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Silicon Valley Meets Norwalk

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Silicon Valley

Tell your company's story online.

The FASB, housed in Norwalk, Connecticut, is very far—physically and culturally—from Silicon Valley. As guardian of the traditional and sober world of financial accounting, it would seem to have nothing in common with

the flashy graphics, animation and music of the World Wide Web. What do lists of HTML code and Java applets have to do with scholarly tomes of accounting regulations? Plenty. Behind online company logos are Web sites jammed with financial information—pages of annual reports connected to each other and the rest of the corporate site in ways undreamed of with printed documents. And in recognition of the increasing role the Internet will play in financial accounting, FASB is exploring the many reporting issues the Internet raises. Whether you prepare, audit or use financial statements, you need to know what some companies are doing online today with their financials—and what further options the Internet offers for tomorrow.

Virtually every *Fortune* 500 corporation has a Web site. Visitors to them can find facts on distribution, customer service, product awareness, environmental consciousness—and the bottom line. Financial information that companies formerly disclosed only to those who request-

NIKOLAI PUNIN



Meets Norwalk

BY TIMOTHY J. LOUWERS, WILLIAM R. PASEWARK AND ERIC W. TYPPO

ed it by mail is now available to anyone with Internet access. Preparers and auditors therefore must evaluate this new online audience to learn how they are using data. In such an environment, how can CPAs help make financial and other corporate information useful for current and potential investors as well as the public at large? Look at what some corporations have already done.

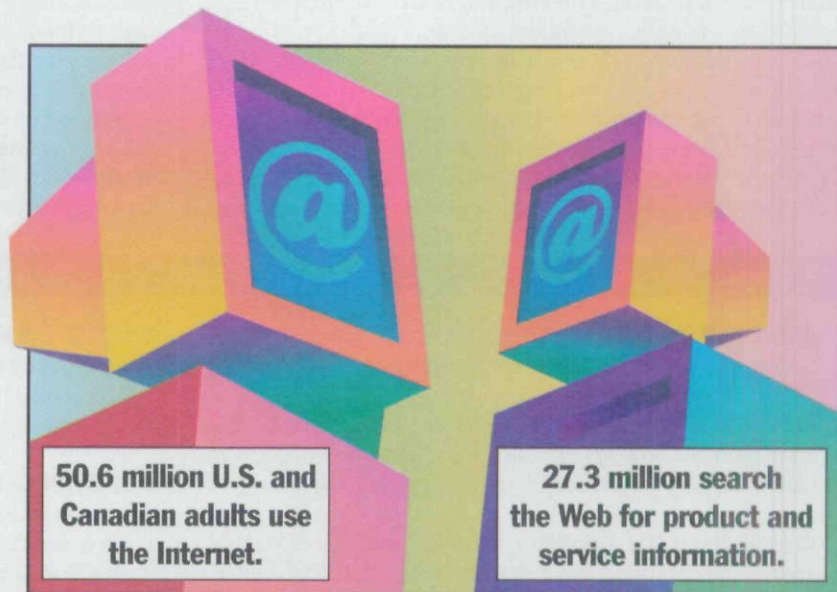
QUALITY IS KING

On a corporate Web site—as in a printed annual report—the *quality* of information is paramount. A high-quality site accurately anticipates users' information needs in four key areas:

- *Breadth*, which refers to the quantity and comprehensiveness of information at a particular point in time. For example, the casual investor may be interested only in financial highlights, while a financial analyst may want to see the earnings announcements and the forecasts the corporation issues (see exhibit 1, page 23.)

Some corporations try to educate viewers. For example, IBM has posted a *Guide to Understanding Financials* (www.ibm.com/FinancialGuide), an online brochure that helps the beginning investor grasp financial statements.

- *Depth*, which refers to the number of periods of histori-

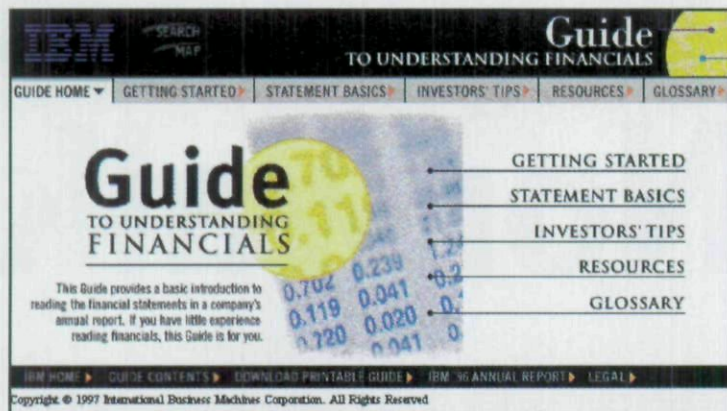


cal information the site covers. Some users may need financial data from multiple time periods to perform trend analyses. Although most companies provide only two to three years of historical data, others, such as MCI, offer 10 years of annual reports (www.investor.mci.com/annual_reports/).

- *Frequency*, which refers to the number of times a company relays data in a given period. Some users might desire monthly information, such as that provided by J.C. Penney (www.jcpenny.com), rather than

Cybercasting would allow stockholders

to "attend" meetings while remaining at home, to vote using e-mail and to participate in discussions.



Financial statements are useless if you don't know what you're looking at. IBM provides a guide.

merely annual data. The frequency of information release varies widely among companies.

■ **Timeliness**, which refers to how up-to-date the data are. Companies traditionally mail paper copies of their annual reports about three months after their fiscal yearends. However, some businesses send significant information over the Internet as soon as they have it. Brokers, analysts and the financial press thus depend on the

Internet for immediate news of corporate events. Free services, such as InfoBeat (www.infobeat.com) and PointCast (www.pointcast.com) provide press releases and analyst announcements to individual investors.

EASY TO ACCESS

Some companies bury financial data deep in the Web sites, while others present it up-front, close to the home page. For example, Intel's investor relations page (www.intel.com/intel/finance/index.htm) is only two clicks from the home page. Once there, users can look up financial statements, stock price information, SEC reports, financial press releases and analyst data—all information that was formerly difficult to obtain quickly.

Visitors to any Web site may have to wait several seconds—even minutes—after each click for a new page to load. Those who don't have state-of-the-art technology may find themselves unable to use a site at all. Internet consulting companies that prepare sites for major corporations often add multimedia features to sites that older computers—with older Web browsers—can't take advantage of. Many sites—the IRS, for example (www.irs.ustreas.gov)—include text-only versions for those with

EXECUTIVE SUMMARY

■ **THE INTERNET IS AFFECTING** traditional statements and audits as companies explore online options.

■ **FINANCIAL INFORMATION** is now easily available online, creating a new readership. CPAs must consider how to help make this information useful to the expanded public.

■ **CPAS NEED TO EXAMINE** the quantity of the information a Web site can offer, the range of historical financial information provided, the frequency with which the company updates the information and the timeliness of its delivery.

■ **CORPORATE WEB SITES** need to be easy to access to be truly useful. Financial information should be upfront. Complex sites should offer a "text-only" version.

■ **THE SITE SHOULD MAKE** a positive statement about the company. For example, a company may want to post an actual recording of its president's speech at a recent stockholders' meeting.

■ **COMPANIES NEED TO CONSIDER** who will use their sites and provide appropriate features. Search engines help users connect information from all over a given Web site. Analysts may want to download financials into spreadsheets, for example.

■ **CYBERCASTING, ONLINE VOTING** and forums are just some of the ways companies may help investors participate more easily in stockholder activities. CPAs aware of the possibilities can become leaders.

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technology-constrained Web browsers. Such sites have text without all the flash.

HOW DOES IT LOOK?

Users may come to a Web site seeking financial information, but they'll probably end up looking at other pages as well. Therefore, corporate controllers or CFOs need to concern themselves not only with the financials but also with the presentation of information located elsewhere on the site. Online pages can flow almost seamlessly from financial statements to press releases. The quantity, quality and presentation of *all* information on a Web site make a powerful statement about a company. For the first time, potential customers and stockholders are gaining their perceptions of corporations through the Internet rather than the traditional channels of annual reports, prospectuses and the financial press.

Companies are taking many different approaches to hold visitors' attention and keep them coming back. Many corporate sites greet Web surfers with strong colors and bold graphics—and sometimes motion and sound; for example, Exxon features a tiger running across the screen (www.exxon.com). Several corporations, such as IBM, allow visitors to listen to speeches or comments by management (www.ibm.com/lvg). A company that rarely updates its information or varies its presentation suggests that it doesn't care if the public has up-to-date knowledge of its operations.

MEETING USER NEEDS

Successful corporate sites present accounting information in formats that meet user needs; some users may require a wide range of information spread throughout a site. For example, an analyst may want to read the balance sheet

and find out how many employees are in each field office. All this information appears on different pages, which is why many sites provide search engines that locate information based on key words. Exhibit 2, page 24, describes several features more sophisticated Web sites should have. User-friendly sites provide links directly from the financial statements to explanatory notes. Microsoft, for example, places links from balance sheet accounts directly to notes or, in some cases, to explanatory charts. Links to the notes should appear directly on the face of the financial statement.

Some sites let users take "electronic possession" of the data: Users can download financial information into presentation media such as Adobe (see Walmart, www.walmart.com) or into a Lotus or Excel spreadsheet. Microsoft allows users

to download its income statement as an Excel spreadsheet file, an "Excel PivotTable" or an Excel "what-if" model (www.microsoft.com/msft/ar97/analysis/analysis_tools.htm).

Web site visitors have come to expect current stock prices online. Some corporations provide stock prices on their sites (for example, www.ibm.com/IBM/Stock), while others have links to free stock price providers such as StockMaster (www.stockmaster.com). The SEC maintains approximately two years of 10-K and 10-Q



Your computer probably has an Intel chip inside. Use it to learn all about the company.

Exhibit 1: Information Needs of Internet Users

Information breadth	Users	Examples
Narrow	<ul style="list-style-type: none"> ■ Web surfers ■ Informal investors 	<ul style="list-style-type: none"> ■ Financial highlights ■ Partial annual reports
Moderate	<ul style="list-style-type: none"> ■ Stockholders ■ Stockbrokers ■ Employees 	<ul style="list-style-type: none"> ■ Full annual reports ■ Quarterly reports ■ Stockholder meeting transcripts
Wide	<ul style="list-style-type: none"> ■ Financial analysts ■ Institutional investors 	<ul style="list-style-type: none"> ■ Earnings announcements ■ Earnings forecasts



filings in its free EDGAR database (www.sec.gov/edgarhp.htm). Most corporations now provide a link to EDGAR for users who want to view these filings.

WHAT'S AHEAD

Has the Internet made some investing and accounting disclosures obsolete? Companies use annual stockholder meetings to announce corporate direction, receive stockholder feedback and vote on issues mandated by the charter. Cybercasting—the ability to broadcast live audio, video and transcripts over the Internet—would allow stockholders to “attend” meetings while remaining at home, to vote using e-mail (www.proxy.vote.com) and to participate in discussions in online forums or chat groups (<http://boards.fool.com/boards.asp?>).

Right now, the Internet provides fast and inexpensive services to stockholders regardless of where they are located. For example, Mobil (www.mobil.com/this/financial/stock/index.html) permits stockholders to enroll in a dividend reinvestment program using forms on the Web.

In the future, the timeliness and convenience of the Internet also could reduce the information disparity between institutional investors—who tend to have greater data-gathering resources—and individual investors. Corporations are likely to make announcements simultaneously to

	1995	1996	
Assets			
Current assets:			
Cash and short-term investments	\$4,750	\$6,940	Explanatory notes may be accessed by clicking the account name.
Accounts receivable	581	639	
Other	289	260	
Total current assets	5,620	7,839	
Property, plant, and equipment	1,192	1,326	A chart depicting asset growth is viewed by clicking the graph icon.
Other assets	398	928	
Total assets	\$7,210	\$10,093	

Where do you want to go today? How about to Microsoft's accounting department?

all stockholders through e-mail and hold analyst conferences online via cybercasting.

Investors and analysts of the future also will be able to tailor information to their specific needs. Although a few companies now provide users with charts of historical data (www.ibm.com/Investor/HistoricalCharts/), the Internet site of the future will give users opportunities to chart data in the ways most useful to them. For example, users will be able to specify the number of years of information they need or to plot growth rates against industry averages. They will be able to tailor the financial statements to appear in different languages, currencies and accounting conventions. Microsoft, (www.microsoft.com/msft/ar97/analysis/analysis_tools.htm) and Nortel (www.nortel.com/home/home.html) already allow some user customization. Finally, uniform charts of accounts and disclosure formats may eventually standardize reported data so that Internet users may download data into software that automatically performs historical analysis, forecasting and industry comparisons. Exhibit 3, page 26, lists some key services companies will be able to offer via the Internet.

The issue of financial reporting on electronic sites remains relatively unaddressed. To date, the only authoritative literature on financial statements on corporate web sites was issued by the AICPA auditing issues task force of the ASB. While auditors must review other information accompanying traditional audited financial

Exhibit 2: Common Investor Relations Internet Features

Feature	Description
Search engines	Direct the user to an area of the site that contains key words provided by the user.
Links to explanatory notes	Direct the user from the financial statement account to the associated explanatory note.
Downloading	Transfers financial data to storage components on the user's computer.
Stock price data	Allow online viewing of the current trading price of stock.
EDGAR links	Provide a link to the SEC's EDGAR database containing 10-K and 10-Q filings.

What should an **auditor's responsibility** be for **online statements**? Should **companies** be allowed to **dispense** with **printed statements** altogether?

statements for consistency (see Section 550, "Other Information in Documents Containing Audited Financial Statements," in *AICPA Professional Standards*), the task force issued an interpretation (AU section 9550.17) saying the Web sites are a means of information distribution and not "documents" as defined by current auditing standards. As financial reporting on the Internet becomes more commonplace, it remains to be seen whether this interpretation will be retained.

CPAs AS KNOWLEDGE LEADERS

Individuals who are well-versed in the Internet's possibilities are valuable to their business colleagues. Therefore, CPAs need to explore ways to harness the Internet for the good of their employers, their clients and the investing public. They must examine how these rapidly changing technologies will affect the traditional financial statement audit. Standard-setting authorities are just beginning to address issues such as: What should an auditor's responsibility be for

online statements? Should companies be allowed to dispense with printed statements altogether? Since the Web knows no international boundaries, will the IASC play an increased role in regulations for online statements? (See "Calling All Members," *JofA*, May98, page 109, and "Model Company Goes Online," *JofA*, June98, page 17, for further discussion).

For CPAs, the first step is discovering what some sites have already achieved. Fortunately, several groups evaluate Internet sites and rate their usefulness, based on the quality of information, site accessibility and

ease of use (see exhibit 4, above).

Cyberspace provides accountants with an incredible opportunity to tell their companies' stories in ways previously unimaginable. How the accounting profession faces this challenge and bridges the gap between Norwalk and Silicon Valley will determine its role in the reporting of information—both financial and nonfinancial—in the next century. ■

Exhibit 4: Evaluators of Investor Relations

Rater	Internet Site
Investor Relations Web	www.investor-rel.com/index.html
Off-Line	www.off-on.com/top25.dbm
TechWeb	www.techweb.com/

Exhibit 3: Internet Features of the Future

Feature	Description
Shareholder services	Shareholders may change their mailing addresses, request documents or enroll in dividend reinvestment programs through the Internet.
Charting and graphing	The user may create charts or graphs using corporate financial data.
E-Mail subscriptions	The user can get press releases and financial information by e-mail as they become available.
Shareholder forums and chat groups	The site provides a means for shareholders and managers to communicate their views concerning corporate policy and operations.
Basis selection	The user may select a preferred language, currency or accounting convention to analyze financial statements.
Cybercasting	The user may hear or view corporate activities, such as stockholders' meetings or analysts' conferences, as they occur.
Share voting	Shareholders may vote their shares over the Internet rather than by mail or by attending meetings.
Share purchasing and trading	Users may purchase or trade stock.
Data "packaging"	The company may place financial data automatically into standardized accounts for analysis and industry comparison.