctuations in the value of biological assets in the quarter or year, which will greatly reduce the impact on investors. This is conducive to the improvement of the overall financial market environment.

4.2. Improve the Biological Assets Disclosure System

From the management point of view, timely disclosure of information on the financial status and operating conditions of enterprises will make them more transparent and will make investors more comfortable with timely understanding of the development status of enterprises. From a long-term perspective, due to the characteristics of biological assets themselves, vulnerable to risks such as animal epidemics and natural disasters, the guidelines should provide for timely disclosure of risks faced by enterprises and specific explanations of risks, and the impact of risks on the biological assets of enterprises can be quantified as much as possible, so that the risks faced by enterprises can be more intuitively conveyed to investors. On May 1, 2021, the newly revised Measures for the Administration of Disclosure of Information of Listed Companies will come into effect. According to the 2021 semi-annual report disclosed by Shennong Group, which has just been listed, there are many problems with the basis, for example, the cost accounting method for biological assets is only disclosed in the prospectus and is not reflected in the semi-annual report. The Listing Disclosure Measures should complement each other with accounting standards so that enterprises can find a reference basis for disclosing all. At this stage, the accounting standards for biological assets should be improved, and enterprises should disclose information related to biological assets in a comprehensive and detailed manner, with the level of detail referring to the requirements of prospectuses, so that biological assets can meet the quality requirements of understandable accounting information.

4.3. Strengthening Supervision

At present, there are still legal gaps in the disclosure of biological assets in China, for example, there are no corresponding penalty rules for enterprises that do not disclose in accordance with the relevant regulations. In order to reflect the importance the country attaches to information disclosure, the penalties should be elevated to the legal level. For enterprises that disclose for three consecutive years without following the relevant guidelines, the enterprise should be directly delisted and fined according to 1% of the enterprise's net profit; for enterprises that disclose for more than five consecutive years with high quality, a direct reward should be given

according to 5% of the income tax payable, and according to people's tendency to profit, everyone will actively disclose with high quality in order to achieve the purpose of improving the overall general environment of information disclosure.

In addition, the relevant departments should strengthen supervision, the state can empower independent third parties, accounting firms with appropriate qualifications and other institutions, can audit the financial report of the relevant enterprises, if not meet the standards, to give the enterprise with the audit opinion does not meet the publication of financial reports, the relevant enterprises should be modified in accordance with the audit opinion, until the standards for the publication of financial reports. For companies that publish their financial reports without audit or without heeding the audit opinion, they will be given a warning of delisting for the first time and a penalty of 10% of net profit for the second time.

5. Conclusion

On May 1, 2021, the new "Management Measures for Information Disclosure of Listed Companies" was implemented. In recent years, listed agricultural companies have been successively facing problems of financial fraud and insider trading, etc. After the implementation of the new information disclosure measures, there are still certain problems in the information disclosure of listed companies. Taking Shennong Group as an example, we analyze the information of important biological assets of newly listed agricultural companies after the implementation of the new information disclosure measures The disclosure situation. The disclosure of information related to biological assets suffers from incomplete disclosures and does not meet the comprehensibility requirements for the quality of accounting information. The problems of information disclosure exist not only because companies want to maintain their credibility, but also because of the lack of clarity of the requirements related to biological assets in China's accounting standards and the lack of penalties for not disclosing in accordance with the regulations.

According to the existing problems, China's accounting standards should refine the provisions of biological assets for the selection of measurement mode, improve the information disclosure system of biological assets, and make the information disclosure of biological assets more comprehensive and detailed. In addition, we should strengthen supervision and impose strong penalties on enterprises that do not disclose in accordance with relevant regulations, so as to improve the general environment of information disclosure of listed companies.

Acknowledgments

Humanities and Social Sciences Research Project of Ministry of Education (No.: 19YJCZH150); Key Research Project of Financial Application of Shandong Province (No.: 2019-JRZZ-12); General Project of China Postdoctoral Science Foundation (No.: 2017M622269).

References

- [1] Li Xianghua,Zhang Min. Self-media disclosure, controlling shareholders' equity pledges and financing constraints[J]. Wuhan Finance,2021(11)51-60.
- [2] Lin Jianxiu. The impact of social media on corporate financial information disclosure and response[J]. Finance and Accounting Monthly,2021(20)84-89.
- [3] Li Wei, Li Haiqi, Huang Yuxuan, He Gongzheng, CEO career concerns and corporate accounting disclosure quality [J]. Financial Theory and Practice,2021,42(06)96-102.
- [4] Sun, Wenzhang. Does the accounting background of information publishers help improve readability of information - Evidence based on the personal characteristics of directors [J]. Economic Management,2021,43(09)154-171.

- [5] Xie Bansheng, Liu Meijuan, Quan Jin, Yi Yuting, Wei Yuanzhu. Executive agricultural industry expertise and the quality of biological assets disclosure--based on empirical evidence of China's listed agricultural companies from 2007-2016[J]. Journal of Nanjing Audit University, 2020, 17 (01)62-72.
- [6] Wang Jiachen, Liu Xiguo, Wu Dong. Does social trust affect the quality of accounting information of listed companies--a moderating effect based on the level of regional rule of law[J]. Investment Research, 2021, 40(11)108-122.
- [7] Xue Jiao. The impact of mandatory CSR disclosure on risk-taking [J]. Investment Research, 2021, 40 (09) 105-122.
- [8] Miao Kepao, Shi Daojin. Analysis of the impact of biological asset information disclosure on corporate value--an empirical study based on agricultural listed companies[J]. Finance and Accounting Newsletter, 2021(03)68-72.
- [9] Wu Fanlu, Fu Gang, Ren Qiqi, Peng Lulin. Evaluation of the quality of information disclosure of biological assets of listed agricultural companies[J]. Finance and Accounting Communication, 2016 (22)16-20+4.
- [10] Li Chan, Yin Zhanhong. Research on surplus management in accounting for biological assets of agricultural listed companies[J]. Finance and Accounting Monthly, 2021(11)92-99.
- [11] Ji Kuiming, Tang Tiancheng. Research on the regulatory system of information disclosure of listed agricultural companies in China--Take Swertia Island Company as an example[J]. Journal of Harbin University of Commerce (Social Science Edition), 2018(05) 117-128.
- [12] Zhang Xinling, Hu Haichuan, Fan Wenjuan. Exploring the disclosure model of biological assets under historical cost measurement attribute[J]. Friends of Accounting, 2015(04)71-75.