CHAPTER 2

MANDATORY DISCLOSURE
REQUIREMENT IN INDIA FOR
LISTED PUBLIC LIMITED
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2.1 Concept of Mandatory Disclosure:

Mandatory Disclosures are the minimum level of disclosures a company is bound to make in its financial statements so as to comply with the stakeholders legal requirements of disclosure. In other words, mandatory or statutory disclosures are the disclosures that are required by any statute e.g. 1) Company Law, 2) Stock Exchange Regulation, 3) Other Laws & Regulatory Body. They refer to those aspects and items of information that are mandated by statutes, stock exchanges or prescribers of accounting standards. Management’s discussion and analysis of financial performance, segmental data, related party transactions, corporate governance report etc. belong to this category. The annual accounts of corporate enterprises are prepared and presented in compliance with provisions of the corporate laws of the land and the prevailing "Generally Accepted Accounting Principles" (GAAP). In situations, in which certain matters are covered by both a Statement and an Accounting Standard, the statement prevails until the relevant accounting standard becomes mandatory (Coopers & Lybrand, 1993). In this chapter, an overview of mandatory disclosure requirements in respect of listed public limited companies in India has been presented.

2.2 Regulatory Requirement of Corporate Disclosure:

Regulations governing mandatory disclosure of information in the corporate accounts in India depends on three basic elements:

1) A general framework prescribed by law, particularly the Companies Act, 1956.
2) Recommendations and pronouncements of professional bodies. In India, in the matter of GAAP, it is the Institute of Chartered Accountants of India (ICAI) which regulates financial disclosure by prescribing guidance notes, statements on accounting matters and accounting standards issued by it from time to time &

3) Disclosure requirement as per Listing Agreement and the role of the Capital Market Regulator (Stock Exchange).

2.3 Disclosure Requirements as per Companies Act:

In India, it is basically, the Companies Act, 1956, that provides the general legal framework for mandatory disclosure of information in the annual reports of both private and public sector companies. The change in the Indian business and economic environment, change in economic policy in 1991, increased competition, investments of foreign companies in India, the emergence of new companies as world leaders and other factors have forced the requirements framed by the Companies Act to change over time. Companies are under an obligation to comply with legal requirements in order to steer clear of punitive actions for violating the law. The Companies (Amendment) Act, 1988 have made certain far reaching changes on mandatory disclosure requirements in the Companies Act, 1956 relating to measurement and disclosure of accounting information mainly concerns the following:

4. Sec. 211: Preparation of Annual Accounts.
5. Sec. 212: Particulars of Subsidiaries in the Holding Company Accounts.
6. Sec. 217: Contents of Board of Director’s Report.
7. Sec. 219: Dissemination of Information by a Listed Company.
8. Sec. 221: Disclosure about the Payments made to the Directors of the Company.

10. Para 3(i) (a); 3(ii) & 4C of Part-II to the Schedule VI: Segment Disclosure.


1) Sec. 209: Maintenance of Books of Accounts: In accordance with section 209(1) every company is required to keep proper books of accounts with respect to -

a) All sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;

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

c) The assets and liabilities of the company; and

d) In case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labour or to other items of cost.

This section also stipulates that books of accounts shall be kept only on accrual basis and according to double entry system of accounting and shall reflect a true and fair view of the state of affairs of the company in explaining its transactions in order to ensure that the company has kept proper books of accounts [Sec. 209(3)].

This section further lays that books of accounts and other books and papers shall be open to inspection by the directors [Sec. 209(4)].

Defaulters in respect of keeping of proper books of accounts will be punishable with imprisonment for six months and with fine of one thousand rupees. Moreover, books of accounts of every company shall be open to inspection by the Registrar of Companies or by such officers of the Government as may be authorized by the Central Government in this behalf without giving any previous notice to the company [Sec. 209-A].
2) **Sec. 209(1)(d): Maintenance of Cost Records:** Section 233B gives the Government of India the power to order for cost audit in the selected industries falling under the purview of the record rules up to 31st December 2001, the Government has brought under the purview of Cost Accounting (Record) Rules 44 industries. This is a very positive aspect of the Companies Act of our country specially when looked in the light of globalization and liberalization of the country that calls for optimum utilization of scarce resources to withstand the global competition. The maintenance of proper cost records and conducting of regular cost audit to a large extent will help in achieving control of costs and in some cases to bring about a reduction in costs as well.

3) **Sec. 210: Submission of Annual Accounts and Balance Sheet:** The Companies Act specifies that the Board of Directors of every company has to lay before the shareholders at the annual general meeting, a balance sheet as at the end of the period and a profit and loss or income and expenditure account for the period beginning with its incorporation and ending with a day which shall not precede the day of meeting by more than 9 months in case of first meeting and by more than 6 months in case of subsequent meetings. The period to which the account relates is referred to in this section as a “financial year” and it may be less or more than a calendar year, but it shall not exceed fifteen months.

4) **Sec. 211: Preparation of Annual Accounts:** According to section 211, the profit and loss account and the balance sheet of a company must give a true and fair view of the state of the affairs of the company. The balance sheet should be in the form given in Part I of Schedule VI or as near thereto as the circumstances permit. The profit and loss account should comply with the requirements of Part II of Schedule VI to the Companies Act. Part III to Schedule VI only interprets certain items used in Schedule VI, Part I and Part II. Part IV has been added by an amendment notified by the Government on 15.05.95. Part IV comprises of balance sheet abstract and a company’s general business profile. These provisions, however, are not applicable to insurance or banking company or to any other classes of companies for which a form of balance sheet and profit and loss account has been specified under the Act governing such class of companies.
Although no separate form for drawing up Profit & Loss Account has been prescribed by the Act, the Part II of Schedule VI contains the facts to be disclosed against each item of the said account. The most striking facets of disclosure requirements in this respect are:

1) The Profit & Loss Account -
   a) Shall be so made out as clearly to disclose the result of the working of the company during the period covered by the account; and
   b) Shall disclose every material feature, including credits or receipts and debit or expenses in respect of non-recurring transactions or transactions of an exceptional nature.

2) The Profit and Loss Account shall set out the various items relating to the income and expenditure of the company arranged under the most convenient heads; in particular, shall disclose the following information in respect of the period covered by the account:

   i) (a) The turnover, i.e., the aggregate amount for which sales are effected by the company giving the amount of sales in respect of each class of goods dealt with by the company, indicating the quantities of such sales for each class to be stated separately;

      (b) Commission paid to sole selling agents (within the section 294) and other selling agents shall be disclosed separately; and

      (c) Brokerage and discount on sales (other than usual trade discounts) are to be stated.

   (ii) In case of manufacturing companies:

      a) The value of raw materials consumed, giving item-wise break-up, including quantities thereof, to be disclosed; and

      b) The opening and closing stocks of goods produced, giving break-up in respect of each class of goods indicating quantities thereto to be shown separately.
3) In case of trading companies, the purchases made and the opening and closing stocks, giving break-up in respect of each class of goods, indicating quantities thereof to be disclosed.

4) The amount of depreciation charged should be disclosed. If no provision is made for depreciation the fact is to be stated. Similarly, arrears of depreciation if any, are to be computed in accordance with the section 205(2), i.e. at the rate provided in Schedule XIV, are to be disclosed.

5) Interest on debentures and other fixed loans, paid or payable to manager or managing director is to be stated separately.

6) Any item of expenditure, which either exceeds 1% of total revenue of the company or Rs. 5000 whichever is higher, is to be shown separately, or should not be clubbed under the headings like “Miscellaneous Expenses”.

7) Profits or losses on transactions not usually undertaken by the company are to be disclosed separately.

8) The amount of income from investments is to be shown, distinguishing between trade investments and other investments.

9) Remuneration, allowances, commission, perquisites, pensions etc. paid or payable to the directors or managers are to be stated separately.

10) The profit and loss account shall give by way of a note a statement showing the computation of net profits in connection with section 349 for the purpose of calculation of managerial remuneration.

11) Payments to auditors are to be classified and disclosed as payments to them (i) as auditors, (ii) as advisors on (a) taxation matters (b) company law matters and (iii) in any other manner.

12) In the case of manufacturing companies, the profit and loss account shall contain, by way of a note in respect of each class of goods manufactured,
detailed quantitative information in regard to (a) the licensed capacity, (b) the installed capacity and (c) the actual production.

13) The profit and loss account shall also contain information relating to value of imports, expenditure, remittances and earnings in foreign currency. Recently, the Companies (Amendment) Act, 1999, which has come into force on 31st day of October 1998, requires companies to prepare profit and loss account and balance sheet in accordance with the accounting standards. Sub-sections (3A), (3B) and (3C) inserted by the Act in section 211 of the Principal Act, which contains these provisions, read as follows:

“(3A) Every profit and loss account and balance sheet of the company shall comply with the accounting standards.

(3B) Where the profit and loss account and the balance sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and balance sheet, the following namely:

(a) Deviation from accounting standards;
(b) The reasons for such deviations; and
(c) Financial effect, if any, arising due to such deviation.

(3C) For the purposes of this section, the expression “accounting standards” mean the standards of accounting recommended by the Institute of Chartered Accountants Act, 1949, as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards established under sub-section (1) of section 210A. Provided that the standard of accounting specified by the Institute of Chartered Accountants of India shall be the Accounting Standards until the Accounting Standards are prescribed by the Central Government under this sub-section”. In this context it is noteworthy to mention that clause (d) inserted by the Companies (Amendment) Act, 1999 in sub-section (3) of section 227 of the principal Act requires the auditor of a company to report “whether in his opinion, profit and loss account and balance sheet comply with the accounting standards referred in sub-section (3C) of section 211”. It is quite contextual to refer to clause (2AA) inserted by
the Companies Act, 2000 in section 217 of the principal Act, which requires that the Board's Report shall include a Director's Responsibility Statement, indicating therein, that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures. It may also be noted that SEBI, in order to enhance the level of disclosure by the Listed Companies, has inserted a new clause 50 which stipulates that companies shall mandatorily comply with all the Accounting Standards issued by ICAI from time to time.

5) **Sec. 212:** Particulars of Subsidiaries in the Holding Company Accounts:

According to section 212 of the Companies Act, a holding company has to attach the following documents with its balance sheet in respect of each of its subsidiaries:

a) A copy of the balance sheet of the subsidiary;

b) A copy of its profit and loss account;

c) A copy of the board of directors;

d) A copy of the report of its auditors; and

e) A statement showing: (i) the extent of the holding company's interest in the subsidiary at the end of the financial year of the subsidiary, (ii) the profits (after deduction of losses of the subsidiary) so far as they concern the holding company separately for current financial year and for previous financial year and for previous financial years and separately for profits already dealt with in the books of the holding company and not so dealt with.

The term “profits” refers to profits of a revenue nature and earned by the subsidiary company after the date of acquisition of shares by the holding company.

f) Where the financial year of the subsidiary company does not coincide with the financial year of the holding company, a statement showing the following:
i) Whether and to what extent there has been a change in the holding company’s interest in the subsidiary company since the close of the financial year of the subsidiary company; and

ii) Details of any material changes which have occurred between the end of the financial year of the subsidiary company and at the end of the financial year of the holding company in respect of the subsidiaries fixed assets, its investments, the money lent by it and the money borrowed by it for any purpose other than meeting current liabilities.

6) Sec.217: Contents of Board of Director’s Report: According to section 217 of the Companies Act’56, a report of the Board of Directors shall be attached to every balance sheet, with respect to:

1. The state of the company’s affairs;

2. The amount, if any, which it proposes to carry to any reserve in such balance sheet;

3. The amount, if any, which it recommends should be paid as way of dividend;

4. Material changes in the commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance sheet relates and the date of the report;

5. Changes which have occurred in the nature of company’s business in which the company has an interest;

6. Names of every employee who was in receipt of Rs. 12,00,000 per annum, if employed throughout the year, or Rs. 1,00,000 per month, if employed for a part of the year;

7. The conservation of energy, technology absorption, foreign exchange earnings and outgo in such manner as may be prescribed [provision inserted by the Companies (Amendment) Act 1988 w.e.f. 1.4.89 (vide GSR 1028(3) dated 31.12.1988];

8. Names of the employees who are the relatives of the directors and managers; and
9. Every reservation, qualification or adverse remark contained in the auditor’s report.

Section 217(2AA) [introduced by the Companies (Amendment) Act, 2000 w.e.f. 13.12.2000] also specifies that the Board’s Report shall also include a Director’s Responsibility Statement indicating therein:

a. That in the preparation of the annual accounts, the applicable accounting standards has been followed along with proper explanation relating to material departures;

b. That the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;

c. That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

d. That the directors had prepared the annual accounts on a going concern basis.

Over the years, the contents of Director’s Report have been undergoing a progressive change. However, it should provide the investors more ‘forward looking’ information by mentioning future planned activities of the company enabling the investors to form an idea about the future operating cash inflow and the projected earnings per share like the Operating and Financial Review (OFR) published by UK companies or Management’s Discussion and Analysis (MD&A) published by US companies.

7) Sec. 219: Dissemination of Information by a Listed Company: The Companies Act gives a choice to the listed companies either to send detailed accounts to its shareholders or a statement containing only the salient features of the accounts.
8) **Sec. 221:** Disclosure about the Payments made to the Directors of the Company: The Companies Act mandates the duty of the company to disclose in the annual accounts the payments made to the directors by any other company, body corporate, firm or person.

9) **Sec. 227(3) and 227(4A):** Contents of Auditor’s report: As per the Companies Act, every auditor of a company shall have the right of access at all times to the books and accounts and vouchers of the company, whether kept at the head office of the company or elsewhere and shall be entitled to require from the officers of the company such information or explanations as the auditor may think necessary [Sec. 227(1)].

In accordance with the section 227(1A) the auditor shall also inquire:

a. Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interest of the company or its members;

b. Whether transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company;

c. Where the company is not an investment company within the meaning of section 372 or a banking company, whether so much of assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;

d. Whether loans and advances made by the company have been shown as deposits; and

e. Whether personal expenses have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received in respect of such allotment, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.
The auditor shall make a report to the members of the company on the accounts examined by him, and on every balance sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance sheet or profit and loss account, which are laid before the company in the general meeting during his tenure of office, and the report shall state whether, in his opinion and to the best of his information and explanation given to him, the said accounts give a true and fair view:

1. In case of the balance sheet, of the state of the company's affairs as at the end of its financial year; and

2. In case of the profit and loss account, of the profit or loss for its financial year.

The auditor's report shall also state:

a. Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;

b. Whether, in his opinion, proper books of account as required by law have been kept by the company, and proper returns adequate for the purposes of his audit have been received from branches not visited by him;

c. Whether the report on the accounts of any branch office audited under section 228 by a person other than the company's auditor has been forwarded to him as required by clause (c) of sub-section and how he has dealt with the same in preparing the auditor's report;

d. Whether company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns;

e. Whether, in his opinion, the profit and loss account and balance sheet comply with the accounting standards referred to sub-section (3C) of section 211; [inserted by the Companies (Amendment) Act, 1999, w.e.f. 31.10.98]

f. In thick type or in italics the observations or comments of the auditors which have any adverse effect on the functioning of the company; [inserted by the Companies (Amendment) Act, 2000, w.e.f. 13.12.2000]
g. Whether any director is disqualified from being appointed as director under clause (g) of sub-section (1) of section 274; [inserted by the Companies (Amendment) Act, 2000, w.e.f. 13.12.2000] and

h. Whether the cess payable under section 441A has been paid and if not, the details of amount of cess not so paid [inserted by the Companies (Second Amendment) Act, 2002].

Under section 227(4A) of the Act, the central government has the power to direct by a general or special order that, in case of specified classes of companies, auditor’s report shall include a statement on such matters as may be specified in its order. In accordance with these provisions, the central government issued a revised order in 2003, viz. the Companies (Auditor’s Report) Order, 2003 superseding the earlier order (MAOCARO) issued in 1998 and it shall apply to every company including a foreign company as defined in section 591 of the Act, except the following:

1. A banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

2. An insurance company as defined in clause (21) of section 2 of the Act;

3. A company licensed to operate under section 25 of the Act; and

4. A private limited company with a paid up capital and reserves not more than fifty lakh rupees and has not accepted any public deposit and does not have loan outstanding ten lakh rupees or more from any bank or financial institution and does not have a turnover exceeding five crore rupees.

Accordingly, every report made by the auditor under section 227 of the Act, on the accounts of every company examined by him to which this Order applies for every financial year ending on any day on or after the commencement of this Order, shall include a statement on the following matters, namely:

1. (a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

   (b) Whether these fixed assets have been physically verified by the management at reasonable intervals;
(c) Whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt within the books of account; and

(d) If a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern.

2. (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management;

(b) Are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business? If not, the inadequacies in such procedures should be reported; and

(c) Whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt within the books of account.

3. (a) Has the company either granted or taken any loans, secured or unsecured to / from companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions;

(b) Whether the rate of interest and other terms and conditions of loans given or taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company;

(c) Whether payment of the principal amount and interest are also regular; and

(d) If overdue amount is more than one lakh, whether reasonable steps have been taken by the company for recovery / payment of the principal and interest.

4. Is there an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of inventory and
fixed assets and for the sale of goods? Whether there is a continuing failure to correct major weaknesses in internal control.

5. (a) Whether transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered; and

(b) Whether each of these transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time. (This information is required only in case of transactions exceeding the value of five lakh rupees in respect of any party and in any one financial year).

6. In case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA of the Act and the rules framed there under, where applicable, have been complied with. If not, the nature of contraventions should be stated; if an order has been passed by Company Law Board whether the same has been complied with or not?

7. In the case of listed companies and / or other companies having a paid-up capital and reserves exceeding Rs. 50 lakhs as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business.

8. Whether maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained.

9. (a) Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees’ State Insurance, Income Tax, Sales Tax, Wealth Tax, Custom Duty, Excise Duty, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory
dues as at the last day of the financial year concerned for a period of 
more than six months from the date they became payable, shall be 
indicated by the auditor; and

(b) In case dues of sales tax / income tax / custom tax / wealth tax / excise 
duty / cess have not been deposited on account of any dispute, then the 
amounts involved and the forum where dispute is pending may please be 
mentioned.

(A mere representation to the Department shall not constitute the dispute).

10. Whether in case of a company which has been registered for a period not less 
than five years, its accumulated losses at the end of the financial year are not 
less than fifty per cent of its net worth and whether it has incurred cash losses 
in such financial year and in the financial year immediately preceding such 
financial year also.

11. Whether the company has defaulted in repayment of dues to a financial 
institution or bank or debenture holders? If yes, the period and amount of 
default to be reported.

12. Whether adequate documents and records are maintained in cases where the 
company has granted loans and advances on the basis of security by way of 
pledge of shares, debentures and other securities; if not, the deficiencies to be 
pointed out.

13. Whether the provisions of any special statute applicable to chit fund have been 
duly complied with in respect of nidhi / mutual benefit fund / societies?

(a) Whether the net-owned funds to deposit liability ratio is more than 1:20 
as on the date of balance sheet;

(b) Whether the company has complied with the prudential norms on 
income recognition and provisioning against sub-standard / default / loss 
assets;
(c) Whether the company has adequate procedures for appraisal of credit proposals / requests, assessment of credit needs and repayment capacity of the borrowers; and

(d) Whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower and would be conducive to recovery of the loan amount.

14. If the company is dealing or trading in shares, securities, debentures and other investments, whether proper records have been maintained of the transactions and contracts and whether timely entries have been made therein; also whether the shares, securities, debentures and other securities have been held by the company, in its own name except to the extent of the exemption, if any, granted under section 49 of the Act.

15. Whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.

16. Whether term loans were applied for the purpose for which the loans were obtained.

17. Whether the funds raised on short-term basis have been used for long term investment and vice-versa; if yes, the nature and amount is to be indicated.

18. Whether the company has made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act and if so whether the price at which shares have been issued is prejudicial to the interest of the company.

19. Whether securities have been created in respect of debentures issued.

20. Whether the management has disclosed on the end use of money raised by public issues and the same has been verified.
21. Whether any fraud on or by the company has been noticed or reported during the year; if yes, the nature and the amount involved is to be indicated.

Where, in the auditor's report, the answer to any of the questions referred to in the above paragraph is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be. Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.

The fact that the annual accounts presented by a company must be accompanied by a report of a statutory, qualified and independent auditor adds creditability to the truthfulness and fairness of the financial performance and the financial state of affairs expressed in the financial statements prepared by the managements. The importance of audit function as a constituent part of published company accounts has been explained by Stamp and Moonitz (1978) thus:

"We regard the function of auditing as supreme manifestation of the art (and science) of financial accounting. No matter how competent a company's financial accountant's may be, no matter how the high accounting standards that have been established (nationally or internationally) by the accounting profession, and no matter how informative the financial reports of the company are, an essential component of the creditability of financial reporting is provided by a favourable opinion from an auditor".

Moreover, an explanatory statement comprising some narrative details concerning one or more aspects of management presentations often accompany audit report. These narratives may be of great use in enhancing user's comprehension of published financial information. Explanatory comments included in the audit report are relevant to user's understanding of the published financial performance (Basu, 1997). The auditor sometimes qualifies the audit report if there is any uncertainty, which prevents him from forming an opinion or when he does not agree with the management representation. Qualified audit reports may contain many valuable pieces of information for investors, creditors and other financial users (Basu, 1997).
10. Sec. 383A: Secretarial Compliance Certificate: This section has been inserted by the Companies (Amendment) Act, 2000, w.e.f. 13.12.2000 to provide for secretarial compliance certificate from a secretary in whole time practice and to attach the same with Board’s report to the shareholders referred to in section 217.

2.4 Disclosure Requirement as per Professional Regulation - as per Accounting Standards issued by ICAI:

The legal framework, provided by the Companies Act, is supplemented by Accounting Standards (AS) issued by ICAI. There is therefore every necessity and significance of Accounting Standards in fairly measuring the economic reality of the operational and financial performance of a corporate and financial performance of a corporate entity and disclosing it in its annual accounts.

Recognizing the need to harmonize the diverse accounting policies and practices and ensuring fair and adequate disclosure in the financial statements in India and keeping in view the international developments in the field of accounting, the Council of the Institute of Chartered Accountants of India (ICAI) constituted the Accounting Standard Board (ASB) in April, 1977. The main function of the ASB is to formulate accounting standards (AS). The accounting standards are developed to harmonize the diverse accounting policies and practices adopted by different companies (Banerjee and Jaggi, 1997). This will help the users not only in comprehending the accounts published by the companies but it will also help them for firm-wise as well as period-wise comparisons of the published accounts. The Companies (Amendment) Act, 1999 has inserted a new section 210A, providing for the constitution of National Advisory Committee on Accounting Standards (NACAS). The committee will advise the Central Government on the formulation and laying down of accounting policies and accounting standards.

The annual accounts of corporate enterprises are prepared and presented in compliance with provisions of the corporate laws of the land and the prevailing ‘Generally Accepted Accounting Principles (GAAP)’. In India, the Companies Act, 1956 lays down detailed provisions as briefly mentioned in the previous section,
concerning the preparation of annual accounts and reporting thereof. In the matter of GAAP, the Institute of Chartered Accountants of India (ICAI), as a premier accounting body of the country, regulates the financial reporting and disclosure practices of companies in a variety of ways and plays a crucial role through (a) Guidance Notes; (b) Statements on Accounting Matters; and (c) Accounting Standards issued from time to time since its inception in 1949. Auditing Practices Committee (APC), now known as Auditing Assurance and Standard Board (AASB) of ICAI develops Statements on Standard Auditing Practices (SAPs), now known as Auditing and Assurance Standards (AASs) and Guidance Notes on services related to accounting and auditing should be conducted and provide benchmarks by which the quality of audit performance can be measured and the achievement of objective can be documented. Although Guidance Notes are generally recommendatory but there are certain mandatory guidelines, e.g. Provision for Depreciation in case of Extra or Multiple Shift Allowance, Treatment of Interest on Deferred Payments.

So far, ICAI have approved 32 Accounting Standards. The ASs are numbered AS 1 to AS 7 and AS 9 to AS 32. AS 8 is no longer in force having been merged with AS 26. The Council of the ICAI, at its 273rd meeting held on October 10.12.2007, approved the AS 30, Financial Instruments: Recognition and Measurement and AS 31, Financial Instruments: Presentation. The Council of the Institute of Chartered Accountants of India (ICAI) at its 278th meeting held on 13th May, 2008 has also approved AS 32, Financial Instruments: Disclosures, keeping in tune with the changes in economy. These ASs will come into effect in respect of accounting periods commencing on or after 1.4.2009 and will be recommendatory in nature for a period of two years. As a consequence of issuance of AS 30, limited revisions to eight Accounting Standards, viz., AS 2, AS 11 (revised 2003), AS 21, AS 23, AS 26, AS 27, AS 28, & AS 29 have also been made. ICAI has set an internal deadline of aligning its AS with IFRS by April 2011. A standard on insurance contracts is also on the way which would bring out standards almost on a par with the International Financial Reporting Standards (IFRS).

The Council of the ICAI, so far, has issued 32 accounting standards aimed at better disclosure of financial statements to facilitate intelligent reading and decision-making. Initially, many of the standards were recommendatory to grow awareness among...
corporate enterprises. The details regarding number, name and date with effect from these standards were made mandatory and applicability of these standards are given below:

Table 2.1 Accounting Standards issued by the ICAI upto 31.3.2007.

<table>
<thead>
<tr>
<th>NUMBER OF THE ACCOUNTING STANDARD (AS)</th>
<th>TITLE OF THE ACCOUNTING STANDARD</th>
<th>DATE FROM WHICH MANDATORY (ACCOUNTING PERIODS COMMENCING ON OR AFTER)</th>
<th>APPLICABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS 1</td>
<td>Disclosure of Accounting Policies.</td>
<td>1.4.91- for companies governed by Companies Act, 1956 as well as for enterprises other than those specified in note 1. 1.4.93 - for all enterprises including those specified in note 1.</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 2 (Revised)</td>
<td>Valuation of Inventories.</td>
<td>1.4.99</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 3 (Revised)</td>
<td>Cash Flow Statements.</td>
<td>1.4.2001 (Also see note 2).</td>
<td>See note 2.</td>
</tr>
<tr>
<td>AS 4 (Revised)</td>
<td>Contingencies and Events Occurring after the Balance Sheet Date.</td>
<td>1.4.95</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 5 (Revised)</td>
<td>Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.</td>
<td>1.4.96</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 6 (Revised)</td>
<td>Depreciation Accounting.</td>
<td>1.4.95</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 7 (Revised 2002)</td>
<td>Accounting for Construction Contracts.</td>
<td>As in case of AS 1 above.</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 8 (Withdrawn pursuant to the issuance of AS 26)</td>
<td>Accounting for Research &amp; Development.</td>
<td>As in case of AS 1 above.</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 9</td>
<td>Revenue Recognition.</td>
<td>As in case of AS 1 above.</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 10</td>
<td>Accounting for Fixed Assets.</td>
<td>As in case of AS 1 above.</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 11 (Revised 2003)</td>
<td>Accounting for the Effects of Changes in Foreign Exchange Rates.</td>
<td>1.4.95</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 12</td>
<td>Accounting for Government Grants.</td>
<td>1.4.94</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 13</td>
<td>Accounting for Investments.</td>
<td>1.4.95</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 14</td>
<td>Accounting for Amalgamations.</td>
<td>1.4.95</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 15 (Recently revised and titled as Employee Benefits)</td>
<td>Accounting for Retirement Benefits in the Financial Statement of Employees.</td>
<td>1.4.95</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 16</td>
<td>Borrowing Costs.</td>
<td>1.4.2000</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 17</td>
<td>Segment Reporting.</td>
<td>1.4.2001 (Also see note 2).</td>
<td>See note 2.</td>
</tr>
<tr>
<td>AS 18</td>
<td>Related Party Disclosures.</td>
<td>1.4.2001 (Also see note 2).</td>
<td>See note 2.</td>
</tr>
<tr>
<td>AS 19</td>
<td>Leases.</td>
<td>In respect of all assets leased during accounting periods commencing on or after 1.4.2001.</td>
<td>To all enterprises.</td>
</tr>
<tr>
<td>AS 20</td>
<td>Earnings per Share.</td>
<td>1.4.2001 (Also see note 3).</td>
<td>See note 3.</td>
</tr>
<tr>
<td>AS 21</td>
<td>Consolidated Financial Statements.</td>
<td>1.4.2001 (Also see note 4).</td>
<td>See note 4.</td>
</tr>
<tr>
<td>AS 22</td>
<td>Accounting for Taxes on Income.</td>
<td>See note 5.</td>
<td>See note 5.</td>
</tr>
<tr>
<td>AS 23</td>
<td>Accounting for Investments in Associates in Consolidated Financial Statements.</td>
<td>1.4.2002 (Also see note 6).</td>
<td>See note 6.</td>
</tr>
<tr>
<td>AS 29</td>
<td>Provisions, Contingent Liabilities and Contingent Assets.</td>
<td>1.4.2004</td>
<td></td>
</tr>
<tr>
<td>AS 30</td>
<td>Financial Instruments - Recognition and Measurement and Re-exposure Drafts.</td>
<td>1.4.2011</td>
<td></td>
</tr>
<tr>
<td>AS 31</td>
<td>Financial Instruments - Presentation.</td>
<td>1.4.2011</td>
<td></td>
</tr>
<tr>
<td>AS 32</td>
<td>Financial Instruments - Disclosures.</td>
<td>1.4.2011</td>
<td></td>
</tr>
</tbody>
</table>
Note 1: All enterprises mean any one of the following:

a. Sole proprietary concerns / individuals;
b. Partnership firms;
c. Societies registered under the Societies Registration Act;
d. Trusts;
e. Hindu undivided families; and
f. Association of persons.

Note 2: AS 17, AS 3 and AS 18 have been made mandatory in respect of the following enterprises:

a. Enterprises whose debt or equity securities are listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard; and
b. All other commercial, industrial and business reporting enterprises whose turnover for the accounting period exceeds Rs. 500 millions.

Note 3: AS 20 is mandatory in nature in respect of enterprises whose equity shares or potential equity shares are listed on a recognized stock exchange in India. In addition, every company which is required to give information under Part 4 of the Schedule 6 to the Companies Act, 1956 should calculate and disclose earnings per share in accordance with AS 20, whether its equity shares or potential equity shares are listed on a recognized stock exchange in India or not.

Note 4: AS 21 is mandatory, if an enterprise presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with AS 21.

Note 5: AS 22 comes into effect in respect of accounting periods commencing on or after 1.4.2001. It is mandatory in nature for:

(a) All the accounting periods commencing on or after 1.4.2001, in respect of the following:
(i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India and enterprises that are in the process of listing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard; and

(ii) All the enterprises of a group, if, the parent presents consolidated financial statements and the Accounting Standard is mandatory in nature in respect of any of the enterprises of that group in terms of (i) above.

(b) All the accounting periods commencing on or after 1.4.2002, in respect of companies not covered by (a) above.

(c) All the accounting periods commencing on or after 1.4.2003, in respect of all other enterprises.

Note 6: AS 23 will come into effect in respect of accounting periods commencing on or after 1.4.2002. AS 23 is mandatory if an enterprise presents consolidated financial statements. In other words, if an enterprise presents consolidated financial statements, it should account for investments in associates in the consolidated financial statements in accordance with AS 23 from the date of its coming into effect i.e. 1.4.2002.

Note 7: AS 25 will come into effect in respect of accounting periods commencing on or after 1.4.2002. This accounting standard does not mandate which enterprises should present interim financial reports how frequently, or how soon after the end of an interim period. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Accounting Standard.

Note 8: AS 26 will come into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1.4.2003 and will be mandatory in nature from that date for the following:

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

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 500 millions.

In respect of all other enterprises, the Accounting Standard will come into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1.4.2004 and will be mandatory in nature from that date.

Note 9: AS 27 will come into effect in respect of accounting periods commencing on or after 1.4.2002. In respect of separate financial statements of an enterprise, this Accounting Standard is mandatory in nature from that date. In respect of consolidated financial statements of an enterprise, this standard is mandatory in nature where the enterprise prepares and presents the consolidated financial statements in respect of accounting periods commencing on or after 1.4.2002.

Note 10: Accounting Standard AS 28, 'Impairment of Assets', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1.4.2004 and is mandatory in nature from that date for the following:

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

(b) All other commercial, industrial and business reporting enterprises whose turnover for the accounting period exceeds Rs. 500 millions.

In respect of all other enterprises, the Accounting Standard comes into effect in respect of accounting periods commencing on or after 1.4.2005 and is mandatory in nature from that date.

The disclosure requirements under the above Accounting Standards have been summarized as follows:
The disclosure requirements of AS 1 are as follows:

1. Significant accounting policies adopted in the preparation and presentation should be disclosed;
2. The disclosure should form part of the financial statements and normally at one place;
3. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. However, if any fundamental accounting assumption is not followed, the fact should be disclosed; and
4. Change in accounting policy having a material effect along with the effect of change must be disclosed.

The disclosure requirements of AS 2 (Revised) are as follows:

1. The accounting policies adopted in measuring inventories, including the cost formula should be disclosed;
2. The total carrying amount of inventories and its classification appropriate to the enterprise, e.g., raw material and components, work-in-progress, finished goods, stores and spare tools are also to be disclosed; and
3. By virtue of AS 1 an enterprise also need to disclose any change in the accounting policies, adopted in measuring inventories which has a material effect on the current period or later period(s) along with its impact on the items of financial statements. Where such impact is not ascertainable, whether wholly or in part, the fact should be disclosed.

The disclosure requirements of AS 3 (Revised) are as follows:

1. Components of cash and cash equivalents and a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet should be disclosed; and
2. The amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it (e.g., cash and cash equivalent balances held by a branch of the enterprise that operates in a country where
exchange controls or other legal restrictions apply as a result of which the balances are not available for use by the enterprise) are required to be disclosed along with a commentary by the management.

AS 4 requires an enterprise to disclose the following:

1. In respect of contingencies:
   a. The nature of contingency;
   b. The uncertainties which may affect the future outcome; and
   c. An estimate of the financial effect or a statement that such an estimate cannot be made.

2. In respect of events occurring after the balance sheet date (if disclosure of such events is required in the report of the approving authority):
   a. The nature of the event; and
   b. An estimate of the financial effect or a statement that such an estimate cannot be made.

AS 5 (Revised) requires an enterprise to disclose the following:

1. In respect of net profit or loss for the period:
   a. Profit or loss from ordinary activities; and
   b. Profit or loss from extraordinary items on the face of the statement of profit or loss.

2. In respect of prior-period items: The nature and amount of prior-period items should be separately disclosed in the statement of profit & loss in a manner that their impact on the current profit or loss can be perceived.

3. In respect of a change in an accounting estimate:
   a. The nature and amount of change in an accounting estimate which has a material effect in the current period; and
   b. If it is impracticable to quantify the amount, the fact thereof.
4. In respect of a change in an accounting policy:
   a. Any change in an accounting policy, which has a material effect, is to be disclosed;
   b. If the amount of such change is material, it should be shown in the financial statements of the period in which such change has been made; and
   c. If a change is reasonably expected to have a material effect in the subsequent period, the fact should be disclosed.

AS 6 (Revised) requires an enterprise to disclose the following:

1. The historical cost or other amount substituted for historical cost of each class of depreciable assets;
2. Total depreciation for the period for each class of assets;
3. The related accumulated depreciation;
4. Depreciation methods and any changes thereof, along with their effects if material;
5. Depreciable rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise;
6. Effect of revaluation of assets; and
7. Surplus or deficiency, if material, arising on the disposal, etc. of depreciable assets.

AS 7 (Revised) requires that an enterprise should disclose:

1. The method used to determine the stage of completion of contract in progress;
2. The method used to determine the contract revenue recognized in the period;
3. The amount of contract revenue recognized in the period;
4. Contract cost incurred and recognized profit (less recognized losses);
5. Advance received;
6. Gross amount due from customers for contract work as an asset; and
7. Gross amount due to customer for contract work as a liability.
AS 9 requires that an enterprise should disclose:

1. Revenue from sale of goods or rendering services;
2. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods;
3. Circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties; and
4. The amount of net turnover by deducting excise duty from the gross turnover.

AS 10 requires disclosure of the following information in the financial statements:

1. Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
2. Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
3. Revalued amount substituted for historical cost of fixed assets, if any.

AS 11 (Revised 2003) requires that an enterprise should disclose:

1. The amount of exchange differences included in the net profit or loss for the period;
2. Net exchange differences accumulated in foreign currency transaction reserve as a separate component of shareholder’s funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period;
3. The reason for using a different currency in case the reporting currency differs from the currency of the country in which the enterprise is domiciled;
4. The reason for any change in the reporting currency; and
5. In case of a change in the classification of a significant foreign operation:
   (i) The nature of the change in classification;
   (ii) The reason for the change;
   (iii) The impact of the change in classification on shareholder’s fund;
(iv) The impact on the net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented; and

(v) The effect on foreign currency monetary items or on the financial statements of a foreign operation of a change in exchange rates occurring after the balance sheet date.

AS 12 requires an enterprise to disclose:

1. The accounting policy adopted for government grants, including the methods of presentation in the financial statements; and

2. The nature and extent of government grants recognized in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.

AS 13 requires that an enterprise should disclose:

1. Accounting policies followed for valuation and determination of carrying amount of investments;

2. Classification of investments into current and long-term in addition to classification as per Schedule VI of Companies Act in case of company;

3. Any significant restriction on investment like minimum holding period for sale/disposal, utilization of sale proceeds, or non-remittance of sale proceeds of investment held outside India; and

4. The amount included in profit and loss statement for: (i) interest, dividends (showing separately dividends from subsidiary companies and rentals on investments showing separately such income from long-term and current investments with gross income and the amount of income tax deducted at source being included under 'Advance Taxes Paid' & (ii) profits and losses on disposal of long-term and current investments separately and changes in carrying amount of such investment.

The disclosure requirements as per AS 14 are as follows:

1. In the financial statement of transferee company the following disclosure should be made:
(i) Names and general nature of business of amalgamating companies;
(ii) Effective date of amalgamation;
(iii) Method of accounting used; and
(iv) Particulars of scheme sanctioned under a statute.

2. In case of amalgamation accounted under pooling of interest method:
   (i) Description and number of shares issued; and
   (ii) Difference between consideration and net assets acquired.

3. In case of amalgamation accounted under purchase method:
   (i) Consideration for amalgamation; and
   (ii) Difference between consideration & net assets acquired and treatment thereof including period of amortization of goodwill.

The disclosure requirements under AS 15 (Revised 2005) are:

1. For Detailed Contribution Plans: The amount recognized as an expense should be recognized; and

2. For Defined Benefit Plans: The following information is required to be disclosed:
   i. The enterprise’s accounting policy for recognizing actuarial gains and losses;
   ii. A general description of the type of plan;
   iii. A reconciliation of opening and closing balances of present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to current service cost, interest cost, contribution by plan participants, actuarial gains and losses, benefits paid, past services cost, settlements etc; and
   iv. The total expense recognized in the statement of profit and loss in respect of different line items e.g., current service cost, interest cost, expected return on plan assets etc.
3. For multi-employer plans:

   i. In case it is a defined contribution plan: same disclosure as mentioned in (2) infra; and

   ii. In case, it is treated as a defined contribution plan:

       a. The fact that the plan is a defined benefit plan; and

       b. The reason why sufficient information is not available to enable the enterprise to account for the plan as a defined benefit plan.

AS 16 requires that an enterprise should disclose:

1. The accounting policy adopted for borrowing costs; and

2. The amount of borrowing costs capitalized during the period.

AS 17 on Segment Reporting: The objective of Segment Reporting is to establish principle for reporting financial information in annual financial statements by segment, i.e., information about the different types of products produced and/or services rendered by an enterprise and the different geographical areas in which it operates with a view to facilitating users of financial statement to have a better understanding of the performance of the enterprise and enabling them to assess the risks and returns of the enterprise in a better way in the course of making informed judgements. The standard provides for two reporting formats: primary and secondary reporting formats. The disclosure requirements of primary segments are as follows:

1. Revenue from external customers;

2. Revenue from transactions with other segments;

3. Segment result;

4. Cost to acquire tangible and intangible fixed assets;

5. Depreciation and amortization expenses;

6. Carrying amount of segment assets;

7. Segment liabilities;

8. Non-cash expenses other than depreciation and amortization; and

9. Reconciliation of revenue, result, assets and liabilities.
The disclosure requirements of secondary segments are as follows:

1. Revenue from external customers by business segment;
2. Carrying amount of segment assets by business segment;
3. Basis of pricing inter-segment transfers and any key change therein;
4. Types of products and services in each business segment; and
5. Cost to acquire tangible and intangible fixed assets by location of assets.

AS 18 requires the following disclosures in respect of related party transactions:

1. The name of the transacting related party;
2. A description of the relationship between the parties;
3. A description of the nature of transactions;
4. Volume of the transactions either as an amount or as an appropriate proportion;
5. Any other element of the related party transaction necessary for an understanding of the financial statements, e.g., an indication that the transfer of a major asset had taken place at an amount materially different from that obtainable on normal commercial terms;
6. The amount or proportion of outstanding items pertaining to related parties at the balance sheet date and provision for doubtful debts due from such parties at that date; and
7. Amount written off or written back in the period in respect of debts due from or to related parties.

AS 19 requires disclosure on Accounting for Leases:

(a) Disclosure requirement in case of operating lease:

1. Disclosure by lessor:
   a. General description of significant leasing arrangements;
   b. Accounting policy for initial direct payment; and
   c. Future lease payments in aggregate classified as:
      (i) Not later than one year,
(ii) Later than one year but not later than five years, and

(iii) Later than five years.

2. Disclosure by lessee:

a. General description of significant leasing arrangements; and

b. Total of future minimum lease payments in the following periods:

(i) Not later than one year;

(ii) Later than one year but not later than five years; and

(iii) Later than five years.

(b) Disclosure in case of finance lease:

1. Disclosure by lessor:

a. General description of significant lease payment;

b. Accounting policy for initial direct cost;

c. Reconciliation of total gross investment in lease and present value of Minimum Lease Payment (MLP) receivable at balance sheet date; and

d. Minimum Lease Payment (MLP) receivable in the following categories:

(i) Not later than one year;

(ii) Later than one year but not later than five years; and

(iii) Later than five years.

2. Disclosure by lessee:

a. Asset under finance lease segregated from other assets;

b. Reconciliation of total MLP with its present value on balance sheet date; and

c. Minimum Lease Payment (MLP) receivable in the following categories:

(i) Not later than one year;

(ii) Later than one year but not later than five years; and

(iii) Later than five years.
AS 20 requires the following mandatory disclosures:

1. Basic and diluted EPS for each class of equity shares that has a different right to share in the net profit for the period on the face of profit and loss account;

2. The amount used as numerators in calculating basic and diluted earning per share, and a reconciliation of those amount to net profit or loss for the period;

3. The weighted average number of equity shares used as denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other; and

4. The nominal value of shares along with the earnings per share figures.

AS 21 requires an enterprise to disclose:

1. List of all subsidiaries;

2. Proportion of ownership interest;

3. Nature of relationship between parent and subsidiary whether direct control or control through subsidiaries;

4. Name of the subsidiary of which reporting date is different;

5. The fact of different accounting policies adopted for preparation of consolidated financial statements; and

6. If consolidation of particular subsidiary has not been made as per the grounds allowed in accounting standards, the reason for not consolidating should be disclosed.

AS 22 require that an enterprise should disclose:

1. The break-up value of deferred tax asset / liability;

2. Evidence supporting recognition in case deferred tax arises out of unabsorbed depreciation or loss; and

3. Deferred tax liability and deferred tax asset separately under the head ‘Unsecured Loan’ and ‘Investment’ respectively as distinguished from advance tax / tax provision / tax refund due.
AS 23 requires the following disclosure in consolidated financial statements:

1. Description of associate including the proportion of ownership interest should be disclosed;

2. Investment in associates accounted for using the equity method should be classified as long-term investments;

3. Difference in reporting dates of financial statements of associates and of investor should be disclosed; and

4. In case an associate uses accounting policies other than those adopted for the consolidated financial statements for like transactions, events in similar circumstances and it is not practicable to make appropriate adjustments to the associate’s financial statements, the fact should be disclosed along with a brief description of the differences in accounting policies.

AS 24 requires disclosure on Discontinuing Operations:

1. Initial Disclosure:
   a. Description of the discontinuing operation;
   b. Business or geographical segments in which it is reported;
   c. Date and nature of initial disclosure event;
   d. Timing of expected completion of discontinuance;
   e. Carrying amount of total assets and liabilities to be disposed of;
   f. Amount of revenue and expense attributable to discontinuing operation; and
   g. Amount of pre-tax profit or loss and tax expense attributable to discontinuing operation; & the net cash flows attributable to the operating, investing and financing activities of the discontinuing operation.

2. Other Disclosure: When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation, the following other information are also to be disclosed:
(i) Amount of gain or loss recognized on the disposal of assets or settlement of liabilities and related income tax; and

(ii) Net selling prices from the sale of those net assets for which an enterprise has entered into binding sale agreements and the expected timing thereof and carrying amount of those assets.

AS 26 requires that the financial statement should disclose the following in respect of intangible asset:

1. Useful life or amortization rate;
2. Amortization method;
3. Gross carrying amount, accumulated amortization and impairment loss at the beginning and at the end of the period;
4. Reconciliation of carrying amount at the beginning and at the end of the period;
5. If amortization period is more than ten years, the reason why the useful life is estimated for more than 10 years;
6. Carrying amount of intangibles, whose life is restricted, pledged on security; and
7. Research and development expenses recognized as expenses during the period.

AS 27 on financial reporting of Interest in Joint Venture requires that a venturer should make the following disclosure in its separate as well as in consolidated financial statements:

1. A list of all joint venturer description of interest in significant joint venture;
2. Proportion of interest in case of jointly controlled entity;
3. The aggregate amount of each of the assets, liabilities, income and expenses related to its interest in the jointly controlled entities;
4. Amount of capital commitments in the joint venture that has been incurred with other venturer and its share in such capital commitment;
5. Any contingency that has been incurred in relation to its interest in joint venture;
6. Its share of contingencies that has been incurred jointly with other venturer; and
7. Contingencies for which the venturer is liable for other venturers of joint venturer.

Disclosure requirements under AS 28 on Impairment of Assets:

1. Amount of impairment losses recognized in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;

2. Amount of reversal of impairment losses recognized in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;

3. The amount of impairment losses recognized directly against revaluation surplus during the period; and

4. The amount of reversals of impairment losses recognized directly in revaluation surplus during the period.

AS 29 states that an enterprise is required to disclose the following:

1. For each class of provision, an enterprise should disclose:
   a. The carrying amount at the beginning and end of the period;
   b. Additional provisions made in the period, including increases to existing provisions;
   c. Amounts used (i.e. incurred and charged against the provision) during the period; and
   d. Unused amount of provision reversed during the period.

2. An enterprise should disclose the following for each class of provision:
   a. A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
   b. An indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events; and
   c. The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.
3. Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:

   a. An estimate of its financial effect;

   b. An indication of the uncertainties relating to any outflow; and

   c. The possibility of any reimbursement.

4. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 2 a and b and 3 a and b. Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.

5. Where a provision and a contingent liability arise from the same set of circumstances, an enterprise makes the disclosures required by paragraphs 1-3 in a way that shows the link between the provision and the contingent liability.

6. Where any of the information required by paragraph 3 is not disclosed because it is not practicable to do so, that fact should be stated.

7. In extremely rare cases, disclosure of some or all of the information required by paragraphs 1-5 can be expected to prejudice seriously the position of the enterprise in a dispute with other parties on the subject matter of the provision or contingent liability. In such cases, an enterprise need not disclose the information, but should disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

AS 30: Financial Instruments - Recognition and Measurement and Re-exposure Drafts: AS 30 contains accounting for derivatives, it becomes recommendatory from 1.4.2009 and mandatory from 1.4.2011. In this scenario, the Council expressed the view that since the aforesaid standard contains appropriate accounting derivatives, the same can be followed by entities, as the earlier adoption of a standard is always encouraged.
AS 30 matches IAS 39 (on recognition and measurement of financial instruments) and IFRS 7 (on disclosure of financial instruments). It starts off by noting that an entity should recognize a financial asset or a financial liability on its balance-sheet only when the entity becomes a party to the contractual provisions of the instrument. A financial asset or a financial liability should be measured at fair value on the date of acquisition or issue. Short-term receivables and payables with no stated interest rate should be measured at original invoice amount if the effect of the discounting is immaterial. Other financial assets or liabilities should be measured at fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset / liability.

The entity needs to disclose the policy followed with regard to accounting for derivatives in its financial statements. If an entity does not opt for AS 30, it should keep in view the Principle of Prudence as enunciated in AS 1 ‘Disclosure of Accounting Policies’ and provide for losses in respect of all outstanding derivative contracts at the balance sheet by making them to market. Under the principle of prudence, unrealized gains are not recognized. But all losses have to be provided for. In case AS 30 is followed by the entity, a disclosure of the amounts recognized in the financial statements should be made. In case AS 30 is not followed, the losses provided for should be separately disclosed by the entity.

AS 31: Financial Instruments - Presentation: AS 31 issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1.4.2009 and will be recommendatory in nature for an initial period of two years. This AS will be mandatory in respect of accounting periods commencing on or after 1.4.2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity, as defined below:

a. Whose entity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

b. Which is not a bank (including co-operative bank), financial institution or any entity carrying on insurance business;

c. Whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
d. Which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

e. Which is not a holding or subsidiary entity which is not a small and medium-sized entity.

Where in respect of an entity there is a statutory requirement for presenting any financial instrument in a particular manner as liability or equity and / or for presenting interest, dividend, losses and gains relating to a financial instrument in a particular manner as income / expense or as distribution of profits, the entity should present that instrument and / or interest, dividend, losses and gains relating to the instrument in accordance with the requirements of the statute governing the entity.

The objective of AS 31 is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividend, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

The principles in this standard complement the principles for recognition and measuring financial assets and financial liabilities in AS 30, Financial Instruments: Recognition and Measurement and disclosing information about them in AS 32, Financial Instruments: Disclosures.

AS 32: Financial Instruments - Disclosures: The Council of the ICAI has approved AS 32, Financial Instruments: Disclosures. The objective of this Accounting Standard is to require entities to provide disclosures in their financial statements to enable users to evaluate the following:

a. The significance of financial instruments for the entity’s financial position and performance; and
b. The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

In view of the above, the AS will bring about greater transparency in the disclosures related to financial instruments such as derivatives and exposures to the risks related to such financial instruments and how the entity manages its risks.

The Institute has already issued the related Accounting Standards, namely, AS 30, Financial Instruments: Recognition and Measurement and AS 31, Financial Instruments: Presentation.

Issuance of this standard completes AS on the subject of financial instruments. Like AS 30 and AS 31, the Council proposes to make AS 32 recommendatory from 1st April 2004 and mandatory from 1st April 2011. The standard is modeled on IFRS 7 and there are no significant differences between the two standards.

2.5 Disclosure Requirements as per Listing Agreement:

A Listing Agreement is, in a sense, the code of discipline which the stock exchange(s) impose on a company as a condition precedent to listing its securities and it is the most influential aspect of stock exchange regulation as far as the financial reporting is concerned. The external shocks absorbed by the Indian financial system on the eve of globalization, internationalization and privatization of the Indian financial system as a part of reform process since 1991 and the multi crore securities scam rocked in on the Indian capital market in 1992, the Government of India (GOI) felt the need to have a vibrant regulatory body to act as effective and efficient watchdog of the financial system, specially the capital market of India. Consequently, Securities and Exchange Board of India (SEBI) was set up on 21st February, 1992 by passing the SEBI Act with effect from 30th January, 1992 with the primary object of protecting the interest of investors and regulating securities market. Since then SEBI has been promulgating several guidelines covering a wide range of regulatory measures like issue of shares and debentures, preferential allotment, underwriting, issue of bonus
shares, listing agreement, interim financial reporting, disclosures on corporate governance etc. Thus it has also been playing an important and significant role in the arena of corporate financial reporting and disclosure for making it more meaningful and useful to the investors and other decision-makers. In order to bring about an improvement in the field of corporate disclosure, SEBI issued a directive to all recognized Stock Exchanges in India through a circular dated 26.6.95 to amend clause 32 of the listing agreement to provide for a requirement of appending an audited Cash Flow Statement (CFS) as a part of annual accounts. The SEBI has, however, changed clause 32 to provide that CFS shall be prepared in conformity with AS 3 (Revised) issued by ICAI.

Another important step taken by SEBI relates to the list of items to be included in the Report on Corporate Governance and making this report an integral part of the Director’s Report. Corporate Governance refers to the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control. Some of these monitoring mechanisms are the board of directors, institutional shareholders and operation of the market for corporate control.

The three principles underlie a good corporate governance model are openness, integrity and accountability. At the core of these principles are the aspects of transparency and disclosure of information. In fact, failure of corporate governance can largely be attributed to inadequacies in the disclosure systems. According to Cadbury Committee (1992), Corporate Governance is “the system by which companies are directed and controlled”. While problems pertaining to the governance system go back, at least, as far back in history as the separation of ownership from control, there is a general consensus that three principles underlie a good corporate governance model. These are openness, integrity and accountability (Cadbury, 1992). At the core of these principles are the aspects of transparency and disclosure of information (Ormrod and Cleaver, 1993). In fact, failures of corporate governance can be attributed to inadequate financial reporting (Whittington, 1993), that is, inadequacies in transparency and disclosure aspects of accounting.

On May 7, 1999, the SEBI constituted a 18-member committee chaired by young and forward-looking industrialist, Mr. Kumar Mangalam Birla, on corporate governance
and the objective was "the enhancement of long term shareholder value while at the same time, protecting the interests of other shareholders". The committee's recommendations was accepted and approved by SEBI in its meeting held on 25.1.2000 and a new clause 49, was incorporated in the Listing Agreement. The clause has been, however, revised and revamped vide circular no. SEBI/CFD/DIL/CG1/2004/12/10 dated 29.10.2004 in line with the recommendation given by the Committee on Corporate Governance under the chairmanship of Shri N. R. Narayana Murthy (of Infosys). Annexure 2 to clause 49 gives the following list of items to be included in the report of the Corporate Governance:

1. A brief statement on the company's philosophy on code of conduct.
2. Board of Directors - its composition and functioning, number of meetings held etc.
3. Audit Committee - terms of reference, composition and meetings.
4. Remuneration Committee - terms of reference, composition, remuneration policy, meetings etc.
5. Shareholder's Committee - shareholder's complaints received, suitable action taken, pending share transfers etc.
6. General Body Meetings.
7. Disclosures (materially significant related party transactions of the company of material nature with its promoters, directors or management and details of non-compliance by the company i.e., penalties, fines, strictures imposed on the company by the SEBI or Stock Exchange or any statutory authority on any matter related to capital markets, during the last three years).
8. Means of communication (half yearly and quarterly results to shareholders, selected newspapers for publication, web site used etc. and also whether MD&A is a part of annual report or not) and
9. General shareholder's information.

It is mandatory to certify the Corporate Governance Report by the auditors of the company to enhance the credibility of the report. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be highlighted. Thus, inclusion of
the Corporate Governance Report in the annual reports makes disclosure broader, more informative and more transparent. Vasal (1993) had recommended that additional financial and social disclosures in the corporate annual reports should be mandated for such items as:

1. Description of operational activities (including service spectrum).
2. Net profit before adjustments relating to prior-periods.
4. Comparison of budgeted performance with actual results for the past year and
5. Statement of changes in working capital. Till date, disclosures on four of the five items (except 4) are already mandated under the current regulatory framework. Following the Kumar Mangalam Committee Report in 1999, the Securities and Exchange Board of India made it mandatory for companies to give certain details in the MD&A report as part of the annual report from 2000, including information like industry structure and developments, opportunities and threats, risks and concerns and material developments on the human resources front, among others.

In India, mandatory disclosures are primarily governed by the Companies Act, 1956, professional regulation in the form of accounting standards formulated by the ICAI and the role played by the SEBI in bringing about more transparency in the corporate disclosures. In the US, the Security Exchange Commission (SEC) acts as the enforcing authority and in the UK, the Financial Reporting Review Panel (FRRP) has been given the power to make application to the court for orders requiring the compulsory revision of the financial statement of the company in the event of non-compliance of the standard. At present, there is no effective formal enforcing authority in India.

However, the existence of an enforcing or monitoring authority or agency to enforce the mandatory regulations or standards along with disclosure of additional information or voluntary disclosures shall aid the stakeholders reap the benefits from the viewpoint of their decision making perspective. In the next chapter, we deal with voluntary disclosures from national as well as international perspective.