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INTRODUCTION

As a result of globalisation and liberalization, there has been a tremendous change in the corporate disclosure practices, during the last decade the world over and more so in India. As a result of this change, certain new dimensions of corporate disclosure, which were hither to ignore by the accountants and the managements, have been added to its domain. Such new dimensions of corporate disclosure include: segment reporting, economic value added statement, value added statement, social reporting, environmental reporting, price level accounting, human resource accounting, brand valuation and reporting, corporate governance, management discussion and analysis, enterprise value statement, directors responsibility statement on financial statements, reconciliation with US GAAP and the consolidated accounts, etc. This chapter is devoted to the discussion and analysis of these issues, specifically with reference to the practices adopted by the selected companies in India, in this regard.

1. SEGMENT REPORTING

In the liberalized, competitive and borderless world economy, the very survival and growth of any corporate sector has been mainly through diversification of the companies in the new product lines and in other geographical areas. Segment reporting is the dis-aggregation of financial information such as, turnover, profit, assets, etc, about the business entity and reporting the same segment-wise. The main purpose is to provide users of financial statements an information on relative size, profit contribution and growth trend of various industries and different geographical
areas in which a diversified enterprise operates to enable them to make more informed judgments about the enterprise as a whole.

In the USA, segment reporting requirements are contained in SFAS 14, which states its goal is 'to assist financial statements' users in analyzing and understanding the enterprise's financial statements by permitting better assessment of the enterprise's past performance and future prospects'.

SEGMENT REPORTING ABROAD

Segment reporting was being practiced in the USA as early as four decades ago. In the early 1960s, most of the developed countries have introduced segment reporting requirements to varying degrees by legislation, accounting standards and stock exchange pronouncements.

In the U.K by schedule 4 of the companies Act, 1985 segment reporting was made mandatory to all companies and by the accounting standard SSAP 25, it was mandatory to private companies and other entities.

The Canadian Institute of Chartered Accountants handbook section 1700 on 'segment information' effective for financial statements for fiscal years commencing on or after June 1, 1979, requires publicly traded companies to disclose segment information in their annual financial statements.

In 1981, the International Accounting Standard Committee issued IAS - 14 on 'Reporting financial information by segment', which too, requires the
disclosure of the details about the revenue, profitability and assets for each of the industry and geographical segments separately.

In Pakistan, the segment reporting is required if turnover of segment exceeds 20 per cent of the turnover of the company.

The following observations can be made on the segment disclosure practices abroad:\textsuperscript{1}

i. Disclosure of segment information is mandatory in many countries. Therefore, most of the companies are disclosing segment data.

ii. Segment reporting is being practiced abroad for a long time now, therefore the manner of presentation is more user-friendly and more informative.

iii. Accounting standards or legislation relating to segment reporting has been extant abroad for quite a many years now. Therefore, there is uniformity in segment reporting.

iv. Some companies are preparing segment-wise fund flow statement. This is very helpful in knowing which segments are generating resources and which segments are not.

v. Some companies have prepared a statement showing reconciliation of segment data to the consolidated financial data.

vi. Very few companies have presented budgetary data on various segments.

SEGMENT REPORTING IN INDIA

The Institute of Chartered Accountants of India has issued Accounting Standard 17, on 'segment reporting'. This standard came into effect in respect of accounting period commencing on or after April 1, 2001, and as such is mandatory in nature from that date. So far, only companies Act 1956, part ii of schedule VI contains certain provisions regarding segment reporting. It requires that the segment information should be disclosed by way of notes to the profit and loss account.

Section 212 of the companies Act, 1956 also requires that published accounts of holding company must contain the balance sheet, profit and loss account, directors report and the auditor's report for each of its subsidiaries.

For the purpose of studying whether the selected companies disclose segmental information, three major items of segmental information were considered, viz., segment production, segment sales and segment earnings. The present study has shown that almost all the selected companies in India disclosed segment production and sales for the year 1999-00. However, the segment earnings have been disclosed by only 11 of these companies. Whereas, the selected companies in USA, disclose all the major items of segment information. Table 9.1 clearly summarises the above fact.
Table 9.1

Disclosure of Segment Information

<table>
<thead>
<tr>
<th>Details of</th>
<th>India (For the year 1999-00)</th>
<th>USA (Year ended December 31, 2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Of companies studied</td>
<td>No. Of companies disclosed</td>
</tr>
<tr>
<td>Segment production</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>Segment sales</td>
<td>125</td>
<td>123</td>
</tr>
<tr>
<td>Segment earnings</td>
<td>125</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Compiled from Table 4.1 and 8.1.

The present study reveals the following:

1) All 125 companies have disclosed segment production in the footnotes to the financial statements.

2) 123 companies have disclosed segment sales in the footnotes to the financial statements.

3) 86 companies have disclosed segment information in the director’s report. Some are product-wise [for example, Zuari Agro Chemicals Ltd] and the others are area-wise segmentation [for example, Gujarat Ambuja Cements Ltd].

4) 18 companies have disclosed segment information in the management discussion and analysis (MD&A). For example, the ACC ltd, annual report for the year 1999-00, carries a section called MD & A in which figures a separate
sub-section called segmental review and analysis. It discloses different segments information like segment production, sales, capacity utilization, profit before depreciation, interest and tax, operating margin and return on capital employed.

5) Only six companies have disclosed segment information in the form of tables, and charts by giving product-wise information. For example, Hindustan Lever ltd, presented segment information as a percentage of segment sales over total sales in the form of tables and charts.

6) Only 2 companies have disclosed segment information in the form of product and area-wise statistics separately. For example, Goodricks group ltd annual report.

7) Three companies have disclosed segment information separately in the annual reports by giving its market share for each segment separately. For example, the annual report of Linc Pens & Plastic ltd.

8) 38 companies have disclosed segment information for two years.

9) Only one company, i.e., Cyber tech systems and software ltd in its annual report disclosed segment information in the form of an interview (question and answer).

Table 9.2 clearly summarises the above fact.

From the study of Jawahar Lal (1985)\(^2\), Subhash Chander (1992)\(^3\) and the present study, we can conclude that there is not much development in India in

\(^2\) op.cit.
the area of segment reporting. Segment reporting practices existing in India in 1999-00 are not very different from those followed in the 1980s.

Table 9.2

<table>
<thead>
<tr>
<th>Disclosed in the</th>
<th>India (For the year 1999-00)</th>
<th>USA (Year ended December 31, 2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Of companies studied</td>
<td>No. Of companies disclosed</td>
</tr>
<tr>
<td>Financial statement</td>
<td>125</td>
<td>Nil</td>
</tr>
<tr>
<td>Footnotes to the financial statement</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>Director’s report</td>
<td>125</td>
<td>86</td>
</tr>
<tr>
<td>Elsewhere in the annual report</td>
<td>125</td>
<td>18</td>
</tr>
</tbody>
</table>


2. ECONOMIC VALUE ADDED REPORTING (EVA)

EVA, a concept constructed by the New York based consulting firm Stern Stewart and company, shows the business profit left after adjusting the cost of servicing the capital employed in the business. EVA thus represents value creation for shareholders. A negative EVA points to wealth erosion. In the 90s, the number of

\[ \text{EVA} = \text{Net Income} - \text{Capital Charge} \]

\[ \text{Capital Charge} = \text{Interest Expense} + \text{Depreciation} + \text{Amortization} \]

\[ \text{Net Income} = \text{Revenues} - \text{Cost of Goods Sold} - \text{Selling, General, and Administrative Expenses} \]

3 op.cit.
companies adopting EVA was rapidly increasing (Nuelle⁴ 1996, Wallace⁵ 1997 and Deveshwar⁶, 1999).

The concept behind EVA is that shareholders must earn a return that compensates the risk taken.

\[
\text{EVA} = \text{Net operating profit after tax (NOPAT) } - \text{Cost of capital employed (COCE)}, \text{ where;}
\]

\[
\text{NOPAT} = \text{Profit after tax (net of extraordinary items) and before interest (net Of tax) and}
\]

\[
\text{COCE} = \text{Weighted average cost of capital } \% \times \text{Average capital employed.}
\]

NOPAT is earning after depreciation and taxes but before interest costs. NOPAT thus represents the total pool of profit available on an ungeared basis to provide return to lenders and shareholders. If the NOPAT exceeds the cost of capital it will be considered that the organization created value for shareholders.

WACC is the weighted average of the cost of external debt and the cost of equity.

Cost of debt is the effective rate of interest for the business, considering the appropriate mix of short, medium and long-term debt, net of tax.

Cost of equity is the return expected by investors as compensation to them for variability in return caused by fluctuating earnings and share prices.

**Cost of equity** is calculated as follows:

Return on risk free investment (usually long-term govt. securities) + Risk premium (market return in excess of risk free rate) X Beta variant (a measure of volatility in the company's share price vis-a-vis the index).

Average capital employed = Average equity + Average debt

**EVA will increase if:**

a. Operating profits can be made to grow without employing more capital, i.e., greater efficiency.

b. Additional capital is invested in projects that return more than the cost of obtaining new capital, i.e., profitable growth.

c. Capital is curtailed in activities that do not cover the cost of capital, i.e., liquidate unproductive capital.

d. Reducing cost of capital, which means employing more of debt, as debt is cheaper than equity or preference capital, i.e., cost control.

EVA should be adopted as a management culture within the organization rather than as a project. There are more than 300 corporates worldwide that have adopted EVA as a corporate philosophy (A.K. Bhattacharyya & B.Y Phani, 2000). Many of these companies are successful multi-nationals like, Coca-Cola, Bausch & Lomb, Briggs & Stratten and Herman Miller.

---

PROBLEMS

The following are some of the problems associated with the calculation of EVA:

1. Stern Stewart & company recommends nearly 164 adjustments to the accounting figures for a realistic estimate of EVA. These adjustments truly complicate the calculation of EVA.

2. These 164 adjustments require in-depth data. This involves additional costs.

3. The increase in the number of adjustments increase the subjectivity involved in measuring EVA (Damodaran, 1998).

4. It is very difficult to quantify all the value enhancement activities of a firm without involving a lot of subjective estimates.

5. It does not remove the limitations of the accounting profit that forms the basis for computing EVA.

6. It is difficult to measure precisely the risk-free rate of return, beta and risk premium.

7. There is no statutory regulation to monitor the EVA disclosure practices in India.

EVA REPORTING IN INDIA

In India, the entry of foreign institutional investors in the early '90s saw the concept of shareholder value gaining ground. Some companies have already made EVA a part of their annual report. Indian companies have started using EVA for improving internal governance.

---

❖ At Parke – Davis, the EVA rose from Rs. 8.04 crores in the financial year 1996 to Rs. 15.42 crores in 2000.

❖ At Hindustan Lever Ltd, the EVA has increased to Rs. 694 crores in 1999 from Rs. 26 crores in 1991.

❖ The EVA of Satyam computer service Ltd, has risen from Rs. 4.08 crores in 1996 to Rs. 83.32 crores in 2000, as per their annual report.

❖ At Nicholas Piramal India Ltd, the EVA shot up from Rs. 7.6 crores in the financial year 1998 to Rs 14.9 crores in 2000.

❖ As per the annual report of Linc pen & Plastics Ltd, the EVA has been a mere Rs. 0.41 crore in the financial year 2000.

The above are some of the examples of EVA disclosure in India.

The present study reveals that:

1. Out of 125 companies annual reports studied, only 12 companies have disclosed EVA.

2. Only one company has disclosed the EVA before the financial statements in the annual report.

3. 11 companies have disclosed EVA after the financial statements in the annual report.

4. The disclosure of EVA is something new to the Indian investors. Therefore, seven companies have disclosed all necessary theoretical information about EVA, before showing calculation of EVA.

5. 9 companies have disclosed the formula, which they have adopted in calculating EVA.
6. Only one company has disclosed EVA data for a period of the last 10 years.

7. 8 companies have disclosed EVA data for a period of 5 years, 2 (two) companies have disclosed EVA data for a period of 2 years, and only one company has disclosed EVA data for a period of one year.

8. All 12 (twelve) companies have disclosed EVA in the form of tables.

9. Only 4 companies have disclosed EVA in the form of graphs, in addition to tables.

10. The presentation of EVA data is different from company to company.

There is no accounting standard, which makes disclosure of EVA mandatory to all the listed companies. EVA calculation involves significant subjectivity and this reduces its informative value. Casual use of EVA for external reporting might mislead users of the annual report.

3. VALUE ADDED STATEMENT (VAS)

Value added is sales less bought out materials and services and shows the wealth created by the company. Essentially it is just a restatement of the profit and loss account, which reflects the creation of wealth by combined efforts of different groups of people and the distribution of such wealth between employees, owners and government, with the residue being retained in the company for the maintenance and expansion of assets.
As per Kohler’s dictionary, 1984, p.530, VAS is a report showing the amount sources of value added during some specified period of time. This may be presented through the following equation:

\[
\text{Value added} = \text{value of output} + \text{income from other sources} - \text{cost of materials and services purchased from outside.}
\]

The preparation and the disclosure of VAS is significant from many points of view:

i. VAS particularly reveals how the wealth generated by a firm is shared amongst its employees, investors, lenders, government and the future, i.e., retained earnings.

ii. The preparation of VAS is significant from the national point of view, as the contribution made by a firm to the wealth of the nation is to be measured in terms of value added by it.

iii. The disclosure of VAS is also significant from ‘social reporting’ point of view. It has been considered as a step towards social reporting [Maheshwari and Ghosh, 1985].

iv. The corporate report (1975) issued as a discussion paper by the Accounting Standard Steering Committee (U.K) also emphasized the inclusion of VAS in the annual report. The VAS should contain information on:

- Turnover;

---


10 op.cit.
Bought in materials and services;

❖ Employees wages and benefits;

❖ Dividends and interest payable;

❖ Tax payable; and

❖ Amount retained.

In the UK and also in many European countries VAS has become a statutory requirement. In India, there is no statutory compulsion for incorporating VAS in the published accounts of the companies. Nevertheless, there has been an honest beginning in this respect not only by the public sector undertakings, but also by the private sector companies.

DISCLOSURE OF V A S BY THE INDIAN COMPANIES

In India, for the year 1999-00 only 9 selected companies have disclosed the information on value added. The following observations can be made on the disclosure of VAS by the selected Indian companies:

i. All the companies, reporting VAS for the different years of the study (see table 4.1), have prepared VAS in different ways. For example, Linc pens & plastics ltd, prepares it in the simplest way and does not give many details of various variables used in preparing this statement. On the other hand, Gujarat State Fertilizers and Chemicals ltd, gives the details of the various variables used.

ii. The period for which different companies give VAS in the annual report of a year also varies. All the companies give VAS for the previous year too. However, Linc pens & plastics ltd and Vam Organic Chemicals ltd gives VAS
for five years. The exhibition of VAS for previous years is preferred, because it would reveal as to what changes have taken place in VA over a period of time and as to how these variations have affected the interest of the ‘corporate coalition’ viz., employees, investors, government and lenders, etc.

iii. All the companies show the distribution of value-added amongst different members of the ‘corporate coalition’ as a per cent to total value-added. Such information is significant to know the comparative share of different members to the total value generated.

In order to avoid any misunderstanding in the concept of EVA and VAS, an example is given from the annual report (1999-00) of Linc Pens & Plastics Ltd (see Exhibit 9.1).

### Exhibit 9.1

**STATEMENT OF EVA AND VAS CALCULATIONS**

Linc Pens & Plastics Ltd. [Annual report for the year 1999-00, pp. 11 & 49]

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>2.95</td>
<td>Gross sales</td>
<td>3.55</td>
<td>11.51</td>
<td>16.55</td>
<td>21.85</td>
<td>28.30</td>
</tr>
<tr>
<td>Tax</td>
<td>0.74</td>
<td>Other income</td>
<td>0.22</td>
<td>0.12</td>
<td>0.14</td>
<td>0.10</td>
<td>0.36</td>
</tr>
<tr>
<td>Adjusted tax</td>
<td>0.81</td>
<td>Stock adjustment</td>
<td>0.60</td>
<td>0.29</td>
<td>0.33</td>
<td>0.31</td>
<td>0.53</td>
</tr>
<tr>
<td>Avg. cap. Employed</td>
<td>11.55</td>
<td>Total income</td>
<td>4.37</td>
<td>11.92</td>
<td>17.02</td>
<td>21.64</td>
<td>29.19</td>
</tr>
<tr>
<td>WACC</td>
<td>14.96%</td>
<td>Less: cost of materials, manuf, selling &amp; adm exp.</td>
<td>3.65</td>
<td>9.62</td>
<td>12.75</td>
<td>16.81</td>
<td>23.15</td>
</tr>
<tr>
<td>---------------</td>
<td>--------</td>
<td>--------------------------------------------------</td>
<td>------</td>
<td>------</td>
<td>-------</td>
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<td>-------</td>
</tr>
<tr>
<td>Cost of cap.</td>
<td>1.73</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EVA</td>
<td>0.41</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EVA calculation</td>
<td></td>
<td>Gross value added</td>
<td>0.72</td>
<td>2.30</td>
<td>4.27</td>
<td>4.83</td>
<td>6.04</td>
</tr>
<tr>
<td>PAT</td>
<td>1.94</td>
<td>Less: Depreciation</td>
<td>0.02</td>
<td>0.09</td>
<td>0.10</td>
<td>0.29</td>
<td>0.30</td>
</tr>
<tr>
<td>Tax</td>
<td>0.74</td>
<td>Net value added</td>
<td>0.70</td>
<td>2.21</td>
<td>4.17</td>
<td>4.54</td>
<td>5.74</td>
</tr>
<tr>
<td>Interest</td>
<td>0.27</td>
<td>Growth %</td>
<td>-</td>
<td>215.71</td>
<td>88.69</td>
<td>8.87</td>
<td>26.43</td>
</tr>
<tr>
<td>Year end</td>
<td></td>
<td>To personnel</td>
<td>0.07</td>
<td>0.44</td>
<td>0.59</td>
<td>0.70</td>
<td>0.75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total debt</td>
<td>0.04</td>
<td>0.26</td>
<td>0.51</td>
<td>0.30</td>
<td>0.82</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To government</td>
<td>0.09</td>
<td>0.05</td>
<td>0.16</td>
<td>0.27</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Net worth</td>
<td>0.20</td>
<td>0.48</td>
<td>0.60</td>
<td>0.72</td>
<td>0.72</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To investors (div)</td>
<td>0.39</td>
<td>0.94</td>
<td>2.42</td>
<td>2.66</td>
<td>3.18</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To the company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year start</td>
<td></td>
<td>Total debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>To government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Net worth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Share price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paid up value per share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Beta factor</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

| Share price   | 30.00  |
| Equity        | 6.00   |
| Paid up value per share | 10.00  |
| Beta factor   | 0.75   |

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No enterprise can survive and grow if it fails to generate sufficient value. An enterprise may exist without making profit, but can’t survive without adding value. The enterprise, not making profit, shall become sick, but non-generation of value may cause its death. Thus, the value added is a basic and broad measure of judging the performance of an enterprise.

4. CORPORATE SOCIAL REPORTING

Social accounting is a rational assessment of and reporting on some meaningful, definable domain of a business enterprises’ activities that impact socially. This aims at measuring adverse and beneficial effects of such activities both on the firm and / or those affected by the firm. Thus social reporting implies the measurement and reporting, internal or external, of information concerning the impact of a business enterprise and its activities on society.

Exchanges between a firm and society, primarily relate to the use of social resources. If the activities of a firm lead to a depletion of social resources, the result is a social cost; if they lead to an increase in social resources, the result is a
social benefit. According to Chenhall\textsuperscript{11}, "as a steward, management's responsibility should be evaluated in terms of both profit and accomplishment of social objectives".

In 1991, the ICAI after making a survey found that 123 out of 202 companies provided some information in their director's report about the company's contribution in the sphere of social responsibility.

Though the economists like Adam Smith and Milton Friedman have strongly objected to the idea of 'social responsibilities of a business', nevertheless very strong views have been expressed in favour of this notion by Bowen (1953)\textsuperscript{12}, Eeils & Walton (1961)\textsuperscript{13}, McGuire (1963)\textsuperscript{14}, Committee for economic development, USA (1971)\textsuperscript{15} and Dilley Wey Gandt (1973)\textsuperscript{16}.

A committee of the American Institute of Certified Public Accountants (USA) on the objectives of financial statement has observed that an objective of financial statement is to report on those activities of the enterprise affecting society, which can be determined and described or measured and which are important to the role of the enterprise in its social environment (True Blood committee report, 1973)\textsuperscript{17}. In France, the disclosure of social responsibilities and their audit has been made mandatory for the companies (Hussey, 1978)\textsuperscript{18}.

\textsuperscript{18} Hassey, Roger, "France has a Social Audit", Accountancy, February 1978, p.112.
CORPORATE SOCIAL REPORTING PRACTICES IN INDIA

The government of India had introduced the 'MAOCAR order' in 1975, which was later on amended in 1988. But there is no mention of any of the socio-economic activities, which the companies should undertake, and auditors should mention compliance in the annual reports. Kastenholz suggests that the auditor's report should state the following:

a) Basis on which the price of the product or the cost of the service rendered has been determined.

b) If it is fair to the customers.

c) If it will not harm the shareholder, i.e., if it is just to the shareholders.

d) If the company has been creating fund out of its profit to subsidise the price, so fixed, the verification of such a fund; and

e) A clear-cut declaration by the auditors that the company has been working in view of its socio-economic responsibilities.

The high powered expert committee on companies and MRTP Act (Sachar committee, 1978) has recommended that a provision may be included in the companies Act to make it obligatory for companies to give a social report along with the director's report, which would provide with a clear and quantified account of the social operations undertaken during the previous year.

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20 Report of the High powered expert committee on Companies and MRTP Acts (Sachar committee), Ministry of Law, Justice and company affairs, Govt. of India, New Delhi, August 1978.
CORPORATE SOCIAL REPORTING OF INDIAN COMPANIES – Some Observations

The following conclusions may be drawn on the CSR of Indian companies from among sample companies chosen for the study:

a) Only one company, i.e., Tata Steels, have prepared social accounts for all the five years of the study.

b) 2 companies have disclosed the amount spent on social activities. They are – Tata Steels and Sterlite Industries (India) ltd.

c) 68 companies have reported details on social activities undertaken by the company. To name a few – Deepak Fertilizers and petrochemicals corporation ltd, Gujarat Ambuja cements ltd, Grasim Industries ltd, Indo Gulf Corporation ltd, Reliance Industries ltd and so on.

d) Almost all the companies from the chemical industry have disclosed the information on social activities undertaken by them.

e) A separate section on social reporting has been printed in 47 companies’ annual reports, for the year 1999-00.

f) In case of 21 companies, social reporting has figured either as a part of the director’s report or as a part of the management discussion and analysis section.

PROBLEMS IN CSR IN INDIA

As it has been revealed by this study, CSR has not been practised by a large number of selected companies. The possible reasons for the inadequate disclosure of CSR may be:
a) There are no standard guidelines available for the preparation of social accounts.

b) There are no legal framework, rules, regulations and standards available for making CSR mandatory.

c) The companies do not define their social goals in specific terms.

d) Since subjectivity can be exercised in quantifying the 'benefits' and 'costs' of social programmes, so 'social accounts' do not remain authenticated. Moreover these are unaudited.\(^{21}\)

e) The Indian companies Act do not require specifically a very detailed disclosure of CSR in the annual report. Though with an amendment made to the companies Act in 1988, the disclosure of, 'energy conservation', 'foreign exchange earnings', and 'pollution control measures' etc, has been made mandatory.

f) Since the number of variables to be identified, measured and reported in social accounts is inter-disciplinary, an accountant alone cannot perform this task. It requires a team consisting of an accountant, a social scientist, a legal man and others to perform this job.

5. ENVIRONMENTAL ACCOUNTING AND REPORTING

Accounting for environment is one of the basic constituents of social accounting and has been rapidly emerging as an important dimension of corporate accounting and reporting practices. Environmental issues like global warming, environmental degradation, deforestation, excessive exploitation, emission of green

\(^{21}\) Chander, Subhash, op.cit, p.244.
house gases, etc, are threatening the very survival of human beings. As the process of rapid industrialization has significantly contributed to the accelerated rate of environmental degradation, all these matters relating to the environment require special treatment in accounts and also require specific reporting in the balance sheet of companies.

ACCOUNTING APPROACHES TO ENVIRONMENTALISM

In 1993, System of National Accounts (SNA) has dealt with the environmental analysis as a functionally oriented satellite account. The main central accounting framework has not been disturbed. A System of Environmental Economic Accounts (SEEA) has been developed by the UN and presented in the handbook ‘Integrated environmental and economic accounting’. Mentioned below are the three approaches to environmental accounting.22

❖ NATURAL RESOURCE ACCOUNTING IN PHYSICAL TERMS:

This approach focuses on the physical asset balances, i.e., opening and closing stock and changes therein of materials, energy and natural resources.

❖ ENVIRONMENTAL ACCOUNTS IN MONETARY TERMS:

This approach identifies the actual expenditure on environmental protection and deals with the treatment of environmental cost of natural and other assets caused by production activities in the calculation of net product.

WELFARE AND SIMILAR APPROACH:

It deals with the environmental effects borne by individuals and by producers other than ones causing these effects. This approach considers free environmental service provided by nature to producer and consumers and subsequent damages borne by them.

ENVIRONMENTAL REPORTING

CONCEPTS OF ENVIRONMENTAL REPORTING:

Pearce report (1989)\(^{23}\) in the UK, what is considered as a revised version of a report commissioned by the UK department of environment is the distillation of wisdom of twenty years of research about the essential linkage between the economic growth and environment protection, has floated the idea of 'sustainable development'.

Environmentally conscious companies are voluntarily disclosing environmental information in a variety of ways like, press releases, reports to environmental regulators, environmental audit report, etc, though the principal medium of communication remains the annual report.\(^{24}\)

The green reporting system is designed to convey information concerning environmental and social impact of corporate activities to a wider audience. The Institute of Chartered Accountants in England and Wales (ICAEW)

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research group recommends a formal reporting of the following items either within the company’s annual report or in separate publications:

a) Organisational environmental policy;
b) The identity of the director with overall responsibility for environment issues;
c) The environmental objectives which should be expressed in a way that enables performance management;
d) Information on past and present actions, including their costs;
e) The main environmental impacts of the organization and their measurement, wherever possible;
f) The effect of compliance with regulations and any industry guidelines;
g) The significant environmental risks not required to be disclosed as contingent liabilities.

In India, the level of environmental related disclosure in corporate annual reports, both financial and non-financial is not an encouraging one. Neither the company law nor the accounting standards / guidelines issued by the ICAI prescribe disclosure norms for environment related matters in the corporate financial statements. There is no international accounting standard on this issue.

Following observations can be made on the environmental accounting and reporting by the sample companies in India:

a) The quantitative / financial information concerning environment was totally absent in the annual reports.

b) 23 companies, disclosing environmental related information have generally adopted qualitative / descriptive form for disclosure. To name a few
companies disclosing environmental related information are – Deepak Fertilizers and petro chemicals ltd, Grasim Industries ltd, Indo gulf corporation ltd, Sterlite Industries (India) ltd, Thirumali Chemicals ltd, and so on.

c) Disclosure of information on energy conservation is made by almost all the selected companies, since it is statutorily required under section 217 (1) (e) of the companies Act, 1956.

d) In the annual reports of many companies the extent of disclosure did not exceed even one-fourth page. In many cases the information was shared in just one or two sentences.

e) The information disclosed was so much a routine statement that it raised doubt about its credibility.

6. PRICE LEVEL ACCOUNTING

Price level accounting, which is also called as inflation accounting or general price level accounting, is defined by Kohler as, “A method of restating financial statements in units of general purchasing power”. In other words, it is a method of recording financial information in the financial statements at values, which reflect the actual purchasing power of the monetary unit during times of inflation.

OBJECTIVES

The specific objectives of price level accounting disclosure are:
i. To show real profit or loss for the period under review as against profit or loss on the basis of historical costs, so as to be able to measure the extent of change in the same as a result of inflation;

ii. To exhibit the real financial position rather than the position under conventional accounting;

iii. To indicate the real capital employed and return on investment;

iv. To ensure that sufficient funds will be available for replacement of fixed assets when necessary; and

v. To assist management and outsiders in their decision-making.

The effect of inflation on accounting was first highlighted by Sweeny (1936)\textsuperscript{25}, when he wrote, ‘Stabilised Accounting’. The following are some statements issued by various professional accounting bodies in the different countries on price-level accounting:

\begin{itemize}
  
  \item The Accounting Standards Committee (ASC) of ICAEW issued SSAP-16 on “Current cost accounting” in March 1980 and Exposure Draft (ED) – 35 on “Accounting for the effects of changing prices”, in August 1984.
\end{itemize}

\textsuperscript{25} Sweeny, Henry, “Stabilised Accounting”, Harper and Brothers, 1936.
The Canadian Institute of Chartered Accountants (CICA) came out with section 431 of the CICA handbook on "Reporting the effects of price changes" in December 1982.


The International Accounting Standard Committee issued IAS - 15 on, "Information reflecting the effects of changing prices" in November 1981.

The ICAI issued a guidance note on, "Treatment of changing prices in financial statements" in February 1982.

There are three techniques of considering the impact of inflation on financial statements, viz.,

1. **CURRENT PURCHASING POWER ACCOUNTING**, which takes into account the general rate of inflation, i.e., the changes in the purchasing power of money and is based on the concept of 'maintenance of financial capital' of an organization.

2. **CURRENT COST ACCOUNTING**, which recognizes the changes in the specific prices of the different assets and is based on the concept of, 'maintenance of operating capital' of an organization; and

3. **SPECIFIC AND GENERAL PRICE LEVEL ACCOUNTING**, which considers both the changes, in the general as well as specific prices.

Of these methods of price level accounting, however, current cost accounting is preferred over the others, because the changes in the specific prices are
iii. There is no universally accepted procedure / method to prepare price level accounting.

iv. The Indian income tax Act, 1961 does not permit the payment of income-tax on the basis of the price level adjusted income.

v. If price level accounting is legally allowed, it may have implications for a large number of companies, which would come in the purview of the MRTP Act.

The government of India is also not encouraging the companies to prepare their accounts under price level adjusted method, perhaps because the government will lose huge revenue from corporate tax if the companies are allowed to calculate their tax liability based upon the price level adjusted accounts data.

Late, Mr. J.R.D. Tata, the then chairman of TISCO, mentioned in the annual report for the year 1981-82 that the important drawback of HCA is that the management is deprived of the true picture the company’s real worth and profitability on which to plan its current and future operations. This unsatisfactory situation is corrected under CCA by a continuous revaluation of assets in the annual accounts to correspond with current costs.

7. **HUMAN RESOURCE ACCOUNTING**

The fundamental idea of human resource accounting is that the people have a quantifiable value to an organization, which should somehow be considered in the managerial decision-making process and reported periodically. HRA has been
defined as, "a process of identifying and measuring data about human resources and communicating this information to the interested parties".

The need for this technique (for that matter any control technique) increases directly in proportion to the size and complexity of its organization (Straus and Sayles, 1976)\textsuperscript{28}. It aims at facilitating more effective and efficient management of people (Chatterjee, 1977)\textsuperscript{29}.

HRA involves measuring the costs incurred by an organization on recruiting, selecting, hiring, training and developing human assets. It also involves measuring the economic value of people to an organization. It is generally recognized that employees are quite valuable assets and the management therefore, takes decisions involving expenditure, which may be justified as investment in human resources.

In conventional accounting, the expenditure related thereto is charged in income without taking into consideration the timing of expected benefits there from. Thus, the expenditure in respect of recruiting, engaging, training and developing people are treated as expenses. The primary purpose of human resources accounting is to help management plan and control the use of human resources effectively and efficiently. This also helps investors obtain information about human assets of the organization.

Measurement of the value of human resources can assist the management in recognizing the problems connected with work.

\textsuperscript{29} Chatterjee, B.K, "HRA in Indian context", The Economic Times, New Delhi, December 30, 1977.
APPROACHES FOR MEASUREMENT OF HUMAN RESOURCES

The corporate enterprises may adopt one of the following approaches for the measurement of the human resources:

1. HISTORICAL COST APPROACH

This approach envisages that the amount actually spent on recruiting, selecting, training, orientation and development of the employees is capitalized. The enterprise should include the expenditure in an aggregate account generally named as "general or administrative expenses". This approach separately provides for acquisition cost like salary of the recruiting or selecting staff, fees paid to the recruiting agencies, advertising expenses, bulletin / brochure expenses, travel expenses, entertainment expenses, etc. development cost like, salaries of training staff, salaries of trainees, materials supplied to trainees during training period, traveling expenses of training staff and trainees, etc. for this approach it will be necessary to estimate the probable period of stay of each category of employees with the organization.

2. REPLACEMENT COST APPROACH

Replacement cost is the cost of replacing the existing human resources of an organization by new ones. This approach would include the acquisition cost, development cost and the separation cost. The replacement may be an individual replacement cost or positional replacement cost.

Individual separation cost arises when an employee quits the organization. The outgoing employee is entitled to be paid one month salary or more, and other benefits like provident fund and gratuity. The second element of the
separation cost is the cost of the lost productivity. The third element of the separation
cost is the vacant position cost. The work of an individual has corresponding impact
on the performance of other employees. Therefore, when he quits the organization, it
will adversely affect the performance of others concerned.

The positional cost of an employee would be the replacement cost at
the respective positions after the necessary adjustment of the amount by the relevant
probabilities of the employee occupying the position at different times. This approach
does not take into account the value associated with individual employees.

3. ECONOMIC VALUE APPROACH

The economic value is the money equivalent of service potential. To
determine the economic value, the expected future salaries to be earned by an
employee are to be worked out by multiplying the future salaries of the following
years by estimated probability of the employees staying in the organization.

PROBLEMS

The adoption of HRA concept is facing a lot of problems both at
conceptual as well as computational levels.

- Value based measure of HRA depends on the contribution made by a
  particular employee. But contribution cannot be measured easily on an
  individual basis.

- The average duration of an employee with an organization is an uncertain
  phenomenon.

- As soon as human resources are recognized as assets the question of
  ‘depreciation’ as a conceptual problem has to be tackled.
At what rate the future benefits promised by the human resources is to be discounted needs value based models.

Human resources accounting remains as a theoretical concept as the tax laws don’t recognize human being as asset.

INDIAN PRACTICES REGARDING HRA

A survey of the annual reports of the companies has revealed that the chairman’s / director’s report in an annual report invariably contains the statements highlighting the significance of human resources, viz., “our employees are our most important assets and without their significant contribution, the present growth in operations, would not have been obtained”, “I wish to place on record my sincere gratitude for the hard work done by the employees of our company”, “I thankfully acknowledge the contribution made by our employees”, “The pursuit of excellence in an enterprise is a reflection of people”, etc. though these qualitative statements do emphasise the pivotal role played by the human resources in an organization, but an analysis of the balance sheets of these companies show that such an important asset does not find a place in the balance sheets.

It is heartening to note that at least one company from among the sample companies in India has reported HRA in its annual report, i.e., Satyam Computer Services ltd. For better understanding, the HRA, presented by Satyam Computer Services ltd in its annual report for the year 1999-00 has been reproduced in Exhibit 9.2.

There are several models to evaluate the human resource value. Satyam has used the Lev & Schwartz model for computing the HR value. HR value is
the present value of future earnings up to retirement age and in this model earnings are dependent on age alone.

The future earnings have been discounted at 20 per cent being the weighted average cost of capital for the past five years. The average age of the associates in the development group in India was 27 years and for those abroad it was 30 years. The associate cost for the year 1999-00 at Rs. 25,373.13 lakhs, was 10.73 per cent of the human resource value.

### Exhibit 9.2

**Human Resource Accounting**

**Summary of HR value as at 31\(^{st}\) March 2000 is as follows:**

<table>
<thead>
<tr>
<th>No. of associates</th>
<th>HR value Rs.in lakh</th>
<th>US$ Million</th>
<th>%</th>
<th>No. of associates</th>
<th>HR value Rs.in lakh</th>
<th>US$ Million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development</td>
<td></td>
<td></td>
<td></td>
<td>Support function</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4445</td>
<td>210210.23</td>
<td>482.02</td>
<td>88.89</td>
<td>3106</td>
<td>101811.73</td>
<td>239.95</td>
<td>86.82</td>
</tr>
<tr>
<td>622</td>
<td>26269.44</td>
<td>60.24</td>
<td>11.11</td>
<td>476</td>
<td>15456.09</td>
<td>36.43</td>
<td>13.18</td>
</tr>
<tr>
<td>5067</td>
<td>236479.67</td>
<td>542.26</td>
<td>100</td>
<td>3582</td>
<td>117267.82</td>
<td>276.38</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** The annual report of Satyam Computer Services Ltd for the year 1999-00.

The following inferences can be made:

i. The model adopted for the study is the Lev & Schwartz model.
ii. HRA reported by this company as supplementary information in the annual report, is unaudited. Moreover, the value assigned to the HR has not been shown in the financial statements.

iii. The employees are called / termed as Associates.

iv. The value assigned to the HR is influenced to a great extent by the 'discount rate'.

8. BRAND VALUATIONS AND REPORTING

According to the Accounting Standard Board (ASB) of UK, "Brand achieves a significant value in commercial operation through the tangible and intangible elements". American Marketing Association (AMA) defines a brand as a name, term, sign, symbol, or design or a combination of them, intended to identify the goods or service of one seller or group of sellers to differentiate them from those of competitors.

A brand is essentially a sellers' promise to consistently deliver a specific set of features, benefits and services to the buyers. It may take years and crores of rupees to build a powerful brand. It requires continuous R&D investment, skillful advertising and excellent trade and consumer service. Some companies have even appointed brand managers to guard the brand image, association, and quality.30

All the benefits and values derived by the consumers from a brand name and the benefits accruing to the brand owner, qualitative or quantitative, can be grouped under one head called brand equity.

Stephen King of WPP group, UK in a letter to Subroto Sengupta writes that one of the hottest issues in the UK is that of putting a value on brands in the balance sheet. A rash of takeovers has created awareness that brands are by a long way its greatest asset (Sengupta, 1999)\(^\text{31}\).

**BRAND VALUATION**

Since brands are intangibles, the value of a brand should ideally be governed by the strength that the brand enjoys. A number of methods for valuation of brands have been suggested. An overview of the various methods are presented below:\(^\text{32}\)

**HISTORICAL COST METHOD**

Under this approach, the brand is valued by taking into account the actual expenses incurred in creating, maintaining and growth of the brand.

**REPLACEMENT COST METHOD**

The value of the brand is based on the estimated costs and expenses incurred for replacement / re-creation of existing brands.

**CURRENT USE VALUE METHOD**

Under this approach, the current corporate brands are valued at the current use value to the group and it is reviewed annually, not subject to amortization. The basis of valuation ignores any possible alternative use of a brand, any possible extension to the range of products currently marketed under a brand.


MARKET PRICE METHOD

Under this approach the value of the brand lies in the price paid to buy a similar brand.

POTENTIAL EARNINGS APPROACH

This method is based on the estimated potential earnings that would be generated by a brand and their capitalization by using an appropriate discount rate.

DISCOUNTED CASH FLOW METHOD

Under this approach, the value of a brand is the sum total of present value of future estimated flow of brand revenues for the entire economic life of the brand plus the residual value attached to the brand.

AN OVERVIEW OF PREVAILING GUIDELINES AND PRACTICES

UK is the pioneering country for brainstorming about brand accounting. After the takeover of Rowntree by Nestle, a few companies started to include the self-generated brand value in balance sheet with a view to add brand strength to their balance sheets to improve their share prices.33

Accounting Standard Committee (ASC) in 1989 suggested that the companies could include purchased brands in the disclosure as an intangible fixed asset in the balance sheet, but not the created brands. The ASC, in 1990, further stated that the brands should be included in goodwill and their accounting treatment will be the same as that for goodwill.

In India, the ICAI is yet to evolve any method or standard for corporate brand valuation, accounting and disclosure. Only small mention of how to disclose the goodwill as part of fixed asset is made. The present study reveals that, there are 5 selected companies in India that have disclosed the information on brand valuation and accounting for the year 1999-00. To name a few of them are – BPL ltd, Satyam computers services ltd, Reliance Industries ltd and so on. But none have included the brand value in their respective balance sheets.

The brand value of ‘BPL’ has been arrived at through the following methodology (Source; BPL ltd annual report for the year 1999-00, pp.17-18):

❖ The brand name of BPL is used by other companies within the group as well, and each spends individually to strengthen the brand image. Therefore, the brand value created by the other companies within the group has also been considered while arriving at the overall value of the BPL brand.

❖ While considering the brand value of the other three companies, an average rate of return on sale of 5% has been assumed and the broad industry P/E has been assumed at 6.00.

❖ Financial numbers for the last three years have been considered.

❖ An inflation adjustment has been built into the calculations. As a result, a post- inflation value of Rs. 1.20 given to every rupees’ profit registered in 1997-98 and Rs.1.09 to every rupees profit in 1998-99. The profit for 1999-00 has been considered on actual.
Interest and dividends are treated as capital servicing costs; the brand earnings are the profits in the business before interest and dividend outflow.

The profits for 1999-00 have been given a weight of three, while the previous two years are given weights of 2 and 1.

Brand profits have been put through a deduction of 15 per cent, mainly as a measure of caution.

The average capital employed over the last year is taken as the base on which capital has to be ‘remunerated’.

The average expected return enjoyed is fixed at 5 per cent on sales.

The brand earnings number has been multiplied by a brand multiple to arrive at the financial value of the brand.

The brand multiple ceiling of 12 has been considered after taking into account the competitive position within the industry and the entry of multinationals. Multiple applicable to BPL workout to be 10.47.

<table>
<thead>
<tr>
<th>Brand value result:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand ; BPL</td>
</tr>
<tr>
<td>Value of group earnings</td>
</tr>
<tr>
<td>attributable to the brand alone ; Rs. 78 crores</td>
</tr>
<tr>
<td>Brand value ; Rs. 611 crores [as per the above calculation]</td>
</tr>
</tbody>
</table>

Exhibit 9.3 shows the brand valuation and accounting of Satyam computer services ltd, for the year 1999-00.
### Exhibit 9.3

**Brand Accounting**

(Rs. In lakhs)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit before tax</td>
<td>4367.65</td>
<td>7730.23</td>
<td>14086.43</td>
</tr>
<tr>
<td>Add: Financial charges</td>
<td>1198.05</td>
<td>2643.45</td>
<td>4087.22</td>
</tr>
<tr>
<td></td>
<td>5565.70</td>
<td>10373.68</td>
<td>18173.65</td>
</tr>
<tr>
<td>Less: other non-branded income</td>
<td>1161.10</td>
<td>28.50</td>
<td>129.97</td>
</tr>
<tr>
<td>Adjusted profit for brand valuation</td>
<td>4404.60</td>
<td>10345.18</td>
<td>18043.68</td>
</tr>
<tr>
<td>Inflation compound factor @3.25%</td>
<td>1.07</td>
<td>1.03</td>
<td>1.00</td>
</tr>
<tr>
<td>P/v of profits for brand</td>
<td>4690.90</td>
<td>10681.40</td>
<td>18043.68</td>
</tr>
<tr>
<td>Weightage factor</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Weighted profit</td>
<td>4690.90</td>
<td>21362.80</td>
<td>54131.04</td>
</tr>
<tr>
<td>Three-year aggregate weightage profit</td>
<td></td>
<td></td>
<td>13364.12</td>
</tr>
<tr>
<td>Less: remuneration of capital (5%)</td>
<td></td>
<td></td>
<td>2641.46</td>
</tr>
<tr>
<td>Brand related profit</td>
<td></td>
<td></td>
<td>10722.66</td>
</tr>
<tr>
<td>Less: Income-tax (@ 38.5%)</td>
<td></td>
<td></td>
<td>4128.22</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6594.44</td>
</tr>
</tbody>
</table>
9. CORPORATE GOVERNANCE REPORT

The report of the Cadbury Committee on 'corporate governance' stated, "Corporate governance is a system through which companies are directed and controlled". It is referred to as the structure, systems and processes in a corporation that are considered appropriate for its effective functioning and in enhancing its wealth generating capacity. In a company, the board of directors bears the responsibility of effective corporate governance.

Since business organizations are expected to match up to social expectations the concept and scope of corporate governance have different flavors in different countries of the world. The American conception of good governance is based on maximization of shareholder equity within the legal framework. The Japanese views good corporate governance to mean good return to shareholders and also lifetime employment to employees. In India, under the influence of gandhian trusteeship theory it is taken to mean maximization of public good.

GLOBAL CORPORATE GOVERNANCE ADVISORY BOARD

A high profile, 'Global corporate governance advisory board' was setup at the initiation of Danial Meiland, CEO, Egon Zehordes international in 1998 for a term of five years. The board had Mr. Percy Barnevik, chairman investor AB;
Mr. John G. Smale, chairman, General motors; Mr. David W. Johnson, chairman, Campbell Soup; Mr. John H. Bryan, chairman and CEO, Sara Lee corp; Mr. Yoh Kurosswa, chairman, Daimler Benz AG; Mr. Cor Boonstra, president, Phillips Electronic NV; Mr. Ratan Tata, chairman, Tata group was made counsel to the board. The board serves as a polestar for directors globally, to help directors carry out their duties of care and loyalty, and thereby help preserve the free market system by ensuring that corporations globally are governed properly and appropriately (Economic Times, New Delhi, November 4, 1998).

The cornerstones of governance philosophy are:

❖ Trusteeship
❖ Transparency
❖ Empowerment and accountability; and
❖ Control and ethical corporate citizenship.\(^{34}\)

INDIAN PRACTICES REGARDING CORPORATE GOVERNANCE REPORTING

With initiative from the CII, the SEBI and Public sector financial institutions and publication of the guidelines and reports on corporate governance, the general awareness about its need and utility has increased.

CII TASK FORCE DESIRABLE CORPORATE GOVERNANCE CODE

A task force was setup by the confederation of Indian industry with Mr. Rahul Bajaj as chairman. The task force had prepared a draft code on, ‘Desirable corporate governance’ that was released for public discussion and debated in April

\(^{34}\) Banerjee, B, op.cit, p.8.
1997. The report contained 17 specific recommendations on corporate governance. After making modifications in the draft on the basis of feedback received from members, the code was released in April 1998. A summarized version of the code is given in chapter 2.

SEBI GUIDELINES ON CORPORATE GOVERNANCE

The stock market regulator SEBI had appointed a committee under the chairmanship of Shri. Kumarmangalam Birla, to suggest any measures to improve the standards of corporate governance in the listed companies. The committee examined the issues and submitted its report. A brief abstract of the report is given in chapter 2. The SEBI guidelines specify for listed companies to submit information regarding compliance with the code [SEBI 16].

The present study reveals that 26 selected companies in India have disclosed separate section on, 'corporate governance' in their annual report for the year 1999-00. The information given by some companies is a proof of corporate India giving it greater attention. This is expected to exert moral pressure on other companies to follow the suit. Following observations can be made regarding the disclosure of corporate governance:

i. All the companies have presented a report on corporate governance, before the financial statements in the annual reports.

ii. Disclosure on corporate governance has been improving over the period of time.

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iii. To name a few companies, which disclose information on corporate governance are – ACC Ltd, Bannari Amman sugars Ltd, Bajaj Auto Ltd, Grasim Industries Ltd, LML, L & T Ltd, Satyam computer services Ltd, and so on.

iv. The report of Bajaj Auto Ltd and Grasim Industries Ltd, on corporate governance is quite outstanding. This may be because, the chairman of Bajaj Auto Ltd, Shri. Rahul Bajaj, was the chairman of the task force setup by CII, which had prepared a draft code on, ‘disclosure on corporate governance.’

The chairman of Grasim Industries Ltd, Shri. Kumarmangalam Birla was the chairman of the committee setup by SEBI, which had prepared guidelines on corporate governance.

v. The report of Bajaj Auto Ltd on, ‘corporate governance’ is by far the best among the selected companies. This company has disclosed in accordance with each and every guidelines of SEBI and CII, regarding corporate governance and the company compliance.

10. MANAGEMENT DISCUSSION AND ANALYSIS [MD & A]

MD & A is prepared in compliance with the corporate governance requirement prescribed in the listing agreement (clause 49). The statement in MD & A describes company’s objectives, projections, estimates and expectations that may be forward- looking statements within the meaning of applicable securities laws and regulations.
Actual results could differ materially from those expressed or implied. So, readers are cautioned that the discussion contains certain forward-looking statements that involve risks and uncertainties.

The present study reveals that 23 selected companies in India have disclosed a separate section on, 'MD & A' in their respective annual reports for the year 1999-00. A few such companies are — ACC ltd, Cyber tech systems and software Ltd, Linc pens & Plastics Ltd, Reliance industries Ltd, Bajaj Auto Ltd, Deepak Fertilizers and petrochemicals corp. Ltd, and so on.

The main contents of MD & A in the annual reports of most of the companies are — Business review, Internal control systems, Risk management, Environment management, Future strategy, Industrial relations, Human resource management, Financial operations, Achievements, Opportunities and Threats, etc.

Nevertheless, inclusion of MD & A in the annual reports makes financial statements internationally competitive as both in the USA and in the U.K, such statements form an integral part of annual reports.

11. ENTERPRISE VALUE STATEMENT

Enterprise value (EV) also referred to as leveraged market capitalization, illustrates the total value of the firm. It is derived by adding the market value to the debt and minorities held minus the cash equivalent at the end of the year.

Enterprise value is used the world over by analysts and other valuation experts as one of the inputs to calculate the indicative EV / EBDITA and EV / Sales multiples (EBDITA being the operating profit of the company).
The EV/ EBDITA multiple overcomes the accounting differences across countries and in many respects provides a ‘clearer’ valuation argument. This multiple is also a valuation alternative to the P/E and is used for determining the industry / sector benchmark and for measuring the concerned company’s EV / EBDITA multiple against it. If this is higher than the industry, it is trading at a premium and vice versa.

The sales / EV is an indication of the value given to the growth and uses the sales tool as an indicative valuation. A low sales / EV shows the hidden potential of the company.

The present study reveals that only 2 companies, i.e., Linc pen and Plastics Ltd and Satyam computer Services Ltd, in India have disclosed enterprise value statement for the year 1999-00, in their annual reports. To understand the concept well, the EV statement prepared by Linc Pens & Plastics Ltd has been reproduced below in Exhibit 9.4.
## Exhibit 9.4

### Enterprise Value Statement

(Source: Linc Pens & Plastics Ltd, Annual Report for the year 1999-00, pp.10-11)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
</tr>
<tr>
<td>Market Price (March 31)</td>
<td>14.00</td>
<td>10.25</td>
<td>8.50</td>
<td>9.00</td>
<td>30.00</td>
</tr>
<tr>
<td>Market Capitalisation</td>
<td>8.40</td>
<td>6.15</td>
<td>5.10</td>
<td>5.40</td>
<td>18.00</td>
</tr>
<tr>
<td>Total Debt</td>
<td>0.24</td>
<td>-</td>
<td>0.56</td>
<td>1.73</td>
<td>4.58</td>
</tr>
<tr>
<td>Cash</td>
<td>0.59</td>
<td>0.16</td>
<td>0.27</td>
<td>0.35</td>
<td>0.67</td>
</tr>
<tr>
<td>Enterprise Value</td>
<td>8.05</td>
<td>5.99</td>
<td>5.39</td>
<td>6.78</td>
<td>21.91</td>
</tr>
<tr>
<td>EBDITA</td>
<td>0.36</td>
<td>1.48</td>
<td>2.07</td>
<td>2.05</td>
<td>3.27</td>
</tr>
<tr>
<td>EV / EBDITA</td>
<td>22.36</td>
<td>4.05</td>
<td>2.60</td>
<td>3.31</td>
<td>6.70</td>
</tr>
<tr>
<td>Sales /EV</td>
<td>0.44</td>
<td>1.92</td>
<td>3.07</td>
<td>3.22</td>
<td>1.29</td>
</tr>
<tr>
<td>Capital Employed</td>
<td>6.34</td>
<td>6.65</td>
<td>7.99</td>
<td>9.70</td>
<td>13.65</td>
</tr>
<tr>
<td>EV / Capital Employed</td>
<td>1.27</td>
<td>0.90</td>
<td>0.67</td>
<td>0.70</td>
<td>1.61</td>
</tr>
</tbody>
</table>

### 12. DIRECTORS RESPONSIBILITY STATEMENT ON

#### FINANCIAL STATEMENT

Section 217 (2AA) of the companies Act, 1956 [The Companies amendment Act of 2000] requires a statement from the directors on the financial statement to ensure that they have been made in compliance with accounting
standards issued by the ICAI, that accounting policies followed by the company have been applied consistently, etc.

The present study reveals that although the companies amendment Act has come into force only from 2000, Linc Pens & Plastic Ltd, L & T Ltd, and Nicholas Primal India Ltd, disclosed directors responsibility statement and secretary responsibility statement in their annual report for the year 1999-00. This statement has been disclosed in a few lines towards the end of the director's report.

The following patterns are common in the way responsibility statements are worded:

"The board of directors and the management of .......accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the form and substance of transactions are reasonably a presentation of the company's state of affairs and profit for the year".

13. CONSOLIDATION OF ACCOUNTS

The purpose of consolidation is to provide financial information about the economic activities of a group. The committee appointed by SEBI on corporate governance under the chairmanship of Kumarmangalam Birla submitted its report in November 1999. One of its recommendations includes consolidation of accounts of subsidiaries. The companies should be required to give consolidated accounts in

respect of all its subsidiaries in which they hold 51 per cent or more of the share capital.

The practice of companies’ window-dressing their accounts by hiving other loss-making business into separate subsidiaries will soon come to an end. The AS-21 on consolidated financial statements issued by the ICAI has plugged this widely exploited loophole. The impact of this will be far reaching, especially on companies, which have loss-making subsidiaries.

Take the case of Satyam Computer Services Ltd for instance. The company has six subsidiaries, of which the two major ones, Vision Compass and Satyam Infoway, are loss making. Vision Compass has accumulated losses of $21 m, while SIFY had net losses of $36.5 m for the trailing twelve months ending December 2000. On consolidation of these two subsidiaries with Satyam Computer Services Ltd, Satyam’s net profit may come tumbling down.

The AS-21 on consolidated financial statements makes it mandatory for all parent companies to present a consolidated balance sheet and profit and loss account in addition to separate subsidiary financial statements. In CFS, the parent will have to consolidate both domestic as well as foreign subsidiaries.

In case of NIIT, the company has 21 foreign subsidiaries, of which several like NIIT Europe and PT NIIT Indonesia, are loss making. The profit before tax of NIIT for the March 01 quarter works out to Rs. 57 crore, but on consolidation with its subsidiaries it falls to Rs. 43 crore.\(^\text{37}\)

The study does not stop with software companies alone, many old economy companies such as; ACC Ltd, Indian Hotels and Escorts also have a fairly large number of subsidiaries. In some cases, one or two loss making subsidiaries are enough to eat into the profits of the parent company.

In the case of United Phosphorous, even though it posted a profit of Rs. 15.3 crore in March 2000, its subsidiary Search Chem alone posted losses to the tune of Rs. 39.6 crore. On the other hand, for Arvind, the firm itself is loss making. In addition, eight of its 13 subsidiaries are also loss making, which aggravates the problem. For ACC Ltd, four of its five subsidiaries are loss makers, while in case of L & T, Narmada Cements has accumulated losses of Rs. 39.6 Crore as of March 2000. Exhibit 9.5 discloses this fact in a more clear way.

14. RESTATEMENT OF FINANCIAL ACCOUNTS

UNDER US GAAP

The US is the leader in financial reporting, and the US Securities and Exchange Commission is respected for its role in formulating and implementing US GAAP. The adoption of US GAAP by a company seeking finance in the US market allows it to benchmark against global peers and go in for full disclosure.

A foreign company that seeks to list its securities on stock exchanges in the US NASDAQ stock market is required to register its securities with the SEC, and must subsequently file annual reports. The foreign companies that are permitted to prepare their financial statements in accordance with the GAAP of their home
### Exhibit 9.5

**The Rich and some of their Errant children**

<table>
<thead>
<tr>
<th>Company</th>
<th>No.of.subsidiaries</th>
<th>Major loss making subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACC</td>
<td>5</td>
<td>ACC machinery, ACC-Nihon Casting, Damodar Cement</td>
</tr>
<tr>
<td>Arvind</td>
<td>13</td>
<td>Arvind products, Arvind Brands, Arvind Overseas</td>
</tr>
<tr>
<td>Dabur</td>
<td>7</td>
<td>Dabur finance, Dabur foods, Dabur Oncology.</td>
</tr>
<tr>
<td>Escorts</td>
<td>10</td>
<td>Escort Mobile, Escort construction.</td>
</tr>
<tr>
<td>Indian Hotels</td>
<td>14</td>
<td>Asia-Pacific Hotels, St. James court.</td>
</tr>
<tr>
<td>L &amp; T</td>
<td>6</td>
<td>Narmada Cement</td>
</tr>
<tr>
<td>NIIT</td>
<td>21</td>
<td>NIIT Mauritius, PT NIIT Indonesia.</td>
</tr>
<tr>
<td>Satyam</td>
<td>6</td>
<td>Vision Compass, SIFY.</td>
</tr>
<tr>
<td>United Phosphorous</td>
<td>12</td>
<td>Search Chem, UPL (UK), UPL (Russia)</td>
</tr>
<tr>
<td>WIPRO</td>
<td>7</td>
<td>WIPRO. Net.</td>
</tr>
</tbody>
</table>

**Source:** Economic Times, April 23rd, 2001, p.1.
country or International Accounting Standards must however, include a reconciliation of significant variations from US GAAP.

The items of differences between US GAAP and India GAAP and the effect of the differences on the financial statements have been dealt in detail in chapter 8. It may be noted that in several important areas (listed below), when the Indian Standards are implemented (after March 31st, 2000) the accounting treatment in these areas could lead to further differences in the restatement of accounts in accordance with US GAAP.

❖ Consolidated financial statements;
❖ Intangible assets;
❖ Accounting for taxes on Income;
❖ Segment reporting;
❖ Financial Instruments;
❖ Related Party Disclosure;
❖ Impairment of assets;
❖ Discounted operations.

The present study reveals that Bajaj Auto Ltd, Cybertech Systems & Software Ltd, Nicholas Piramal India Ltd, Reliance Industries Ltd and Satyam Computer Services Ltd, are few of the selected Indian companies that disclose reconciliation under US GAAP.

CONCLUSION

The contemporary issues in corporate disclosure, which have been discussed in this chapter, are being vastly practiced in the countries like, USA, UK, Canada, etc. In India, these issues are not being considered by many of the selected
companies for their financial disclosure purpose. The reason being that the existing law, regulations, guidelines and rules regarding corporate disclosures abroad are quite extensive and advanced. The inclusion of these issues in the corporate annual report of the companies will increase the relevance and usefulness of the annual report.