CHAPTER 5

REGULATORY FRAMEWORK AND CORPORATE REPORTING ENVIRONMENT IN INDIA
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5.1 Need for Regulatory Environment:

Adequate framework of disclosure regulation is necessary because of the potential for market failure in the absence of financial information. Without adequate information, investors will be reluctant to participate in the markets that are perceived to be manipulated in favour of certain vested interests. It is therefore evident that companies cannot be relied upon to make a full and fair disclosure of information on their own. There must be some regulation to prescribe certain level of information to be disclosed by all the companies.

Saloman (1986) a strong proponent of regulation has given the following additional arguments for regulation of corporate disclosures:

1. Regulation facilities comparisons across companies.
2. Regulation is necessary, given the limited capacity of users to interpret and use information. Standardization of formats and terminology leave the user free from the burden of trying to interpret the forms and the terms.
3. Regulation can improve the credibility of information in the eyes of the user.

Beaver has given following arguments of such regulation:

1. Financial reporting involves externalities. An externality exists when the actions of party have effects on other parties who are not charged via the price mechanism.
2. Let unregulated market forces would lead to an asymmetrical or uneven possession of information among investors.
3. Corporate managers have incentives to suppress unfavourable information.
There are significant regulations governing corporate reporting and disclosure in all countries around the world. Leftwich (1980), Watts and Zimmerman (1986) and Beaver (1998) note that accounting information can be viewed as a public good since existing stockholders implicitly pay for its production but cannot charge potential investors for their use of the information. Prospective investors, therefore, free ride on information paid for by existing shareholders, leading to the potential underproduction of information in the economy. They further propose that disclosure regulation is motivated by concerns other than market failures e.g. regulators may be concerned about the welfare of financially unsophisticated investors. By creating minimum disclosure requirements, regulators reduce the information gap between informed and uninformed. This explanation for disclosure implies that the objective of disclosure regulation is to redistribute wealth, rather than to improve economic efficiency. After all, unsophisticated investors could choose to reduce the information gap by investing in financial knowledge or hiring the services of sophisticated intermediaries.

Accounting standards regulate the reporting choices available to managers in presenting the firm's financial statements. This type of regulation potentially reduces processing costs for financial statement users by providing a commonly accepted language that managers can use to communicate with investors. The most significant conclusion is that regulated financial reports provide new and relevant information to investors.

5.2 Regulatory Framework of Corporate Reporting in India:

In India, the Companies Act, 1956 is the principal act to regulate the corporate reporting. Another body that has a major influence in reshaping Indian financial reporting is the Securities and Exchange Board of India (SEBI), The Companies Act, 1956 prescribes the financial reporting requirements for all the companies registered under it, The reporting requirements that are imposed by the SEBI through its Guidelines and through the Listing Agreement are in addition to those prescribed under the Companies Act. SEBI requirements are
to be followed by the companies listed on the Indian stock exchanges. The Companies Act and the SEBI requirements together provide the legal framework of corporate reporting in India.

5.3 **The Company Act, 1956:**

The Companies Act, 1956 lays down the detailed provisions regarding the maintenance of books of accounts and the preparation and presentation of annual accounts. The Act also prescribes the mechanism for issuance of accounting standards. It specifies the roles and responsibilities of directors and also the matters to be reported upon by them in the annual reports of the companies. Under the provisions of the Act, audit of annual accounts are compulsory for all companies registered under it. The Act extensively deals with the qualification, appointment, removal, rights, duties and liabilities of auditors and provides contents of auditors' report. In case of delinquency/default by the management or auditor, penal provisions are prescribed. However, despite providing for detailed requirements in respect of maintenance of books of account, preparation and presentation of financial statements and audit of annual accounts, the main thrust under the Companies Act is upon the presentation of a “true and fair view” of the state of affairs and operating results of the reporting companies.

As the preparation of financial statements contained in annual reports presupposes the existence of a recording procedure of transactions of the reporting entities, the requirements as to the maintenance of books of accounts are also mentioned.

5.3.1 **Books of Account:**

The Companies Act requires every company to maintain at its registered office proper books of account with respect to the following:

a. All receipts and disbursements of money and the matters in respect of which the receipts and disbursement take place;
b. All sales and purchases of goods of the company;

c. The assets and liabilities of the company (Section 209).

The Act does not mention the name of the books of accounts but it clarifies that proper books of account shall be deemed to be kept with respect to the specified matters, if, such books give a true and fair view of the state affairs of the company or its branch office and explain its transactions- and such books are kept on accrual basis and according to the double entry system of accounting.

Additionally, if required by the Central Government, a company engaged in production, processing, manufacturing or mining activities is also required to keep cost accounting records i.e. accounts for utilization of raw materials, labour and other items of cost, as may be prescribed by the Central Government.

Where a company has a branch office, whether in or outside India, the company should keep at the branch office proper books of account relating to the transactions effected at that office. The branch office should send proper summarized returns, made up to a date at intervals of not more than three months, to the company at its registered office.

5.3.2 Statutory Recognition of Accounting Standards:

Up to 1997 there was no statutory backing of accounting standards in India. There was only professional requirement by the ICAI, the standard-setting body in India for ensuring compliance of accounting standards through audit function by its members. However, in the absence any statutory requirement of the observance of accounting standards on the management of companies, compliance with accounting standards was left to discretion of the management.

In 1998 the Companies (Amendment) Ordinance, 1998 was promulgated by the President of India. This Ordinance gave statutory recognition to accounting
standards and required the auditor to report on the compliance with accounting standards. The ordinance also provides for the constitution of the National Advisory Committee on Accounting Standards (NACAS). Subsequently, the Companies (Amendment) Act, 1999 was passed in the parliament, which gave legal status to the Companies (Amendment) Ordinance, 1998. Sub-sections (3A), (3B) and (3C) of Section 211 have been inserted in the Act to provide for compliance with accounting standards for the preparation of Profit and Loss Account and the Balance Sheet, and for formation of the NACAS. Consequential change has also been made in the reporting requirement by inserting a new clause (d) to Section 227 (3) that requires the auditor to report on the compliance with accounting standards by the reporting entity. The amended Act requires that:

1. Every Profit and Loss Account and the Balance Sheet of the company should comply with the accounting standards [Section 211 (3A)].

2. Where the Profit and Loss Account and the Balance Sheet of the company do not comply with the accounting standards such companies should disclose in its Profit and Loss Account and Balance Sheet, the following, namely -
   a) The deviation from accounting standards,
   b) The reasons for such deviation and
   c) The financial effect if any, arising due to such deviation [Section 211 (3B)].

For this purpose, the expression Accounting Standards' means the Standard of Accounting recommended by the Institute of Chartered Accountants of India (ICAI), as may be prescribed by the Central Government in Constitution with the National Advisory Committee on Accounting Standards (NACAS) established under Sub-section (1) of Section 21OA [Section 211 (3C)].

It has also been provided that until Accounting Standards are prescribed by the
Central Government, the standards of accounting specified by the ICAI shall be deemed to be the Accounting Standards [Proviso to Section 211 (3C)]. Based on the recommendations of NACAS, the Central Government, has already notified AS 1 to AS 7 and AS 9 to AS 29.

5.3.3 Concept of True and Fair:

Generally, the phrase 'true and fair' view signifies that the financial statements should truly and fairly represent the actual financial position as at the end of the accounting period and the profit or loss for that period. However, what is 'true and fair view' has not been defined in the Act. It is negatively stated in sub-section (5) of section 211 that the Balance Sheet and the Profit and Loss Account of a company should be deemed as not showing a true and fair view, if they do not disclose any matters which are required to be disclosed by virtue of the provisions of Schedule VI or by virtue of a notification or an order of the Central Government notifying the disclosure requirement. Thus, one of the tests for determining whether or not the financial statements show a true and fair view is to check whether or not all relevant disclosures as required under law have been properly made.

The phrase 'true and fair' signifies that the auditor should give an opinion as to whether the financial statements represent fairly the actual financial position as at the end of the accounting period and the profit or loss for that period. In this context, it may be noted that the disclosure requirements as laid down by law are the minimum requirements. Hence, if certain information is vital for showing a true and fair view, the financial statements should disclose it, even though there may not be a specific legal requirement for doing so. What constitutes a true and fair view is, thus, a matter of an auditor's judgment in the particular circumstances of a case.

In effect, though the Indian Companies Act imposes responsibility primarily on the management to present a true and fair view of accounts, ultimately, it is the auditors who are to judge and opine on the truth and fairness of the accounts.
5.3.4 Disclosure Requirements under the Companies Act:

Traditionally, corporate enterprises in India have presented financial information through two financial statements, namely, Balance Sheet and Profit and Loss Account (Income Statement). These are the two primary statements that have been prescribed and their contents have been laid down by the Companies Act in India. A majority of Indian companies are now required to present a Cash Flow Statement as a principal financial statement and by giving recognition to accounting standards, the Companies Act, 1956 indirectly endorses such presentation.

The Act requires that at every annual general meeting, the Board of Directors of the company should place before the company:

1. A Balance Sheet as at the end of the financial year; and

2. A Profit and Loss Account for the financial year [Section 210(1)].

Thus, the primary responsibility for preparation of financial statements and the laying of the same before the company at the annual general meeting is upon the directors of the company. However, they can entrust this duty to some other competent and reliable person who is in a position to discharge it [Section 210(5)].

Apart from Balance Sheet and Profit and Loss Account, a lot of financial and non-financial information is required to be disclosed by companies registered under the Companies Act.

Mandatory information which is required to be disclosed in the corporate annual reports either by virtue of the provisions contained in the Companies Act, 1956 alone or by virtue of such provisions read with the provisions of applicable accounting standards may be grouped under following heads:

i) Balance Sheet

ii) Statement of Profit and Loss
iii) Narrative Disclosure

iv) Cash Flow Statement

v) Supplementary Statements

vi) Auditor’s Report

vii) Director’s Report

5.3.4.1 Balance Sheet: The Companies Act requires that every Balance Sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of the financial year. It shall be in the form set out in Part 1 of the Schedule VI, or as near that as the circumstances permit. In preparing the Balance Sheet, the preparers should follow the general instruction for preparations of Balance Sheet under the heading 'Notes' at the end of the aforesaid Part [Section 211(1)].

Part I of Schedule VI to the Companies Act provides the form and contents of the Balance Sheet. The vertical form of Balance Sheet (given in Appendix 2) provides for two main heads, namely,

1. Equity and Liabilities and

2. Assets

Four major sub-groups under the head Equity and Liabilities are:

i) Shareholders Funds requiring details to be given separately in respect of (a) Share Capital (b) Reserve and Surplus and (c) Money received against Share Warrants;

ii) Share Application Money pending allotment;

iii) Non-Current Liabilities requiring details to be given separately in respect of (a) Long Term Borrowings (b) Deferred Tax Liabilities (Net) (c) Other Long Term Liabilities and (d) Long Term Provisions; and

iv) Current Liabilities which cover (a) Short Term Borrowings (b) Trade
Payables (c) Other Current Liabilities and (d) Short Term Provisions.

Assets have further been classified as:

a) Non-current assets with separate details for:
   i) Fixed Assets (tangibles, intangibles, capital work-in-progress and intangibles under development)
   ii) Non-Current Investments
   iii) Deferred Tax Assets (net)
   iv) Long term loans and advances and
   v) Other Non-Current Assets

b) Current assets with separate details for
   i) Current Investments
   ii) Inventories
   iii) Trade Receivables
   iv) Cash and Cash Equivalents
   v) Short Term Loans and Advances and
   vi) Other Current Assets

General instructions for preparation of the Balance Sheet are contained in the 'Notes' appended to the form of Balance Sheet. The information required to be given under any of the items of the Balance Sheet may be given separately in notes to accounts to be annexed thereto, which also form a part of the Balance Sheet. The figures of the previous year are required to be shown along the figures of the current year.
5.3.4.2 Statement of Profit and Loss: Like Balance Sheet, every Profit and Loss Account of a company is required to exhibit a true and fair view of the profit or loss of the company for the financial year. The Profit and Loss Account is required to be prepared as per the requirements of Part II of Schedule VI. [Section 211 (2)]. Like Balance Sheet, Profit or loss is also prepared in the vertical form (in which items of income are shown first and items of expenses are reported as a deduction there form) as prescribed in Part II of the revised Schedule VI. The main advantage of the vertical form of presentation is that it makes the Balance Sheet and Profit and Loss Account easily understandable to the users who may not have a basic knowledge of accounts.

The Profit and Loss Account has to disclose every material feature, including credits or receipts and debits or expenses in respect of non-recurring transactions or transactions of an exceptional nature. Accounting Standard 5 on Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies states that when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Schedule VI also requires earnings per share to be given at the end of the Statement of Profit and Loss. The detailed information in respect of various items can be given separately in notes to accounts, which then form part of Statement of Profit and Loss. As in the case of Balance Sheet, corresponding amounts for the immediately proceeding financial year for all items shown in the Statement of Profit and Loss should also be given.

5.3.4.3 Narrative Disclosures: The narrative disclosures that are contained in published company accounts embrace both qualitative and quantitative information. In most cases narrative disclosures are presented in textual form wherein more emphasis is laid on words than on figures. Although most of the narratives disclosed in published company accounts relate to the items of basic
financial statements, there are certain narrative disclosures, which focus on things that are not related to financial statement items.

In India requirements as to narrative disclosures stem from the provisions of the Companies Act and that of the accounting standards. These requirements are discussed under the following two broad heads:

A. Accounting Policies

B. Notes on Accounts

A. Accounting Policies:

Accounting policies often contain a large volume of narratives that have a significant bearing on the financial health and performance of the company. Accounting Standard 1 on Disclosure of Accounting Policies issued by the ICAI deals with the disclosure of significant accounting policies followed in the preparation and presentation of financial statements. The purpose of this standard is to promote better understanding of financial statements by ensuring the disclosure of significant accounting policies in the financial statements in an orderly manner. Such disclosure would also facilitate a more meaningful comparison between financial statements of different enterprises.

According to this standard, going concern, consistency and accrual are fundamental accounting assumptions that underlie the preparation and presentation of financial statements. It specifically requires that if a fundamental accounting assumption is not followed, the fact should be disclosed.

The standard stipulates the following:

1. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

2. The disclosure of the significant accounting policies should form part of the financial statements.
3. The significant accounting policies should normally be disclosed at one place.

4. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed in the year of such change.

5. In the case of a change in accounting policies that has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable, wholly or in part, the fact should be indicated.

Though this standard provides general guidance for disclosure of significant accounting policies, it has not stated which ones constitute significant accounting policies. However, a number of accounting standards issued by the ICAI specifically require disclosure of certain accounting policies. Extracts from an annual report is given in Appendix and that extracts include disclosure of accounting policies.

B. Notes on Accounts:

The section titled "Notes to the Accounts" or "Notes on Accounts" contains sizeable data. Notes on Accounts are integral part of the financial statements. Some of the disclosures made under Notes on Accounts are in fact the extensions of the items of the basic financial statements, while other notes may provide additional information. Disclosure through notes is done either to comply with statutory requirements or the company may voluntarily choose to provide details on certain items. Such notes provide information about the accounting methods, assumptions and estimates used by management to develop the data reported in the financial statement. Following are the mandatory disclosure requirements, which may be presented under Notes on Accounts:

1. Contingent Liabilities and Capital Commitment;
2. Disclosure related to Small Scale Industrial Undertakings;

3. Managerial Remuneration;

4. Statement Showing Computation of Net profits for Managerial Remuneration;

5. Payments to the Auditors;

6. Quantitative Information Relating to Capacity and Production;

7. Value of Imports etc.;

8. Earnings and Expenditure in Foreign Currencies;

9. Prior Period Items;

10. Extraordinary Items;

11. Government Grants;

12. Amalgamation;

13. Related Party Transaction;

14. Lease;

15. Disclosure of Interest in Joint Ventures;

16. Disclosure of Earning Per Share;

17. Disclosure of Taxes on Income;

5.3.4.4 Cash Flow Statement: The Companies Act in India does not make any specific requirement for the preparation and presentation of a Cash Flow Statement as it does in the cases of Balance Sheet and Profit and Loss Account. In March 1997, the ICAI issued the Accounting Standard 3 (AS 3) on Cash Flow Statement by replacing the original Accounting Standard 3 on fund flow statement titled Changes in Financial Position' issued in June 1981. Subsequently, it has declared AS 3 as a specified accounting standard for the purpose of Section 211 (3C) to be complied with by the companies.
Moreover, as per the requirement of clause 32 of the Listing Agreement, it is mandatory for the listed companies to prepare and present a cash flow statement in accordance with AS 3 issued by the ICAI following the ‘indirect’ method. Apart from listed companies, any enterprise having turnover more than 50 crores in a year or an enterprise that intends to issue securities is required to prepare and present cash flow statement as a principal financial statements.

In a cash flow statement, cash flows are required to be classified in terms of the activities generating them. AS 3 prescribes three types of activities that generate cash flows for an enterprise. These are:

1. Cash flows generated by operating activities
2. Cash flows generated by investing activities
3. Cash flows generated by financing activities.

The standard prescribes two alternative methods for presentation of cash flows: direct method and indirect method. The key difference in these two methods lies in their presentation of cash flow from operating activities’. In the direct method, operating cash receipts and payments are reported directly. Major classes of gross cash receipts and gross cash payments are disclosed. In the indirect method, cash flows from operating activities are reported by way of adjustments of the reporting period's net profit disclosed in the Profit and Loss Account. Such adjustments are made for:

1. The effects of transactions of a non-cash nature,
2. Any deferrals or accruals of past or future operating cash receipts or payments, and
3. Items of income or expense associated with investing or financing cash flows.

Major classes of gross cash receipts and gross cash payments arising from investing and financing activities are presented separately.
5.3.4.5 Supplementary Statements: Pursuant to the provisions of Section 212 of the Companies Act, 1956, holding companies are required to provide certain pieces of information in respect of its subsidiary(s) in a supplementary statement in their annual reports. Linder Section 212, the following documents must be attached to the Balance Sheet of a holding company:

a) A copy of the recent Balance Sheet of the subsidiary company (or companies)
b) A copy of the recent Profit and Loss Account of the subsidiary (or subsidiaries)
c) A copy of the recent report of the Board of Directors of the subsidiary
d) A copy of the recent report of the auditors of the subsidiary (or subsidiaries)

The aforesaid documents have to be prepared in accordance with the requirements of this Act. The information to be attached to the Balance Sheet of a holding company in respect of the subsidiary companies cannot be more than 6 months old.

In addition to these documents a holding company is required to provide the following statements:

i) A statement showing:
   a) The extent of the holding company's interest in the subsidiary (or subsidiaries) at the end of the financial year or of the last financial year of the subsidiary (or subsidiaries);
   b) The net aggregate amount of profits (after deduction of losses) of the subsidiary (or subsidiaries) so far as they concern the holding company, separately for the current financial year and for previous financial years. The profits have to be segregated between profits already dealt with in the books of the holding company and not so dealt with.
The term ‘profits’ means profits of a revenue nature and earned after the date of the acquisition of the shares by the holding company:

1. Where the financial year of the subsidiary company does not coincide with the financial year of the holding company, a statement showing the following;

2. Whether and to what extent there has been a change in the holding company's interest in the subsidiary company between the end of the financial year or of the last financial year of the subsidiary and the end of the holding company's financial year

3. Details of any material changes which have occurred between the end of the financial year or of the last financial year of the subsidiary company and the end of the financial year of the holding company in respect of:
   a) The subsidiary's fixed assets
   b) Its investments
   c) The money lent by it; and
   d) The moneys borrowed by it for any purpose other than that of meeting current liabilities.

If for any reason the Board of Directors of the holding company is unable to obtain information on the subject of revenue or capital profits, a report in writing to that effect should also be furnished.

5.4 Role of SEBI:

The Securities and Exchange Board of India (SEBI) is the regulatory authority in India established under Section 3 of SEBI Act, 1992. SEBI Act. 1992 provides for establishment of Securities and Exchange Board of India (SEBI) with statutory powers for:

1. Protecting the interests of investors in securities
2. Promoting the development of the securities market and

3. Regulating the securities market.

Its regulatory jurisdiction extends over corporate in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI has been obligated to perform the aforesaid functions by such measures as it thinks fit. In particular, it has powers for:

- Regulating the business in stock exchanges and any other securities markets
- Registering and regulating the working of stock brokers, sub-brokers etc.
- Promoting and regulating self-regulatory organizations
- Prohibiting fraudulent and unfair trade practices
- Calling for information, undertaking inspection, conducting inquiries and audits of the stock exchanges, intermediaries, self - regulatory organizations, mutual funds and other persons associated with the securities market.

SEBI has used its power to order changes in listing agreement and such changes are instrumental to bring about improvement in disclosure practices of listed companies in their annual reports. Listing agreement is the standard agreement between a company seeking listing of its securities and the stock exchange where listing is sought. Any stock exchange has power to alter the clauses of listing agreement unilaterally, and companies listed with that exchange are bound to accept such changes to enjoy the facility of listing. Thus, whenever the SEBI suggests any change, it is incumbent on the listed companies to follow such a change. In effect, the SEBI has power to direct the listed companies to follow any changed disclosure requirements.

SEBI has imposed a number of disclosures and other requirements through this
route. Some important requirements are as follows:

- Dispatch of a copy of the complete & full annual report to the shareholders (Clause 32).
- Disclosure on the Y2K preparedness level (Clause 32).
- Disclosure of Cash Flow Statement (Clause 32).
- Disclosure of material developments and price sensitive information (Clause 36).
- Compliance with Takeover Code (Clause 40B)
- Disclosure of interim unaudited financial result (Clause 41).
- Disclosure regarding listing fee payment status and the name and address of each stock exchange where the company's securities are listed (Clause 48B).
- Corporate governance report (Clause 49).
- Compliance with Accounting Standards issued by the ICAI (Clause 50).

The initiative to introduce the Cash Flow Statements (as a principal financial statement) in India was taken by the SEBI and it has used its power under section 11 of the SEBI Act, 1992 to direct all recognized stock exchange to amend clause 32 of the listing agreement. Amended clause 32 provides for a requirement of appending an audited Cash Flow Statement (CFS) as a part of annual accounts. As per the SEBI mandate, the requirement of providing a CFS is mandatory for listed companies from the financial year 1994-95 i.e., year ended 31st March 1995. There is no such requirement in Indian Companies Act, 1956 to append any cash flow or fund flow statements with the annual financial statement. When the SEBI mandate was issued, there was no accounting standard issued by the ICAI as regard preparation and presentation of a CFS. The ICAI issued a revised accounting standard (AS 3) on the subject by replacing its standard on Fund Flow Statement in March 1997. After
introduction of ICAI standard the SEBI has directed a change in the Listing Agreement to provide that CFS shall be prepared in accordance with the ICAI standard.

SEBI has appointed certain expert committees from time to time to use the power to direct changes in the disclosure requirements effectively. Such committees have recommended changes in disclosure that are generally accepted by the SEBI.

Kumar Mangalam Birla Committee was appointed by the SEBI to suggest changes in the Listing Agreement to promote corporate governance. The major thrust area of the Committee was to suggest model code of corporate governance. To make corporate responsibility meaningful and more stringent, the Committee recommended inclusion of corporate governance report as a part and parcel of annual report. Issues involving corporate governance include disclosure of both financial and non-financial information including accounting information. The recommendations of the Committee are divided into two parts viz., mandatory and non-mandatory recommendations and it is opined that the recommendations should be made applicable to the listed companies. The requirements of appending corporate governance report and Management Discussion and Analysis report are imposed on the basis of the recommendations of the Committee.

SEBI has also sought to address corporate disclosure issues regarding initial public offer through the appointment of Y.H. Malegam Committee in 1995. The Committee was appointed to review the existing disclosure requirements in offer documents and recommend additions thereto and modifications thereof. The offer documents consist of the prospectus, the application form and the abridged prospectus in the case of a public issue and the letter of offer in the case of a right issue. Among these, the prospectus (including its abridged version) and the letter of offer contain substantial amount of financial disclosures. The committee has opined that investor protection demands that the potential investor is provided with all the information that is necessary for
him to take a decision after proper assessment of the risks and benefits of the proposed investment and such information should be accurate, complete, timely and not misleading.

The process of the SEBI has resulted in a changed regime for imposition of financial disclosure requirements that is quick and does not require lengthy process of legislative changes. By virtue of the provisions contained the Listing Agreement (Clause 50), listed companies are now under legal compulsion to comply with all the accounting standards issued by the ICAI.

5.4.1 Corporate Governance:

In India the first attempt was made by the Confederation of Indian Industries to codify Corporate Governance. But the genesis of the provisions on Corporate Governance contained in clause 49 of the Listing Agreement is the Report of Kumar Mangalam Birla Committee. On 7th May 1999, the SEBI had set up a committee under the chairmanship of Sri Kumar Mangalam Birla to formulate the code of Corporate Governance. The SEBI in its meeting held on 25th January, 2000 accepted the recommendations made by the committee and suggested incorporation of certain matters in the Listing Agreement as clause 49. This clause addresses different aspects of corporate governance. The disclosure requirements contained under this clause are asunder:

a) Management Discussion and Analysis Report: Management Discussion and Analysis (MD & A) report is a very important document through which management of a company can express its views and opinions on various aspects of a company like performance, success or failure, future plan of the company, forward looking information, etc.

The management Discussion and Analysis (MD&A) complements and supplements the financial statements, but does not form part of the financial statements. The objective in preparing the MD&A should be to improve the reporting company's overall financial disclosure by providing a balanced discussion of the results of operations and financial
conditions. Although originally devised as a regulatory document to supplement financial statements, the MD&A report has the potential to be a foundational and integrative business reporting document that provides 'forward-looking information'.

The MD&A serves the laudable purpose of giving investors important disclosures about a company's operations. Although this section contains useful information, investors must heed caution, as the section is unaudited.

By virtue of the provisions contained in clause 49 under the Listing Agreement, the company has to provide a MD & A report to the shareholders. This report may be presented as part of the directors' report or as an addition thereto. It should include discussion on the following matters within the limits set by the company's competitive position:

1. Industry structure and developments.
2. Opportunities and threats.
4. Outlook.
5. Risks and concerns.
6. Internal control systems and their adequacy.
7. Discussion on financial performance with respect to operational performance.
8. Material developments in Human Resources/Industrial Relations front, including number of people employed.

b) Management's Report on Corporate Governance: The listed companies are required to give a detailed compliance report on corporate governance in the separate section on Corporate Governance
(CG) in their annual reports. The report must specifically highlight non-compliance of any mandatory requirements with reasons thereof and also the extent to which the non-mandatory requirements have been adopted.

The company should obtain a certificate from the auditors of the company regarding the compliance with the conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report which is sent annually to all the shareholders of the company.

In 2002 SEBI analyzed the statistics of compliance with the clause 49 by listed companies and felt that there was a need to look beyond the mere systems and procedures if Corporate Governance was to be made effective in protecting the interests of the investors. SEBI therefore constituted a committee under the chairmanship of N. R Narayana Murthy, Chairman and Mentor of Infosys Technologies Ltd and mandated the said committee to (inter-alia) review the performance of Corporate Governance in India and make appropriate recommendations.

Based on the recommendations of these reports, a revised clause 49 was introduced requiring companies to comply with it by March 2004. The revised clause 49 shall apply to all listed companies in accordance with the schedule of implementation.

For entities seeking listing for the first time, at the time of seeking in-principle approval for such listing. For existing listed entities which were required to comply with clause 49 which is being revised, i.e., those having a paid-up share capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the company, by April 1, 2005.

5.4.2 Scope and Importance of Corporate Governance:

Corporate governance is all about ethics in business. It is about transparency,
openness & fair play in all aspects of business operations. The key aspects to corporate governance include:

1. Accountability of Board of Directors & their constituent responsibilities to the ultimate owners - the shareholders.

2. Transparency, i.e. right to information, timeliness & integrity of the information produced.

3. Clarity in responsibilities to enhance accountability.


5. Checks & balances in the process of governance.

6. Adherence to the rules, laws & spirit of codes.

7. An active & involved board consisting of professional & truly independent directors plays an important role in creating trust between a company & its’ investors and is the best guarantor of good corporate governance.

Good corporate governance is integral to the very existence of a company. It is important for the following reasons:

- Corporate governance ensures that a properly structured Board, capable of taking independent & objective decisions is at the helm of affairs of the company. This lays down the framework for creating long-term trust between the company & external providers of capital.

- It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience & a host of new ideas.

- It rationalizes the management & monitoring of risk that a corporation faces globally.

- Corporate governance emphasizes the adoption of transparent
procedures & practices by the Board, thereby ensuring integrity in financial reports.

- It limits the liability of top management & directors, by carefully articulating the decision making process.

- It inspires & strengthens investors’ confidence by ensuring that there are adequate number of non-executive & independent directors on the Board, to look after the interests & well-being of all the stakeholders.

- Corporate governance helps provide a degree of confidence that is necessary for the proper functioning of a market economy, as it contemplates adherence to ethical business standards.

- Finally, globalization of the market place has ushered in an era wherein the quality of corporate governance has become a crucial determinant of survival of corporate. Compatibility of corporate governance practices with global standards has also become an important constituent of corporate success. Thus, good corporate governance is a necessary prerequisite for the success of Indian corporate.

5.4.3 Disclosure under Clause 49 (Revised) of Listing Agreement:

SEBI revised Clause 49 of the Listing Agreement pertaining to corporate governance vide circular date October 29th, 2004, which superseded all other earlier circulars issued by SEBI on this subject. All existing listed companies were required to comply with the provisions of the new clause by 31st December 2005. The major provisions included in the new Clause 49 are:

- The board will lay down a code of conduct for all board members and senior management of the company to compulsorily follow.

- The CEO an CFO will certify the financial statements and cash flow statements of the company.

- If while preparing financial statements, the company follows a treatment
that is different from that prescribed in the accounting standards, it must
disclose this in the financial statements, and the management should also
provide an explanation for doing so in the corporate governance report
of the annual report.

- The company will have to lay down procedures for informing the board
  members about the risk management and minimization procedures.

- Where money is raised through public issues etc., the company will have
to disclose the uses/ applications of funds according to major categories
(capital expenditure, working capital, marketing costs etc) as part of
quarterly disclosure of financial statements.

- Further, on an annual basis, the company will prepare a statement of
  funds utilized for purposes other than those specified in the offer
document/ prospectus and place it before the audit committee.

- The company will have to publish its criteria for making its payments to
  non-executive directors in its annual report. Clause 49 contains both
mandatory and non mandatory requirements. Mandatory requirements
refer primarily to:

  - Board of Directors with respect to their composition, independence,
    procedures, code of conduct and disclosures;

  - Audit Committee and its composition, powers, role and responsibilities;

  - Subsidiary Companies to ensure their better control and supervision;

  - Disclosures in the context of related party transactions, risk management
    and minimization procedures, utilization of proceeds from Initial Public
    Offerings, investor education and protection;

  - CEO/CFO certification regarding the correction of the financial
    statement and compliance with prescribed Accounting Standards;

  - Separate report on corporate Governance in the annual reports with
respects to compliance of mandatory and non mandatory requirements; and

- Compliance certificate obtained either from the auditors or practicing company Secretaries.

- Non mandatory requirements refer to those requirements which are not compulsory and can be adopted at the discretion of the company. These include requirements:

  - Regarding the maximum tenure of the independent directors,
  - Formation of a remuneration committee for determining the remuneration packages for executives directors,
  - Moving towards a regime of unqualified financial statements,
  - Training of board members,
  - Evaluation of non – executive board members, and
  - Establishing a mechanism for employees to report unethical behavior to the management under a Whistle Blower Policy.

5.4.4 Disclosure Requirements under Listing Agreement and Other SEBI Guidelines:

The disclosure requirements under the Listing Agreement for the presentation of annual reports by listed companies are discussed below. Though there are some overlapping reporting requirements for annual reports under the Listing Agreement and under the Companies Act, many requirements under the Listing Agreement supplement the requirements under the Companies Act for the listed companies.

5.4.4.1 Balance Sheet, Profit and Loss Account and Directors' Report:

Unlike the Companies Act, 1956. Listing Agreement does not provide any guidance for the preparation of Balance Sheet, Profit and Loss Account and the Directors' Report. It merely requires a company to supply a copy of the
complete and full Balance Sheet, Profit and Loss Account and the Directors' Report to each shareholder. However, a company may supply a single copy of the complete and full Balance Sheet, Profit and Loss Account and the Directors' Report to shareholders residing in one household. But it must send a statement containing the salient features of Balance Sheet, Profit and Loss and Auditors' Report to all the shareholders in the same household and on receipt of request it shall supply the complete and full Balance Sheet, Profit and Loss Account and the Directors' Report to any shareholder residing in such household [Clause 32].

5.4.4.2 Cash Flow Statement: While the Companies Act, 1956 does not make any specific requirement for presentation of the cash flow statement in the annual reports of companies. Listing Agreement specifically requires the preparation and supply of such statement. It stipulates that cash flow statement should be prepared in accordance with the Accounting Standard on Cash Flow Statement (AS 3) issued by the ICAI, and it shall be presented only under the 'Indirect Method' as given in AS 3 [Clause 32].

5.4.4.3 Related Party Disclosure: Transactions between related parties may not be at arm's length. Hence, companies are required to make appropriate disclosures in respect of such transactions so that users of financial statements can make their own assessment. Such disclosures have to be made in annual reports in compliance with the accounting standard on Related Party Disclosure (AS 18) issued by the ICAI [Clause 32].

5.4.4.4 Disclosure to be made by Holding Companies and Subsidiary Companies in respect of Loans, Advances and Investments: Holding companies are required to disclose in their separate financial statements, the amounts at the year end, and the maximum amount during the year, of loans I advances I investments outstanding in respect of the following. Similarly, subsidiary companies are also required to disclose in their financial statements, the amounts at the year end, and the maximum amount during the year, of loans/advances/Investments outstanding in respect of the following:
a) Loans and advances in the nature of loans to holding company by name and amount

b) Loans and advances in the nature of loans to associates by name and amount

c) Loans and advances in the nature of loans where there is

- No repayment schedule or repayment beyond seven years or
- No interest or interest below the rate (i.e., the prevailing bank rate) mentioned in section 372A of Companies Act, 1956 by name and amount

5.4.5 Mandatory Requirements under Clause 49:

5.4.5.1 Composition of Board: The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.

Where the Chairman of the Board is non-executive directors, at least one third of the Board should comprise of independent directors and in case he is an executive directors, at least half of the Board should comprise of independent directors.

For the purpose of sub–clause (ii) the expression ‘independent director’ shall mean a non executive director of the company who:

- Apart from receiving director’s remuneration, do not have any material pecuniary relationships or transactions with the company, its promoters, its directors its senior management or its holding company, its subsidiaries and associated which many affects independence of the director.

- Is not related to promoters or persons occupying management’s positions at the board level or at one level below the board;
o Is not been executive or was not partner or an executive during the preceding three years, of any of the following;

o Is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following;

o The statutory audit firm or the internal audit firm that is associated with the company, and ; The legal firm(s) and consulting firm(s) that have a material association with the company

o Is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the directors; and is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares.

Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors. However if the Dr. J.J. Irani Committee recommendations on the proposed new company law are accepted, then directors, nominated by financial institutions and the government will not be considered independent.

Non executive directors compensation and disclosures: all fees/ compensation, if any paid to non executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders’ resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and aggregate. However as per SEBI amendment made vide circular SEBI/ CFD/DIL/CG dated 12/1/06 sitting fees paid to non-executive directors as authorized by the Companies Act 1956, would not require the previous approval of shareholders.

5.4.5.2 Other Provisions of Board and Committees: The board shall meet at least four times a year, with a maximum time gap of three months between any two meetings. However SEBI has amended the clause 40 of the listing
agreement vide circular SEBI/CFD/DIL/CG dated 12-1-06 as per which the maximum gap between two board meetings has been increased again to 4 months.

A director shall not be a member in more than 10 Audit and / or Shareholders grievance Committee or act as chairman of more than five Audit Shareholders Grievance committee across all companies in which he is a director. Furthermore it should e mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

5.4.5.3 Code of Conduct: The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted the website of the company. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual report of the company shall contain declaration to this effect signed by CEO.

5.4.5.4 Audit Committee:

- Qualified and Independent Audit Committee: A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

- The audit committee shall have minimum three directors as members. Two thirds of the members for audit committee shall be independent directors.

- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

- The chairman of the Audit Committee shall be an independent director.

- The chairman of the Audit Committee shall be present at annual General Meeting to answer shareholder queries;
The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to the present at the meetings of the committee. The finance director, head of internal audit and representative of the statutory auditor may be present as invitees for the meeting of the audit committee;

The Company Secretary shall act as the secretary to the committee.

Meeting of Audit Committee: the audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either tow members or one third of the members of the audit committee whichever is greater, but there should be minimum of two independent members present.

Powers of Audit Committee: the audit committee shall have powers:

To investigate any activity within the terms of reference;

To seek information from any employee;

To obtain outside legal or other professional advice;

To secure attendance of outsiders with relevant experts, if any.

**5.4.5.5 Role of Audit Committee:** The role for the audit committee shall include the following:

- Oversight of the company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

- Recommending to the Board, the appointment re-appointment and if required the replacement or removal of the statutory auditor and the fixation of audit fees.

- Approval of payment too statutory auditors for any other services rendered by the statutory auditors.
- Reviewing, with the management the quarterly and annual financial statements before submission to the board for approval with reference to Director’s Responsibility statement under section 217 (2AA) k, significant adjustments made in financial statements, compliance with listing requirements, disclosure of any related pending transaction etc.

- Reviewing with the management performance of statutory and internal auditor and adequacy of the internal control systems.

- Discussion with internal auditors regarding any significant findings including suspected frauds or irregularities and follow up thereon.

- Reviewing the findings of any internal investigation by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control system of a material nature and reporting the matter to the board.

- Discussion with statutory auditors before the audit commence, about the nature and scope of audit as well as post- audit discussion to ascertain any area of concern.

- To look into the reason of substantial defaults in the payments to the depositors, debenture holders, shareholders (in case of nonpayment of declared dividends) and creditors.

- To review the functioning of the Whistle Blower mechanism, in case the same is existing.

- Carrying out any other function as it mentioned in the terms of reference of the Audit Committee.

**5.4.5.6 Subsidiary Companies:** At least one independent director on the Board of Director of the holding company shall be a director on the Board of Directors of a material non listed Indian subsidiary company.

The audit committee of the listed holding company shall also review the
financial statements, in particular, the investment made by the unlisted subsidiary company.

The minutes of the Board meeting of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company, the management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transaction and arrangements entered into by the unlisted subsidiary company.

5.4.5.7 Related Party Disclosures: Basis of related party transactions:

- A statement in summary form of transactions with related parties shall be placed periodically before the audit committee.

- Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.

- Disclosure of Accounting Treatment: where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management’s explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

- Board Disclosure- Risk Management: the company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.

- Proceeds from public issues, rights issues, preferential issues etc.: When money is raised through an issue (public issues rights issues, preferential issues etc.), it shall disclose to the Audit committee, the uses/applications of funds by major category (capital expenditure, sales and marketing, working capital, etc.), on a quarterly and annual basis.
5.4.5.8 Remuneration of Directors: All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.

Further, certain prescribed disclosures on the remuneration of directors shall be made in the section on the corporation governance of the Annual Report;

The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.

Non-executive directors shall be required to disclose their shareholding (both own or held by/for other persons on a (beneficial basis) in the listed company in which they proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such directors.

Management: As part of the directors’ report or as an addition there to a Management Discussion and Analysis report, the following should form part of the Annual Report to the shareholders. This includes discussion on:

- Industry structure and developments;
- Opportunities and threats;
- Segment wise or product wise performance;
- Outlook;
- Risks and concerns;
- Internal control systems and their adequacy;
- Discussion on financial performance with respect to operational performance;
- Material developments in Human resources/industrial Relations front including number of people employed.
5.4.5.9 Shareholders: In case of the appointment of a new directors or reappointment of a director the shareholders must be provided with the following information:

- A brief resume of the director
- Nature of his expertise in specific functional areas;
- Names of companies in which the persons also holds directorship and the membership Committees of the Board; and
- Shareholding of non-executive directors.

A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investor complaints like transfer of shares, non-receipt of declared dividends etc. This committee shall be designated as ‘Shareholders/Investors Grievance Committee’.

To expedite the process of share transfer, Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. There delegated authority shall attend to share transfer formalities and least once in a fortnight.

5.4.5.10 CFO/CEO Certification: Through the amendment made by SEBI vide circular SEBI/CFD/DIL CG DATED 12-1-06, in Clause 49 of the Listing Agreement, certification of internal controls and internal control system CFO/CEO would be for the purpose of financial reporting. Thus the CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance Director or any other Person heading the finance function discharging that function shall certify to the Board that:

1. They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief; These statements do not contain any materially untrue statement or omit any
material fact or contain statements that might be misleading; These statements together present a true and fair view of the company’s affairs and are in compliance within existing accounting standards, applicable laws and regulations.

2. There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which fraudulent, illegal or volatile of the company’s code of conduct.

3. They accept responsibility for establishing and maintaining internal controls and they have evaluated the effectiveness of the internal control system of the company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

4. They have indicated to the auditors and the Audit Committee significant changes in internal control over financial reporting during the year, significant fraud of which they have become aware and the involvement there in if any, of the management or an employee having a significant role in the company’s internal control system over financial reporting.

Also, there shall be separate section on Corporate Governance in Annual Reports of Company with a detailed compliance report on Corporate Governance. Non compliance of any mandatory requirement of this clause with reason there of and the extent to which the non- mandatory requirements have been adopted should be specifically highlighted.

The companies shall submit a quarterly compliance report to the stock exchange within 15 days from the close of quarter as per the format given in Annexure IB. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company.
5.4.5.11 Compilation: The company shall obtain a certificate from either the auditor or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors’ report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.

The non-mandatory requirements may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption / non-adoption of the non mandatory requirements shall be made in the section on corporate governance of the Annual Report.

5.5 The Institute of Chartered Accountant of India:

It is a premier professional accountancy body in India. It plays a significant role in regulating the corporate disclosure practices in India. The institute is one of the members of the International Accounting Standard Committee (IASC) and has agreed to support the objectives of IASC. The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) is responsible for setting Accounting Standard (AS). The ASB comprises members of the Central Council of ICAI as well as certain members from the professional, industry and various other segments and government agencies. The Institute also holds competition for the best-published accounts annually and thus motivates the company to prepare their annual reports comprehensive, informative and useful to investors and other users. Thus the ICAI plays pivotal role in the improvement of disclosure practices of Indian companies. Accounting Standards are pronounced by the ICAI that applies to 'general purpose financial statements.' This consist of Balance Sheet, Profit & Loss account and other statements and explanatory notes, which comprise part thereof, issued for the use of shareholders/members, creditors, employees and the public at large. Accounting Standards do not apply while accounting for tax purposes unless stated by tax authorities (D 'Souza, 2002).
The ICAI derives its power from the Chartered Accountants Act, 1949 (Banerjee, 2002). The ICAI established the Accounting Standards Board (ASB) on April 21, 1977 in order to harmonize diverse accounting policies and practices of India. The main task of the ASB is to formulate accounting standards, so that the council of the ICAI can make these standards mandatory. The ASB considers the laws, customs and business environment of India while formulating its standards. The ICAI is a member of the International Accounting Standards Committee (IASC), now known as International Accounting Standards Board, and has agreed to support the objectives of the IASC. ASS gives due consideration to IASs (now International Financial Reporting Standards) and try to integrate them by taking the considerations and practices prevailing in India (D'Souza, 2002).

The ASB of ICAI has issued 29 accounting standards so far. The disclosure requirements under these accounting standards are given hereunder:

1. **AS-1: Disclosure of Accounting Policies:**

   AS-1 deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements. The standard defines accounting policies referring to the specific accounting principles and the methods of applying those principles enterprise in the preparation and presentation of financial statements. As per AS-1 if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual (assumed to be followed) are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, it should be disclosed in the financial statements.

2. **AS-2 (Revised): Valuation of Inventories:**

   As per AS-2 the financial statements should disclose the accounting policies adopted in valuing inventories, including the cost formula used and the total carrying amount of inventories and its classification appropriate to the enterprise. Common classification inventories are raw materials and
components, work-in-progress, finished goods, stores and spares and loose tools.

3. **AS-3: Cash Flow Statement:**

As per AS-3 an enterprise should prepare a cash flow statement and should present it for each period for which financial statements are presented because users of an enterprise financial statements are interested to know how the enterprise generates and uses cash and cash equivalents. According to this standard, a cash flow statement should report cash flows during the period from operating, investing and financing activities. As per AS-3, cash flows arising from transaction in a foreign currency should be recorded in an enterprise’s reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency prevailing at the date of cash flow. The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities and separately disclosed.

Cash flows from interest and dividends received and paid and taxes on income should each be disclosed separately. An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet. An enterprise should disclose together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprises that are not available for use by it.

4. **AS-4: Contingencies and Events Occurring after the Balance Sheet Date:**

In case of disclosure of events, the following information should be provided

a) The nature of the event

b) An estimate of the financial effect or a statement that such an estimate cannot be made.
In case of disclosure of contingencies, the following information should be provided in the financial statements:

- The nature of the contingency.
- The uncertainties that may affect the future outcome.
- The estimate of the financial effect or a statement that such an estimate cannot be made.

5. **AS-5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies:**

As per this standard, any change in accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise. Any change in accounting policy, which has a material effect, should be disclosed. Where the effect of change in accounting policies is not ascertainable, wholly or in part, the fact should be indicated.

6. **AS-6: Depreciation Accounting:**

The following information should be disclosed in the financial statements:

a) Historical cost or other amount substituted for historical cost of each class of depreciable asset.

b) Total depreciation for the period for each class of assets.

c) Related accumulated depreciation.

Depreciation methods used for deprecating assets and depreciation rates if they are different from the principal rates specified in the statute governing the enterprise should be disclosed in the financial statements along with the disclosure of other accounting policies.

7. **AS-7: Accounting for Construction Contracts:**
AS-7 deals with accounting for construction contracts in the financial statements of contractors. The main problem relating to accounting for construction contracts is the allocation of revenues and related costs to accounting periods over the duration of the contract. An enterprise should disclose (a) the amount of contract revenue recognized as revenue in the period; (b) the methods used to determine the contract revenue recognized in that period; and (c) the methods used to determine the stage of completion of contract in progress.

8. **AS-8: Accounting for Research Development:**

According to AS-8, the total of research and development costs, including the amortized portion of deferred costs, charged, as expense should be disclosed in the profit and loss account for the period. Deferred research and development expenditure should be separately disclosed in the balance sheet under the head "Miscellaneous Expenditure".

9. **AS-9: Revenue Recognition:**

Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends should only be recognized when no significant uncertainty as to measurability or collectability exists.

An enterprise should disclose the circumstances in which revenue recognition has been postponed because of the effect of uncertainties, it is considered as revenue of the period in which it is properly recognized.

10. **AS-10: Accounting for Fixed Assets:**

As per AS-10, the following information should be disclosed in the financial statements:

   a) Gross and net book values of fixed assets at the beginning and the end of an accounting period showing additions, disposals, acquisitions and other movements;
b) Expenditure incurred on account of fixed assets in the course of construction or acquisition; and

c) Revalued amount substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external value was involved, in case where fixed assets are stated at revalued amount.

11. AS-11: Accounting for the effects of changes in Foreign Exchange Rates:

An enterprise should disclose the following in the financial statements: the amount of exchange differences included in the net profit or loss for the period; the amount of exchange differences adjusted in the carrying amount of fixed assets during the accounting period; and the amount of exchange differences in respect of forward exchange contracts to be recognized in the profit or loss for one or more subsequent accounting periods.

12. AS-Accounting for Government Grants:

Following information should be disclosed in the financial statements:

- Accounting policy adopted for government grants including the methods of presentation in the financial statements. Nature and extent of government grants recognized in the financial statements.

13. AS-13: Accounting for Investments:

The following information should be disclosed in the financial investments:

- Accounting policies for determination of carrying amount of investments.

- Classification of investments in current and long term as specified in the statute governing the enterprise. In the absence of statuary requirements, investments may be classified as government or trust securities, shares, debentures or bonds, investment properties, and others-specifying nature.
14. AS-14: Accounting for Amalgamations:

AS-14 deals with accounting for amalgamations. According to this standard, an amalgamation may be either an amalgamation in the nature of merger or amalgamation in the nature of purchase. For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamations:

- Names and general nature of business of the amalgamating companies;
- Effective date of amalgamation for accounting purposes;
- The method of accounting used to reflect the amalgamation; and
- Particulars of the scheme sanctioned under a statute.

15. AS-15: Accounting for Retirement Benefits in the Financial Statements of Employers:

The financial statements should disclose whether the actuarial valuation was made at the end of the period or at an earlier date. In the latter case, the date of the actuarial valuation should be specified and the method by which the accrual for the period has been determined should also be briefly described, if the same is not based on the report of the actuary.

16. AS-16: Borrowing Costs:

This standard comes into force in respect of accounting periods commencing on or after 1-4-2000 and is mandatory in nature. The objectives of this standard are to prescribe the accounting treatment for borrowing costs. This standard covers the borrowing costs for borrowing of funds for the qualifying assets i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale

- The financial statements should disclose:
- The amount policy adopted for borrowing costs; and
- The amount of borrowing costs capitalized during the period.
17. **AS-17: Segment Reporting:**

This standard comes into effect with effect from 1-4-2001 and is mandatory in nature. The objective of this standard is to establish principles for reporting financial information about the different types of products and services an enterprise produces and the different geographical areas in which it operates. Provision of segment reporting helps users of financial statements in better understanding the performance of the enterprise, in better assessing the risks and returns of the enterprise and in making more informed judgments about the enterprise as a whole.

An enterprise should disclose segment wise disclosure on segment revenue and segment result.

Total carrying amount of segment assets and liabilities;

a) Total costs incurred during the period to acquire segment tangible and intangible fixed assets;

b) Total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period and other significant non-cash expenses.

18. **AS-18: Related Party Disclosures:**

AS-18 comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature. According to this standard, if there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

Name of the transacting related party.

- A description of the relationship between the parties.

- A description of the nature of the transaction.

- Volume of the transactions.
o Any other elements of the related party transactions, necessary for an understanding of the financial statements.

o Amounts or appropriate proportions of outstanding items pertaining to related parties at the date of balance sheet and provisions for doubtful debts due from such parties at the date.

o Amounts written off or written back in the period in respects of debts due from or to related

19. AS-19: Leases:

A finance lease is a lease that transfers the entire substantially risks and rewards incident to ownership of an asset. A lease other than a finance lease is an operating lease. Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. As per AS-19, if a sale and leaseback transaction results in finance lease, any excess or deficiency of sales proceeds over the carrying amount should not be immediately recognized as income or loss in the financial statements of a seller-lessee. Instead, it should be deferred and amortised over the lease term in proportion to the depreciation of the lease asset. If a sale and leaseback transaction results in an operating lease at fair value, any profit or loss should be recognized immediately. If the sale price is below fair value, any profit or loss should be recognized immediately and if the sale price is below fair value, any excess over fair value should be deferred and amortized over the period for which the asset is expected to be used. In case of operating leases, if the fair value at the time of a sale on leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of difference between the carrying amount and fair value should be recognized immediately.

20. AS-20: Earnings per Share:

As-20 comes into effect in respect of accounting period commencing on or after 1-4-2001 and is mandatory in nature. It is applicable to enterprises whose equity shares or potential equity shares are listed in a recognized stock
exchange in India in consolidated financial statements, the information required by this standard should be presented on the basis of consolidated information, and the objective of this standard is to prescribe principles for the determination and presentation of earnings per share. According to this standard, an enterprise should present basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share). Basic earnings per share should be calculated by dividing the net profit or loss for the period pertaining to equity shareholders by weighted number of equity shares, outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss attributable to equity shareholders and the weighted number of shares, outstanding during the period, should be adjusted for the effects of all dilutive potential equity shares.

21. **AS-21: Consolidated Financial Statements:**

AS-2I: 'consolidated Financial Statements' comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature. The objective of this standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. The following disclosures should be made in consolidated financial statements:

- A list of all subsidiaries.
- The nature of the relationship between the parent and a subsidiary.
- The effect of the acquisition and disposal of subsidiaries on the financial position on the reporting date.

22. **AS-22: Accounting for Taxes on Income:**

As per AS-22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The nature of the evidence supporting the recognition of deferred tax assets should
be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

23. **AS-23: Accounting for Investments in Associates in Consolidated Financial Statements:**

AS-23 pertaining to 'Accounting for Investments in Associates in Consolidated Financial Statements' comes into effect in respect of accounting periods commencing on or after 1-4-2001. An enterprise that presents consolidated financial statements should account for investments in associates in the consolidated financial statements in accordance with standard.

Investments in associates accounted for using the equity method should be classified as long-term investments and disclosed separately in the consolidated balance sheet. The investor's share of the profits or losses of such investments should be disclosed separately in the consolidated statement of profit and loss.

24. **AS-24: Discontinuing Operations:**

Comparative information for prior periods that is given in financial statements prepared after the initial disclosure event should be restated to segregate assets, liabilities, revenue, expenses and cash flows of continuing and discontinuing operations. Disclosures in an interim financial report in respect of discontinuing operations. Disclosures in an interim financial report in respect of a discontinuing operation should be made according to AS-25, interim Financial Reporting.

25. **AS-25: Interim Financial Reporting:**

AS-25, 'Interim Financial Reporting', comes into effect in respect of accounting periods commencing on or after 1-4-2002. Timely and reliable financial reporting enhances the ability of investors, creditors, bankers and others to understand an enterprise's capacity to generate earnings and cash flows, its financial position and liquidity. The objective of AS-25 is to prescribe the minimum content of an interim financial report and to lay down the principles for recognition and measurement of assets, liabilities, revenue and expenses for
an interim period.

The enterprise should also disclose any events or transactions that are material to an understanding of the current interim period.

Interim reports should include interim financial statements for periods as of the end of the current interim period and comparative financial statements as of the end of the immediately preceding financial year.

26. **AS-26: Intangible Assets:**

This standard is mandatory in nature and comes into effect in respect of expenditure incurred on intangible assets during accounting periods commencing on or after 1-4-2003. AS-26 defines an intangible asset as "an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes".

The financial statements should disclose the useful lives or the amortisation rates used, the amortisation method used and the gross carrying amount and the accumulated amortization at the beginning and end of the period for each class of intangible assets distinguishing between internally generated intangible assets and other intangible assets. The financial statements should also disclose if an intangible asset is amortised over more than ten years along with the reasons for doing so.

27. **AS-27: Financial Reporting of Interest in Joint Venture:**

AS-27, Financial Reporting of Interests in Joint venture, comes into effecting respect of accounting periods commencing on or after 1-4- 2002 and this Standard is mandatory in nature. The objective of this standard is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint ventures assets, liabilities, income and expenses in the financial statements of ventures and investors.

A venture should disclose its share of contingent liabilities of the joint venture
unless the probability of loss is remote in its separate financial statements as well as in consolidated financial statements. A venture should disclose the aggregate amount commitments in respect of its interests in joint ventures separately from other commitments.

28. **AS-28: Impairment of Assets:**

This standard comes into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from the date for the following:

Enterprises whose equity or debt securities are listed on a recognized stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard.

All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crores.

In respect of all other enterprises, this standard comes into effect in respect of accounting period commencing on or after 1-4-2005 and is mandatory in nature from that date.

For each class of assets, the financial statements should disclose:

- a) The amount of impairment losses recognized in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;

- b) The amount of reversals of impairment losses recognized in the statements of profit and loss during the period and the line items of the statement of profit and loss in which those impairment losses are reversed;

- c) The amount of impairment losses recognized directly against revaluation surplus during the period;

- d) and the amount of reversals of impairment of losses directly in
revaluation surplus during the period.

29. AS-29: Provisions, Contingent Liabilities and Contingent Assets:

This standard comes into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature. The objective of this standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities. Sufficient information is given in the notes to the financial statements so that users may understand their nature, timing and amount. The objective of this standard is also to lay down appropriate accounting for contingent assets.

As per AS-29, provisions should not be recognized for future operating losses. An enterprise should disclose for each class of provision:

a) The carrying amount at the beginning and end of the period.

b) Additional provisions made during the accounting period, including increases to existing provisions.

c) Amounts incurred and charged against the provisions during the period.

d) Unused amounts (i.e. provisions no longer required) reversed during the period.

As per this standard, an enterprise should disclose for each class of contingent liability at the date of balance sheet a brief description of the nature of the contingent liability along with an estimate of its financial effect and the possibility of reimbursement, if any.

5.6 Conclusion:

In India, the Companies Act, 1956 is the principal act to regulate the corporate reporting. Another body that has a major influence in reshaping Indian financial reporting is the Securities and Exchange Board of India (SEBI), The Companies Act, 1956 prescribes the financial reporting requirements for all the companies registered under it, The reporting requirements that are imposed by
the SEBI through its Guidelines and through the Listing Agreement are in addition to those prescribed under the Companies Act. SEBI requirements are to be followed by the companies listed on the Indian stock exchanges. The Companies Act and the SEBI requirements together provide the legal framework of corporate reporting in India.

The Companies Act, 1956 lays down the detailed provisions regarding the maintenance of books of accounts and the preparation and presentation of annual accounts. The Act also prescribes the mechanism for issuance of accounting standards. It specifies the roles and responsibilities of directors and also the matters to be reported upon by them in the annual reports of the companies. Under the provisions of the Act, audit of annual accounts is compulsory for all companies registered under it; The Act extensively deals with the qualification, appointment, removal, rights, duties and liabilities of auditors and provides contents of auditors' report. In case of delinquency, default by the management or 'auditor, penal provisions are prescribed: However, despite providing for detailed requirements in respect of maintenance of books of account, preparation and presentation of financial statements and audit of annual accounts, the main thrust under the Companies Act is upon the presentation of a 'true and fair view of the state of affairs and operating results of the reporting companies. As the preparation of financial statements contained in annual reports presupposes the existence of a recording procedure of transactions of the reporting entities, the requirements as to the maintenance of books of accounts are also mentioned.

The Companies Act requires every company to maintain at its registered office proper books of account with respect to

i) All receipts and disbursements of money and the matters in respect of,

ii) Which the receipts and disbursement take place;

iii) All sales and purchases of goods of the company;

iv) The assets and liabilities of the company.
The Act requires that at every annual general meeting, the Board of Directors of the company should place before the company

- Balance Sheet as at the end of the financial year; and
- Profit and Loss Account for the financial year

Apart from Balance Sheet and Profit and Loss Account, a lot of financial and non-financial information is required to be disclosed by companies registered under the Companies Act.

Mandatory information which is required to be disclosed in the corporate annual reports either by virtue of the provisions contained in the Companies Act; 1956 alone or by virtue of such provisions read with the provisions of applicable accounting standards may be grouped under following heads:

- Balance Sheet
- Statement of Profit and Loss
- Narrative Disclosure
- Cash Flow Statement
- Supplementary Statements
- Auditors' Report
- Directors' Report

SEBI has prescribed guidelines for companies under its listing agreement which in fact as supplement of company act. Under listing agreement, a listed company is requires to supply a copy of the complete and full Balance Sheet, Profit and Loss Account and the Directors' Report to each shareholder. Also it stipulates that cash flow statement should be prepared in accordance with the Accounting Standard on Cash Flow Statement (AS3) issued by the ICAI and shall be presented only under the 'Indirect Method- as given in AS3. Holding companies are required to disclose the information on the amount of loans,
advances in their statement. Also, subsidiaries companies are required to disclose the information in appropriate manner as specified in the guidelines of SEBI.

Indian Chartered Accounting Institute (ICAI) plays a significant role in regulating the corporate disclosure practices in India. The institute is one of the members of the International Accounting Standard Committee (IASC) and has agreed to support the objectives of IASC. The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) is responsible for setting Accounting Standard (AS). The Accounting Standard Board of ICAI has issued 29 accounting standards as given below:

- Disclosure of Accounting Policies
- Valuation of Inventories
- Cash Flow Statement
- Contingencies and Events Occurring after the Balance Sheet Date
- Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
- Depreciation Accounting
- Accounting for Construction Contracts
- Accounting for Research Development
- Revenue Recognition.
- Accounting for Fixed Assets
- Accounting for the effects of changes in Foreign Exchange Rates
- Accounting for Government Grants
- Accounting for Investments
- Accounting for Amalgamations
Accounting for Retirement Benefits in the Financial Statements of Employers.

Borrowing Costs

Segment Reporting

Related Party Disclosures

Leases

Earnings per Share

Consolidated Financial Statements

Accounting for Taxes on Income

Accounting for Investments in Associates in Consolidated Financial Statements

Discontinuing Operations

Interim Financial Reporting

Intangible Assets

Financial Reporting of Interest in Joint Venture

Impairment of Assets

Contingent Liabilities and Contingent Assets

Detailed guidelines are prescribed on each accounting standard.