One of the major objectives of financial reporting is to supply information for resourceful decision-making. Every company, in fact, owes its existence to communication of financial information. But the corporate managements regard the required legal bindings as to financial disclosures not as the minimum limit but as the maximum limit. As such, those having a reasonable right of information (investors, creditors, employees, government and public at large) have to satisfy themselves with the existing data. Barring a few cases, the reporting practices are mainly concerned with meeting the requirements of the Company Laws.

Rapid development of Indian economy has led to the growth of corporate sector, resulting in increasing emphasis being laid on financial reporting which acts as a link between the management and the user groups of the financial statements. A number of amendments in the Companies Act have been made over the past years with regard to disclosures in Indian Companies but there are sets of information which have not yet been made obligatory to be published in the form of company communication e.g. accounting for social costs, investments made in human resources, impact of inflationary tendencies, statement of
value added, financial forecasting, projected income. The present chapter is devoted to evaluating of the practices among Indian companies with regard to the disclosure of human resource accounting, price level accounting, value added accounting, social accounting and cash flow accounting. In addition to this, another important aspect of reporting which has been touched in this chapter relates to examining the style of presentation of information in the annual reports and also disclosure of financial highlights and ten-years' summary of important financial facts of the companies. The purpose of discussing these two aspects of annual reports in this chapter is that the researcher is convinced that the style of presentation of information enhances the communicating feature of published data to the users.

1. HUMAN RESOURCE ACCOUNTING

The resources of an organisation may be classified into three broad groups viz. the human resources, the physical resources and the financial resources. Without human resources in an organisation, the physical and the financial resources cannot be operationally effective. One of the most important aspects of the business manager's job is the use of resources to achieve the immediate and long-run goals of an organisation but regarding their organisation's human resources, business managers had very little information. Behavioural scientists,
concerned with the management of organisations, pointed out that the failure of accountants to value human resources was a serious handicap for effective management. The variables in human behaviour like group loyalty, skill motivation, and the capacity for effective interaction, communication and decision-making, are the true indicators of organisational health. How these variables are managed largely determines the end results of an enterprise.

The accountants in the past ignored this important asset. Modern thinking is that all the assets of the company, including the human assets, must be properly treated, analysed and reported by an accounting system in view of the long-term interests in the organisation. In the traditional accounting system, all expenses relating to recruitment, selection, training, familiarisation and development of human resources are treated as of revenue nature and are changed to the profit and loss account of the relevant accounting period in which they are incurred. This is obvious violation of the accounting principle. The effect of such kind of treatment of the expenses is that it either understates the profit of the organisation or overstates its losses. Moreover, when the organisation incurs such expenses on human resources either for its acquisition or for development, the assets of the organisation are concealed to that extent; and the net worth of the organisation is understated. Thus the understating of profits, or overstating
of losses or concealment of assets or concealment of net worth leads to non disclosure of true and fair view of the financial statements of an organisation. In fact, such expenses should be amortized over the economic service life.

The productivity of a company's investment is known from the rate of return it gives. So far, these rates of productivity are considered in respect of physical asset investment only. To find out the productivity of investment on human resources in an organisation, the concept of 'Human Resource Accounting' (HRA) was evolved in the seventies.

HRA is the process of developing financial assessments for people within an organisation/society and the monitoring of these assessments through time. It deals with investments in people and with economic results of those involvements. American Accounting Association has defined HRA as "the process of identifying and measuring data about human resources and communicating this information to the interested parties." Thus, it involves (a) measurement and valuation of human resources, and (b) communicating the relevant information to the management and external users.
Several measurement models and methods have been suggested for human resource valuation. These measurement methods can be classified under cost approaches (HRCA) and value approaches (HRVA). HRCA involves computation of costs of human resources to the organisation. Such costs are capitalised and amortised over a period of time. Under cost approach, historical cost, replacement cost and opportunity cost have been advocated as potential measurement basis. HRVA is based on the assumption that the future earnings of various grades of employees are estimated up to the age of retirement and are discounted at the rate of cost of capital to obtain their present value. Lev and Schwartz model, Flamholtz model, Jaggi and Lau model have been suggested for the valuation of human resources.

The inclusion of appropriate human resource data in published financial statements would, in all likelihood, make such statements far more meaningful in predicting future performance which is, of course, the principal concern of investors. Acland finds that external financing decision makers are receptive to quantified behavioural information. Using financial analysts as representatives of the external users, the experimental study showed that this information did have an effect on their investment decisions.
The studies of Elias, Hendricks, Tomasassini, Schwann, Prabhakara Rao, and Sangeladji have also concluded that HRA information has significant effect on the investment decisions of the investors and others.

APPLICATION OF HUMAN RESOURCE ACCOUNTING IN INDIA

An analysis of the annual reports of the selected companies in the private sector and the public sector for the years 1985-86 to 1989-90 reveals that there has been a growing trend towards the measurement and reporting of human assets in the public sector companies. Table 5.1 points out the number of companies in the public and the private sectors disclosing HRA for the period of study.

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<th>Year</th>
<th>Public Sector</th>
<th>Private Sector</th>
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<td>1989-90</td>
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This table shows that in the private sector, only one company namely SPIC has reported HRA during all the years of study and ACC has reported this for the year 1985-86. In the public sector, six companies viz. OIL, SAIL, MMTC, CCI, Madras Refineries Ltd. and BHEL have reported HRA for all the years of study. This number has increased to 7 with one more company, namely NTPC, reporting this statement for the year 1986-87 and has risen to 8 with one more company viz. Maruti Udyog Ltd. reporting this statement for the year 1987-88. For the year 1988-89, 9 companies have reported this statement, with the addition of one company viz. Hindustan Petroleum Corporation Ltd. during this year. During 1989-90, Maruti Udyog Ltd. discarded the publication of HRA and Hindustan Zinc Ltd. disclosed its HRA values in its annual report. The number of companies reporting human resource accounting has gone up from 6 to 9 in the public sector during 1985-86 to 1989-90, whereas in the private sector it has decreased from 2 to 1 during the period.

The following observations have been made with regard to the disclosure practices of human resource accounting in the public and private sectors companies:

a) The disclosure of HRA has not been much popular in India as it is clear from the fact that out of 100 companies taken in the sample for the present study only 10 companies have adopted HRA, that, too, not continuously in their annual reports.
b) The practice of reporting of HRA has been more in vogue in the public sector companies than in the private sector companies. Further, the number of companies disclosing HRA has mounted from 6 in 1985-86 to 9 in 1989-90 in the public sector, whereas it has fallen from 2 in 1985-86 to 1 in 1989-90 in the private sector.

c) All the companies have been reporting HRA as a supplementary information in their annual reports and it is unaudited. So, HRA has not been considered as an integral part of the "accounting system and financial statements."

d) The companies disclosing HRA have adopted the model developed by Lev and Schwartz; Jaggi and Lau; and Flamholtz with some suitable modifications as per their requirements.

e) HRVA requires that the valuation of human capital is done by ascertaining the present value of the future anticipated earnings and discounting the same to their present worth. To arrive at the present value of future anticipated earning, a certain discount rate has to be applied. In the sample companies, different discount rates have been used. MMTC, Maruti Udyog Ltd., Hindustan Zinc Ltd., BHEL and NTPC have used 12 per cent discount rate for the years when the disclosure of HRA has been made. Madras Refineries Ltd. for all the years of the study and OIL for all these years except for the year 1985-86 have used the discount rate at 15 per cent while for the year 1985-86, the discount rate of
10.50 per cent has been used. SAIL has been using discount rate of 14 per cent.

f) The disclosure of HRA figure of the previous years is useful to compare the present values with the past. In the present study, OIL, Hindustan Petroleum Corporation Ltd., Madras Refineries Ltd., BHEL and SPIC have disclosed HRA data for the previous one year. However, Cement Corporation of India Ltd. and MMTC have disclosed HRA for three years.

g) Category-wise valuation of human resources has been made by all the companies disclosing HRA. In addition to this, SAIL has been disclosing human resources data age-wise and profession-wise.

h) The ratios of human resources to turnover, human resources to value added and human resources to total resources are important for looking at the efficiency with which human resources are utilised and for the purpose of inter-firm and inter-period comparisons. It has been noticed that some of the companies which are publishing HRA have disclosed these ratios.

There is no doubt that HRA can provide valuable information to the management and the outsiders but its development and application in the different sectors and companies has not been encouraging. Reluctance on the part of the companies to introduce the HRA system can be attributed to the following :
a) In India, human resource accounting has not been introduced so far as a system at statutory level. Neither the Indian Companies Act, 1956 nor the Institute of Chartered Accountants of India provide any scope for furnishing any significant information about the human resources in the financial statements. Moreover, there are no rigid instructions by these authorities to attach information about the value of human resources and the result of their performance during the accounting year in the schedules and/or notes to accounts.

b) The introduction of HRA system will increase the accounting costs. Moreover, every new system involves incurring of additional expenditure which should be weighed against the benefits expected to flow from it. However, nothing has so far been done to assess the costs or benefits likely to flow from the introduction of HRA.

c) The various approaches and models relating to valuation of human resources suffer from different drawbacks. There is no flow-free method or model that can be universally applied to value human resources.

d) It is not logically and legally valid to show human resources on the balance sheet as an asset because it cannot be legally owned or purchased by that company.

e) Human resources in the process of gaining experience acquire appreciation in value rather than depreciation. But if human resources are treated as an asset, the problem of appreciation/depreciation will have to be tackled. It is
difficult to answer at what stage in one's career route appreciation overtakes depreciation or vice versa.

f) The valuation of human resources may be used by the workers union as a leverage in their demands for higher wages, bonus and better working conditions. Some of the managements hesitate to go in for HRA because of such fears in mind.

2. PRICE LEVEL ACCOUNTING

Accounting is a service function which identifies, measures and communicates economic magnitudes relating to a particular period to its internal as well as external users. The unit of measurement universally used in accounting is money which has been subjected to a major erosion in value all over the world, especially during the last four decades. The existing accounting practices of preparing financial statements are based on an important accounting assumption, namely the monetary postulate, which states that the value of the monetary unit is stable and that fluctuations in it may be ignored in the preparation of accounts. But with the movements – upwards or downwards – in the price-levels, the assumption of a stable monetary unit does not hold good. In fine, money as such is no longer a reliable unit of measurement and hence the need for incorporating the effects of price-level changes in the accounting statements has assured significance.
There is now a near-unanimity that historical cost accounts suffer from many serious limitations. During inflation, historical profits are overstated and the asset-values are understated. Conversely, there is understatement of profit and overstatement of assets during deflationary conditions. The high rate of inflation that has gripped almost all the economies of the world has forced different users, e.g. investors, government, corporate managers, academicians, accountants, to give a fresh look and consider whether the corporate accounts prepared on historical cost basis serve the purpose they are supposed to, and whether some changes in the accounting system are warranted. Inflation accounting is the nomenclature coined to overcome the problems associated with historical cost accounts as are designed to mirror the impact of rising prices on economic magnitudes through the adoption of inflation-adjusted accounts. The objects of inflation accounting or price level accounting (PLA) are two-fold: first, to ensure that capital invested is maintained intact in real terms and second, to reflect a true and fair view of the operations for the year concerned.

One cannot get a true and fair view unless the effects of inflation on the company's balance-sheet are separately shown and the profit that has arisen owing to inflation has been isolated. Therefore, the valuation of assets and liabilities in the balance-sheet and the calculation of profit
or loss in the income statement under the conventional accounting system are neither logically correct nor legally permissible. A pioneer work in this field was produced in 1936 by Henri W. Sweeny in which he proposed that the accounting figures as on a closing date be adjusted on the basis of the purchasing power of the Dollar at the time by means of index number of general prices. Since then, individual and professional bodies all over the world have been making a number of attempts to consider the impact of inflation on accounts. Consequently, the professional bodies in various countries have issued different accounting standards and guidelines for accounting and reporting the effect of inflation on the results of an enterprise.

Different guidelines for reporting the effects of changing prices have been issued by various professional accounting bodies in the developed countries such as the U.S.A., the U.K., Canada and Australia. For example, FASB of AICPA issued FAS-33 on 'Financial Reporting and Changing Prices' in September, 1979, FAS-82 on 'Financial Reporting Changing Prices : Elimination of Certain Disclosures' in November, 1984 which supersedes some portions and amends other portions of FAS-33, FAS-89 on 'Financial Reporting and Changing Prices' in December 1986 in the U.S.A. In the U.K., ASC of the Institute of Chartered Accountants in England and Wales issued SSAP-16 on 'Current Cost Accounting' in March, 1980. In Canada,
the Canadian Institute of Chartered Accountants issued a pronouncement on 'Reporting the Effects of Price Changes' in December 1982 which seems to be a combination of FAS-33 and SSAP-16. The Australian Society of Accountants and the Institute of Chartered Accountants in Australia issued a proposed statement of accounting standards on 'Current Cost Accounting' in February, 1982.

Recognising the importance of the effect of changing prices on the financial statements, the Research Committee of the ICAI has brought out a Guidance Note on Accounting for Changing Prices in 1982. In preparing the Guidance Note, the Research Committee of the ICAI has drawn heavily on the various publications on the subject by various international professional bodies, particularly those by the ASC in the U.K. The main objectives of the Guidance Note is to encourage the adoption of accounting for changing prices and to suggest a methodology relevant in the prevailing economic environment in India.

Efforts made so far to involve a method of accounting for inflation have not succeeded. Experts have been attempting to draw up a comprehensive set of proposals to deal with accounting for inflation. Following are the main three techniques of considering the impact of inflation on financial
a) Current Purchasing Power Accounting (CPPA), which takes inflation into consideration by using a general index - consumer price index, G.N.P. implicit price deflator or whole-sale price index.
b) Current Cost Accounting (CCA), which takes into account only the specific prices of different assets.
c) General and Specific Price Level Accounting, which recognises changes in general as well as specific prices.

The CCA method of accounting for inflation is claimed to be fully comprehensive method by the Sandilands Committee. The CCA methods takes into account the concept of capital maintenance which is more relevant to the operations of a business enterprise than the CPPA concept. Further, current cost profits are much closer to cash profit than earnings worked under historic cost accounting or CPPA. CCA has also been claimed to have much greater reality than CPPA since the various adjustments by the former are made by means of indices which relate to the actual assets employed in the business. The CCA involves the extension and development of accounting practices already established in principle rather than introduction of new principles. It is, therefore, not revolutionary but evolutionary in nature.
A study conducted by Porwal and Mishra finds that seven private sector companies and two public sector companies prepare some kind of inflation accounting information. The study indicates that two public sector companies have given such information in their published annual report and the private sector companies have not given such information in their annual reports. The Indian companies generally have not attempted to give complete set of inflation accounts as prescribed by FAS-33 of the U.S.A. or SSAP-16 of the U.K.

APPLICATION OF PRICE LEVEL ACCOUNTING IN INDIA

An analysis of the annual reports of the selected companies in the public and private sectors for the period under study brings out that only a few companies have been reporting the price level accounting in their annual reports for the said period. Table 5.2, given below, shows the number of companies in the public sector and the private sector, which have been reporting price-level accounting during the different years of study.

Table 5.2 highlights that in the private sector, only Tata Chemicals Ltd. has reported the price-level accounting for all the five years of study. Further, TISCO has reported this
for the year 1985-86 only. In the public sector, 8 companies, namely OIL, HMT, SAIL, MMTC, HAL, Hindustan Organic Chemicals Ltd., CCI and BHEL have disclosed the price level accounting for all the five years of study except for the year 1989-90.

Table 5.2
PRICE LEVEL ACCOUNTING IN PUBLIC AND PRIVATE SECTOR COMPANIES
(Number of companies)

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<th>Year</th>
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when HMT has not disclosed this. With one more company viz. NTPC disclosing this information during 1987-88, 1988-89 and 1989-90, the number of companies reporting PLA during the years 1987-88 and 1988-89 moved up to 9. So, it can be concluded from the table that disclosure of PLA has been more in the public sector companies than in the private sector companies. The following observations have been made on the disclosure practices of price level accounting by the selected public and private sector companies:
a) The disclosure of price level accounting has not been much common in India as is clear from the fact that only nine to ten companies have disclosed this information in their annual reports.

b) The disclosure of PLA has been more in the public sector companies than in the private sector companies. Further, the number of companies disclosing PLA has remained the same in the years 1985-86 and 1989-90 in the public sector, whereas it has dwindled from 2 in 1985-86 to 1 in 1989-90 in the private sector.

c) All the companies reporting PLA have followed SSAP-16 on 'Current Cost Accounting' of the U.K. However, MMTC and NTPC have followed the guidance note on 'Treatment of Changing Prices in Financial Position' issued by the ICAI in the preparation of their current cost accounts.

d) All the companies reporting PLA have shown 'Current Cost Profit and Loss Account' and 'Current Cost Balance Sheet'. The 'Current Cost Profit and Loss Account' shows the net profit at current costs, which has been computed after making adjustments viz. cost of sale adjustment, depreciation adjustment, monetary working capital adjustment and gearing adjustment to the historical profits. The 'Current Cost Balance Sheet' reflects the fixed assets and the inventories at their current costs with 'Current Cost Reserve Account' on the liabilities side of the balance sheet, which shows the effect of adjustments made to the historical costs.
e) All the companies have disclosed PLA with previous year figures. Moreover, companies viz. HAL, Hindustan Organic Chemicals Ltd. and Tata Chemicals Ltd. have disclosed the PLA with historical costs.

f) The current cost accounts prepared by all the companies reporting price level accounting have been made as supplementary information in annual reports and are generally unaudited (except Tata Chemicals Ltd.). Tata Chemicals Ltd. is the only company which gets its current cost accounts audited.

g) All the companies reporting PLA have prepared current cost accounts on the basis of index numbers compiled by the Reserve Bank of India and the Economic Adviser, Ministry of Industries, Government of India except Cement Corporation of India Ltd. and Tata Chemicals Ltd. Cement Corporation of India Ltd. has prepared current cost accounts on the guidelines on inflation accounting for the cement industry issued by CEMBUREAU (The European Cement Association), Paris and Tata Chemicals Ltd. has got its assets revalued by Tata Consultancy Service.

This analysis spotlights that only a few companies have been publishing PLA as supplementary information in their annual reports. The possible reasons for low adoption of price level accounting by most of the companies in the public and private sectors may be as follows:
a) The preparation of final accounts in current value may become more popular only when Indian Companies Act, 1956 and other Acts are amended accordingly. As the Indian Companies Act, 1956 does not require the companies to publish accounts in current value, most of the companies take it as a wasteful exercise. The Government may amend the Indian Companies Act in a way so as to make presentation and audit of price level accounting compulsory.

b) Moreover, the presentation of price level accounting creates additional burden to the accounting costs of an organisation. Therefore, only large companies, with huge funds at their disposal, can afford it.

c) The Indian Income Tax, 1961, too, does not permit the payment of income tax on the basis of the price-level adjusted income. If it is amended suitably, it can have a boosting effect on this accounting technique.

d) Moreover, there is no finality on the point that whether general price index or specific price index for different assets be used. Every method has its own points of strength and weakness.

3. VALUE ADDED ACCOUNTING

The concept of value added accounting is a very useful innovation in the field of corporate financial reporting. This newly developed accounting method is aimed at adding a new
dimension to the existing system of corporate financial reporting through the disclosure of additional information regarding the amount of wealth an entity has created in an accounting period and the way the wealth has been divided up by the entity amongst those that have contributed to its creation. The value added statement is prepared in two parts. The first part deals with the generation of value added, representing the total of turnover, bought-ins (including materials and services) and income from other sources. The second part deals with the application of value added, comprising workers, providers of capital, government and owners. The concept of value added accounting (VAA) is bound to become popular in the coming period because of its variety of application. In western countries, an increasing number of companies are presenting the Value Added Statement (VAS) in their annual reports. But India has yet to set this trend. The preparation of VAS and its disclosure are significant from many points of view:

a) VAS is more inclined towards the social objectives of the firm, whereas profit and loss account is more profit-oriented and reflects only the interests and claims of the firm.

b) VAS highlights the team aspect of the entity operations. The wealth creation of the entity is viewed by the statement as being the result of joint efforts of employees, providers of financial capital, government and the entity itself.

c) VAS provides a realistic basis for measuring real contribution of the entity to the national economy because
the economic performance of an entity can be very well judged in a more meaningful way by the added value sums than by the reported figures of profits.

d) VAS can very well form the basis for calculation of a number of useful ratios. Thus, it may be possible to compute ratios of values allocated to different participating groups to the total value created by the entity for assessing the relative position of each group in the matter of application of the total product of the entity. A use of such ratios can be made for making inter-firm and inter-period comparisons.

e) VAS helps taking of strategic decisions by the management to improve efficiency and overall productivity of enterprise.

The disclosure of VAS has been very significant from 'Social reporting' point of view and has been considered an important step towards social reporting. In West Germany, an industrially sponsored committee (Abbeiskries Sozialbilanz Praxiss, 1977) made some attempts to institutionalise corporate social reporting by issuing guidelines and it recommended that a report on social matters should disclose a value added statement giving information on a company's net value added to societal sectors.
DISCLOSURE OF VAA BY INDIAN COMPANIES

An analysis of the annual reports of the selected companies in the public and private sectors for the years 1985-86 to 1989-90 has revealed that the disclosure of VAA has been more in the public sector companies than in the private sector companies. Table 5.3 highlights that the number of companies reporting VAS has moved up to 13 in 1989-90 from 12 in 1985-86 in the public sector, whereas the number has moved down to 3 in 1989-90 from 4 in 1985-86 in the private sector. Further, companies viz. Neyveli Lignite Corporation Ltd., Hindustan Petroleum Corporation Ltd., FACT, HMT, IISCO, CCI, Bharat Petroleum Corporation Ltd., SAIL, MMTC, Madras Refineries Ltd., IDC and BHEL in the public sector; and SPIC,
Indian Rayon and Industries Ltd. and Gujrat State Fertiliser Company Ltd. in the private sector have disclosed VAS for all the five years of study. The following observation has been made regarding the disclosure of VAS in the public sector and private sector companies during the period of study:

a) The disclosure of VAS is made as a supplementary information and is unaudited in all the companies reporting it.

b) All the companies reporting VAS for different years of study have prepared VAS in different ways. For example companies like Bharat Petroleum Corporation Ltd., SAIL, CCI and HMT give details of various variables such as how the value has been generated and distributed. On the other hand, SPIC has prepared this statement in the simplest way and does not give much details of various items used in the preparation of this statement.

c) The disclosure of various groups participating in the total value in terms of percentage is significant to know the comparative share of the participating groups to the total value. In the sample, only 7 companies in the public sector and 2 companies in the private sector have disclosed the same for all the years of period under study.

d) Calculation of various ratios relating to VAS and their reporting makes inter-firm and inter-period comparisons increasingly meaningful. In the sample companies, the ratio of value added per employee has been disclosed by MMTC and CCI, and the ratio of value added per Re. of equity has been disclosed by MMTC.
e) 9 companies each for 1985-86 and 1986-87, and 11 companies each for 1987-88, 1988-89 and 1989-90 have disclosed VAS data for the previous year in the public sector, whereas 4 companies each for 1985-86, 1986-87 and 1987-88, and 3 companies each for 1988-89 and 1989-90 have disclosed VAS for the previous year in the private sector. However, Neyveli Lignite Corporation Ltd., IISCO, SAIL and BHEL have disclosed for 5 years, and CCI, FACT, MMTC and IOC have disclosed VAS for 3 years. Indian Rayon and Industries Ltd. is unique in this regard. It covers a period of last ten years in the annual report for disclosing value added data.

VAS has an extensive use in measuring the performance and reporting wealth created by a business entity over a period of time. But, from the foregoing analysis, it can be said that the reporting of VAS in the annual reports has not been very common in both public and private sector companies. The major reason may be the presentation of VAS is neither statutory nor deemed to be an obligation which would otherwise have compelled the companies to compute the value added to disclose such statements in their annual reports. Moreover, The Institute of Chartered Accountants of India has also not paid much attention to this technique of accounting.
Accounting information is used by several groups, such as shareholders, investors and employees. As the information needs of such groups are different, accounting information must be designed in a way to meet the needs effectively. In addition to this there are other stakeholders like consumers and the society at large who also like to be informed about the result of the activities of a business concern. It is only in recent years that people have started appreciating the stake of society in the conduct of business, because of the sale of dangerous drugs, alarming levels of environmental pollution caused by the effluents let out into streams, dust and fumes that emit from chimneys and radioactive wastes dumped into seas. In our own country where awareness was not high, the recent Bhopal gas tragedy was a watershed for the public to understand its' stake in the business that is carried on by national and multinational companies.

With the introduction of the concept of 'stakeholders' in the corporate disclosure, the business enterprises should strive to secure the interests of stakeholders by making available quality and harmless products, keeping the environment free of pollution by re-cycling wastes and making proper arrangements for proper disposal of effluents and
providing welfare and security to their employees. This extension of the accounting responsibility is variously called 'social accounting', 'social responsibility reporting' and 'social responsibility accounting'.

Social Responsibility Accounting is a systematic assessment of, and reporting on, those parts of a company's activities that have a social impact. Social responsibility accounting, therefore, describes the impact of corporate decisions on environmental pollution, the consumption of non-renewable resources, and ecological factors on the rights of individuals and groups; on the maintenance of public services; on public safety; on health and education, and many other social concerns. It reflects the social and economic benefits created and the social and economic costs incurred by an organisation and thus it discloses the organisation's contribution towards solving the problems of society.

Acknowledgment of wider corporate responsibilities of companies has led to the dictum that in the annual reports and accounts, the corporate sector should be required to produce and reflect the wider accountability of directors and cover the needs of more than shareholders and creditors. The Bureau of Public Enterprises requires the public sector companies to disclose the expenditure incurred by them on social overheads.
The Institute of Chartered Accountants of India (ICAI) gives awards every year for best presented annual reports considering 'Social Accounts' as one of the criteria. Moreover, the Companies Amendment Act, 1988 requires the disclosure of 'energy conservation and pollution control.'

The transformation of stockholders into stakeholders has changed the focus of accounting as is evident from the efforts directed towards searching for proper measurement and reporting methods. Although there is a general agreement on the desirability of corporate social reporting, its implementation still seems problematic. The National Association of Accountants (USA) has developed a four-fold classification of areas of social action, from among which business executives may choose the area of importance depending upon the total demands. The categories are:

a) Employees - Social performance directed to the well being of employees.
b) Environment - Activities directed toward alleviating or preventing environmental deterioration.
c) Products - The impact of company's product or service on society.
d) Community and - Socially-oriented activities that are others primarily of benefit to the general public.
Social disclosures have several advantages, including an increase in personnel morale, a large labour pool from which employees can be chosen, improved public relations, and a better corporate image. However, some critics say that the reason for the willingness on the part of some of the companies to make these activities widely known is a way to avoid public criticism (i.e. as a self-defence mechanism in the face of complaints that profit maximization is the corporate goal without regards to social concerns).

15 Truebold Committee, Accounting Standards Steering Committee, Sachar Committee, American Accounting Association Committee, Committee for Economic Development and Dilley and Weygandt have emphasised the point that social responsibility is inevitable for corporations.

DISCLOSURE OF SOCIAL ACCOUNTING BY INDIAN COMPANIES

It is clear from Table 5.4 that social accounts are prepared only by some of the public sector companies; none of the private sector companies has undertaken this exercise. In the public sector, five companies, namely CCI, OIL, SAIL, Madras Refineries Ltd. and MMTC have reported social accounting
Table 5.4

SOCIAL ACCOUNTING IN PUBLIC AND PRIVATE SECTOR COMPANIES

(Number of companies)

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</tr>
<tr>
<td>1989-90</td>
<td>8</td>
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</tbody>
</table>

(SA) in 1985-86. The number of companies disclosing SA has jumped up 6 in 1988-89 with the inclusion of Hindustan Petroleum Corporation Limited. With two more companies, namely BHEL and Hindustan Zinc Ltd., disclosing SA during 1989-90, the number of companies disclosing SA during this year has mounted to 8.

Fortunately, some public sector companies in India have ventured into the field of social accounting in their annual reports for different years. On the basis of analysis of the SA information reported by these companies, the following observations have been made:

a) Those companies which are preparing and disclosing SA, are regularly disclosing it in their annual reports since the year they have started reporting it.
b) The disclosure of SA has been made as a supplementary information and not as an integral part of financial statements. Moreover, these are unaudited.

c) In the preparation of Social Accounts, all the companies have adopted the approach suggested by ABT Associates, USA, with suitable modifications to suit Indian conditions.

d) In the preparation of 'Social Income' statement, all the companies have considered the three areas viz social benefits and costs to employees; social benefits and costs to community; and social benefits and costs to general public. All the companies have ignored a major segment of the society i.e. customers.

e) SAIL, ACC and CCI have disclosed their 'Social Objectives' in the annual reports for different years. Further, SAIL has disclosed its objective in detail, including obligations towards people, employees, customers, suppliers and community.

f) The disclosure of per capita social benefits to employees is useful for inter-firm and inter-period comparisons of the social benefits provided by an organisation to its staff. SAIL and OIL have reported the same during the period of study.

The accountability of the public sector to the people through Parliament must find its parallel in the private sector in the form of social accountability. The private
sector's claim that they act as trustees of public funds must be established by social accountability. Although social reporting in India is at a primary stage, the efforts of the public sector companies are laudable. Social reporting is definitely not a temporary phenomenon and it may very well turn out to be a forum for contemporary companies to justify their very existence. Therefore, more vigorous efforts towards developing social disclosure as a regular feature in the annual reports of both public and private sector companies are called for.

5. CASH FLOW ACCOUNTING

The enlarged public interest in complete and honest statements of business operations and financial statements places major responsibilities on accountants in financial reporting. Investors, whose funds are at stake, are the major decision-makers, making decisions affecting their present holdings or potential investments. For such decision-making, the present set of accounting information may not be of much relevance. This system is based on the recording of accounting events but often does not adequately report the cash impact of these accounting events. The cash consequences of events that are recorded are often obscured. Many a time, management faces the paradox of huge profits and yet impossible to pay dividends or even taxes. This is because either cash is not received even
though there is profit or the cash received is drained out. A company may make good profits but all the amount may be lying as book debts or may have been blocked in inventories.

Owing to increasingly tight money supplies in the past few years and to an increasing extent in the recent period, management interest has been focused upon means to better utilise the large amounts of cash which flow through the business process. Moreover, in order to run the business efficiently, the management takes special care of two financial aspects - profits and liquidity. That accounting system will be regarded useful in decision-making which provides relevant, reliable and timely information of these two aspects. The Cash Flow Accounting takes care of both profitability and liquidity.

The cash flow accounting system summarises transactions in the books of accounts of a company of cash received or paid out and the income is basically the difference between all cash received and all cash paid irrespective of purpose. Further, the cash spent on acquisition of fixed assets is charged in full to the year of acquisition and depreciation would automatically be abandoned for the purpose of published accounts. The cash spent on acquisition of materials, fuel, inventories, etc. is charged in full at the point of outgoing.
The present system also records an expense for all intangible expenditures.

Cash Flow Statements are important for a number of reasons. The reasons advanced in favour of the choice of cash flow basis of accounting are:

a) Three basic areas of financial management, namely investment decisions, financing decisions and dividend decisions are based on cash flows, not on income data.

b) The cash flow statement is only concerned with transactions and makes no distinction as to whether they are of a revenue or of a capital nature. An important distinction between an Income Statement and Cash Flow Statement is that the former includes adjustments in respect of expenses accrued in the calculations of periodic income, whereas the latter excludes such adjustments.

c) Cash Flow Accounting (CFA) system based solely on cash flows, treats all receipts and payments at their current value. Hence cash flow reports approximate closely to current value accounting.

d) Forecast of future Cash Flows forms the basis for both corporate and investors' decisions.

e) Comparability between firms is enhanced since a common measure, that is, cash is applied to all the elements of financial report.
f) The users of accounting statements are being provided the necessary data base by CFA for making valuation for their decision-making.

g) The CFA helps users to take advantage of forecast reporting of Cash Flows. A better set of share prices would emerge if more specific information on expected future cash flows on a regular basis is given.

Hicks, Ijiri, Hendriksen, Financial Accounting
Standard Board, Williams, Lawson, and Sandiland Committee are of the view that there is a need for greater cash flow orientation in financial reporting.

DISCLOSURE OF CASH FLOW ACCOUNTING BY INDIAN COMPANIES

An analysis of the annual reports of the selected companies in the public sector and the private sector during the period of study clarifies that there has been no company in the private sector disclosing CFA. Further, Table 5.5 reflects that in the public sector, 2 companies, namely MMTC and BHEL, have disclosed CFA during the year 1985-86. With the inclusion of one more company (CCI), the number of companies
Table 5.5
CASH FLOW ACCOUNTING IN PUBLIC AND PRIVATE SECTOR COMPANIES  
(Number of companies)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
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</tr>
<tr>
<td>1986-87</td>
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<td>0</td>
</tr>
<tr>
<td>1987-88</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>1988-89</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>1989-90</td>
<td>4</td>
<td>0</td>
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</tbody>
</table>

reporting CFA has surged to 3 each for the years 1986-87 and 1987-88. This number has risen to 4 companies each during 1988-89 and 1989-90 with the inclusion of ITI.

On the basis of an analysis of annual reports of the selected companies reporting CFA, the following inferences have been drawn:

a) The disclosure of CFA is made as a supplementary information and is unaudited.

b) All the companies preparing and reporting CFA are regularly disclosing it in their annual reports since the year they have started reporting it.
c) All the companies reporting CFA have just summarised cash accounts of the companies. This type of statement simply explains the receipts and payments which could be presented more meaningfully by property categorizing the cash flows, earmarking cash flows from continued and discounted business operations, identifying priority and discretionary flows and detailing out the replacement investments, growth investments and displacements.

d) All the companies reporting CFA have disclosed it with previous year figures. Moreover, companies, namely CCI and MMTC, have disclosed CFA for three years and BHEL has disclosed it for five years.

It has been well established that users need cash flow information for decision-making. Accepting this event at the face value, it is desirable to bring a suitable change in the company law to have cash flow accounting as a part of final accounts in India.

**STYLE OF PRESENTATION OF INFORMATION**

The presentation of certain information like break-up of earnings, sales and shareholding and growth in net profits, net sales, net worth, dividend per share and earning per share...
over the period through charts, graphs, diagrams, etc. increases the understandability of the information. Moreover, ICAI gives award every year for best presented annual reports, considering such presentation of the annual report.

Table - 5.6

<table>
<thead>
<tr>
<th>Table - 5.6</th>
<th>STYLE OF PRESENTATION OF INFORMATION IN PUBLIC AND PRIVATE SECTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Number of Companies)</td>
</tr>
<tr>
<td></td>
<td>PUBLIC SECTOR</td>
</tr>
<tr>
<td></td>
<td>PRIVATE SECTOR</td>
</tr>
<tr>
<td>Disclosure of information by:</td>
<td></td>
</tr>
<tr>
<td>a) Charts</td>
<td></td>
</tr>
<tr>
<td>b) Graphs</td>
<td></td>
</tr>
<tr>
<td>c) Diagrams</td>
<td></td>
</tr>
<tr>
<td>12. Paper used:</td>
<td></td>
</tr>
<tr>
<td>a) High grade</td>
<td></td>
</tr>
<tr>
<td>b) Average</td>
<td></td>
</tr>
<tr>
<td>c) Below average</td>
<td></td>
</tr>
<tr>
<td>13. Sales territories at map</td>
<td></td>
</tr>
<tr>
<td>14. Production centre at map</td>
<td></td>
</tr>
</tbody>
</table>

Note : Figures in brackets represent percentages
Table 5.6 highlights that companies in the public sector as well as in the private sector like to disclose information through diagrams in preference to charts and graphs. However, the number of companies disclosing information through charts has increased in the public sector over the period while in the private sector, it ranges between 9 and 11. The number of companies disclosing information through graphs ranges between 15 and 19 in the public sector and between 6 and 11 in the private sector. Further, 6 companies in the public sector and 5 companies in the private sector have presented information through charts for all the years of study; 6 companies in the public sector and 3 companies in the private sector have presented information through graphs for all the years of study; and 17 companies in the public sector and 8 companies in the private sector have presented information through diagrams for all the years of study. Moreover, the mean disclosure percentages of presentation of information through charts, graphs and diagrams have been more in the public sector companies than in the private sector companies. So, it can be concluded that the disclosure of information through charts, graphs and diagrams has been more in the public sector companies than in the private sector companies.

Companies prefer using the annual reports as an advertising media to submitting the yearly survey to shareholders by making them attractive and using high grade
paper with a view to appealing to the recipients as prospective customers rather than as members. In the present study, the majority of public sector companies have used high grade paper while the majority of private sector companies have used average grade paper in presenting their annual reports. The number of companies in the public and private sectors using high grade paper has swollen over the period under study except for the year 1986-87 in the private sector. Further, 37 companies in the public sector and 5 companies in the private sector have used high grade paper for all the years under review; 5 companies in the public sector and 27 companies in the private sector have used average paper for all the years under review, and 2 companies in the public sector and one company in the private sector have used below average grade paper for all the years of study.

The Institute of Chartered Accountants of India gives due weightage to the printing of sales territories and production centres in the annual reports. In the present study, the mean disclosure of sales territories at map in the public sector (11.28 per cent) has been higher than in the private sector (2.89 per cent). Moreover, in the public sector, 3 companies have reported the same for all the years under study but only one company in the private sector. There has been one company each in the public sector and in the private sector disclosing production centre at map for all the years under
review. The disclosure of production centre at map has been more in the public sector companies (mean disclosure 7.65 per cent) than in the private sector companies (mean disclosure 4.51 per cent).

DISCLOSURE OF FINANCIAL HIGHLIGHTS AND TEN YEARS' SUMMARY

A common feature in annual reports of companies is to provide information in a concise and understandable fashion. 'Financial highlights' and '10 years' summary' showing certain features of the company's workings in the annual reports are utilized for different purposes by the investors and other readers of the annual report. Table 5.7 points out that the number of companies disclosing financial highlights has moved up 12 in the year 1985-86 to 16 in the year 1989-90 in the public sector while it has moved down from 14 in the year 1985-86 to 12 in the year 1989-90 in the private sector. Further, in the public sector, 7 companies have disclosed financial highlights for two years and 3 companies for five years, during all the years under study. In the private sector, during all the years under review, 2 companies each have disclosed financial highlights for two years and five years, 3 companies for six years and one company for eight years. Moreover, in the public sector companies, Air India and MMTC, and Bombay Suburban Electric Supply Ltd. in the private sector have disclosed the percentage increase over the previous year.
Table 5.7
DISCLOSURE OF FINANCIAL HIGHLIGHTS AND TEN YEARS' SUMMARY IN PUBLIC SECTOR AND PRIVATE SECTOR COMPANIES

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>12</td>
<td>14</td>
<td>22</td>
<td>19</td>
</tr>
<tr>
<td>1986-87</td>
<td>11</td>
<td>14</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>1987-88</td>
<td>15</td>
<td>14</td>
<td>25</td>
<td>17</td>
</tr>
<tr>
<td>1988-89</td>
<td>14</td>
<td>12</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>1989-90</td>
<td>16</td>
<td>12</td>
<td>25</td>
<td>19</td>
</tr>
</tbody>
</table>

The number of companies disclosing '10 years' summary' has gone up from 22 in the year 1985-86 to 25 in the year 1989-90 in the public sector while it remained the same (19 companies) in the years 1985-86 and 1989-90 in the private sector. In the public sector, 22 companies have disclosed '10 years' summary' for all the years under review while in the private sector 17 companies have disclosed it for all the years under review. ACC, TELCO, Tata Chemicals Ltd. and TISCO for all the years, and Mukund Ltd. for the years 1985-86 and 1986-87 have disclosed this right from the year of incorporation. Escorts Ltd. require a special mention here. In the year 1986-87, it has disclosed this feature using 1977 as the base year and the same has been continued in the following years.
In the end, it may be concluded that in the accounting system prevalent in the corporate sector in India, a number of changes have taken place in the recent past, though the process is very slow. Some of the companies which are well established and well performing have introduced the new developments in accounting as a part of their regular feature on voluntary basis. The adoption of these recent trends in accounting improves the communication of economic information of the business entity. It has been noticed that the public sector companies are ahead of their counter parts in the private sector with regard to the adoption of recent trends in accounting. The reasons for slow adoption of all these developments in accounting may be non-recognition by regulatory agencies of these developments, non-standardisation of methods being used in the techniques, lack of expert professionals required to implement these latest developments in accounting, and, above all, the cost factor involved in their implementation.
REFERENCES


