CHAPTER 1

INTRODUCTION

1.1 CORPORATE REPORTING: CONCEPTUAL FRAMEWORK

The procedure adopted by the companies to present their state of affairs to the external world is known as Corporate Reporting. According to Stittle, corporate reporting is a “vital means by which a company communicates its corporate message to shareholders, debenture holders, creditors, the media and the world at large” (Banik, 2009)¹. Corporate Reporting is also known as External Reporting because the state of affairs of the business which is known to the management only is brought to light before the public by the use of certain medium. Corporate Reporting or External Reporting has two parts namely, Financial Reporting and Social Reporting.

Financial Reporting is the reporting of financial statements for the purpose of disclosing the financial affairs of the company. According to Para 6 and 7 of Concept No. 1 issued by the FASB (USA) (Jawaharlal, 2013)², Financial Statements are a central feature of financial reporting. They are principal means of communicating accounting information to those outside the enterprise. Financial reporting includes not only financial statements but also other means of communicating information that relates directly or indirectly to the information provided by the accounting system, that is, information about an enterprise’s resources, obligations, earnings, etc. Management may communicate information to those outside an enterprise by means of financial reporting other than formal financial statements either because the financial information is required to be disclosed by authoritative pronouncements, regulatory rule or custom, or because management considers it useful to those outside the enterprise and discloses it voluntarily. Information communicated by means of financial reporting other than financial statements may take various forms and relate to various matters. News
releases, management’s forecasts or other descriptions of its plans or expectations, and descriptions of an enterprise’s social or environmental impact are examples of reports giving only non-financial information.

Social reporting or reporting about non-financial matters also is an important part in corporate reporting. The business entities in India are regarded as a part of the society and as such, they are entrusted to perform some social benefit activities. Accordingly, reporting of social activities of a company should be disclosed through its Annual Reports. According to the recommendations of Sachar Committee (1978) regarding serving of social report along with director’s report, the Central Government directed the companies to disclose facts about conservation of energy, technology absorption and foreign exchange in the Director’s Report with effect from April 1, 1989. The same has been mandated under section 217 (1) (e) of the Companies Act 1956. Another element is Corporate Social Responsibility (CSR) reporting. Disclosure of this reporting is not mandatory for the companies under study. As such, the companies at their will disclose the ways and means adopted expenses incurred towards fulfilment of social obligations. The disclosure of CSR is being mandated by the newly enacted Companies Act of 2013. Apart from social disclosures, certain non-financial disclosures are to be made by the companies mainly through the Corporate Governance Report and other reports relating to certain internal and external factors that bear importance to the business. The reporting pattern is being guided by the SEBI under its Clause 49 of the Listing Agreements.

1.1(i) Objectives of Corporate Reporting

The primary objectives of corporate reporting can be indicated as ²:

(a) **Investment Decision-making**: This indicates provision of information useful to the investors, creditors and other users in making proper investment decisions.
(b) Management Accountability: This means to provide information on management accountability to judge management’s effectiveness in utilizing the resources and running the enterprises.

The objectives indicate benefits to the users from two angles one which is purely financial in nature and the other is financial as well as non-financial in nature. There are other objectives too, yet these two are the primary objectives.

1.1(ii) Users of Accounting Information and their needs

Accounting information is being displayed through financial report portion of Annual Reports that is corporate reporting. The report is prepared for certain users and these users of accounting information have certain needs. The users and their informational needs are discussed as below:

a) Investors: The investors need financial information in deciding upon whether to buy, hold or sell the securities. The shareholders need information to know the profitability and solvency of the business concern.

b) Employees: They are interested in knowing about the ability of the enterprise to provide remuneration, retirement benefits, profit bonus and employment opportunities.

c) Lenders: They are interested in knowing whether the company has the ability to repay their loans principal along with interest thereon.

d) Suppliers and other trade creditors: They are interested in knowing about the short term paying capacity of the company so that their dues can be paid by the company on time.

e) Customers: Customers are the ultimate persons to whom the services and products reach. The financial reports are necessary for them to know the continuance of the business concern.
f) **Government and other agencies:** The Government and their agencies are interested in the allocation of resources and activities of the business so that proper regulatory measures, taxation policies, etc. are determined.

g) **Public:** Public belonging to the locality in particular are interested in knowing the longevity of the business concern. Moreover, the research scholars are also interested in knowing the performance of the concern for and suggest measures for their improvement.

These are some of the users of accounting information and what they are interested in knowing about the concern.

**1.1(iii) Qualitative characteristics of financial information**

Financial information is a part of corporate reporting. Financial information is a quantitative set of information but the information must have certain qualities that would make financial information more useful to the users as above. These are known as qualitative characteristics of accounting information. Different qualitative characteristics have been identified by professional accounting bodies, mainly by the International Accounting Standard Board (IASB) and the Financial Accounting Standard Board (FASB). According to the IASB, following are the qualitative characteristics that accounting information must possess:

a) **Understandability** – The financial information must be understandable to the users.

b) **Relevance** – The information must be relevant for the purpose of decision making.

c) **Reliability** – The information must be reliable, that is the data provided by the company should be dependable for the purpose of decision making.

d) **Comparability** – The information should be capable of comparison. This may be possible if the accounts are drawn by applying the accounting principles consistently.
e) Consistency – Application of a particular accounting principle regularly without any change in the preparation and presentation of accounting information is the quality of consistency.

f) Neutrality – This quality is also known as “freedom from bias” or the quality of objectivity. The practices of accounting and reporting should be impartially determined and the facts are to be reported with no objective of biasness towards a particular user group.

g) Materiality – According to this qualitative characteristics information that are material that is the information that are likely to influence economic decision of the users should only be reported in the annual reports.

h) Timeliness – It indicates generation of timely information to the users. It means making the accounting information available to decision makers before it loses its capacity to influence decisions.

i) Verifiability – The information disclosed should be verifiable that is the information should be capable of being verified.

j) Conservatism – It is the quality of prudence with which the preparation and presentation of accounting information is done.

k) Substance over form – Accounting information should disclose the economic realism rather than the legal form of the information so that true state of affairs is reflected through financial statements. Under this concept of accounting, legal form of a transaction might be different from its economic reality. In such a case, the economic purpose of the transaction is to be given importance rather than its legal form and recorded accordingly in the books to reflect true economic position of the business. For instance, in case of swap of inventory, the transaction is to be regarded as the one concerning financial assistance rather than taking it to be one concerning sale and re-purchase of inventory.
1.1(iv) Corporate Governance – Some Issues

Governance means the way in which the activities of an organisation are directed to achieve the organisational goal. The manner in which the activities of a company are directed is termed as Corporate Governance. Governance is an important factor as far as performance of company is concerned and this results in the perception of the stakeholders in particular and the public at large on the affairs of the company.

Instances of collapse of certain high profile companies in the recent past like Enron, the Houston, AIG; Lehman Bros., Satyam, etc. have raised great doubt among the stakeholders and the society at large about the way the companies are being operated. As a consequence, the concept of Corporate Governance emerged as an important factor of concern for corporate business at present. Sir Adrian Cadbury has been pioneer in the field of recommending means to improve corporate governance. In India Kumar Mangalam Birla, Rahul Bajaj, Naresh Chandra and the like are the persons on whose recommendations modification in the Companies Act 1956, SEBI Act, 1992, etc. have been made to improve corporate governance.

One of the important aspects of corporate governance is disclosure of business affairs through the Annual Reports of companies. This is because Corporate Governance is based upon four pillars like (a) Trusteeship, (b) Transparency, (c) Empowerment and Accountability and (d) Control. The transparency factor needs a company to make their reports clear and foolproof and that is possible only by disclosing all material facts through the Annual Reports.
1.1(v) Advantages of Corporate Reporting

Following benefits arrive out of Corporate Reporting:

a) It makes Economic Decision Making easy.

b) It can bring favourable impact on company’s Cost of Capital because adequate disclosure practice can enhance the market price of the company’s shares.

c) Adequate disclosures have the tendency to minimise the fluctuations in the company’s share prices and hence can bring in equilibrium in the prices of shares.

d) Apart from the above, the decisions of employees, customers and management will show prudence if disclosures in a financial report is adequate.

Hence, adequacy of disclosure has a direct impact upon the cost of capital. The more the adequacy in disclosure is, the less the cost of capital and the less the adequacy of disclosure, the more is the cost of capital.

1.1(vi) Annual Reports and their significance

Annual Reports are the published reports containing financial statements, other reports, some analysis and other facts of non-financial nature. These are available in printed book form and also now-a-days as soft copies at the websites of the companies. These are prepared at the end of each financial year and distributed to the members (shareholders) and other persons related to the business. Now-a-days, a copy of the report is also sent to the Stock Exchange where the shares of the company are listed under the SEBI requirements. These are prepared and presented by the Directors at the Annual General Meeting (AGM) of the business.

An Annual Report is an important means of conveying the corporate message to the external persons. This is because it is relatively easy and more source of
information, it creates confidence among the public as the report contains audited financial statements and also because the annual reports contain other information and analysis. It is still regarded as a reliable mode of communication on behalf of a company. Hence, annual reports should be prepared in a manner that satisfies the qualitative characteristics of accounting information as noted above.

1.2 DISCLOSURE

Disclosure simply means to reveal facts and information. In terms of corporate reporting, disclosure denotes to the mentioning and clarifying some information of financial or non-financial, figurative or non-figurative in nature so that the persons interested in such facts and figures get the required information for arriving at a decision.

Stress upon adequate disclosure in the corporate reporting practice in India started at the end of 1990’s or the beginning of the new millennium year 2000. This initiation came up with the concept of “good corporate governance”. The experience of the fall of corporate giants like Enron has taught a lesson that there is certain lacking on the management’s part in the governance of the companies. One such lacking is being identified in transparency factor in the corporate reporting practice. This has put the issue of disclosure practice of material facts through the annual reports to thorough review and to frame rules towards disclosure practice.

Accounts are regarded as the language of business by which it communicates about the financial affairs of the enterprise. It is a service activity as it provides with financial facts about the business. Such a service should have desired qualities to serve its users the best. Considering this fact, there is a constant effort to improve the reporting practice. The Companies (Amendment) Act 2000 was passed and was made effective on 13th December, 2000. According to the Department of Company Affairs (DCA), this legislation would aim in bringing greater accountability, transparency and responsibility to ensure good corporate governance. In this regard,
the parity in accounting and reporting practices should be brought in order to
standardise the practice to suit the needs of users. Accordingly, the Government of
India had constituted National Advisory Committee on Accounting Standard
(NACAS) in June 2001 to advise the Government on the formulation and lying
down of accounting policies and standard for adoption by the companies. Further, a
committee named Naresh Chandra Committee was formed in August 2002 to
recommend measures to improve the disclosure practices of the companies.
Companies are expected to follow these legal and procedural steps in order to
disclose matters properly through their Annual Reports.

**Regulatory systems concerning disclosure**

The main regulations and institutions in framing guidelines in the field of disclosure
are:

a) The Companies Act, 1956
b) Ministry of Corporate Affairs (MCA), Govt. of India.
c) SEBI guidelines (particularly Clause 49 of the Listing Agreement)
d) The Income Tax Act, 1961
e) The Generally Accepted Accounting Principles (GAAP)
f) Accounting Standards and
g) Standards on Auditing

The regulations and norms given in these laws and principles provide certain points
of disclosure for certain cases. The Annual Reports are prepared and presented with
facts and figures necessary for decision making. The regulations as above give the
mandatory items of disclosure for Directors’ Report, Corporate Governance Report,
Accounting and its presentation, procedure of audit of accounts and preparation of
auditors’ report, etc.

The GAAP in its convention of full disclosure requires disclosure of full
information that is important from users’ point of view. Accordingly, the companies
are to disclose all material facts necessary for the decision making activity of the users. As there are mandatory items to be disclosed given by the available laws and regulations, the companies have to recourse to voluntary disclosure mechanism to fulfil the convention of full disclosure.

1.3 STATEMENT OF THE PROBLEM

From the above it can be observed that there are different laws, guidelines and principles governing disclosure in an annual report of a company. These rules are mandates to be followed in the reporting of financial and non-financial information to the public. Thus, there is no any want of regulations for disclosure practice. In reality however, there had been some bitter experiences in the corporate world. The fall of Lehman Brothers and AIG in the US in 2008, Satyam Ltd. in India in 2009, etc. are some of the instances of financial disasters that had deep impact on the society in general and corporate world in particular. The reason for such disaster had been due to improper financial reporting.

At the time when there are sufficient regulations binding on the companies that govern disclosures through annual reports, the companies are expected to abide by such regulations and hence show proper diligence in the disclosure aspect, the events of sudden corporate failures are common. This necessitates the study of disclosure practice followed by Indian companies through the Annual Reports. The present study is undertaken to meet this necessity.

1.4 REVIEW OF LITERATURE

For the purpose of the present study, research-based articles as available in various journals are studied. Books on corporate disclosure practices and edited books published having articles on corporate reporting practices and books on accounting, auditing and accounting standards are also studied. Further, information and literature available through internet is studied for this research work. Following
paragraphs highlight the findings of review under two distinct heads – International Perspective and Indian Perspective:

**INTERNATIONAL PERSPECTIVE**

**Eric (1997)** The writer discusses upon ways and means in the form of Appropriate Disclosed Basis of Accounting (ADBA) for the auditors and the preparers of accounting information in the place of GAAP in the cases when GAAP fails to meet the special information needs of certain group of users. He argues for application of an alternative disclosure regulation if GAAP is not sufficient to give the needed disclosures.

**Okey (1998)** The writer studies the possible effect of harmonisation of International Standards with that of GAAP in Canada. Further, the Generally Accepted Auditing Standards are also under review due to the emergence of new standards.

**Paul and Krishna (2001)** In this paper they have observed that demand for financial reporting and disclosure arises from information asymmetry and conflicts between the managers and outside investors. The paper concludes with the observations that while the regulated financial reports are informative to the investors, the financial analysts increase the firms’ capital value in the market. They also find associations of disclosures with political costs, capital market considerations and stock-price performance.

**John (2002)** The writer observes certain changes in the business and regulatory frameworks governing accounting and reporting in Canada after the fall of the Energy Giant, the Enron. These changes are in the shape of branding of certain public pension schemes of Canada’s one of the largest money management firms. Initiatives were undertaken to revive investor confidence by framing bold accounting standards, tougher professional insights and strengthening independent auditors’ accountability, etc.
Beattie, et al (2004)\textsuperscript{10} in their work “A Methodology for analysing and evaluating narratives in Annual Reports: a comparative descriptive profile and metrics for disclosure quality attributes” have made a literature survey of the works of different researchers relating to ways and means of quantification of narrative information from the Annual Reports. They have discovered how scores can be assigned to the narrative data in order to quantify them by Content Analysis and also about certain statistical measure to quantify such disclosure.

Frasca and Tucker (2005)\textsuperscript{11} in their study “Financial Statement Disclosure: The Needs and Practices Related to Financial Risk” observed improvement in disclosures relating to financial risks in the financial statements of insurance companies in USA although significant variation in disclosures are present between companies and between risks.

The World Bank (2006)\textsuperscript{12} in their study “Global Assessment of Bank Disclosures” finds Disclosure Index in BRIC countries are higher in Russia and China followed by Brazil and lastly India as liberalisation process in India started early in 1990’s, whereas experiences in Turkey in the field of disclosure is much satisfactory as compared to Asia and Latin American countries.

Anthony (2007)\textsuperscript{13} in their work “International Accounting Standards and Financial Reporting Uniformity: The Case of Trinidad and Tobago” found increase in the financial reporting uniformity due to the adoption of International Accounting Standards by the companies in Trinidad and Tobago.

Omneya, et al (2007)\textsuperscript{14} in their work “Measuring Accounting Disclosure in a period of complex changes: The case of Egypt” observes greater compliance of mandatory application of disclosures and making of a standard mandatory yields good result but feels need of proper education and training in regard to application of mandatory disclosure standards for a developing country.
Rania (2007)\textsuperscript{15} in their article “Critically Appreciating Social Accounting and Reporting in the Arab and Middle East: A Post Colonial Perspective” observes Islamic Law and concepts influence the governance of business and disclosure requirements in such countries and as such general social aspects relating to employee issues holds the priority in disclosure followed by economic disclosure and last is the environmental disclosure.

Orapin and Dahli (2007)\textsuperscript{16} in their article “Big Bang Accounting reforms in Japan: Financial Analyst Earnings Forecast Accuracy Declines as the Japanese Government Mandates Japanese Corporations to adopt International Accounting Standards” finds change in the accounting standards complicates different levels of income forecast particularly at the time when convergence with IAS is in process.

Judy, et al (2007)\textsuperscript{17} in their research paper “German Reporting Practices: An Analysis of Reconciliations from German Commercial Codeto IFRS and US GAAP” observes that there is no consistency in the pattern of disclosure among companies. Significant difference lies in between German Standards and IFRS in case of stockholders’ equity, between German standards and US GAAP in case of capitalisation policies and also in case of foreign exchange currency.


Hector, et al (2007)\textsuperscript{19} in their article “Convergence with International Financial Reporting Standards: The case of Indonesia” observe lack of transparency and accountability are the major causes of economic problems of Indonesia and many other Asian countries and these can be overcome by the adoption of IFRS.
ACCA and NBF (2009)\textsuperscript{20} in their study “Disclosures on Corporate Governance (Reporting Trilogy – Research on Reporting Disclosures, Part II)” observed Corporate Governance were stronger in comparison to other scores in sample companies.

Mustaruddin, (2009)\textsuperscript{21} in their article “Corporate Social Responsibility Disclosure in an emerging market: A longitudinal analysis approach” finds highest percentage of CSR disclosures Employee relation followed by Product development, cash donation programmes, whereas pollution control holds the last position.

United Nations (2011)\textsuperscript{22} in their study “Corporate Governance Disclosure in Emerging Markets: Statistical Analysis of Legal requirements and Company Practices” finds that Mandatory items disclosure holds the highest position at 75 percent as compared to Voluntary disclosure at 58 percent while non-compliance with the mandatory disclosure requirements is 25 percent.

Ta (2012)\textsuperscript{23} in their article “Voluntary Disclosure Information in the Annual Reports of Non-Financial Listed Companies: Vietnam” observes both financial analysts and financial managers have a high agreement about the important level of voluntary items.

Muttanachi and Patricia (2012)\textsuperscript{24} in their article “Determination of Environmental Disclosures in Thai Corporate Annual Reports” finds 82.67 per cent of the sample companies make environmental disclosures in their annual reports but in the place where corporate governance report is displayed. The rate of such disclosure is highest in Resource industries and the least disclosure is observed in Agriculture and Foods industries.

Tatiana, et al (2013)\textsuperscript{25} in their work titled “Mandatory Disclosure and its impact on the Company Value” finds that mandatory disclosure as highly followed by the companies in UK. They also observe consistency in disclosure practice both for mandatory and non-mandatory.
INDIAN PERSPECTIVE

Goyal (1995) in his research work titled “Corporate Social Reporting Practices in Public Sector Undertaking in India (With Case Studies of BHEL and SAIL since 1981)” finds there has been a reduction in the disclosure of corporate social responsibility because of popularisation of publication of abridged version of annual reports since 1988 coupled with liberalisation process and disinvestment in PSU.

Sivakumar (1999) in his article “Accountability as an Objective of Financial Reporting: Is it relevant in Asian Countries?” makes an assessment of accountability in financial reporting done in Asian countries and finds that the accountability is inconsistent with the Asian values and thus reflecting reforms in social values through financial reporting.

Porwal and Porwal (2001) in their article “Earnings Per Share – Accounting and Reporting in India and Malaysia” makes a comparison of reporting of EPS in India with that in Malaysia and finds that the reporting regulations and practice of reporting EPS in both these countries are similar.

Vasal (2001) in his article “Accounting and Reporting for Intangibles” suggests need for a comprehensive accounting standard on intangibles as accounting treatment applied by the companies for intangibles are different and this distorts inter-firm comparison.

Chandra (2002) in his article “Voluntary Disclosures and Corporate Financial Reporting” finds while mandatory corporate disclosures are often difficult to implement and monitor as they are resisted by the management the practice of voluntary disclosures encourages experimentation, innovation and creativity in
providing information which can reduce information related risks on one hand and on the other has a positive effect on prices of company’s stock.

**Chandra (2002)** in another article “Corporate Business Reporting: Consensus between Preparers and Auditors” finds presence of consensus between preparers and auditors in majority of the cases and expects improvement in the consensus since corporate disclosure is in evolutionary process.

**Gupta (2003)** in his article “Disclosure Requirements of Mutual Funds: An Evaluation” finds a mismatch of statutory disclosure practices in annual and half-yearly results and prospectus of mutual funds with that of SEBI (Mutual Funds) Regulations 1996, where the legalised practice of disclosure is being considered unethical by the SEBI regulation of 1996.

**Sen and Banerjee (2003)** in their article “Segment Reporting – A Global Scenario” observe developments in segment reporting indicate global harmonisation of such reporting practices. They advocate for making segment reporting as mandatory practice in India so that corporate reporting practice in India becomes at par with the developed countries.

**Gurdip (2004)** in his article “Indian Stock Market and Financial Reporting Trade-offs” observes the present practice of financial reporting is neither complete nor perfect in Indian context where non-statutory reporting has an important role to play. He suggests in incorporating Inflation accounting, Human Resource Accounting, Social accounting, environmental accounting and economic value added accounting through annual reports.

**Chatterjee (2005)** in his article “Global Convergence of Financial Reporting Standards: Implications for India” finds that Indian companies do not voluntarily follow the IFRS. Steps should be taken to make the standards suitable for adoption in India.
Pradhan (2005)\textsuperscript{36} in his article “Creative Accounting” observes that the accountants face difficulties in putting more emphasis on the substance rather than on the legal forms of an information to be incorporated in accounts and as such they resort to accounting methods that are different from those practised by the competitor business units.

Sundar (2005)\textsuperscript{37} in his article “Fine Tuning Auditing for Finer Corporate Governance” finds that corporate governance being a new concept to India, auditors in such a case should be more vigilant. He suggests about eight points in auditing for better corporate governance.

Rao, et al (2006)\textsuperscript{38} in their article “Adequate Disclosure – An Essential Requirement for Ethics in Accounting” observes incomplete and incompetent disclosure fails to ensure credibility and reliability of data which in turn results in deceiving the shareholders, creditors, customers and employees. As such, information in complete form must be disclosed through accounting data.

Basu (2006)\textsuperscript{39} in his article “Towards a Global Financial Reporting Language” observes that a common set of universally accepted accounting standards is necessary for orderly development of global capital market. Proper infrastructural support and assistance should be provided to the countries that lack proper infrastructure for implementation of the standards.

Prakash (2006)\textsuperscript{40} in the article “Segment Reporting (AS 17): A Survey of Foreign Banks Working in India” finds that the foreign banks operating in India have different application of segment reporting as compared to AS 17. The disclosure practice is not similar among the banks.

Sunder (2006)\textsuperscript{41} in his article “From Norms towards Standards of Corporate Financial Reporting: Transition and Consequences” suggests reforms in the administration of the norms by rewarding senior managers who exercise any control
over the accounting and reporting functions and by following social and ethical norms for proper auditing of accounts.


Pradhan (2007)\textsuperscript{43} in his research paper “Financial Reporting in Emerging Capital Market” observes that the IFRS has made the accounting standards of developing and emerging countries smooth which would attract more foreign capital.

Parkash (2007)\textsuperscript{44} in the article “Corporate Governance in Asian Nations” finds that the accounting and auditing practices adopted by corporate sector of the Asian economies are similar but the enforcement of rules are different. There exists a significant difference in corporate governance practices among the Asian nations.

Garg and Saxena (2007)\textsuperscript{45} in their article “Interim Financial Reporting Practices in Indian Corporate Sector” finds that Indian companies are not matching with the global standards in their interim financial reporting. Practices of such reporting are not uniform and complete.

Varghese (2007)\textsuperscript{46} in her research titled “Corporate Disclosure by Indian Companies” finds variation in disclosure items among the companies showing unsatisfactory state of disclosure. Disclosures vary with the size, profitability and international listing status of companies.

Krishnan (2008)\textsuperscript{47} in his paper “Corporate Reporting Practices in Globalised Scenario” compares disclosure practices followed by European countries and that in India and finds that non-financial factors that contribute to increase in the value of
firm are not given due importance in financial disclosures. He suggests that disclosures should be based on knowledge capital, technical knowhow, internet and other knowledge based points.

Kiran and David (2008)\(^{48}\) in their article “Accounting for Financial Instruments: A Case of GCC Countries” suggests IFRS combined with BASEL II norms can bring transparency in banking accounts. They observe cultural difficulties and challenges in adopting and implementing IFRS which retards the Gulf Cooperation Council (GCC) banks to become international.

Shah (2009)\(^{49}\) in his article “Corporate Reporting Framework in India: A Case of HRA Reporting” finds that the companies mainly disclose the information about the computation of Human Resource values rather than information for users decision making. He suggests the Companies Act 1956 and stock exchange listing regulations to frame regulations for disclosing Human Resource Accounting. Accounting Standards in this regard should also be framed.

Kang and Gray (2009)\(^{50}\) in their article “Corporate Voluntary Disclosure Practices: A Review of Content Analysis Research” observed that voluntary disclosures for intellectual capital, corporate governance and information technology have been made and considered in developing markets such as Malaysia, China, South Korea and Saudi Arabia. Firm size, industry type, ownership structure, corporate governance and legal systems are also some more factors attracting voluntary disclosures.

Bhasin (2010)\(^{51}\) in his article “Corporate Governance Disclosure Practices: The Portrait of a Developing Country” observes satisfactory corporate governance disclosures on the basis of legal requirements and suggests about fifteen points for improvement.
Sanjay and Bhanumurthy (2010) in their article “Corporate Governance and Disclosure Practices: A Study of Sensex (Index) Companies” finds satisfactory disclosure practices in companies.

Kaur and Narang (2011) in their article “Economic Value Added (EVA) Disclosures in Annual Reports of Indian Companies: An Empirical Study” finds no consensus among companies in calculating EVA of shareholders. About 35 percent of the companies prefer using separate section in the Annual Report as a medium of EVA disclosure. Age and earnings potential of companies have no significant impact upon EVA disclosure.

Sarkar (2011) in his article “Disclosures in corporate annual reports: A case study of some selected public limited companies in India” finds mandatory disclosures are made by all the companies while the quantity and diversity of disclosures have increased. He suggests adopting a common presentation pattern so that comparison of the disclosure becomes possible.

Sikidar and Ghosh (2011) They have made an extensive review of the available norms and the means of operation of the XBRL and have suggested the use of XBRL tagged reporting for Indian Companies. They have also opined that the application of XBRL would facilitate tax related information particularly the GST and DTC.

Chodhury and Dey (2012) in their article “Models of Corporate Social Reporting: Scope for Improvisation” develops certain models suitable for disclosing corporate social reporting by Indian companies.

Kalra and Soral (2014) They conducted a survey of the awareness of footnotes used in the Annual Reports from three types of respondents namely, the accountants, the auditors and the users like bankers, stock brokers, financial analysts and the accounting educators and found mixed responses. Need of improving the structure and content of footnotes has been felt by the respondents.
1.5 OBJECTIVES OF THE STUDY

The present study has been undertaken to fulfil the following specific objectives:-

a) To examine the provisions of legal and other requirements for Corporate Annual Reports and their compliance by listed Indian Companies.

b) To analyse the disclosure practices followed by the selected Companies.

c) To review the application of Accounting Standards in accounting and reporting pertaining to disclosure of accounting policies, inventory valuation, cash flow statement and accounting for taxes on income.

d) To examine the practices of Extended Corporate Reporting (ECR) by the Companies.

1.6 SCOPE OF THE STUDY

The present study is limited to the examination of Annual Reports of 50 Indian Companies taken from Gauhati Stock Exchange which has a total of 290 listed companies[^4]. Each Annual Report relates to any one of the financial years in between 5 years ranging from the year 2008 to 2012. The study has been undertaken to make observations on 8 parameters on the basis of importance. The details have been given in the methodology part of this chapter.

1.7 METHODOLOGIES ADOPTED

The following are the methodologies adopted for the study:

(i) Methodologies adopted for sample selection

Annual Reports are collected from the Gauhati Stock Exchange Ltd. which is linked to the NSE through the ISE Securities and Services Ltd (ISS) (a subsidiary of Inter-connected Stock Exchange of India Ltd.) and has got a total of 290 companies listed in it and traded through it (according to the information available in the website of the Gauhati Stock Exchange) [^4].
A sample of 20 percent of such companies (58 Nos.) is proposed to be collected. Annual Reports of only 50 companies have been collected randomly on the basis of availability of the reports in the Gauhati Stock Exchange. As such the Annual Reports are of the companies that are grouped under 8 sectors on the basis of the 13 sectors as reported by the NSE. The sectors reported by NSE are: [5]:

i. Banks  
ii. Engineering  
iii. Finance  
iv. FMCG  
v. Information Technology  
vi. Infrastructure  
vii. Manufacturing  
viii. Media and Entertainment  
ix. Petrochemicals  
x. Pharmaceuticals  
xi. Services  
-xii. Telecommunication  
xiii. Miscellaneous

The sector wise composition of the sample of 50 companies is based on the above sectors indicating the number of companies in brackets against each sector as: Manufacturing Business (21), Pharmaceutical and Health (03), Banking and Finance (05), Petrochemicals (03), Tea and Agro-based (04), Infrastructure and Power generation (05), BPO and Information Technology (05), and Shares and Securities Trading (04).

The above selection of Annual Reports is at random. The time period varies in between 2008-09 and 2011-12 for which the annual reports are available and collected. So a sample company represents any one of the periods as mentioned above. This time period is taken under study because no significant change in the legal and other requirements for annual report is observed during this period of time. Following is the list of sample companies on the basis of sectors:
Table 1: List of Sample Companies on the basis of Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sl. No.</th>
<th>Company Name</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUFACTURING</td>
<td>1</td>
<td>Kesoram Industries Ltd</td>
<td>2011-12</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Apcotex Industries Ltd</td>
<td>2011-12</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Sterling Tools Ltd</td>
<td>2011-12</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Automotive Stampings and Assemblies Ltd (ASAL) (A TATA Enterprise)</td>
<td>2011-12</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>HMT Machine Tools Ltd (A Subsidiary of HMT Ltd)</td>
<td>2011-12</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Bosch Ltd</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>ESAB India Ltd</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>SKF India Ltd</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>India Carbon Ltd</td>
<td>2010-11</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>Assam Carbon Products Ltd</td>
<td>2010-11</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>Shree Bhawani Paper Mills Ltd</td>
<td>2010-11</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>Voltas Ltd (A TATA Enterprise)</td>
<td>2010-11</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>Maruti Suzuki India Ltd</td>
<td>2010-11</td>
</tr>
<tr>
<td></td>
<td>14</td>
<td>Solar Industries Ltd</td>
<td>2010-11</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>Kalyani Forge Ltd</td>
<td>2009-10</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>Year</td>
<td></td>
</tr>
<tr>
<td>----</td>
<td>---------------------------------------------</td>
<td>----------</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Tata Chemicals Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Raymond Ltd</td>
<td>2008-09</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Mafatlal Industries Ltd</td>
<td>2008-09</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Shriram Pistons and Rings Ltd</td>
<td>2008-09</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>VIP Industries Ltd</td>
<td>2008-09</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Bata India Ltd</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PHARMACEUTICAL AND HEALTH</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Wyeth Ltd</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>GlaxoSmithKline Consumer Healthcare Ltd</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>AstraZeneca Pharma India Ltd</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BANKING AND FINANCE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>IFCI Ltd</td>
<td>2011-12</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Infrastructure Development Finance Company (IDFC) Ltd</td>
<td>2011-12</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Housing Development Finance Corporation Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sundaram Finance Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>BalmerLawrie Investments Ltd</td>
<td>2008-09</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PETROCHEMICALS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Reliance Industries Ltd</td>
<td>2011-12</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Hindustan Petroleum Corporation Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Assam Petrochemicals Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Company Name</td>
<td>Year</td>
<td></td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------------------------------------------------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>TEA AND AGRO- BASED</td>
<td>Warren Tea Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Godfrey Phillips India Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rossell Tea Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tata Global Beverages Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td>INFRASTRUCTURE AND POWER</td>
<td>NICCO Corporation Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td>GENERATION</td>
<td>Torrent Power Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sanghvi Movers Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reliance Industrial Infrastructure Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reliance Communications Ltd</td>
<td>2008-09</td>
<td></td>
</tr>
<tr>
<td>BPO AND INFORMATION TECHNOLOGY</td>
<td>Tata Consultancy Services Ltd</td>
<td>2011-12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CMC Ltd (A TATA Enterprise)</td>
<td>2011-12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ramco Systems Ltd (India)</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Software Technology Group (STG) International Ltd</td>
<td>2009-11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cambridge Solutions Ltd</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>SHARES AND SECURITIES BROKING</td>
<td>Sugal&amp;Damani Share Brokers Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SMC Global Securities Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Akhivi Tea Plantations and Agro Industries Ltd</td>
<td>2010-11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bharat Bhusan Share &amp; Commodity Brokers Ltd</td>
<td>2009-10</td>
<td></td>
</tr>
</tbody>
</table>
(ii) **Methodologies adopted for Analysis of Data**

The study is being conducted mainly by the observations of disclosure practice in the Annual Reports of the sample companies. For this purpose, the following methods are applied:

**a) Parameters:**

Eight numbers of parameters are taken for the study on the basis of importance. These parameters are as follows:

i. Chairman’s Speech

ii. Directors’ Report

iii. Management Discussion and Analysis Report

iv. Corporate Governance Report

v. Auditors’ Report

vi. Financial Statements & Schedules

vii. Accounting Standards –

   AS 1 – Disclosure of Accounting Principles

   AS 2 – Valuation of Inventory

   AS 3 – Cash Flow Statement

   AS 22 – Accounting for Taxes on Income

viii. Voluntary Disclosures

**b) Recording of data and analysis:**

i. Observations are recorded in tabular form on the basis of Mandatory items of disclosure.

ii. Disclosure of an item is assigned score 1 while in case of no disclosure of the item score 0 is assigned and finally the total score is calculated and thereafter percentage of the score is calculated.

iii. Content Analysis method is applied by count of sentences of each item disclosed in case of two parameters as above (Nos. ii and v).
iv. The analysis of data is done in two ways of disclosure that is, Company wise disclosure and Item wise disclosure.

v. Finally, the findings are based on the percentages of Disclosure Company wise and item wise and the same is being displayed by using diagrams.

c) Statistical Analysis:

i. Statistical Analysis applied to the data to see if there is any association of disclosure with (a) Company Size (b) Company Age and (c) Business Sector.

ii. Three distinct tools are applied viz. Karl Pearson’s Coefficient of Correlation, Kendall’s Coefficient of Concordance and Chi-Square Test.

iii. Company Size is determined on the basis of Annual Turnover of companies. The companies here are grouped under 5 point scale viz. Very high, high, moderately high, low and very low depending on the turnover.

iv. Company Age is determined on the basis of establishment year of the company. The companies are grouped into 4 groups on the basis of seniority of age.

v. Sample companies are from eight sectors of business and data are grouped on the basis of the specific sectors.

vi. For the purpose of analysis the SPSS Statistics 17.0 software is used.
1.8 CHAPTERISATION SCHEME

The presentation of the study is done through the following Chapters:

Chapter 1 – Introduction
Chapter 2 – Regulatory Framework governing disclosure in Annual Reports
Chapter 3 – Analysis of Disclosures in Selected Reports within Annual Report
Chapter 4 – Analysis of Disclosures under Select Accounting Standards
Chapter 5 – Analysis of Disclosures under Extended Corporate Reporting
Chapter 6 – Summary of Findings, Suggestions and Conclusion
Annexure and Bibliography

1.9 LIMITATIONS OF THE STUDY

The present study suffers from certain limitations. These are:

a) The sample size is small as compared to the population (about 17 percent) which might not give the true result for the parameters under study and hence generalisation is difficult.

b) The study is based upon secondary information sources that is, Annual Reports of the companies. Hence, the analysis is based on the facts and figures available from these reports only.

c) Statistical analysis and its results might vary in case of change in method of application and in case of other sample companies.

d) As the selection of annual reports is based on availability, all the 13 sectors as reported by the NSE could not be included in the study.

e) Due to the same reasons as above, the period of annual reports under study relate to any one year in between 2008 and 2012.

f) Of late most of the companies are publishing their Annual Reports in the website. The present study is based on the Annual Reports mostly collected from the Guwahati Stock Exchange three years back.
REFERENCES:


20. The Association of Chartered Certified Accountants (ACCA) and Net Balance Foundation Ltd. (2009), Disclosures on Corporate Governance (Reporting Trilogy – Research on Reporting Disclosures, Part II), ACCA.


41. Sunder, S. (2006 Dec.). From Norms towards Standards of Corporate
Financial Reporting: Transition and Consequences. Indian Accounting
Review. Vol.10 No.2
Financial Reporting of Banking Companies in India. The Journal of
Accounting and Finance. Vol.21 No.2
Indian Journal of Accounting. Vol. XXXVII(2)
Journal of Accounting. Vol. XXXVII(2)
XXXVII (1)
Thesis submitted to Mahatma Gandhi University, Kottayam
47. Krishan, B. (2008), Corporate Reporting Practices in Globalised Scenario. 61st
All India Commerce Conference, Dhanwate National College, Nagpur.
(http://www.icaaindia.net/)
of GCC Countries. The Journal of Accounting and Finance. Vol. 22, No. 1,
Pages 3 – 21
49. Shah, P. (2008 - 09), Corporate Reporting Framework in India: A Case of
HRA Reporting. The Journal of Accounting and Finance. Vol.23 No.1
2
Portrait of a Developing Country. International Journal of Business and
Management. Vol. 5 , No. 4, Pages 150 – 167 (www.ccsenet.org/ijbm)


