Note Disclosures in 10K Reports

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Abstract

Note disclosures are an important component of annual reports, but further research can illustrate how these disclosures differ across industries. Further research into 10K reports can reveal how companies use disclosures to fulfill conciseness and transparency recommendations when communicating with stakeholders. Analyzing recent 10K reports from samples of firms in different industries can reveal which note disclosures are most prominent, which industries disclose the most, and how prevalent specific types of disclosures, such as sustainability and contingent liabilities disclosures, are across a variety of firms. This analysis focuses on the notes to the financial statements, rather than any other accompanying information in the annual reports. Results can help establish a spectrum of transparency and disclosure behavior. Benefits from this research include a greater understanding of note disclosures across different industries so companies can compare themselves to competitors, related fields, and other firms in their supply chains. The primary beneficiaries of this research include external 10K preparers, who are typically Certified Public Accountants (CPAs), and internal firm management seeking to view annual reports in the context of their broader industries and the overall scope of 10K reports.

Introduction

All public companies in the US are required to make an annual filing with the Securities and Exchange Commission (SEC) known as Form 10K. Form 10K is often included with companies' annual reports that depict activity and financial performance over the past fiscal year. 10K reports are publicly available and contain audited financial statements so that all interested parties have access to credible information when reviewing company performance. An important component of 10K reports are the note disclosures that accompany the financial statements. These disclosures are required to fulfill the principle of full disclosure because the financial statements themselves cannot provide the full story or all background and explanatory information (Averkamp, 2022).

Companies file yearly 10K reports to disclose their financial performance to their stakeholders, including shareholders, employees, suppliers, clients, and any other interested parties, so it is essential that the reports contain all relevant information for reasonably knowledgeable viewers (Kenton, 2020). Transparency and comparability standards in reporting are promoted by note disclosures that create context and explanations for the broad information contained in annual reports. For example, research demonstrates a relationship between uncertain tax positions (UTP), which are commonly disclosed in 10K reports, and tax avoidance behavior, leading to increased regulation for UTP (Taylor, Richardson, & Al-Hadi, 2018). The U.S. Treasury Department confirmed Reg. §1.6012-2(a)(4) in 2020, giving the Internal Revenue Service (IRS) authority to require the attachment of Schedule UTP, finalized in 2010, to certain corporations' tax returns for the disclosure of all UTP (26 CFR §1.6012-2, 2020). In regard to 10K reports, the Financial Accounting Standards Board (FASB) issued "FIN 48" in 2006 to clarify the annual reporting of UTP (*FASB Interpretation No. 48, "Accounting for Uncertainty in*

Income Taxes", 2020). These regulations indicate the importance of adequate disclosures and the overlap between regulatory bodies.

Note disclosures in 10K reports can also address concerns that are not strictly financial in nature. Commentary on sustainability and corporate social responsibility (CSR) are an increasingly significant element of annual reports, especially due to the growing threat of environmental instability in many industries (Wasim, 2019). Despite an increasing obligation to report such information, some industries, such as the oil and gas industries, continue to avoid 10K disclosures about their impact on the environment or the impact of climate change on their operations (Wasim, 2019).

There are certain notes that are particularly common across all annual reports, including a general note on the business and the pronouns used to refer to the company and a note on significant accounting policies to clarify important issues such as how revenues are recognized and how inventory is measured. A list of ten common notes is displayed below in *Table 1* (Loughran, 2016).

Note	**Brief Description**
Basis for Presentation	The company's business and how it conducts that work
Significant Accounting Policies	Each significant accounting choice, such as revenue recognition and inventory valuation methods
Asset Depreciation	Depreciation methodology
Inventory Valuation	Basis upon which inventory is stated and cost method
Subsequent Events	Events that occur after the close of the accounting period

Intangibles	What intangible assets the company owns and how they are valued
Financial Statement Consolidation	Confirm that all subsidiaries are included and explain deviations
Employee Benefits	What benefit plans are in place for employees and related obligations
Contingent Liabilities	Current circumstances that may lead to future losses depending on future events
Debt Reporting	Creditors' claims against company assets, how present and future costs are financed, and future cash flows

Table 1: Common Note Disclosures

There does not yet appear to be a clear understanding of the differences in disclosure type and quantity among industries. 10K reports are publicly available, so information about note disclosures can be gathered from samples of firms in various industries and analyzed to establish differences. Literary research on note disclosures in 10K reports may impact the perception of industries as well as their use of disclosures. Further research can benefit accountants, managers, and investors as they assess annual reports for transparency and comparability.

Aims and Objectives

Introduction

Note disclosures in publicly available 10K reports for companies in different industries vary in quantity and type. Researching and compiling these differences from samples of firms in various industries can reveal common disclosure standards, which accountants can use to compare disclosures between competitors and other related firms.

Aims

1. To locate differences in note disclosure type among industries.

2. To locate differences in note disclosure quantity among industries.
3. To determine which note disclosures are most common.
4. To create a spectrum or graphical representation of disclosure activity in 10K reports.

Objectives

1. Locating differences in note disclosure type across industries will help clarify the variation in what information is considered most important and how it is presented.
2. Locating differences in note disclosure quantity across industries will help establish the industries that disclose the most compared to those that disclose the least, as well as how these disclosures meet and exceed regulatory requirements.
3. Determining the most common note disclosures will indicate trends in 10K reports and public accounting to highlight the most important information and what information may increase in availability in the future.
4. Creating a visualization of disclosures based on type and quantity in different industries will help firm management and public accounting professionals as they prepare 10K reports and compare performance and reporting between related firms and industries.

Methodology

The first step in this research is to decide which industries to focus on. The four industries used in this analysis are oil and gas, automotive, technology, and retail because these industries consist of commodities, manufacturing, and consumer products, which are major market categories. After isolating specific industries, a sample of three firms is selected from each industry group. This process is known as stratified sampling because the population of firms is first categorized before a sample is taken from each category. The twenty largest firms by market capitalization (market cap), which is the total market value of outstanding shares, are collected from each industry and a random sample of three is taken from each using a random number generator. Only companies that are domestic to the US are included to control for disclosure differences that are introduced with foreign-based companies. Additionally, market cap is used to sort the companies within each industry to help control for disclosure differences that arise from immense size variation. The selected companies are Kinder Morgan Inc (KMI), Occidental Petroleum Corp (OXY), and Energy Transfer LP (ET) for oil and gas, Ford Motor Co (F), Thor Industries Inc (THO), and LCI Industries (LCII) for automotive, Cisco Systems Inc (CSCO), Datadog Inc (DDOG), and The Trade Desk Inc (TTD) for technology, and Home Depot Inc (HD), Ross Stores Inc (ROST), and Best Buy Co Inc (BBY) for retail. The stratified sampling selection of these companies is illustrated in Appendix A. It is important to note that these small samples from only a few select industries are not appropriate for a statistical analysis, but they are adequate for the qualitative observations utilized in this analysis.

Next, publicly available 10K reports for years ended in 2021 for each firm are found and analyzed for their note disclosures. Only the notes to the financial statements, rather than any other supplemental information, is considered in this analysis. Information is collected from each annual report for the number of individual disclosures, the specific types of disclosures, the level of detail provided in each disclosure, and the degree to which reporting regulations are fulfilled or surpassed. This information is then sorted to locate trends so industries can be compared. After locating trends and identifying similarities and differences, a spectrum or related visual instrument is developed to illustrate how the industries compare with each other in terms of company and industry characteristics and the number of disclosures. This tool can then be utilized to make assumptions about disclosures by different firms based on their industries. Additionally, information on note disclosures is useful for developing expectations about future disclosures. Past disclosures can help set standards, and new reporting trends, such as CSR obligations, can be revealed.

Analysis

This analysis begins with a general overview of the proportion of pages allocated to the notes, the number of note disclosures, and whether the notes to the financial statements mention significant elements of the business environment today. These identified significant elements are sustainability and environmental impact considerations, CSR, and the ongoing Covid-19 pandemic that was relevant during the 2021 fiscal years for which these 10K reports were issued. Assessing how different companies and industries address the current business environment and related concerns can illustrate how companies are evolving their reports and fulfilling disclosure requirements. *Table 2* depicts the selected information from each 10K report.

Industry	Company	Market Cap ($)	Length of Notes Section (pgs/total)	# of Note Disclosures	Mention Sustainability or Environmental Impacts	Mention CSR	Mention Covid-19
Oil & Gas	KMI	38.71B	52/192 = 27%	19	✓		✓
	OXY	36.19B	42/350 = 12%	16	✓		✓
	ET	30.18B	66/325 = 20%	16	✓		✓
Automotive	F	71.40B	59/215 = 27%	26	✓		✓
	THO	4.91B	28/106 = 26%	19			
	LCII	3.12B	30/95 = 36%	15	✓		✓
Technology	CSCO	232.80B	38/110 = 35%	20	✓		✓
	DDOG	50.67B	26/104 = 25%	16			
	TTD	40.55B	16/238 = 6.7%	13			✓
Retail	HD	330.66B	24/90 = 27%	12			✓
	ROST	32.76B	18/79 = 23%	11			✓
	BBY	23.05B	21/78 = 27%	14			✓

Table 2: Note Disclosure Characteristics

Starting with the page lengths of notes to the financial statements, it appears that there is wide variation in how much of the 10K the notes occupy, ranging from 6.7% to 36% of the total document. The page length of the notes is not related to the industry type, although the retail industry appears to issue shorter 10K reports because the reports from the retail industry sample are consistently below 100 pages compared to the other industries' reports that frequently amount to hundreds of pages. This may be due to the character of the retail industry, which is less complex than the more volatile oil and gas, automotive, and technology industries.

The number of note disclosures is best visualized in *Figure 1* below.

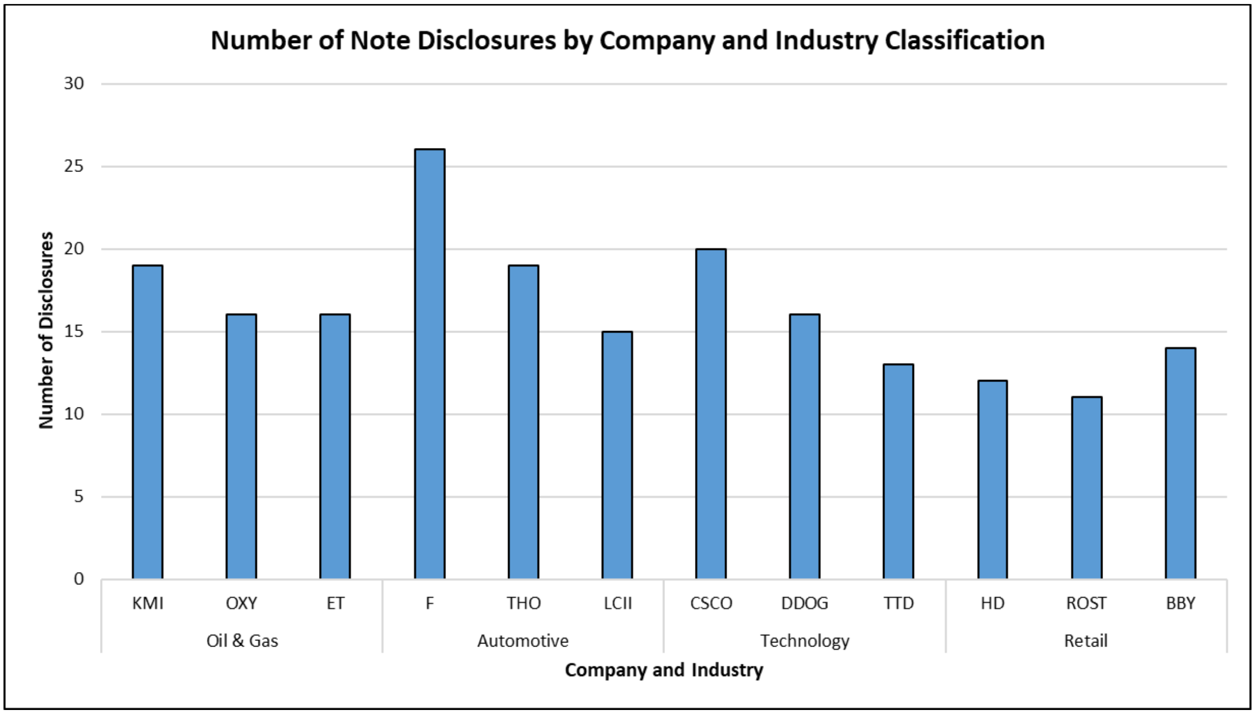

Figure 1: Note Disclosure Quantity Sorted by Industry and Company Size

The number of notes to the financial statements appears to decline with market cap within each industry other than retail. This indicates that the number of note disclosures is more closely related to company size than industry. This is to be expected as larger companies experience more complex accounting problems and likely have more to disclose. However, the retail industry appears to have notably fewer note disclosures compared to the other industries, with only 14 at the maximum, compared to a maximum of 19 for the oil and gas industry, 26 for the automotive industry, and 20 for the technology industry. This may also be due to the less dynamic nature of the retail business. The oil and gas, automotive, and technology industries experience more controversy and change over time, such as environmental concerns, higher government regulation, and the development of new products. Although company size may be more closely related to note disclosure quantity, industry type is also related, particularly regarding the degree of stability or turbulence.

Sustainability and environmental impact concerns are increasingly important for businesses today and *Table 2* indicates that some industries place a greater emphasis on this area in the note disclosures. The entire sample of companies in the oil and gas industry mention environmental issues in the notes to the financial statements. This illustrates that environmental considerations, especially in terms of litigation and liability issues, are particularly relevant to this industry and industries that experience more environmental regulation and controversy. This is further highlighted by the automotive industry. Two of the companies in the sample from the automotive industry also mention environmental issues in the notes, which portrays how sensitive the automotive industry can be to environmental concerns as well due to emissions regulations and the growing emphasis on electric vehicles. Only one company in the sample from the technology industry and no companies in the sample from the retail industry mention environmental considerations. This illustrates that those industries that are less sensitive to sustainability and environmental regulation have less incentive to include those considerations in the notes to the financial statements. Disclosures related to the environment increase with the controversial nature of industries and how much industries rely on commodities. Although all industries and companies are currently motivated to advocate for sustainability, not all have an equivalent need to make disclosures for the financial statements regarding these concerns.

Additionally, no companies in the sample mention CSR in the notes to the financial statements. This confirms the principle that the notes are reserved for explanatory information related specifically to the financial statements. Although all companies advocate for community outreach and CSR activities, CSR is not a key component of companies' financials. CSR, along with environmental considerations, are frequently mentioned elsewhere in the annual reports, but not specifically in the notes to the financial statements. The notes to the financial statements are not the place for company goals.

Lastly, in regard to *Table 2*, most companies in the sample mention the Covid-19 pandemic and its past, current, and expected impacts. Covid-19 represents a current event with a broad impact on the business environment, so it is expected for such events receive attention in the notes. Covid-19 has had a significant impact on businesses and their financial performance, regardless of industry, so its reference in the notes to the financial statements is also consistent with expectations regarding the treatment of significant business and world events.

Ultimately, companies fulfill regulatory and practicality requirements in terms of their disclosures. Those companies that are larger, more complex, or experience more stringent regulation are obligated to include a greater number of note disclosures and more disclosures that cover a broader range of topics, including the environment. Companies are often wary to disclose more than is necessary, but they must fulfill regulatory requirements in order to continue their operations and maintain credibility in the business environment and among stakeholders.

This analysis also considers the specific types of note disclosures included by each company. The number and length of disclosures provide a generalized view of how companies fulfill note disclosure obligations, but an understanding of what is specifically included in the notes is necessary to understand more meaningful differences between industries. Locating commonalities and differences between the industries regarding 10K notes can help further clarify how industries differ in their regulatory reporting. *Table 3* below depicts the note disclosures that exist for all companies sampled, highlighting similarities across industries.

		Type of Note Disclosure									
Industry	Company	General and Basis of Presentation	Significant Accounting Policies	Income Taxes	Balance Sheet and Other Details	Fair Value Measurements	Share-based Compensation, Employee Benefits, and Retirement	Capital Stock and Earnings/ (Loss) per Share	Segments and Geographic Information	Leases	Commitments and Contingent Liabilities
Oil & Gas	KMI	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	OXY	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	ET	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Automotive	F	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	THO	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	LCII	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Technology	CSCO	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	DDOG	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	TTD	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Retail	HD	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	ROST	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	BBY	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 3: Note Disclosure Types I

The types of notes listed in *Table 3* are relevant to all companies and industries because they deal with general accounting issues and the business environment. Notes on the basis of presentation and significant accounting policies are present for all companies in the sample, regardless of industry, because these notes provide background on the companies and general details about accounting practices. Additionally, every company must document and pay income taxes, so adequate notes to the financial statements are necessary for that topic too. Balance sheets typically require a note disclosure as well, especially with regard to cash, other current assets, and current liabilities. Fair value measurement practices may differ between companies, so each company has an obligation to include a clarifying note on that topic. An interesting area of similarity between every company and industry in the sample is notes on share-based compensation, employee benefits, and retirement benefits. This is a specific area of accounting, but it is an area that is relevant to every company as they often include financial incentives, such as share-based compensation, for their executives and upper management. Additionally, the treatment of benefits for current employees and retired employees must be fully explained as well to disclose the degree of obligation the company holds toward the recipients of such benefits. Although this may seem like a niche area, it represents a key commonality between all businesses. Relatedly, capital stock and earnings per share are a consistent area of disclosure because this information is calculated to accompany income statements. Next, there are considerable notes for different segments and geographic areas as well. Because the companies in the sample are so large, they often possess varying business operations, product lines, and locations across the country or around the world. Again, this illustrates how different industries can experience similar accounting and business concerns, especially when companies reach a certain size and complexity. Leases are another area of similarity as all companies in the sample, regardless of industry, include disclosures on their lease practices. The companies all have lease obligations, whether that is leased land, equipment, or retail space, and must mention relevant lease schedules. Despite the different industries, utilizing leased property is a valuable business consideration and is pertinent to any industry. Finally, every company in the sample includes disclosures on commitments and contingent liabilities. These are more forward-looking notes that consider how future events may impact future obligations and liabilities. Although it may be expected that some industries are more susceptible to such future issues, such as the oil and gas industry due to its controversial nature and high degree of regulation, all industries must consider and disclose their commitments and contingent liabilities as these have a direct impact on how current financial statements should be interpreted. These areas of similarity across all sampled companies and industries highlight how businesses experience 10K reporting in the same ways, despite differences in their operations and particular business environments.

There are further similarities to be explored between the companies and industries even if not every single company in the sample includes the same type of note disclosure. *Table 4* displays the types of notes that are broadly consistent between companies and industries, existing for every company in the sample except for one to four companies.

		Type of Note Disclosure										
Industry	Company	Recent Accounting Pronounce ments	Estimates	Property, Plant, and Equipment, net	Debt	Revenue	Business Combinations, Acquisitions, and Divestitures	Inventories	Stockholders' Equity	Goodwill and Intangibles	Depreciation, Amortization, and Impairment	Other Income/(Loss) and Comprehensive Income/(Loss)
Oil & Gas	KMI	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	OXY	✓		✓	✓	✓	✓	✓	✓		✓	
	ET		✓	✓	✓	✓	✓	✓	✓	✓		
Automotive	F	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
	THO	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	LCII	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Technology	CSCO	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
	DDOG	✓	✓	✓		✓	✓		✓	✓	✓	✓
	TTD	✓	✓	✓	✓	✓	✓					
Retail	HD	✓	✓	✓	✓		✓	✓	✓	✓		✓
	ROST	✓	✓	✓	✓	✓		✓	✓		✓	✓
	BBY	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Table 4: Note Disclosure Types II

Note disclosures on recent accounting pronouncements declare areas of accounting regulation that have been updated, that have recently been adopted, or that are expected to be adopted in the future. Such disclosures are forward-looking in nature and seek to inform stakeholders how the financial statements should be interpreted. Each company assesses recent accounting updates to determine if they are materially relevant to financial reporting. For example, companies in the oil and gas, automotive, technology, and retail industries each comment on the impacts of "Reference Rate Reform" regarding derivatives and hedging activities. This illustrates that industries can share a common interest in accounting updates. Additionally, although KMI, OXY, and ET are all within the oil and gas industry and all have fiscal years ending December 31, 2021, their notes on recent accounting pronouncements differ. KMI includes several FASB Accounting Standards Updates (ASU) in its disclosure, OXY includes a section for such notes but states that "no significant accounting or disclosure changes" were made, and ET does not include a section for such notes at all. This highlights how even companies within the same industry can differ in their note disclosures depending on their needs.

Estimates are another area of commonality between industries as nearly every company in the sample includes notes on how estimates are conducted. This is a common practice among all companies, so it can be reasonably expected in the notes for all industries. Property, plant, and equipment is another balance sheet topic that is consistent between industries as companies must disclose different asset classes and depreciation schedules. Debts and revenues are common note disclosures among the varying industries as well. Debt obligations typically need further detail than the surface-level numbers presented in the financial statements and revenue recognition practices must be clarified. These areas are both relevant to all companies and industries because debt is often necessary for operations and growth and all companies must pursue and receive revenues in order to exist. Companies also experience combinations, acquisitions, and divestitures. These are complex accounting matters that require note disclosures to explain the events and impacts on the financial statements. Therefore, companies, especially large companies, across all industries can be expected to acknowledge this topic in their notes.

Disclosures for inventories represent an interesting departure for the technology industry from the other industries. Two of the companies in the technology industry do not include specific note disclosures for inventories while every other company in the sample does. This is consistent with the fact that those same two companies do not include a line item on their balance sheets for inventories. DDOG primarily works on data analytics and cloud computing services while TTD works on marketing and digital content services. These areas of business do not involve physical component parts or an inventory for sales, so inventories are naturally excluded. Again, this illustrates that note disclosures to the financial statements are specific to the needs of specific companies and their financial statements. Because inventories are not a component of the balance sheet, no mention is needed in the notes as well. In terms of the technology industry, it is important to recognize what the companies are producing. It can be projected that other technology companies that also work on software, analytics, cloud computing, online content, and similar services also do not include inventories in their financial statements or notes. This can also be expected of other industries that deal primarily with services rather than physical goods.

Disclosures for stockholders' equity, goodwill and other intangibles, and depreciation, amortization, and impairment are also fairly consistent across all companies and industries. These disclosures all pertain to the balance sheet and recognize key accounting areas that are subject to estimation and different forms of measurement methodology. *Table 4* concludes with disclosures on other income and comprehensive income, which are income statement items. These notes provide additional information, beyond the income statement line items, on revenues, gains, expenses, and losses. Interestingly, two of the companies in the oil and gas industry do not include these disclosures, as well as one company each from the automotive and technology industries. These companies likely place less emphasis on activities that are outside of their specific domestic business operations.

Lastly, there are notes to the financial statements that vary more distinctly between the industries sampled. *Table 5* displays the types of notes that exist more sporadically for the sampled companies. It also considers the companies with other disclosures beyond those explored in this analysis. *Table 5* indicates note disclosures that are less consistent between companies and industries and that appear to be more unique.

		Type of Note Disclosure								
Industry	Company	Derivatives and Hedging	Investments	Risk	Litigation and Environmental	Other Liabilities and Deferred Revenue	Related Party Transactions	Product Warranty	Regulatory Accounting	Other
Oil & Gas	KMI		✓	✓	✓		✓		✓	✓
	OXY	✓	✓	✓	✓		✓			
	ET	✓	✓		✓	✓	✓		✓	✓
Automotive	F	✓	✓			✓				✓
	THO	✓		✓				✓		✓
	LCII							✓		
Technology	CSCO	✓	✓	✓						✓
	DDOG			✓		✓				✓
	TTD			✓						✓
Retail	HD	✓								✓
	ROST		✓		✓	✓	✓			✓
	BBY	✓				✓				✓

Table 5: Note Disclosure Types III

Note disclosures on derivatives and hedging relate to financial instruments and activities that serve to smooth fluctuations in various economic factors, such as interest rates or commodity prices. These considerations are most relevant to companies and industries that require physical inputs or inventories or that are highly dependent on supply chains or other sensitive economic areas. For example, similar to the aforementioned lack of disclosures for inventories for DDOG and TTD, these same companies also do not experience disclosures for derivatives and hedging.

Note disclosures for investments are another key area of difference because all three sampled companies in the oil and gas industry utilize these disclosures, but only one company each from the three other industries include such disclosures. This is indicative of the high investment costs necessary in the oil and gas industry due to the need for key assets such as land and extensive equipment. Nonconsolidated entities are also considered part of the disclosures for investments, so larger companies are more likely to experience such equity investments as well.

Considerations for risk and risk management are included in the notes to the financial statements. None of the companies sampled from the retail industry have note disclosures for risk, which relates to the idea that those industries with a less dynamic nature and that experience less turbulence are less likely to require substantial disclosures and particularly disclosures for risk. Conversely, two of the three companies in the oil and gas industry include risk disclosures, which is consistent with the idea that more dynamic industries with more potential liability are more likely to include disclosures that address such concerns. By extension, litigation and environmental disclosures are particularly prevalent for the oil and gas industry. All three companies from the sample for that industry include specific note disclosures regarding those topics, indicating the importance of being transparent about extraneous events and responsibilities that can impact the financial statements.

Additional details regarding other liabilities and deferred revenues must be disclosed in the notes to the financial statements as well. These appear to some extent in each industry sampled, which illustrates again that differing industries can share the need for certain types of disclosures, even if they are not relevant to every single company. Companies are only responsible for including disclosures that are necessary for their own financial statements.

Interestingly, related party transactions, which pertain to transactions that occur between entities that share a preexisting relationship, such as those between parent companies and their subsidiaries. All three companies sampled from the oil and gas industry include related party disclosures, which may be due to the extensive nature of the business and the use of different subsidiaries for different operations. Furthermore, one of the retail companies, ROST, uses related party transaction disclosures, which is likely because this company possesses many subsidiaries as well.

Note disclosures for product warranties only appear in the automotive industry. This is due to the nature of the industry because the companies supply automobiles, which are a major expense or investment to consumers and other companies. Regulatory accounting disclosures also only appear in the oil and gas industry. These disclosures discuss the treatment of assets and liabilities that arise from regulatory processes and future expectations. Product warranties and regulatory accounting both represent unique areas that are specific to certain industries.

Lastly, nearly every company sampled, regardless of industry utilizes additional disclosures beyond those specifically mentioned in this analysis. Every company operates under unique conditions and has a responsibility to provide adequate reporting and note disclosures for the financial statements. There are many commonalities between the companies and industries, but there are also areas of divergence that represent unique business environments.

In addition to the quantity and types of note disclosures, it is also important to mention the level of detail provided in the note disclosures and how they fulfill regulatory requirements for financial reporting. Ultimately, companies are required by law to disclose all relevant information that impacts how the financial statements should be interpreted. Therefore, each company provides the level of detail that would be required for a knowledgeable viewer of the financial statements to draw meaningful conclusions. Larger or more complex companies and those companies that are subject to more regulation may experience the need for more note disclosures and for those disclosures to contain more detail. The economic position and business needs of each company are unique, so the detail provided must reflect those elements as well. Furthermore, regulatory requirements dictate the degree of disclosure provided in the notes to the financial statements, so the 10K reports of all companies adhere to such requirements, at minimum. It is important to note that companies rarely disclose more than is necessary due to the desire to maintain reasonable confidentiality. Additional detail about a company and its goals is typically found elsewhere in annual reports. The notes to the financial statements are reserved for the details required by law and to provide the financial statements with more context for appropriate interpretation. Consequently, any variation between industries in the level of detail provided within disclosures can be explained by the unique needs of different industries and companies. The fulfillment of regulatory requirements is also consistent across all industries so that companies can continue to operate.

Visualization

A goal of this analysis is to present a visual representation of the above findings to illustrate the industry factors that can help predict the scope of note disclosures to the financial statements. One potential visual instrument to provide this illustration is a graphical map of two key characteristics: company size and degree of industry regulation and turbulence. Company size is illustrated above in *Figure 1* as having a reasonable positive correlation with the number of note disclosures. Additionally, industry regulation and turbulence is another characteristic that results in additional disclosures, such as disclosures for risk, environmental concerns, or potential litigation. These two variables combined reflect industry characteristics as well as the unique traits of individual companies. A potential representation of this graphical map appears below in *Figure 2*. The degree of industry regulation and turbulence appears on the horizontal axis and company size appears on the vertical axis.

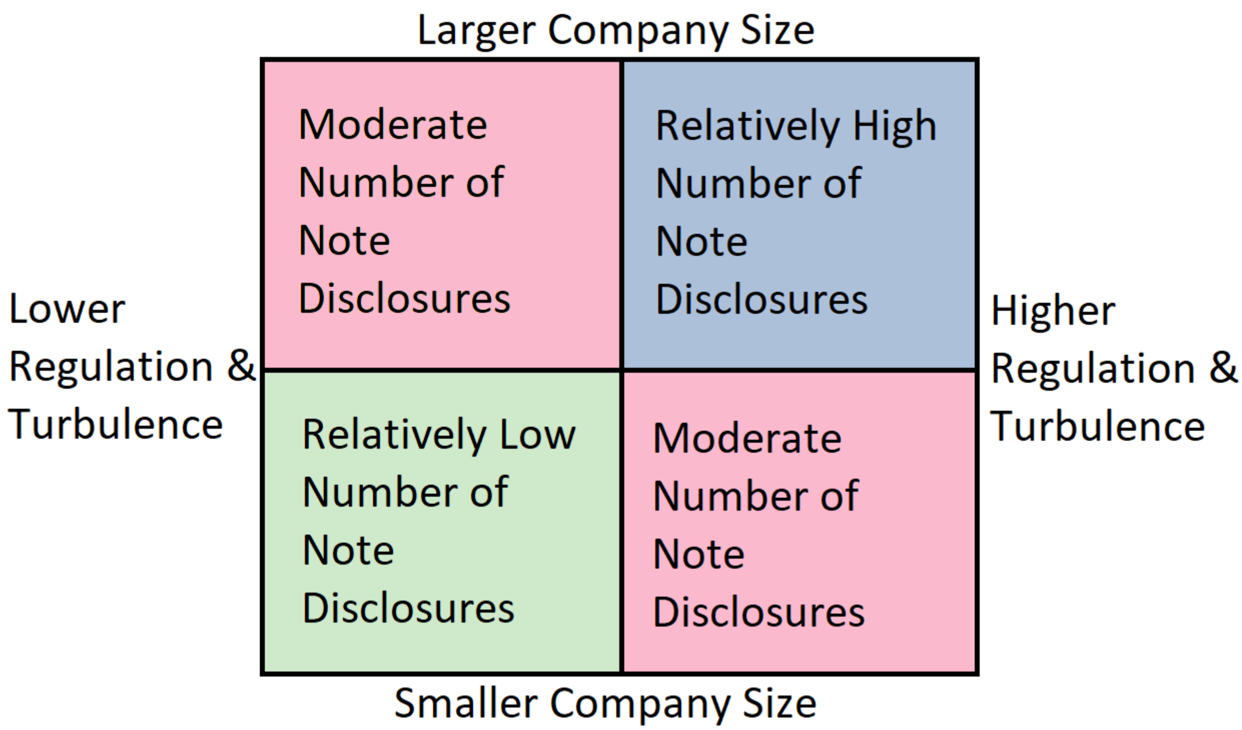

Figure 2: Graphical Map Visualization

Figure 2 serves to illustrate the relative number of note disclosures based on the degree of industry regulation and turbulence and relative company size. These are just two variables that can influence the quantity of note disclosures to the financial statements, but these two in particular are included based on the findings outlined above. It is important to recognize that the depth of information in the disclosures and the disclosures' fulfillment of regulation is consistently thorough and satisfactory across all industries and companies because financial reporting mandates that the notes adequately address key issues regarding the financial statements. Therefore, these aspects of the notes to the financial statements do not necessitate a visual representation.

Individual companies can be plotted on the graphical map depicted in *Figure 2* to predict the relative quantity of note disclosures. This is illustrated in *Figure 3* below with the twelve companies included in the sample for this analysis.

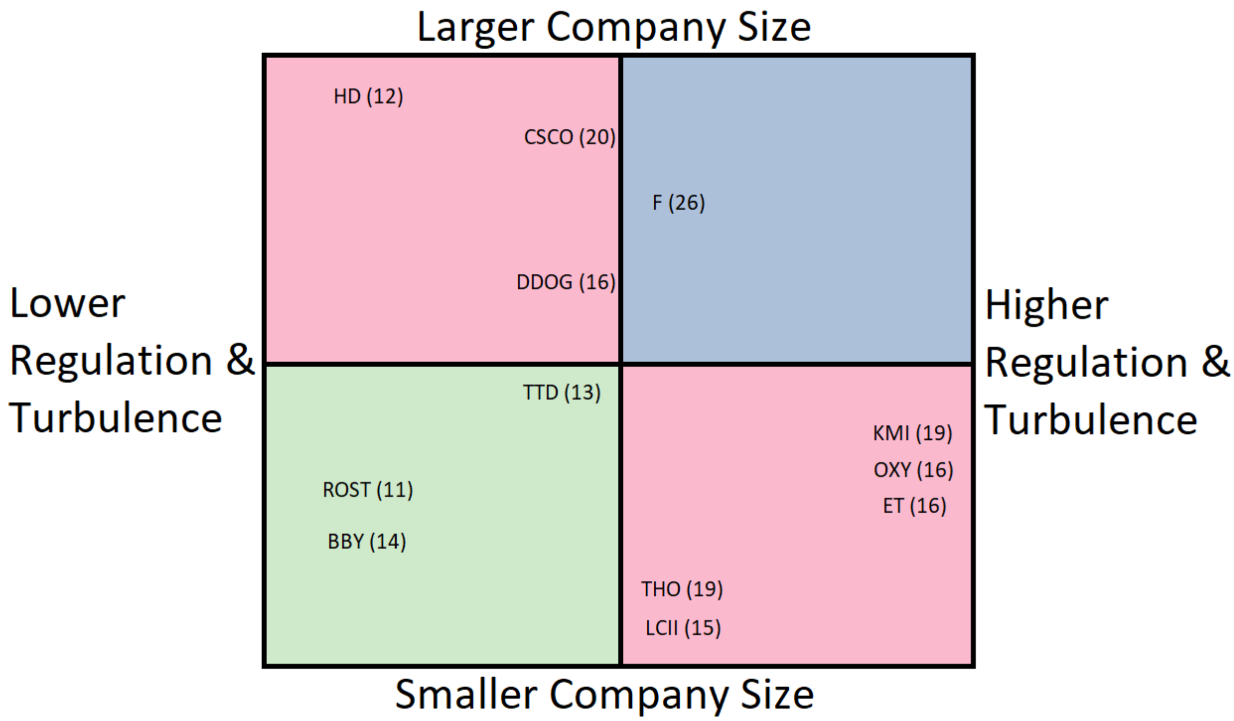

Figure 3: Graphical Map Visualization with Plotted Companies

Figure 3 plots the companies in the sample and their corresponding numbers of notes to the financial statements based on industry regulation and turbulence and company size. This visualization illustrates how these variables can influence disclosure practices. For example, the oil and gas companies are positioned on the far-right side of the map to highlight the high degree of government regulation and the dynamic nature of the industry. The extremity of this position leads all three sampled companies to experience relatively moderate numbers of disclosures. Alternatively, the retail companies are positioned on the far-left side of the map to highlight the lower level of government regulation and higher industry stability. The positioning on the map indicates that the level of regulation and turbulence may be a stronger indicator of the quantity of disclosures because the plotted numbers of disclosures appear to increase more when looking from left to right than when looking from bottom to top. The preparers and users of financial statements and their notes should be mindful of this correlation.

This visualization can be extended to other companies and industries to predict their quantities of note disclosures as well. This is helpful for the preparers and users of annual reports to have additional context about how company note disclosures compare to other companies or industries. Every company is unique and must include sufficient detail and topics to meet regulatory requirements, but trends among companies and industries can help establish standards and general guidelines to be used as a reference when considering the impact of disclosures.

Conclusion

The primary findings are that company size is a major factor in predicting the quantity of note disclosures. *Figure 1* depicts this relationship. This is consistent with the idea that more complex organizations necessitate more extensive disclosures in order to provide appropriate context for financial statements. The amount of regulation in an industry also appears to help predict disclosure quantity as the industries that experience more regulation and oversight have a more consistently high quantity of disclosures. Regulation is typically associated with the need for more information, so this relationship with the number of note disclosures appears reasonable. Relatedly, the amount of industry turbulence or stability, such as the oil and gas industry relative to the retail industry, seems to impact note disclosures as well, with more turbulent industries experiencing the need for more disclosure activity. Although looking at the number of note disclosures does not provide information on the extent or context of the disclosures, it serves as an interesting general indicator of how much information must be disclosed.

Viewing the specific types of note disclosures to the financial statements also reveals findings on the differences between industries. There are many note disclosures that are consistently included across industries. Those disclosures are best illustrated in *Table 3* and

Table 4, with *Table 5* displaying more areas of divergence than commonality. Additionally, those industries that are more susceptible to legal liability, regulation, and environmental issues include disclosures on those topics at a greater frequency. This serves as specific evidence that companies are obligated to include disclosures based on their specific circumstances and do not have to include disclosures that are not relevant to the financial statements. Types of disclosures are highly dependent on the specific economic and accounting factors that companies and industries experience. This analysis confirms the ideology that only disclosures that are mandatory by law or for the interpretation of the financial statements are included. This means that the note disclosures for all companies and industries are equivalently detailed to adequately fulfill regulations. Different 10K reports include varying types of information, but all reports are consistent in their achievement of reporting requirements.

Interestingly, some information that is relevant to all companies appears to be excluded from the note disclosures. This information consists of CSR, sustainability considerations, and other company goals. 10K reports typically include information related to these concerns, but not within the notes to the financial statements. CSR and environmental accountability are topics that all businesses are becoming increasingly conscious of, but they are not directly relevant to the financial statements, so they have no presence in the note disclosures. The environment is mentioned in the notes within the context of liability issues, which are financially relevant. This confirms that note disclosures are reserved for information related to the financial statements and that other information should be noted elsewhere in annual reports.

Another result of this analysis is the development of the visual instrument appearing in *Figure 2* as a graphical map of company size and industry regulation and turbulence. Plotting companies' quantities of note disclosures on these axes includes information related to individual companies (size) as well as their industries (regulation and turbulence). Although the content of this visual includes few variables, it provides an interesting depiction of how some key variables interact to predict the quantity of note disclosures.

Lastly, further research in this area may be conducted and would benefit from including more industries and more companies. The collection of more information may lead to more comprehensive results and data that can be reasonably analyzed with statistical methods. The use of more data and statistical analyses can help locate more definitive correlations between predictive variables and the characteristics of note disclosures. Additionally, analyzing more potential variables can help construct a more robust visualization or model for the quantity of note disclosures. Further analysis can also attempt to plot other companies and industries to assess the true performance of such a visual or model. Continuous analysis of annual reports year over year can also highlight key areas of evolution for note disclosures. For example, as environmental concerns expand and impact more industries, they are likely to become more prevalent in all 10K reports. Furthermore, risk disclosures and disclosures related to current events fluctuate with the state of the global economy, so these types of statements should be monitored as well. All companies and industries experience unique circumstances that influence how 10K reports are constructed and interpreted. Understanding the similarities and differences is valuable for financial statement preparers and users to generate expectations about different companies and industries and future 10K reports.

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Appendix A

Stratified Sampling Across Industries

Oil & Gas Industry		
Ticker	Company Name	Market Cap ($)
XOM US Equity	EXXON MOBIL CORP	329.54B
CVX US Equity	CHEVRON CORP	273.40B
COP US Equity	CONOCOPHILLIPS	118.61B
EOG US Equity	EOG RESOURCES INC	62.80B
PXD US Equity	PIONEER NATURAL RESOURCES CO	55.69B
EPD US Equity	ENTERPRISE PRODUCTS PARTNERS	51.93B
MPC US Equity	MARATHON PETROLEUM CORP	43.26B
KMI US Equity	KINDER MORGAN INC	38.71B
WMB US Equity	WILLIAMS COS INC	37.29B
PSX US Equity	PHILLIPS 66	37.13B
DVN US Equity	DEVON ENERGY CORP	36.66B
OXY US Equity	OCCIDENTAL PETROLEUM CORP	36.19B
VLO US Equity	VALERO ENERGY CORP	34.74B
LNG US Equity	CHENIERE ENERGY INC	32.88B
MPLX US Equity	MPLX LP	32.13B
HES US Equity	HESS CORP	30.20B
ET US Equity	ENERGY TRANSFER LP	30.18B
OKE US Equity	ONEOK INC	28.54B
CQP US Equity	CHENIERE ENERGY PARTNERS LP	25.45B
FANG US Equity	DIAMONDBACK ENERGY INC	23.64B

Table 6: Oil and Gas Sampling

Automotive Industry		
Ticker	Company Name	Market Cap ($)
TSLA US Equity	TESLA INC	837.01B
F US Equity	FORD MOTOR CO	71.40B
GM US Equity	GENERAL MOTORS CO	68.92B
RIVN US Equity	RIVIAN AUTOMOTIVE INC-A	57.11B
LCID US Equity	LUCID GROUP INC	43.38B
1316 HK Equity	NEXTEER AUTOMOTIVE GROUP LTD	19.58B
BWA US Equity	BORGWARNER INC	10.11B
LEA US Equity	LEAR CORP	9.96B
GNTX US Equity	GENTEX CORP	7.14B
QS US Equity	QUANTUMSCAPE CORP	6.57B
HOG US Equity	HARLEY-DAVIDSON INC	6.28B
FOXF US Equity	FOX FACTORY HOLDING CORP	5.20B
LAZR US Equity	LUMINAR TECHNOLOGIES INC	5.07B
THO US Equity	THOR INDUSTRIES INC	4.91B
ADNT US Equity	ADIENT PLC	4.39B
GT US Equity	GOODYEAR TIRE & RUBBER CO	4.37B
FSR US Equity	FISKER INC	3.54B
VC US Equity	VISTEON CORP	3.49B
LCII US Equity	LCI INDUSTRIES	3.12B
DORM US Equity	DORMAN PRODUCTS INC	2.94B

Table 7: Automotive Sampling

Technology Industry		
Ticker	**Company Name**	**Market Cap ($)**
AAPL US Equity	APPLE INC	2.69T
MSFT US Equity	MICROSOFT CORP	2.23T
CSCO US Equity	CISCO SYSTEMS INC	232.80B
ADBE US Equity	ADOBE INC	219.60B
CRM US Equity	SALESFORCE.COM INC	204.97B
ORCL US Equity	ORACLE CORP	203.89B
INTU US Equity	INTUIT INC	137.95B
NOW US Equity	SERVICENOW INC	116.05B
WDAY US Equity	WORKDAY INC-CLASS A	56.31B
PANW US Equity	PALO ALTO NETWORKS INC	56.11B
FTNT US Equity	FORTINET INC	52.26B
DDOG US Equity	DATADOG INC - CLASS A	50.67B
VMW US Equity	VMWARE INC-CLASS A	49.48B
ADSK US Equity	AUTODESK INC	48.31B
SNPS US Equity	SYNOPSYS INC	47.64B
TEL US Equity	TE CONNECTIVITY LTD	47.11B
APH US Equity	AMPHENOL CORP-CL A	46.03B
CDNS US Equity	CADENCE DESIGN SYS INC	42.41B
CRWD US Equity	CROWDSTRIKE HOLDINGS INC - A	41.68B
TTD US Equity	TRADE DESK INC/THE -CLASS A	40.55B

Table 8: Technology Sampling

Retail Industry		
Ticker	**Company Name**	**Market Cap ($)**
AMZN US Equity	AMAZON.COM INC	1.57T
HD US Equity	HOME DEPOT INC	330.66B
LOW US Equity	LOWE'S COS INC	146.85B
TGT US Equity	TARGET CORP	95.45B
TJX US Equity	TJX COMPANIES INC	79.66B
DG US Equity	DOLLAR GENERAL CORP	46.11B
ORLY US Equity	O'REILLY AUTOMOTIVE INC	43.88B
AZO US Equity	AUTOZONE INC	38.48B
DASH US Equity	DOORDASH INC - A	34.42B
ROST US Equity	ROSS STORES INC	32.76B
EBAY US Equity	EBAY INC	32.08B
DLTR US Equity	DOLLAR TREE INC	31.65B
CVNA US Equity	CARVANA CO	25.00B
BBY US Equity	BEST BUY CO INC	23.05B
TSCO US Equity	TRACTOR SUPPLY COMPANY	22.63B
ULTA US Equity	ULTA BEAUTY INC	20.46B
ETSY US Equity	ETSY INC	18.92B
POOL US Equity	POOL CORP	18.05B
CHWY US Equity	CHEWY INC - CLASS A	17.63B
GPC US Equity	GENUINE PARTS CO	17.53B

Table 9: Retail Sampling