CHAPTER - X

SUMMARY, FINDINGS,
SUGGESTIONS
AND
CONCLUSION
Corporate financial accounting and reporting has evolved from, and responded to, the social and economic environment. Corporate financial accounting and reporting today is better, but not perfect. Changes are taking place to which it must adopt. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.

Disclosure also helps improve public understanding of the structure and activities of enterprises, corporate policies and performance with reference to environmental and ethical standards and companies’ relationship with the communities in which they operate.

‘Corporate reporting’ which is also called ‘Corporate disclosure’ or ‘Financial reporting’ is the much talked about subject the world over. This is so because of the emergence of the concept of ‘Stakeholder’ and voluminous increase in their informational needs, increasing public interest in the securities market and their regulation by the government, amendments in the disclosure laws in various countries and the standards on disclosure which have been issued by various professional accounting bodies in India and abroad.

Accounting is an information system and its ultimate purpose is to aid the groups interested in corporate affairs, in their decision making, by providing them relevant information. This purpose is achieved through ‘disclosure’ or ‘reporting’ of information mainly through the published annual accounts.
The disclosure is significant from the point of view of users, companies and the nation as a whole. The availability of relevant information reduces the uncertainty in the market, and helps the investors in selecting the best portfolios for their investments. Disclosure helps other users by providing them necessary information for their relevant decisions. The company gains, as a fuller disclosure stabilizes the market price of their shares over a period of time. It affects the reallocation of society’s wealth between consumption and investment and thus influences the rate of capital formation in an economy.

Financial reporting may be defined as communication of published financial statements and related information from a business concern to outsiders. Corporate financial reporting is useful not only to judge the past performance of the enterprise, but also enable the users to predict and evaluate the efficiency and profitability of the enterprise.

There are many media adopted by the companies for dissemination of information to outsiders. The published corporate annual report is undoubtedly the most widely distributed comprehensive source of corporate financial data. This is the most direct, least expensive, most timely and fairest method of reaching all shareholders and other present or potential investors.

In order to serve the varying needs of the different users it is not feasible for a reporting entity to have a ‘special purpose report’ for each of the users. Thus, the corporate enterprises have to design a ‘multi-purpose common report’ to serve the needs of the different users.
MAJOR FINDINGS OF THE STUDY

Following are the major findings of the study:

I. COMPLIANCE OF ACCOUNTING STANDARDS BY SELECTED INDIAN COMPANIES

(1) Almost all the selected companies [100%] complied with the provisions of Accounting standard no.1 (Accounting policies), no.3 (cash flow statement), no. 6 (Accounting for depreciation) and no.10 (accounting for fixed assets).

(2) None of the selected companies have (0%) complied with the provisions of Accounting Standard no.7 (accounting for construction contract).

(3) Some of the other accounting standards on which there has been very low level of compliance by the selected companies are — Accounting standard no.9 (revenue recognition), AS no.12 (accounting for government grants) and AS. No.14 (accounting for amalgamation).

(4) One of the possible reasons for the low level of compliance on certain accounting standards by the selected companies may be, transactions of this nature might not have occurred during the period of study.

(5) There has been a gradual improvement in the compliance of the accounting standards over the period of study.

(6) All the selected companies have provided information in a statement form, regarding the accounting policies.

(7) Most of the selected companies have provided depreciation on straight-line basis at the rates specified in schedule XIV of the companies Act, 1956.
(8) Most of the companies have prepared separate schedules of fixed assets, depreciation, investments, inventories, etc.

(9) All companies have provided information regarding contingent liabilities, in the footnotes or notes in balance sheet.

(10) Most of the accounting standards were partially complied with by the selected companies, as was evident from their annual reports.

(11) There has been a gradual improvement in the compliance of the accounting standards by the selected companies over the period of study.

(12) The highest compliance per cent of the companies is 86.67. To name a few of the companies, which have attained the highest level of compliance are — Bannari Amman Sugars Ltd, ELGI Equipments Ltd, Hindustan Lever Ltd, Indo Gulf corporation Ltd, Linc pens & plastics Ltd, LML Ltd, Navneet Publications (India) Ltd, Reliance Industries Ltd and so on.

(13) The lowest compliance per cent of the company is 33.33, by Timex Watches Ltd, for the year 1995-96.

(14) In case of 56 companies the compliance per cent remains the same in 1999-00, as it was in 1995-96.

II. CORPORATE DISCLOSURE PRACTICES IN INDIA

(i) The overall disclosure of items in the public limited companies in India has shown improvement over the period of five years of the study.

(ii) The disclosure per cent of mandatory information is very high. In case of certain items it is always 100 per cent.
(iii) There has been an increase in the quantity of information provided in the annual reports due to changes in the legal provisions and introduction of more accounting standards, to cope with the changing societal needs and the informational needs of the various users of the annual reports.

(iv) The disclosure of voluntary information has improved considerably, due to liberalization and globalization. It seems that the public limited companies resort more to "image building" which they do through the medium of their annual report.

(v) The quality and quantity of information provided by the selected few companies have improved considerably. Some of the items, which are disclosed by these companies, are internationally competitive [e.g., segment reporting, EVA reporting, Balance sheet with tangible and intangible items, Major industry trend, Human resource accounting and social reporting].

(vi) The corporate disclosure practices of most of the selected companies have improved considerably and annual reports of some of these companies [e.g., Satyam computer services ltd, Grasim industries ltd, Bajaj auto ltd, Linc pens and Plastics ltd] are internationally competitive.

(vii) Per cent of increase in the disclosure score of some of the reputed companies is relatively low [e.g., Grasim Industries ltd, Tata steels, Linc pens and Plastics ltd, Satyam computer services ltd, Reliance industries ltd]. This is because; these companies have already reached a certain high level of disclosure. So it will be difficult for these companies to improve its disclosure
score beyond this level at a high per cent of increase. The scope for further improvement is quite limited.

Whereas, the companies with very low disclosure score have a great opportunity to improve their disclosure score at a high per cent of increase.

(viii) There has been an increase in the quantity of information provided in the annual reports of some selected companies due to globalisation and liberalization. Some of the companies, which are listed in the New York Stock Exchange or London Stock Exchange, have provided lots of advanced and additional information [e.g., Reliance Industries ltd, Satyam computer services ltd, Bajaj Auto ltd].

(ix) Multi- National companies are generally providing better, advanced, attractive and informative matters in their annual reports [e.g., Linc pens and plastics ltd, Sun pharmaceuticals ltd, Cybertech systems & software ltd, Nicholas Piramal (India) ltd].

CLUSTER ANALYSIS

1. The companies, which fall in a particular cluster, are similar to each other, mostly on the basis of their average disclosure score per cent.

2. The cluster of companies, which are disclosing more information are generally, the ones, which have employed more assets, capital, age, turnover and profit. But in case of an individual company in a cluster, it may differ.
3. It is also observed that in many cases there are negative associations between the dependent variable and the independent variables, among the companies within a cluster.

4. In many cases, the extent of influences of independent variables on dependent variables is less. The association between the independent variable and disclosure score per cent is not very significant in many cases.

5. In quite a few cases it is observed that one or two variables are having negative association, but the remaining variables do have a significant influence on the disclosure score.

III. CORPORATE DISCLOSURE AND THE COMPANY ATTRIBUTES

1. There is a positive and highly significant association between the asset-size and the disclosure score in all the five years of the study.

2. Regression analysis has shown that the nature of the industry doesn’t influence significantly the disclosure score of a company.

3. The capital size of a company has a positive and significant association with the disclosure score in the years 1995-96, 1996-97 and 1999-00.

4. The age of a company, whether regressed individually or jointly with other variables, has a positive and significant association with the disclosure score in all the five years of the study.

5. The turnover of a company has a very strong, positive and significant association with the disclosure score in all the five years of this study.
6. The ROI of a company, whether regressed individually or jointly with other variables, has a very strong, highly significant association with the disclosure score in all the five years of the study.

7. The five independent variables, when regressed together have a positive and highly significant association with the disclosure score, in all the five years of the study. However, the asset-size, capital and turnover of a company, regressed with other variables has no significant association with the disclosure score in all the five years of the study. The possible reason for the insignificant association between these variables, when regressed jointly, with the disclosure score, may be that a majority of the companies are very ‘conservative’ as far as disclosure in annual report is concerned.

8. The influence of the five independent variables on the disclosure has increased constantly from 22.04 per cent in 1995-96 to 23.23 per cent in 1999-00.

9. The mean disclosure score per cent for all the five variables, have shown a steady increase during the five years of this study.

10. The conclusion of this analysis is almost similar to the ones of Cerf (1961), Singh and Dessai (1971), Buzby (1975), Singh and Bhargava (1978), Firth (1979), McNally, Hock Eng and Hasseldine.

IV. CONSENSUS BETWEEN PREPARERS AND USERS OF ANNUAL REPORT

i. There is no great degree of consensus between the attitudes of suppliers of the information [company] and the consumers of the information [users] towards disclosures in corporate annual reports. Stated alternatively, the results reveal that preparers [company] of annual report do not understand the informational needs of the users. The companies are not capable of meeting the corporate reporting obligations towards users. The results on the association of actual disclosure with the perception of users, suggest either a general corporate ignorance of users' informational needs or a lack of wit and will on the part of companies to fulfill the informational needs of different users.

ii. There is a moderate level of consensus among the attitude of various users of annual reports towards disclosures in corporate annual reports. Stated alternatively, the results reveal that the level of importance placed on each and every item of information by different categories of users of the annual report are almost identical to each other.

iii. There is a very high degree of association and consensus among the shareholders [users] from different categories [years ofshareholding,
educational qualifications, number of shareholding and age group] on the relative value of information disclosed in the annual reports.

iv. There is a consensus among the users of annual report from different zones towards disclosures in corporate annual reports. The results reveal that there isn't a very high level of consensus with reference to a few combinations of zones. One of the likely reasons for a lack of consensus among these few combinations of zones could be the data, from a particular zone might have been collected dominantly from a specific group of users of annual report. This might lead to a lack of consensus among users of annual report from different zones.

v. The results of hypotheses formulated for main information and item-wise information of an analysis has been almost similar to each other.

V. TIMELINESS IN CORPORATE DISCLOSURE

1. Of all the companies chosen for the study only one company, i.e., Ferro Alloys Corporation Ltd, has mentioned the reasons for delay in the finalisation of its annual accounts for the year 1999-00. It has mentioned that due to employee problems and subsequent lock out, accounts could not be prepared for three months from January 1, 2000 to March 31, 2000. On the basis of some information available with the Head office, the figures were estimated and the accounts were prepared. This had caused the delay.
2. The volume of the notice has been varying from company to company. It varies from 2 pages to 18 pages. The notice of the Apollo tyres Ltd and Asian hotels Ltd has been very detailed.

3. In most of the cases, the date of the auditor’s report and the date of the director’s report are on the same date.

4. 19 companies have violated the provision of the companies Act, regarding the issue of 21 days notice before the AGM, by giving less than 10 days notice.

5. Most of the companies, report their published accounts within the maximum time limit as allowed under the companies Act.

6. There exists an inverse association between the selected dated events and the five selected corporate attributes.

VI. CORPORATE DISCLOSURE PRACTICES ABROAD

1) The overall disclosure, in case of the companies abroad is significantly greater than that of the companies in India.

2) A large number of items have been disclosed by all the selected companies abroad [in case of 58 items there is 100 per cent disclosure].

3) In case of the companies abroad, 83.64 per cent of the items fall in the category of 80 and above disclosure per cent.

4) 98 per cent of the selected companies abroad have the disclosure per cent of more than 80 per cent.
5) The standard deviation and the co-efficient of variation in case of the companies abroad have been comparatively less.

6) Both in India and abroad, mostly the companies choose to disclose only the statutory requirements. But the difference lies in the quantum of statutory requirements in India and abroad. In Abroad, statutory requirements are much more extensive and advanced than in India. For example, consolidation of accounts has been very popular in France, Germany, USA and some other countries, well from early 1960s. These countries have proper guidelines and regulation for the consolidation of accounts. But in India, Accounting Standard-21, dealing with the consolidation of accounts, has been issued only in 2000.

7) There are differences in corporate disclosure practices from country to country mainly due to, the nature of the legal systems, the prevalent type of business organization and ownership, the influence of taxation laws and the strength of the accounting profession.

VII. CONTEMPORARY ISSUES IN CORPORATE DISCLOSURE

The contemporary issues in corporate disclosure, such as, segment reporting, economic value added reporting, corporate social reporting, environmental reporting, price-level accounting, human resource accounting, brand valuation and reporting, corporate governance report, management discussion and analysis, enterprise value statement, director’s responsibility statement on financial statement, consolidation of accounts and restatement of accounts under US GAAP, have been
disclosed by only a few companies in India. It is heartening to note that the number of companies reporting these issues has increased during the period of the study.

OTHER OBSERVATIONS OF THE STUDY

Following are other observations of the study:

1. It is disturbing to notice that some of the selected companies have not even disclosed about their nature of business / product they manufacture in their respective annual report. Whereas, quite a few companies have really utilized the annual report to advertise and market their product.

2. Same accounts are being labeled by different terms by different companies. For example, when the balance sheet is prepared in vertical form, it is called as ‘sources of funds and application of funds’, or ‘capital employed and application of capital’, or ‘net asset employed’ or ‘funds employed’ or ‘requirement and availability of funds’, etc. This creates confusion in the minds of various users of the annual report. Therefore, the companies should try to adopt uniform caption for its accounts.

3. Concept of materiality has not been followed by some of the selected companies, while preparing their accounts. In the name of disclosure in details, they disclose lots of irrelevant information. This ultimately leads to huge volume of annual report.

4. It is observed that in case of most of the companies, there is duplication of the information. The information, which is already included in the director’s report have been repeated in one or more other places of the annual report of a company. This should be avoided.
5. Indian disclosure laws are lacking in adequacy and not keeping pace with the recent developments. Our regulatory authorities are taking too much time in framing and implementing laws and accounting standards related to corporate disclosure. For example, legislation, accounting standards, and stock exchange pronouncements regarding segment reporting and consolidation of accounts have been issued around four decades ago in USA and UK, but in India the concerned accounting standards have been issued as recently as 2001.

6. Some companies uses annual report as (a) the best way for advertising their products, (b) to present the accounts well, and (c) to explain the company well. But only few companies strike a correct balance of all these three features.

7. Most of the companies follow same type of disclosure practices as it was following over the period of time. Layout of the annual report, nature of the matters included in the annual report, order in which the information is printed, size of the annual report and other presentation are almost same over the period of time. For example, annual reports of Zuari Agro Chemicals Ltd.

8. Many companies supply information regarding employees only on request.

9. The different companies, which is coming under the same business group have disclosed differently. For example, in Reliance group of companies (Ambani), only the annual report of Reliance Industries Ltd is outstanding, whereas, the annual reports of other companies which is also coming under the same group is presented very badly. The same is the case with TATA, Birla, Bajaj and so on.
10. Tata steels have provided statistical data for the last 80 years.

11. Some company’s director’s report doesn’t reveal the real financial position of the company. For example, the annual report of Daewoo Motors Ltd does not disclose the financial crisis in the company. Timex Watches Ltd is a loss making company. But the director’s report says that the company is doing well.

12. A company like United Phosphorus Ltd provide all foreign subsidiary companies data in that country’s currencies.

13. Some of the selected companies like Ajanta Pharma Ltd, Wyeth Lederle Ltd, Parke-Davis and Universal Cables Ltd, have not printed the page numbers in the annual report.

14. Vitara chemicals Ltd, annual report is of 12 pages only, whereas, the annual report of The Indian Hotels Company Ltd is of 195 pages for the year 1999-00.

15. Many companies have left the front cover page and the back cover page blank. This could have been utilized to display the pictures of the company’s product or the company’s achievements, or the photo’s of the employees who has excelled in their own field of work.

16. Some companies are disclosing quarterly unaudited results in their annual report for the period, which immediately follows the balance sheet date [for example, Bannari Amman Sugars Ltd].

17. Some companies attach one or two blank papers at the end of the annual report. This is to enable the shareholders to take notes at AGM.
18. Bannari Amman Sugars Ltd, is the only company, which has provided industry data, at world level, then national level, then state level and then the company data. It is really very useful to understand the industry as a whole.

19. Companies like, BPL Ltd and Satyam Computer Services Ltd have prepared a separate statement and account on brand valuation.

20. Companies like, Satyam Computer Services Ltd and Linc Pens & Plastics Ltd have published Enterprise value statement in addition to EVA, VAS and MVA statement.

21. Companies like, Reliance Industries Ltd, Satyam Computers Services Ltd, Cybertech Systems & Software Ltd, Bajaj Auto Ltd and Nicholas Piramal India Ltd have prepared a statement of reconciliation of accounts under US GAAP and IAS.

22. ELGI Equipments Ltd is the only company, which has prepared a statement of projections and actuals. This is very helpful to analyse the causes for variations and for management control.

23. Satyam Computer Services Ltd is the only selected company to prepare a separate balance sheet with tangible and intangible [brand value, human resource value and enterprise value, etc] assets.

24. It is very surprise to note that not even a single selected shareholder has ever attended an AGM