1.1 FINANCIAL REPORTING

Financial reporting may be defined as communication of published financial statements and related information from a business enterprise to the external users including shareholders, creditors, customers, governmental authorities and the public. It is the reporting of accounting information of an entity to a user or group of users. Company financial reporting is a total communication system involving the company as issuer (preparer); the investors and creditors as primary users, other external users; the accounting profession as measurers and auditors; and the company law regulatory or administrative authorities.

The term ‘financial reporting’ is not restricted to information communicated through financial statements. Although financial reporting and financial statements have essentially the same objectives, some useful information is better provided by financial statements and some is better provided, or can only be provided by means of financial reporting other than financial statements.

However, it is difficult, if not possible, to have clear distinction between financial reporting and financial statements. But it is now an accepted fact that financial reporting has a broader scope than the financial statements which are only one of the many means of conveying information about enterprise financial performance.
1. Financial statements are a central feature of financial reporting. They are a principal means of communicating accounting information to those outside an enterprise. Financial reporting may also contain information from sources other than accounting records, accounting systems are generally organized on the basis of elements of financial statements and provide the bulk of the information for financial statements.

2. Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by accounting system, that is, information about an enterprise’s resources, obligations, earnings, etc. 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 the main examples of reports giving financial information other than financial statements or giving only non-financial information.

3. Financial statements are often audited by independent accountants for the purpose of enhancing confidence in their reliability. Some financial reporting by management outside the financial statements is audited, or is reviewed but not audited, by independent accountants or other experts, and some is provided by management without audit or review by persons outside the enterprise.

1.2 OBJECTIVES OF FINANCIAL REPORTING

An evaluation of company financial reporting requires some agreement on its objectives. Financial reporting is not an end in itself but it is a means to certain objectives. The objectives of financial reporting have been discussed for a long time. While there is no final statement on objectives, to which all parties of financial reporting have agreed.
At present, the following may be described as the primary objectives of financial reporting:

1. The particular objectives of financial reports are to present fairly, and in conformity with generally accepted accounting principles, financial position, results of operation, and other changes in financial position.

2. The basic philosophy and starting point of the corporate reporting is that the financial statements should be appropriate to their expected use by potential users or in other words they should attempt to satisfy the information needs of their users.

3. Financial reporting should provide information that is useful to present and potential investors, creditors and other users in making rational investment, credit decisions and other any type of decisions as well. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

4. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans.

5. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from sale, redemption, or maturity of securities or loans.

6. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, vents, and circumstances that change resources and claim to those resources.
7. Financial reporting should provide information about an enterprise’s financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investor’s and creditor’s expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

8. The primary focus of financial reporting is information about an enterprise’s performance provided by measures of earning and its components.

9. Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowings, and repayment of borrowings, about its capital transactions, including cash dividends and other distribution of enterprise resources to owners, and about other factors that may affect an enterprise’s liquidity or solvency.

10. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners for the use of enterprise resources entrusted to it.

11. Financial reporting should provide information that is useful to managers and directors in making decisions in the interest of owners.

12. Financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions.

13. The objectives of financial reporting are not immutable – they are affected by the economic, legal, political and social environment in which financial reporting takes place.

14. Financial reporting is expected to provide information about an enterprise’s financial performance during a period and about how management of an enterprise has discharged its stewardship responsibility to owners.
1.3 FINANCIAL REPORTING AND MATERIALITY PRINCIPLE

Materiality concept implies that transactions and events that have immaterial or insignificant effects should not be recorded and reported in the financial statements. It is argued that the recording of insignificant events cannot be justified in terms of its subsequent poor utility to users.

There is no agreement as to the meaning of materiality and what can be said to be material or immaterial events and transactions. It is for the preparer of accounts to interpret what is and what is not material. Probably the materiality of an event or transaction can be decided in terms of its impact on the financial position, results of operations, and changes in the financial position of an organization and on evaluations or decisions made by users.

Materiality of information is very important factor for financial reporting because immaterial information is very much responsible for downing the position of company in the minds of their stakeholders.

1.4 FINANCIAL REPORTING AND FULL-DISCLOSURE PRINCIPLE

The concept of full disclosure requires that a business enterprise should provide all relevant information to external users for the purpose of sound economic decisions. This concept implies that no information of substance or of interest to the average investors will be omitted or concealed from an entity’s financial statements.

In today’s dynamic scenario, transparency is one of the influencing factors because while investing in any company the user first to see all the material information as disclosed by the company. In full disclosure usually company considers the mandatory requirement first thereafter voluntary disclosure because of their compulsion and optional nature.
1.5 USERS OF FINANCIAL REPORTING

In India, the basic purpose of financial reporting (as per Indian Companies Act, 1956) appears to provide shareholders of the company, financial statements and other related information. In India, shareholders, especially the existing shareholders are the primary users of financial reporting. However, there are other potential users also who are equally interested in financial reporting information for making economic decisions. Therefore, the purpose of financial reporting in India should be served not only existing investors but prospective investors and creditors, and other external users as well.

Generally speaking, the term ‘financial reporting’ is used to mean general purpose external financial reporting. Often it is said that the purpose of financial reporting is the preparation of general purpose reports for external users. Despite the fact that financial reports are mainly intended for shareholders, they can be, and are used by a number of other external users.

Company financial reporting is intended to provide external users information that is useful in making business and economic decisions, that is, for making reasoned choices among alternative uses of scarce resources in the conduct of business and economic activities. Thus, users are potentially interested in the information provided by the company as a matter of financial reporting. The following list of users of financial information is found out:
Potential users of financial information most directly concerned with particular business enterprises are generally interested in its ability to generate favorable cash flows because their decisions relate to amounts, timing, and uncertainties of expected cash flows.

Generally, above listed stakeholders or users use financial information in order to satisfy some of their different needs for information. These needs include the following:
**Investors:** The providers of risk capital and their advisors are concerned with the risk inherent in, and return, provided by their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the enterprise to pay dividends.

**Employees:** Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

**Lenders:** Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.

**Suppliers and other Trade Creditors:** Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuation of the enterprise as a major customer.

**Customers:** Customers have an interest in information about the continuance of an enterprise, especially, when they have a long-term involvement with, or are dependent on, the enterprise.

**Governments and their Agencies:** Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises, determine taxation policies and as the basis for national income and similar statistics.

**Public:** Enterprises affect members of the public in a variety of ways. For example; enterprises may make a substantial contribution to the local
economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

While all the information needs of these users cannot be met by financial reporting, there are needs which are common to all users. As investors are providers of risk capital to the enterprise, the provision of financial information that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

The management of the enterprise has the primary responsibility for the preparation and presentation of the financial reporting of the enterprise. Management is also interested in the information contained in the financial reporting even though it has access to additional management and financial information that helps it carry out its planning, decision-making and control responsibilities.

Management has the ability to determine the form and content of such additional information in order to meet its own needs. The reporting of such information, however, is beyond the scope of this framework. Nevertheless, published financial statements are based on the information used by management about the financial position, performance and changes in financial position of the enterprise.

To conclude this section, company financial reporting, in future also, will continue to adhere to general purpose reporting system to aid investors, creditors, and other external users in their economic decisions. Meanwhile, in order to achieve the objectives of financial reporting there is a continuous need to investigate many vital aspects relating to general purpose financial reports such as potential users and user groups, identifying information needs of such users, determining the feasibility of providing general purpose information to meet these needs, determining the manner of reporting such information, and having a feedback from the users regarding the use and relevance of general purpose information as well.
1.6 MEANING OF INTERNET

The Internet is a global network connecting millions of computers. It is a network of networks that consists of millions of private, public, academic, business, and government networks, of local to global scope, that are linked. Almost every country is linked into exchanges of data, news and opinions. Unlike online services, which are centrally controlled, the Internet is decentralized by design. Each Internet computer, called a host, is independent. Its operators can choose which Internet services to use and which local services to make available to the global Internet community. Remarkably, this revolution by design works exceedingly well. There are a variety of ways to access the Internet. Most online services offer access to some Internet services. It is also possible to gain access through a commercial Internet Service Provider (ISP).

1.7 ADVANTAGES OF INTERNET

The Internet provides many facilities to the people. The main advantages of Internet are as below.

วด SHARING INFORMATION

You can share information with other people around the world. The scientist or researchers can interact with each other to share knowledge and to get guidance etc. Sharing information through Internet is very easy, cheap and fast method. In today’s dynamic scenario, Internet is the best medium to sharing information from one person to another, from one city to another, from one country to another country.

วด COLLECTION OF INFORMATION

A lot of information of different types is stored on the web server on the Internet. It means that billions websites contain different information in the form of text and pictures. One can easily collect information on every topic of the world. For this purpose, special websites, called search engines are available on the Internet to search information of every topic of the world. The most popular search engines are
altavista.com, search.com, yahoo.com, ask.com etc. The scientists, writers, engineers, academicians, researchers, students and many other people use these search engines to collect latest information for different purposes. Usually, the information on the Internet is free of cost. The information on the Internet is available 24X7 days and for this it is also say that through Internet the world can't sleep........ it works every day, every minute

Information is probably the biggest advantage internet is offering. The Internet is a virtual treasure trove of information. Any kind of information on any topic under the sun is available on the Internet. The search engines like Google, yahoo is at your service on the Internet. You can almost find any type of data on almost any kind of subject that you are looking for. There is a huge amount of information available on the internet for just about every subject known to man, ranging from government law and services, trade fairs and conferences, market information, new ideas and technical support, the list is endless.

Students and children are among the top users who surf the Internet for research. Today, it is almost required that students should use the Internet for research for the purpose of gathering resources. Teachers have started giving assignments that require research on the Internet.

**NEWS**

You can get latest news of the world on the Internet. Most of the newspapers of the world are also available on the Internet. They have their websites from where you can get the latest news about the events happening in the world. These websites are periodically updated or they are immediately updated with latest news when any event happens around the world.

**SEARCHING JOBS**

You can search different types of jobs all over the world, Most of the organizations/departments around the world, advertise their vacant vacancies on
the Internet. The search engines are also used to search the jobs on Internet. You can apply for the required job through Internet.

**ADVERTISEMENT**

Today, most of the commercial organizations advertise their product through Internet. It is very cheap and efficient way for the advertising of products. The products can be presented with attractive and beautiful way to the people around the world.

**COMMUNICATION**

You can communicate with other through Internet around the world. You can talk by watching to one another; just you are talking with your friends in your drawing room. For this purpose, different services are provided on the Internet such as:
- Chatting
- Video conferencing
- E-mail
- Internet telephony etc.

The foremost target of internet has always been the communication. And internet has excelled beyond the expectations. Still; innovations are going on to make it faster, more reliable. By the advent of computer’s Internet, our earth has reduced and has attained the form of a global village.

Now we can communicate in a fraction of second with a person who is sitting in the other part of the world. There are plenty messenger services in offering. With help of such services, it has become very easy to establish a kind of global friendship where you can share your thoughts, can explore other cultures of different ethnicity.

**ENTERTAINMENT**

Internet also provides different type of entertainments to the people. You can play games with other people in any part of the world. Similarly, you can see movies, listen music etc. You can also make new friends on the Internet for enjoyment.
Entertainment is another popular raison d'être why many people prefer to surf the Internet. In fact, media of internet has become quite successful in trapping multifaceted entertainment factor. Downloading games, visiting chat rooms or just surfing the Web are some of the uses people have discovered. There are numerous games that may be downloaded from the Internet for free. The industry of online gaming has tasted dramatic and phenomenal attention by game lovers. Chat rooms are popular because users can meet new and interesting people. In fact, the Internet has been successfully used by people to find lifelong partners. When people surf the Web, there are numerous things that can be found. Music, hobbies, news and more can be found and shared on the Internet.

**ONLINE EDUCATION**

Internet provides the facility to get online education. Many websites of different universities provide lectures and tutorials on different subjects or topics. You can also download these lectures or tutorials into your own computer. You can listen these lectures repeatedly and get a lot of knowledge. It is very cheap and easy way to get education.

**ONLINE RESULTS**

Today, most of the universities and education boards provide results on the Internet. The students can watch their results from any part of country or world.

**ONLINE AIRLINES AND RAILWAY SCHEDULES**

Many Airline companies and Pakistan Railway provide their schedules of flights and trains respectively on the Internet.

**ONLINE MEDICAL ADVICE**

Many websites are also available on the Internet to get information about different diseases. You can consult a panel of online doctors to get advice about any medical problem. In addition, a lot of material is also available on the Internet for research in medical field.
E-COMMERCE

Ecommerce is the concept used for any type of commercial maneuvering, or business deals that involves the transfer of information across the globe via Internet. It has become a phenomenon associated with any kind of shopping, almost anything. You name it and Ecommerce with its giant tentacles engulfing every single product and service will make you available at your door steps. It has got a real amazing and wide range of products from household needs, technology to entertainment.

1.8 DISADVANTAGES OF INTERNET

Although Internet has many advantages but it also has some disadvantages. The main disadvantages are:

- **VIRUSES**
  Today, Internet is the most popular source of spreading viruses. Most of the viruses transfer from one computer to another through e-mail or when information is downloaded on the Internet. These viruses create different problems in your computer. For example, they can affect the performance of your computer and damage valuable data and software stored in your computer.

- **SECURITY PROBLEMS**
  The valuable websites can be damaged by hackers and your valuable data may be deleted. Similarly, confidential data may be accessed by unauthorized persons. If you use the Internet, you may be facing grave danger as your personal information such as name, address, credit card number etc. can be accessed by other culprits to make your problems worse.

- **IMMORALITY**
  Some websites contains immoral materials in the form of text, pictures or movies etc. These websites damage the character of new generation.
FILTRATION OF INFORMATION
When a keyword is given to a search engine to search information of a specific topic, a large number of related links are displayed. In this case, it becomes difficult to filter out the required information.

ACCURACY OF INFORMATION
A lot of information about a particular topic is stored on the websites. Some information may be incorrect or not authentic. So, it becomes difficult to select the correct information. Sometimes you may be confused.

WASTAGE OF TIMES
A lot of time is wasted to collect the information on the Internet. Some people waste a lot of time in chatting or to play games. At home and offices, most of the people use Internet without any positive purpose.

ENGLISH LANGUAGE PROBLEMS
Most of the information on the Internet is available in English language. So, some people cannot avail the facility of Internet.

PORNOGRAPHY
This is perhaps the biggest threat related to children’s healthy mental life. There are thousands of pornographic sites on the Internet that can be easily found and can be a detrimental factor to letting children use the Internet.

1.9 THE EVOLVING ROLE OF INTERNET
As interaction with the Internet is increasing there has been an evolution in the role played by this medium, where once it used to be a medium for communication it has advanced its role to be used as a source of information, entertainment, and e-commerce.

The role played by Internet can be clubbed into three broad categories:
• **INTERNET AS A CONVERSATIONALIST**

Communication remains the key application over the Internet. Email and chat are the exclusive applications offered by the Internet which do not face any competition from other media vehicles.

• **INTERNET AS A INFOTAINER**

In this role the Internet is squeezing the share of traditional media. With the sprouting of applications like gaming, news, blogs etc users find Internet a substitute to library, TV, newspaper and radio.

• **INTERNET AS A STICKY APPLICATOR**

Online banking, online ticketing, e-tailing are some of the emerging applications which act as hooks to make the users stick to the Internet. These services are some of the extended benefits offered by Internet and used by the application providers to increase the stickiness index.

**1.10 INDIAN SCENARIO OF INTERNET**

India’s telecommunication industry, which consists of mobile, telephone, broadcast and Internet underwent a high pace of market liberalization and growth since 1990s and has grown over twenty times within ten years. Currently, it has the world’s 3rd largest Internet user-base with over 137 million out of an estimated total population of 1.20 billion. There has been 11.4 percent penetration in the usage and India has a share of 5.7 percent share of users worldwide. The following table will provide a comparative view of internet users in India from the year 2000 to 2012:
### TABLE: 1.1 - USERS OF INTERNET IN INDIA

<table>
<thead>
<tr>
<th>Year</th>
<th>Users of Internet in India</th>
<th>Population</th>
<th>% of Penetration over Population</th>
<th>Source of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>5,500,000</td>
<td>1,094,870,677</td>
<td>0.5 %</td>
<td>ITU</td>
</tr>
<tr>
<td>2001</td>
<td>7,000,000</td>
<td>1,094,870,677</td>
<td>0.7 %</td>
<td>ITU</td>
</tr>
<tr>
<td>2002</td>
<td>16,500,000</td>
<td>1,094,870,677</td>
<td>1.6 %</td>
<td>ITU</td>
</tr>
<tr>
<td>2003</td>
<td>22,500,000</td>
<td>1,094,870,677</td>
<td>2.1 %</td>
<td>ITU</td>
</tr>
<tr>
<td>2004</td>
<td>39,200,000</td>
<td>1,094,870,677</td>
<td>3.6 %</td>
<td>C.I. Almanac</td>
</tr>
<tr>
<td>2005</td>
<td>50,600,000</td>
<td>1,112,225,812</td>
<td>4.5 %</td>
<td>C.I. Almanac</td>
</tr>
<tr>
<td>2006</td>
<td>40,000,000</td>
<td>1,112,225,812</td>
<td>3.6 %</td>
<td>IAMAI</td>
</tr>
<tr>
<td>2007</td>
<td>42,000,000</td>
<td>1,129,667,528</td>
<td>3.7 %</td>
<td>IWS</td>
</tr>
<tr>
<td>2009</td>
<td>81,000,000</td>
<td>1,156,897,766</td>
<td>7.0 %</td>
<td>ITU</td>
</tr>
<tr>
<td>2010</td>
<td>100,000,000</td>
<td>1,173,108,018</td>
<td>8.5 %</td>
<td>IWS</td>
</tr>
<tr>
<td>2012</td>
<td>137,000,000</td>
<td>1,205,073,612</td>
<td>11.4%</td>
<td>IAMAI</td>
</tr>
</tbody>
</table>

Source: [www.internetworldstats.com](http://www.internetworldstats.com)

### FIGURE: 1.2 – INTERNET USERS IN INDIA

Source: [www.internetworldstats.com](http://www.internetworldstats.com)
As year by year, users of internet increased in India, the users of internet financial reporting are also increased day by day. The dematerialization of shares and other securities motivates investors to use internet and this will increase the demand of financial reporting on internet. Companies also motivate their investors to adopt internet as a medium of communication. As a green initiative, companies ask to their present investors to deliver company’s annual report through electronic media i.e., Email rather than paper based annual report.

**FIGURE: 1.3 – TOP 10 COUNTRIES WITH HIGHEST NUMBER OF INTERNET USERS IN THE WORLD**

![Bar chart showing the top 10 countries with the highest number of internet users.](image)

Source: [www.internetworldstats.com](http://www.internetworldstats.com)

At about 140 million Internet users, India now has 3rd largest Internet population in the world after China (at 540mn) and the US (at 250mn). At approximately 140 million total Internet users, the Internet penetration in India remains at 12 per cent vs. 43 per cent in China and 80 per cent in the US. However, the low penetration means that India presents unmatchable growth opportunity for the Internet sector in coming years. In our view, India will likely see golden period of the Internet
sector between 2013 to 2018 with incredible growth opportunity and secular
growth adoption for E-Commerce, Internet advertising, social media, search, online
content, and services relating to E-Commerce and Internet advertising.

1.10.1 INTERNET USERS IN INDIA TO TRIPLE BY 2016

- The number of Internet users in India is expected to nearly triple from 125
  million in 2011 to 330 million by 2016, says a report by Boston Consulting
  Group (BCG). This rise in Internet penetration will lead an increase in digital
  influence on people’s purchase decisions.

- According to the report titled “From Buzz to Bucks: Capitalizing on India’s
  “Digitally Influenced” Consumers,”, 40 per cent of India’s 90 million urban
  Internet users say that online activities such as product research and price
  comparison influence what they buy. The digital influence, currently affecting
  $30 billion of urban consumer spending is expected to greatly accelerate
  over the next four years.

- The demographics of Indian Internet use revealed that men are far more
  likely than women to be on the Internet (32 percent versus 12 per cent) and
  more than three times likely to be digitally influenced (14 per cent versus 4
  per cent).

- Overall, the Internet has the highest penetration among people ages 18 to 24
  (48 per cent) and the lowest among those older than 54 (6 percent). The
  report said that Internet is projected to reach small towns and the low rungs
  of the economic ladder more quickly than retail chains will, bridging
  geographic barriers and feeding the growing appetite for consumer goods.
1.10.2 THE INTERNET IS CENTRAL TO THE NEW VISION OF INDIA AS AN IT POWER IN MANY RESPECTS

- **First**, to a substantial degree, the Internet and the associated technological, economic, and social phenomena embody the notion of "IT" in the late 20th and early 21st century. While in years past a country's technological status was often measured by the performance of the country's most powerful supercomputer, today it is more likely to be measured by the number of Internet users, the number of Internet hosts, the volume of electronic commerce, and the capacity of its communications lines.

- **Second**, the Internet itself is an enabling technology. It is very good to the browser as a "universal client" and global connectivity based on open-standards, the technical infrastructure has enabled network-based person-to-person, business-to-consumer, and business-to-business interaction that potentially can change the way people and organizations conduct their affairs.

- In the case of India, the use of the Internet and telecommunications technologies was central to the growth of the export-oriented software industry.

- **Third**, by its very nature, the Internet is a technology for the masses. It is difficult to speak of a country's being "a major IT power" if over 99% of its citizens never used the Internet. Achieving significant penetration of the Internet beyond major metropolitan centers must therefore be a central thrust of any IT vision.

- **Fourth**, the Internet is a driving factor with respect to supporting technologies, government policies, laws, and services. Among these factors are such diverse elements as telecommunications infrastructure; legislation regarding taxation, accounting, and privacy; book publishing; Internet service provision; commercial Web-page development, and consulting.
Corporate Financial Reporting on Internet refers to the use website of company to disseminate information about the company's financial performance. Financial information provided by the company through web site include a set of comprehensive financial statements, including footnotes, partial financial statement and/or the subjects of financial information which may include summary financial statements or anything resulting from such reports, the stock price data, analyst reports, discussions related to management operations, a database of companies' related news and other company-specific information.

As a new means of communicating information to the general public, internet can meet stakeholders’ demands in greater speed and volume of information at a time when it is needed. The use of the internet enables information to be disseminated worldwide and thus facilitates the quick availability of financial information. Internet financial report (IFR) allows firms to communicate information to its not only existing stakeholders but also its potential investors. On the contrary to the paper-based annual report which communicates information to selected group, internet financial reporting can target every person who is interested in that particular firm. With the use of internet, disclosure of financial information will become public with unrestricted global access. Internet Financial Reporting allows firms to disclose disaggregated and incremental financial data in their websites. Internet financial reporting (IFR) enables companies to disclose both the traditional annual reports with additional financial and non-financial information in multiple formats to wider audience.
1.12 NEED OF THE STUDY

The development of information technology is so rapidly increasing use of the Internet as an important medium of communication. The Internet has become a communication tool which use is increasingly widespread, both by the public and the businesses as well. Surely, this condition has an impact on today’s business environment. Recently, more and more companies are developing their own website and disseminate information about their financial performance over the web that they made. Internet enables the presentation of information very quickly and in more effective and efficient way. In addition, information on the Internet has many advantages that is easily deployed, without limitation, current, has high interaction capabilities, and unlimited access to greater volume of data.

Although Internet reporting is voluntarily in nature, some previous literatures indicate that investors prefer financial information distributed electronically compared to financial information that is distributed traditionally for making decisions because the electronically distributed information were viewed more timely (Asbaugh et al., 1999; Deller et al., 1999; FASB, 2000). Financial information which is traditionally expressed through the annual reports, news media, advertisements or brochures is considered less relevant because they have timeliness quality problems. Information considered relevant for decision making when the information was disclosed before that information loses its capacity to influence decisions (SFAC No. 2, FASB, 1980). Hicks and Bacque (2008) stated information is only valuable if the information is still up to date when the user need it and the Internet is considered to be able to provide the best information on time.

Following points can better explain the need to Internet Financial Reporting over traditional paper based reporting in the present scenario:

- Web information dissemination cost is cheaper than the cost associated with printed based annual report.
• IFR allows firms to communicate information to unidentifiable consumers, on the contrary to the paper-based annual report which communicate information to selected group.

• Improve financial disclosure by providing more timely information.

• Increase frequency of financial disclosure. Company can communicates its results on monthly or quarterly base increase quantity of financial information, annual reports’ information (paper-based) is summarized and simplified, using IFR allows firms to disclose disaggregated and incremental financial data in their web sites.

• Internet tools ease the dissemination of financial information for users, analysts and other interested parties such as Website browsers, hyperlinks, and information, all of these techniques facilitate searching about specific data thus save time, integrate several section of the annual report and link financial information to other pertinent information or nonfinancial information, and enable users to recover information.

• Internet introduces new technologies for reporting which makes sites more interactive with investors, according to (Jones and Lymer, 2002) three of information technologies will be increasingly used, hypertext, sound and visuals and real-time.

• Internet provide a wide information (non-financial information and qualitative information), non-audited information, social and environmental information, up-to-date information about the company new events, press releases, up-to-date information about the company products and services which is costly to presents in hard copies.

• Business become more complex, capital market become more international, regulation become more global, knowledge-based industries supersede traditional industries, international finance and financial investment become more complicated.
**Enhancing disclosure serves the companies through, lower transaction costs, increase interest in the company by financial analysts and investor, increase share liquidity and lowers the cost of capital.**

This description reveals that the needs and strategy of reporting have been changing very quickly. Business environment has become challengeable for all the existing player of the market in every field of business. Information will enable the users of financial statements to effectively assess the underlying risks and returns of an enterprise and take more informed decisions relating to the enterprise. Hence, it has become more necessary for company to provide detailed information and provide transparency in disclosure on the internet.

In view of the growing importance of the financial reporting on the internet in the globalize scenario, there is need to compare the present trend or status of Corporate financial reporting on the internet in developing country like India and developed country like U.S. A few researchers have tried to analyze the trend or present status of the financial reporting on the internet in India. These researchers are mostly general articles based and they studied on the limited objectives.

Hence, there is need, to study is more significant in the competitive environment to analyze, examine and evaluate the Corporate Internet Financial Reporting practices by the Indian and U.S. corporate sectors.

**1.13 OBJECTIVES OF THE STUDY**

In the current scenario of development in every sphere of business activities, Information Technology plays a vital role e.g. e-marketing, e-banking, e-ticketing etc. Therefore, researcher intends to study the e-reporting feature of corporate sector by using the latest technology to assist the all users of financial information for taking prompt and correct decisions.

The study has been conducted with a view ----
1. To examine the quality and quantity of Financial Information reported by selected companies of BSE and NYSE on websites.

2. To compare the timeliness of Interim Financial Reporting on internet by selected Companies of BSE & NYSE.

3. To analyze the excellence of internet financial reporting with printed format of annual report in all respect in selected companies.

4. To evaluate the stakeholders or users perception towards internet based financial reporting and

5. To assess the prospects of internet based financial reporting in global scenario.

1.14 RESEARCH HYPOTHESIS

The Present research study is categorized as an exploratory research carried out with the help of secondary and primary data collected through a specially designed questionnaire for providing scientific base to the findings, following null Hypothesis have been constructed and tested.

Size of Company

- $H_01$: There is no association between company size and the dissemination of financial information on the Internet.

Leverage

- $H_02$: There is no association between leverage and the dissemination of financial information on the Internet

Profitability

- $H_03$: There is no association between companies profitability and the dissemination of financial information on the Internet
Internationality

- \( H_04 \): Companies having more international activities have no significant difference in adopting Internet financial reporting as compared with companies having relatively less international activities.

Company age:

- \( H_05 \): Older companies have no significance difference to adopt Internet financial reporting than younger companies.

Listed in Stock Exchange:

\( H_06 \): There is no significance difference between Internet Financial Reporting of companies listed in Stock Exchange of developed countries and companies listed in Stock Exchange of developing countries.

1.15 RESEARCH METHODOLOGY

The path to finding answers to research problem constitutes Research Methodology. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researcher to design his methodology according to his problem. In the light of this, following research methodology is used to accomplish various objectives of the research:

a) RESEARCH DESIGN

This research is very wide as it considered theoretical aspects, qualitative information and quantitative data. So, the research designs for this study contained the characteristics of Descriptive, Explanatory, Analytical and Exploratory researches because it carried out with specific objectives and utilizes the large number of data and try to establish the relationships between different variables.
b) SAMPLE SIZE

This study has been covered the companies listed on the Bombay Stock Exchange and New York Stock Exchange. As the population of this study due to the fact that the number of companies listed in respective stock exchanges are too large and it is inconvenient to collect the data related to it. So, researcher took only Top – 100 companies from each stock exchange. The population consists of total 200 companies. Following table shows the break – up of Sample Size:

**TABLE 1.2: SAMPLE SIZE**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of Stock Exchange</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>BSE</td>
<td>100 Companies</td>
</tr>
<tr>
<td>2.</td>
<td>NYSE</td>
<td>100 Companies</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>200 Companies</strong></td>
</tr>
</tbody>
</table>


c) Sample Selection Criteria

The companies which have been considered for the purpose of the study, are those companies which are listed on BSE & NYSE and appeared as top 100 according to their market capitalization weight, as on October 1st, 2010 as per BSE 100 and NYSE 100 indices. Lists of all selected companies and their websites are given in Appendix–1 and 2. Following figure provides the diagrammatical presentation of sample selection criteria:
d) DATA COLLECTION

The relevant Data has been collected from Primary as well as Secondary sources.

- **Primary Sources:** A questionnaire has been designed to obtain the perception of 110 stakeholders of different companies of both the countries. The selection of respondents based on the information provided by the stock brokers or stock exchange and they contacted through e-mail device.

- **Secondary Sources:** Secondary Sources comprised published Annual Reports on Internet, respective company’s Web sites, websites of relative Stock Exchanges, Various reputed Journals and Magazines, Periodicals and Newspapers.
e) DURATION OF THE STUDY

For the purpose of analysis of data, a period of last one year starts from 1.4.2010 to 31.12.2011 and downloading of financial results was started from the first quarter of the financial year 2011-12 from the concern websites of the company.

1.16 SPECIFIC RESEARCH METHODOLOGY

The following Specific Research Methodology has been used to achieve different objectives:

1. To examine the quality and quantity of Financial Information reported by selected companies of BSE and NYSE on websites.

- **SAMPLE SIZE:** There are 2 samples of companies that have been investigated for the purpose to examine the quality and quantity of Financial Information reported by Indian and U.S. These include, top Hundred Companies listed in Bombay Stock Exchange (BSE-100) and Hundred companies listed in New York Stock Exchange (NYSE-100) as on 14th October, 2010, generating a total of 200 companies.

- **VARIABLE INVESTIGATED**

  To measure the type and the extent of Web disclosure by the sample companies, a worksheet, referred to as Corporate Internet Reporting Index (CIRI), was prepared. For more detail, please refer Appendix – 5 and 6.

  The CIRI, which consists of 60 items, is divided into six categories, viz.,

  1. Accounting and Financial Information
  2. Corporate Governance Information
  3. Corporate Social Responsibility and Human Resource Information
  4. Details of Investor Relation and Related Conveniences
  5. Presentation Format; and
The maximum score of CIRI is 60 based on the same number of items by providing score 1 to each item.

The description of each category is as follows:

i) **Accounting and Financial Information (18 items):** It contained the accounting and financial information such as financial highlights, Income Statement or Profit & Loss A/c, Balance sheet statement, cash flow statement, Interim financial statement, Owner’s Equity Statement, Earnings per share, Share prices history, Financial Ratios & Statistics and Auditor’s Report etc.

ii) **Corporate Governance Information (15 items):** This tried to identify whether the organization disclosed corporate governance information on their website. This area covered the area of Corporate Governance report, audit committee report, chairman statement, Board of Director’s (BOD) statement, directors’ responsibility, Management’s Discussion and Analysis of Results, information regarding the authority (director, sponsor and management team), Details of Directors Appointment/Re-appointment and members’ of audit committee etc.

iii) **CSR and Human Resources Information (3 items):** This focused on whether the company takes any activeness for the development of the society and to develop the skills of the employees. Availability of CSR report, Sustainability report and employment opportunity.

iv) **Detail of Investor Relation and Related Conveniences (12 items):** This group measured whether the company provide the information regarding Share Price Chart, Dividend Policy, Investor Complaint/Grievance, Shareholding Patterns, Listing on Stock Exchanges, Distribution of Shareholdings, Investor Contacts, Dividend Payment History, Company’s Office Address, Registrar and Share Transfer Agent, Proxy Form and Attendance Slip to their stakeholders etc.
v) **Presentation Format (5 items):** It tried to identify whether the financial data were in presentable format, format of annual report, version of annual report (HTML, PDF or XBRL) and presence of any audio/ video files.

vi) **Technological Advantages and Users Supports (7 items):** This group examined technological advancement of the company such as email new alerts, news and events, social media able interaction with stakeholders, Multiple Language Support, search engine, site map, feedback, and FAQ.

At the time of examining each of the variables mentioned above, a dichotomous procedure was followed by using ‘1’ and ‘0’. The ‘1’ is awarded when the company contained that information, otherwise ‘0’. Afterwards, the score of each item of every company are added to find out the individual total score of the company and the following formula is used to calculate the CIR Index in terms of percentage:

\[
CIRI = \frac{\text{Total Score of the Individual Company}}{\text{Maximum Possible Score Obtainable by Company}} \times 100
\]

In present case, the maximum possible score obtainable by a company is 60. So, CIR index in terms of percentage becomes:

\[
CIRI = \frac{\text{Total Score of the Individual Company}}{60} \times 100
\]

2. **To compare the timeliness of Interim Financial Reporting on internet by selected Companies of BSE & NYSE.**

   • **SAMPLE COMPANIES**
   
   To achieve this objective, companies listed on the Bombay Stock Exchange and New York Stock Exchange. Researcher has taken only Top – 100 companies from each stock exchange according to their market capitalization-weight as on 14th October, 2010. Thus, the population consists of total 200 companies.
PERIOD OF STUDY

For analysis the promptness of the companies in terms of timeliness to present their quarterly results on their websites, the researcher downloaded quarterly reports from the websites of the sample companies from April-June 2010 to October-December 2011. Therefore, there are seven quarters have been taken for study the timeline of the quarterly results published on the websites.

Seven quarters of the study are as follows:

- 1st quarter (April-June, 2010),
- 2nd quarter (July-September, 2010),
- 3rd quarter (October-December, 2010),
- 4th quarter (January-March 2010),
- 1st quarter (April-June, 2011),
- 2nd quarter (July-September, 2011) and
- 3rd quarter (October-December, 2011)

However, in case of few US companies their period of quarters is different from quarterly periods of Indian companies. Researcher does not take this as a limitation and all sample companies have been considered for the research. Therefore, researcher calculates no. of days from the end of each quarter to the declaration of quarterly results on websites for companies of both the countries. For more details, please refer Appendix – 3 and 4.

TOOL USED FOR ANALYSIS

To analyze the timeliness of quarterly reports of selected company on Website, the period has been classified in to three categories namely;

- Within 15 days from the expiry of a quarter
- From 16 days to 30 days from the expiry of a quarter and
- More than 30 days from the expiry of a quarter.
3. To analyze the excellence of internet financial reporting with printed format of annual report in all respect in selected companies.

- **SAMPLE COMPANIES**

To achieve this objective, companies listed on the Bombay Stock Exchange and New York Stock Exchange. Researcher has taken only Top – 100 companies from each stock exchange according to their market capitalization-weight as on 14th October, 2010. Thus, the population consists of total 200 companies.

- **METHODOLOGY:**

To achieve this objective, information available on company's official website is compared with the PDF format of annual report available on the same website. The PDF format of annual report is as same as the printed format of annual report so, the annual report in the PDF format is treated as paper based printed report and the information available on the official website other than the PDF annual report is compared with PDF format of annual report.

4. To evaluate the stakeholders or users perception towards internet based financial reporting

- **SAMPLE SIZE FOR INVESTOR'S PERCEPTION**

The sample size for obtaining stakeholders or users’ perception regarding Internet based financial reporting, following criteria was applied:

- This research is Internet based, so the researcher sent questionnaires through Internet via e-mail Ids.

- 210 questionnaires were served by using e-mail Ids to different stakeholders and users’. The E-mail Id’s of respondents have been collected from the websites of the sample companies.

- Only 131 respondents responded the e-mail in this regard.
• Out of these 131 questionnaires, 15 of them were not considered due to incompleteness in different ways like some investors only filled their profiles, some filled only basic questions, etc. So, in this way only 110 questionnaires are considered for this research.

• So the sample size for analysis of Investor’s perception on Internet financial reporting in international scenario was restricted to 110 only.

• Please refer Appendix – 13 for format of sample Questionnaire.

• **TOOL USED FOR ANALYSIS**

Simple Mean and Weighted Average method is used to analyze stakeholders and users’ perception and the different charts are used for graphical presentation of collected data.

### 1.17 RESEARCH HYPOTHESES TESTING METHOD

At the beginning of the research, research constructs six hypotheses. These hypotheses are based on following criteria:

- On the basis of Size of Company
- On the basis of Leverage
- On the basis of Profitability
- On the basis of Internationality
- On the basis of Company age
- On the basis of Listed in Stock Exchange

To test these hypotheses, the secondary data related to company size, leverage, profitability, internationality, company age and stock exchange listing has been collected from the official websites of the sample companies. Following table defines the independent variable chosen for the study. The research considers the values of Corporate Internet Reporting Index (CIRI) as dependent variable.
### Table 1.3 – Description of Independent Variable

<table>
<thead>
<tr>
<th>Base</th>
<th>Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of Company</td>
<td>Net worth and Profit After Tax of the sample companies. Refer Appendix – 7 and 9</td>
</tr>
<tr>
<td>Leverage</td>
<td>Debt-Equity ratio of the sample companies. Refer Appendix – 8 and 10</td>
</tr>
<tr>
<td>Profitability</td>
<td>Profit After Tax and Return on Net Worth. Refer Appendix – 7 to 10</td>
</tr>
<tr>
<td>Internality</td>
<td>Number of stock exchanges in which company listed.</td>
</tr>
<tr>
<td>Company age</td>
<td>Age of the company as on 2012. Refer Appendix – 11 and 12</td>
</tr>
<tr>
<td>Listed in Stock Exchange</td>
<td>Number of stock exchanges in which company listed</td>
</tr>
</tbody>
</table>

### Details of Tests Used for Hypotheses Testing

The Non-parametric test i.e., *Kruskal-Wallis Test* and *Mann-Whitney U-test* is used to determine whether the research hypotheses are accepted or rejected. The level of significance is 0.05. Descriptions of both the tests are as follows:

- **Kruskal-Wallis test:** It is a non-parametric ANOVA test that is used to measure the differences among means of more than two groups. All cases from k groups are ordered in a single ranking. K populations would be same, if groups are similar in terms of ranks within each group. A chi-square statistic is computed and its significance level is tested.

- **Mann-Whitney U test:** It is a statistical technique for a variable measured on an ordinal scale comparing the difference in the location of two populations based on observations from two independent samples. For applying this test the two samples are first combined and the cases are ranked in ascending order. The results would show mean ranks of the two samples, if the groups have similar values it shows that the groups do not differ.
1.18 LIMITATIONS OF THE STUDY

No research study is possible without making certain assumptions and facing few limitations. The present study has few limitations, the concept of Internet Financial reporting is not very old as far as Indian users’ and industries are concerned but for U.S. corporate world it is an old story and their users’ are completely familiar with this concept. So, the responses given by users’ may be different from each other. The researcher selected 200 companies’ samples for the study which was not enough because both the stock exchanges were having a large number of listed companies. Even sample may also be included few companies from underdeveloped nations for more international comparison purpose. The one year based study may be one of the limitation as internet based reporting is dynamic in nature the website presentation of the companies can be changed at any time so, continues observation is required for a long period and accordingly deviations are recorded and analyzed. The investors’ perception sample was based on the opinion collected from the e-mails of the investors sometimes they may be faked. Finally, in India there are no such guidelines for financial reporting on internet which are compulsory by any ACT of Parliament or by regulatory bodies for Indian companies small or large, listed or unlisted, mostly disclosure of financial reporting on internet are voluntary in nature when things comes to Internet reporting in case of U.S. companies, they have better and more guidelines for Internet financial reporting, so outcomes from Indian companies may be affected the study.
SUMMARY

In the modern business environment the objective of financial reporting is to gather financial information useful for investors, information simplifying decisions related to investment and granting loans. With the rapid development and ever more widespread use of the Internet, companies have acquired a very effective communications tool for the presentation of vital information to investors and to creditors. The Internet enables relatively cheap and extremely fast presentation of useful information in varying formats to the millions of people who use the Internet every day. These characteristics have made financial reporting on the Internet the usual practice of the corporate sector in developed as well as in developing counties as well.

In India, as the internet users are increase day by day in the same manner corporate sector adopt internet to disseminate all type of information. Not only registered website of the company but also the social networking sites are used for the purpose of corporate communication. In social networking sites like, Facebook, Twitter, LinkedIn and You Tube etc., companies make their web pages on these websites and invite their investor to join them on these social networking sites. This gives a platform to information seekers to attach with company in a different and personal way.

This Chapter has the introductory part of the present research. In this chapter, researcher has talked about the need and rational of the study, different objectives and methodology applied to obtain those objectives. To conduct this research and achieve its different objectives, a sample of 100 Indian and 100 U.S. companies which are listed in BSE and NYSE as on 14th October, 2010 are taken. The period of the research was April, 2010 to December, 2011. To provide scientific base to the research, six hypotheses are also framed and tested. For the fulfillment of these objectives, the different statistical tools have been used. The complete research is divided in eight chapters, starts from Introduction to end with Conclusions & Recommendations.
REFERENCES

- www.internetworldstats.com