ISSN No-2031-5063 Vol.1,Issue.I/July 11pp.1-4

Research Paper - Commerce

" CORPORATE REPORTING PRACTICE IN GLOBALISED SCENARIO "

Dr. C.M. Thakkar
(M.Com., Ph.D., B.Ed, L.L.B.)Principal
Shri T.A. Chatwani Arts &
J.V. Gokal Trust Commerce College
Radhanpur – 385340 (Gujarat)

1.Introduction :

Accounting is a process to identify measurer and communicate economic information to permit informed judgments and decisions by the user of the information. Its function is to provide quantitative information, primarily financial in name, about economic entities, that is intended to be useful in making economic decisions and related choice among alternative course of action. Financial reporting may be defined as communication of published financial statement and related information from a business enterprise to all users. It is the reporting of accounting information of an entity to a user or group of users. It contains booth qualitative and quantitative information.

With the rapid change in the economic and industrial scenario, the role of accounting has also been changed over a period of time. Accounting Activity is no longer confined to the historical description of financial activities rather it is now being regarded as service activity i.e. providing information to various user groups. The user groups are management, employee, investors, trade unions, tax authorities, creditors, competitors, public etc. The Financial report made to the insider group is generally known as internal reporting, while made to the outsider groups is known as eternal reporting. The internal reporting is a part of management information system and the management makes every effort to make use of such information. However, the external reporting seems to be more crucial as the management is the supplier of information to various user groups outside the management and a gap is always found. Between the need and supply, Professionals within an organization perform accounting function. But the ultimate responsibility for the generation of accounting information rest with the management. The accountability of a company has two distinct aspects – legal and social. Under legal requirements a company has to supply certain information to the various users through annual reports and under the social obligation, a company has to provide additional information to various user groups. It is also suppressing to note that, many useful such information, are non- – mandatory in India and non – disclosure of such information is detrimental to the interest of investors and equity analysts. This may be considered one of the cause contribution lower market value of shares despite a higher book value. Therefore, a greater transparency in corporate financial reporting is desired.

2.Statutory Requirements :

The forms and contents of corporate financial reporting have undergone vital changes from time to time. In India, various rules and regulations have been made in connection with form, content and time of preparation of corporate financial reports. Besides, in view of changes according to the needs and expectations of the users and practice followed abroad, appropriate amendments have been made in the Act now and then. It is mainly for the purpose of enforcing healthy practice in providing adequate information in the financial reports. The various Acts are – Indian Companies Act 1882, Indian Companies Act 1913, Companies (Amendments) Act 1936, Indian Companies Act 1956, and Amendment in 1961m Amendment in 1973.... Etc. Further, Scalar Committee was also constituted to suggest various informations to be included in the corporate financial reporting. Therefor various exceptions of the users are to identify with a view to achieve the very purpose of preparing corporate financial reports. Which are presented in the table – 1.

Table – 1

Expectations of the users of corporate financial reports.

Sr. No.	Type of Users	Type of Expectation and needs
1	Investors	Type of Expectation and needs
2	Tax authorities	To ascertain profitability and risk
3	Creators	To finalize tax assessments
4	Auditors – Internal External	To adhere to the internal policies of the enterprise
5	Regulators	To ensure an independent opinion on financial statement
6	Public	To know about productive use of resources
7	Lay persons	To understand the contents of financial reports in ordinary day to day language.
8	Trade unions	To stay updated on profitability and productivity
9	Competitors	To get an idea about the strength of a corporate body
10	Fund Mangers	To analyze for guiding of potential investors
11	Management	To control cost to identify negative trends
12	Academicians	To undertake research
13	Press	To make analytical and critical analysis
14	Concerned Parties	To understand under relationship

A per provisions of the Law, following are the minimum contents of corporate financial reports.

1.Profit and Loss Account.
2.Balance Sheet
3.Auditor's report
4.Director's report
5.Notes and schedules associated with financial statements.

It is left the discretion of the corporate management to disclose the type and extent of information that has been prescribed by the law. Some forward looking and enlightened management's of Indian companies show much more than what the Law prescribes as the content. But many companies disclose only to the extent, which is mandatory under the law.

1.Methodology :

3.1Rational of the study:

Corporate reporting is a process through which an undertaking communicates with especially external parties. It is the Communication of various details regarding the activities of the business, which are to be disclosed either statutorily or otherwise and it is to convey a true and fair view of the operating result and financial positions to the users of the financial reports. Increasingly, Investors are demanding addition, non-financial information on which to base their decisions. Increasing government legislation, customer pressure and the emergence of corporate governance at all levels means that reporting company's performance data and information allows a company to mainstream business activity. Communicating performance data and information allows a company to demonstrate how meets the challenge of sustainability – in its broadest sense – and to show the in improvement it has made on specific issues. The information a company wishes to communicate varies considerably. Corporate report contains variety of information and reports about company's performance.

Section 217 of the Companies Act states that the director's report should be attached to every balance sheet laid before a company in general meeting. It must state the following particulars.

1.The state of the company' affairs.
2.The amounts, which are proposed to be carried to reserves.
3.The amounts to be paid as dividend.
4.Material changes and commitments affecting the financial position of the company from the date of balance sheet to the date of reporting.
5.The conservation of energy, technology absorption, foreign exchange, earning and outgo in such manner as may be prescribed.
6.The report should also include change which have occurred during the financial year in respect of the company's business or its subsidiary's business or their classes of the business, in which the company has and interest, so far as in material for the appreciation of the state of the company's affairs by its members and will not be in the director's opinion harmful to the business of the company or any of its subsidiary.

Thus all these discussion reveals that director's report as part of the corporate financial reports, is ment for providing meaningful information to the users of the reports so that they can take their economic decisions by assessing the company's performance disclosed to them. Research studies carried on corporate disclosure practices in India and other related aspects have perceived that there are many deviations and variations in the presentation of information in the director's report. Therefore the present study " Directors' report: An Index to Corporate Reporting " as been made in order to find out the deviations and variations in the presentation of information in the corporate reporting with special reference to the director's reports.

1.2Objective of the study :

The present study has been undertaken with the following objectives in view.

1.To study detailed item wise analysis of the director's report of the selected companies.
2.To find out deviations and variations in the presentation of the items in the director's report of the selected companies.
3.To make comparative analysis selected public and private sector companies with special reference to director's report.
4.To put forward suggestions in order to make corporate reporting practice of the selected companies more effective with special reference to director's reports.

3.3Hypothesis of the study.

The Present research study is based on the following hypothesis.

Ø There is no significant deviation and variation in the presentation of items in the director's report of public sector and private sector.

3.4Scope of the study:

In the present study, 20 selected companies located in Gujarat State comprise the scope of the study. The selected companies include 10 companies of public sector and 10 companies of private sector. The annual reports of these selected companies have been studied for financial year 2006-2007. After been identified which are shown in detail under table – 3. List of Selected 20 companies is below.

Table – 2

List of Selected Companies for the study

Sr. No.	Public Sector	Sr. No.	Private Sector
1	Vimal Food and Oil Ltd, Mehsana	1	Gujarat Multi Gas Base Chemical Pvt. Ltd., Mehsana
2	Nishant Paper Mills Ltd, Kadi	2	JRJ Food Pvt Ltd, Chhatral, Ta- Kadi
3	Sainath Protins Lts. Kadi	3	North Gujarat Sat Isabgu Indistries Pvt Ltd, Unja.
4	Gujarat Ambuja Proteins Ltd, Himatnaar	4	Surya Coats Pvt Ltd, Vamal (Ta-Kadi)
5	Adani Wilmar Ltd, Mudra	5	Real Hygiene Pvt Ltd, Ranasan , Ta-Vijapur
6	Saurshtra Cement Ltd, Ranavav	6	Patel IQF Foods Pvt Ltd, Vadodara
7	Maradia Chemicals Lts. Surendranagar.	7	Gujarat Botting Co. Pvt. Ltd, Rajkot
8	GE Apar Lighting Ltd, Nadiad	8	Sagar Drugs Pvt Ltd, Ahmedabad
9	Samrat Namkeen Ltd, Ahmedabad	9	Harikrushna Machine Tech Pvt Ltd, Ahmedabad
10	Promact Plastics Ltd, Ahmedabad.	10	PEC Pumps Pvt Ltd, Ahmedabad.

3.5Sources and techniques of data collection :

The Present research study is mainly based on secondary data. Annual reports of the selected companies have been studied and analyzed for the financial year 2006-07. After a through scanning of director's reports of all the selected companies total 70 items of information have identified for the research study. The necessary data and relevant information has been obtained from relevant books, newspapers, magazines, web sides and personal interview concerned authorities of selected companies.

The techniques for collection and analysis of data are simple statistical like percentile. Average and standard deviation.

1. Disclosure of information in the director's reports :

The researchers made an attempt to collect data about disclosure of information in the directors " reports, which is shown in table – 3

Table – 3

Disclosure of information in the director's reports

Items of Information	Disclosing Companies in %	
	Public Sector	Private Sector
(1) Financial review		
1. Result in statement form	80	100
2. Sales / other income	100	80
3. Gross Profit / loss	100	70
4. Profit before interest, tax & deprecate.	100	100
5. Profit after taxes / loss	100	100
6. Depreciation & Interest expenses	60	100
7. Contribution to public exchequer	70	00
8. Appropriations	100	100
9. Value addition	20	00
10. Reasons for variation	00	00
11. Previous year figures	100	100
12. Key ratios	40	00
(2) Financial / Capital structure		
13. Share capital	00	80
14. Debenture issue	00	20
15. Bonus issue	20	00
16. Right issue	00	00
17. Financing of working capital	00	00
18. Financing of fixed capital	20	00
19. Public Deposits	30	20
20. Other Sources	20	00
(3) Dividends		
21. Rate of dividend	80	100
22. Amount of dividend	80	70
23. Interim dividend	60	70
24. Previous year dividend	40	20
(4) Operation Information		
25. Interim dividend	80	20
26. Previous year dividend	70	00

(1) Expansion / Modernization / Diversification		
1. Capital Expenditure Expenditure incurred	100	60
2. New projects undertaken	70	30
3. Progress of Projects	80	20
4. Change in production capacity	00	20
5. Change in turnover	00	20
(2) Information about subsidiary company		
6. Simple information	40	80
7. Working report of Subsidiary Company.	40	00
(7) Human resources management		
8. Manpower utilization	80	20
9. Safety	70	00
10. Industrial relation	80	30
11. Information of strikes	00	00
12. Training	80	00
13. Employee Welfare	80	00
14. Voluntary retirement schemes.	40	00
15. Employee participation in mgt.	40	40
16. Employee stock opinion scheme	20	50
(8) Auditor's reports		
17. Simple information	100	80
18. Comments of auditors	00	00
19. Reply by directors	00	00
20. Cost audit	00	00
(9) Company Policies		
21. Pricing Policy	30	20
22. Government Policy	30	00
23. Accounting Policy	20	00
(10) Others		
24. Environment safety measures	80	30
25. Joint venture	90	00

Item of Information	Disclosing companies in %	
1. Research & Development	100	100
2. Information about employee	90	90
3. Energy conservation	100	80
4. Future program	80	60
5. Information about directress & mgt.	90	80
6. Indigenisation & import substitution	00	00
7. Corporate governance	90	70
8. Awards & recognition	60	50
9. Director's responsibility statement	80	100
10. Listing stock exchange	00	00
11. SWOT analysis	00	00
12. Depository systems	00	10
13. Information technology	30	40
14. Community Service.	70	30

Source : Annual reports of selected 20 companies.

(1)Financial review :

Almost all the companies in the director's reports disclose financial results. Almost all the companies have given comparative figures of profit but none of the companies have discussed the reasons for variation. 100 percent of the companies of public sector and 80 percent of the companies of private sector have stated the figures of sales / other income, which is an important determinant of profit. Information regarding contribution to public exchequer is given by 70 percent of the companies of public sector only. 100 percent companies of public sector and 70 per cent companies of private sector disclose information about gross profit / loss, as important aspect of financial result. Only 40 percent companies of public sector but not by any of private ltd company discuss key ratios, which are the indicators of the financial position of the company.

(2)Financial / capital structure :

Companies use various of finance. The study indicates that 80 per cent of private companies have disclosed information about share issue and 20 percent of them have disclosed information about debenture. But public sector companies did not disclose this information in the director's report. 20 percent companies of public sector disclose information about bonus issue and financing of fixed capital in the director's report but private sector companies did not disclose this information None of the companies have given any information about right issue and financing of working capital. Information about public deposit is available in 30 and 20 percent of the companies of public sector and private sector respectively.

(3)Dividend :

Amount and rate of dividend are important indicators of the financial strength of the companies from the investor's point of view. 80 percent and 100 percent of the companies of public sector and private sector respectively have disclosed information about this in the director's report. 60 percent companies of public sector and 70 percent companies of private sector have given information about interim dividend. However only 40 percent and 20 percent companies of public sector and private sector have disclosed the previous year dividend figures respectively.

(4)Operational review :

Director's report also contains information about production and sales. 80 percent companies of public sector and 20 percent companies of private sector have disclosed information on quantity of production and sales. However only 70 per cent companies of public sector have disclosed information about value of production. None of the companies have explained the reasons for variation production or sales.

(5)Expansion / modernization / diversification :

Expansion / modernization / diversification is the symbol of the company. 100 per cent companies of public sector and 60 per cent companies of private sector have disclosed information about progress of projects have been disclosed by 70 to 80 per cent companies of public sector respectively and 30 and 20 per cent companies of private sector. Change in production capacity and change in turn over are disclosed by 20 per cent companies of private sector only.

(6)Information about subsidiary company :

The director's report should contain complete information about subsidiary companies. All the selected companies of public as well private sector, having subsidiary companies, have given simple information about their subsidiary companies. But working report of subsidiary companies has been prescribed by public sector only.

(7)Human resources management :

80 per cent companies of public sector and 20 per cent companies of private sector have disclosed information about manpower utilization in the director's report, 40 to 80 percent companies of public sector only have disclosed information about safety, training, employee welfare and voluntary retirement schemes. Information about strikes is given by none of the companies.

(2)Auditor's report :

Auditor's report is a part of annual report. 100 per cent companies of public sector and 80 per cent companies of private sector have given simple information about auditor's report. None of the companies have disclosed the comments of auditors, replies by auditors and cost audit.

(3)Company Policy

Pricing policy, government policy and accounting policy are important with reference to company polices. But only 30 per cent companies of public sector and 20 per cent companies of private sector have stated pricing policy in the director" report. With regard to government policy and accounting policy, 30 and 20 per cent companies respectively of only public sector have stated information.

(4)Others :

80 per cent companies of public sector and 30 per cent companies of private sector have disclosed environmental safety measures undertaken., 100 per cent companies of both buplic and private sector have stated research and development undertaken and 100 per cent

companies of public sector and 80 per cent companies of private sector have disclosed information about energy conservation. 90 percent companies of both the sector have given information about employees. 80 per cent and 60 percent respectively. With regard to community services undertaken, 70 percent companies of public sector and 30 percent companies of public sector have disclosed information.

All these finding reveal that companies of public sector and private sector vary in many items with regard to disclosing information in the director's report.

1.Variation of items of information disclosed in the director's report :

There researchers made an attempt to analyze the degree of variation in coverage of 70 items in the director's report. of the selected companies, which has been presented in the table No.4.

Table – 4

Variation of items information disclosed in the director's report

Number of items covered in the director's report	Number of disclosing companies	
	Public Sector	Private Sector
15-20	00	01
20-25	00	03
25-30	02	02
30-35	03	03
35-40	02	01
40-45	02	00
45-50	04	00
Total no of companies	10	10
Mean disclosure (Average number of items disclosed)	36.00	27.20
Standard deviation	6.31	5.88

Above table shows that that the items disclosed in the director's report of all the selected companies of public and private vary form 15 to 50 with a considerable range of variation affecting the adequacy of information and its utility to their users. The mean disclosure is 36 for the companies of public sector do not disclose much of the information identified by the researchers after scanning the annual reports. More over the private sector lags behind the public sector in disclosing the information in the director's report. There is a standard deviation of 6.31 items on average in case of public sector and 5.88 items on average in case of private sector, which signifies variability in the presentation of items among the different companies of public and private sector.

All these discussion reveal that the research study rejects the earlier hypothesis mad and accepts an alternative hypothesis that there is a significant deviation and variation in the presentation of items in the director's report of public sector and private sector.

To conclude, it can be said that the disclosure level in the director's report is not satisfactory and there is a significant variation in the disclosure level companies of public and private sector.

1.**Suggestions :**

1.Director's report is considered a useful non-financial disclosure by the investors. Hence this report should highlight significant events, their causes and implication for further and should be objective, frank in exposition, more elaborate and exhaustive on corporate governance in order to make it more useful instrument.

2.The Company Act may vague about the things to be included in the director's report and as a result great variation is found in the items disclosed through director's report. Hence it is suggested that act should be more precise and specific about the things to be included in the director's report.

3.SEBI should fix certain parameters about the preparation of the director's report order to bring uniformity about the matters to be disclosed in the director's report.

4.Certain graphs, charts and pictures should be included in the director's report to make it more interesting if possible.

2.Conclusion :

Corporate reporting has become the new buzzword Events in recent years have highlighted the need for companies to produce high quality; transparent financial statement using a set of globally accepted standards. Increasingly, investors are demanding additional, non financial information on which to base their decisions. Increasing government legislation, customer pressure and the emergence of corporate governance at all levels means that reporting company's performance, policies and plans are becoming an important mainstream business activity. Director's report as part of corporate report, is considered the nucleus of the annual repot of the company. It is treated and indexes to corporate reporting but also accurate, unbiased and fair. The emerging trend in corporate financial reporting and especially director's report is more challenging to the Indian companies in the wake of gradual institutionalization of capital market and awareness among investors. But the finding of the research study indicate the disclosure level in the director's report in not satisfactory and there is a significant variation in the disclosure level among companies of public and private sector. Therefore developing countries like country India need good director's report which should contain both compulsory as well as voluntary disclosure information and fulfill the changing expectations and needs of the user. The higher level of director's reporting U.S.A., Canada etc. is due to the fact the majority of corporate shareholders are institutional investors, who insist on more information. Hence Indian companies have the only two options – either to attract individual investors by providing more information of depend on institutional investors where they will have to provide the same out of compulsion or depend on institutional investors where they will have to provide the same out of compulsion. Here it should be noted that increase in transparency of director's report will not lead to adverse effect as feared by many, rather it will reward the companies in the form of higher priceearing (P/E) ratio and recognition from the investor's community. This will meet the emerging challenges regarding director's report of corporate sector.

Reference

1.Pramanik A.K. and Gurusamy S. Corporate Accounting and Financial Analysis, Kanishka Publisher, Distributors, New Delhi, 2000.

2Jawahar lal, Contemporary Accounting Issues, Vision Books, New Delhi, Third Edition.

3.Indian Journal of Accounting.

4.Indian Journal of Finance

5.Annual reports of the selected companies for the year 2006-07

6. Van Horne, James C. Financial Management and Policy, Prentice – Hall of India Publications ltd. New Delhi, Twelfth Edition.

7. 7, Wadhwa Raj. K.Davar Jimmy, Rao Bhaskar P., Management Information System and Corporate Communication, Kanishka Publishers, Distributord, New Delhi, 2002.

8. www.corporatereporting .com

9. www.iraasa.com