CHAPTER - 1

INTRODUCTION
1.1 EVOLUTION OF ACCOUNTING

Accounting has evolved and emerged, as have medicine, law, and most other fields of human activity, in response to the social and economic needs of society. Bookkeeping and accounting appeared not as a chance phenomenon, but distinctly in response to a world need. This is true not only of the days of Paciolo but also important for present-day accounting survival. Seeking, one of the few historians who have paid attention to the subject, says that book-keeping developed as a direct result of the establishment of partnership on a large scale.

For centuries after the system of double entry book-keeping appeared, accounting was without methodology or any form of theory. It was during the nineteenth century that a move from book-keeping to accounting — a move away from the relatively simple recording and analysis of transactions toward a comprehensive accounting information system — was seen. The end of the nineteenth century was marked by the most extraordinary expansion of the business, Company form of organisation, a phenomenon common in business worlds, grew at a great speed. Books about business transactions were written, conventions were followed and accounting was recognized as a system of analysing and maintaining record about business transactions.

In part, the new significance of accounting gained recognition because of separation between ownership and control and also due to diversification in ownership. The increased reliance on capital as a factor of production necessitated extensive record-keeping but, finally, in the nineteenth century, a theoretical framework began to develop. This framework or methodology provided a technical means to measure, evaluate, and communicate information of an economic and financial nature. Modern business has continuity -- never ending flow of economic activities.
Modern business has continuity -- never ending flow of economic activities. Therefore, accounting has grown to meet a social requirement and guide the business and industry accordingly. Accounting is moving away from its traditional procedural base, encompassing record keeping and such related work as the preparation of budgets and final accounts, towards the adoption of a role which emphasizes its social importance. Profit calculation now is no longer a simple comparison of financial values at the beginning and end of a transaction or series of transactions. It is now related to a complex set of allocations and valuations pertaining to the operational activities of a business enterprise. The concept of accountancy or accounting is now broader to include the description of the recording, processing, classifying, evaluating, interpreting and supplying of economic-financial information for financial statement presentation and decision-making purposes. In these tasks, accounting has been successful technically and methodologically.

"The growth of business organisations in size, particularly publically-held corporation, has brought pressure from stock-holders, potential investors, creditors, governmental agencies, and the public at large, for increased financial disclosure. The public's rights to know more about organisations that directly and indirectly affect them (whether or not they are shareholders) is being increasingly recognised as essential. An open society is one that has a high degree of freedom at the individual level and typically evidences an effective commitment to measuring the quality of attained. These characteristics make it essential that the members of that society be provided adequate, understandable and dependable financial information from the major institutions that comprises it."

WELSCH and ANTHONY Comment

Refinements in cost and management accounting came later in the twentieth century along with large-scale production and high capital investment. These developments created a need to allocate costs correctly over the units of production, and also to provide a measure of productivity and efficiency. Thereafter, cost accounting evolved naturally to meet recognized managerial requirements of pricing and costing for competitive purposes, and to the determination and setting forth of operational information purposes, and to the determination and setting forth of operational information for decision-making purposes.
Traditionally, government accounting was linked to taxation and revenue control, and to the recording of and accountability for receipts and expenditures. The twentieth century development in budgeting gave a much larger scope to the area of government accounting. The budget became a managerial and policy-making instrument and developed into a mechanism for the forward planning of receipts and expenditures. Budgeting now-a-days has developed in such a manner that it forms one of the bases of, and is closely associated with, economic planning and programming.

The use of enterprise accounting for the purpose of macro (economic or national) accounting is largely a development of this century. For purpose of economic policy and economic planning, these national data -- to a large extent derived from commercial data -- have become of great importance. They have given rise to a new concept of macro accounting which has presented the professional with a new sphere of operations and perspective.

Accounting thus, has gone through many phases: simple double entry book-keeping, enterprise, government, and cost and management accounting and recently towards the development of social and environmental accounting. These phases have been largely a product of changing economic and social environments. As business and society have become more complex over the years, accounting has developed new concepts and techniques to meet the ever increasing needs for financial information. Without such information, many complex economic developments and social and economic programs might never have been undertaken.

1.1.2 MEANING AND DEFINITIONS OF ACCOUNTING INFORMATION

"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof".

AICPA (1941)

"Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information."

AAA (1966)
“Accounting is a service activity. Its function is to provide quantitative information primarily financial in nature about economic activities that is intended to be useful in making economic decisions.”

AICPA(1970)

“A good definition, besides providing a description so that people have an understanding of what the object is, should establish clear cut boundaries. Any object that falls within the boundaries of the set is identified as a member of the set and any object that falls outside is then not a member of the set”

Vernon Kam, Accounting Theory, John Wiley and Sons, (1990)

1.2 ACCOUNTING: AS AN INFORMATION SYSTEM

The term ‘system’ may be defined a set of elements which operate together in order to attain a goal. A system does not consist of random sets of elements but elements which may be identified as belonging together because of a common goal.

A system contains three activities: (i) input, (ii) processing of input, (iii) output. These three activities are very important for applying any system. A business organisation is regarded as an open system which has a dynamic interplay with its environment from which it draws resources and to which it consigns its product and services.

Accounting comprises a series of activities linked together among themselves. The accounting activities form a progression of steps, beginning with observing, then collecting, recording, analysing and finally all these activities showing in comprised manner and communicating information to its users. In other words, we can say that the general accounting process involves the accumulation, analysis, measurement, interpretation, classification, and summarization of the results of each of the many business transaction that affected the entity during the year. After this processing, accounting then transmits or projects messages to potential decision-makers. Here, the messages are in the form of financial statements and the decision-makers are the users. Accounting generally does not generate the basic information (raw-material data) rather the raw financial data results from the day-to-day transactions of the enterprises.
IMPORTANCE OF ACCOUNTING AS AN INFORMATION SYSTEM IN BUSINESS AND ECONOMIC DECISIONS

- Recording of data (measuring of business transactions)
- Processing of data (preparation and storage of data)
- Communication (as financial statements, other statements and reports)
- Business activities and transactions
- Accounting
- Decision-making

COMMUNICATION

DATA
As an information system, accounting links an information source or transmitter (like the accountants), a media of communication (like the financial statements/data) and a set of receivers (like external existing users/potential users). When accounting is looked upon as a process of communication, it is defined as “the process of encoding observations in the language of the accounting system, of manipulating the signs and statements of the systems and decoding and transmitting the results.”

Thus as an information system accounting has a basic goal, i.e. to provide information to its ultimate user(s). In order to accomplish this goal, the accounting system should be designed to classify financial information on a basis suitable for decision-making purposes and to process the tremendous quantities of data efficiently and accurately. Also, the information system must be designed to report the results periodically, in a realistic and concise format that is comprehensible to users who generally have only a limited accounting knowledge. Furthermore, the information system must be designed to accommodate the special and complex needs of internal management of the enterprises on a continuing basis.

These internal needs extend primarily to the planning and control responsibilities of the managers of the enterprise. The information output is used by a group of decision-makers, and therefore, it is evident that a decision-oriented information system should produce information which meets the needs of its users. It should be understood that information, in its most fundamental sense, is an economic good that assists in the allocation of society’s resources – in the distribution of existing wealth and in the formation of productive capital.

This following figure is simply displays how accounting as an information system helps in business and economic decisions made by user-decision-makers. In this service activity, as shown in above figure, accounting assumes a link between business activities and transactions and the decision makers.

First, accounting measures business activities and transactions through recording data.

Second, the recorded data are processed and stores until needed. The processing can be done in such a manner or format as to become useful information. Alternatively sometimes, the processed data are further processed or prepared to provide useful information to users.
Thirdly, the processed and prepared information is communicated to users and decision-makers in the forms of financial statements, other statements, reports, etc. In this accounting system, business transactions and activities are the input and statements and reports given to decision-makers are the output.

1.3 ACCOUNTING AS A LANGUAGE

Accounting is often called the ‘language of businesses. It is one means of communicating information about a business. As a new language is to be learnt to converse and communicate, so the accounting is to be learnt and practiced to communicate events about a business.

"As the language of business, accounting has many things in common with other languages. The various business activities of a firm are reported in accounting statements using accounting languages, just as news events are reported in newspapers, in the English language. To express an event in accounting or in English we must follow certain rules. Without following certain rules diligently, not only does one run the risk of being misunderstood but also risks a penalty for misrepresentation, lying or perjury. Comparability of statements is essential to the effective functioning of a language whether it is in English or in Accounting. At the same time, language has to be flexible to adapt to a changing environment."

Yuri Ijiri Observation

There are so many similarities between a language and accounting. A language has broadly two components (i) Symbols,

(ii) Rules, to make it purposeful.

Symbols are the meaningful units or words identifiable in any language, known as linguistic objects and which are used to convey particular meaning or concepts. The arrangements of symbols in a systematic manner become a language. The rules which influence the usage and pattern of the symbols are known as grammar of language or grammatical rules.

In accounting too, there are two components (i) Symbols and

(ii) Grammatical rules.
In accounting numerals and words and debit and credits are accepted as symbols which are unique to the accounting disciplines.

The grammatical rules in accounting refer to the general set of procedures followed to create all financial data for the business.

"The CPA (the expert in accounting) certifies the correctness of the application rules as does an accomplished speaker of a language for the grammatical correctness of the sentence. Accounting rules formalize the structure of accounting in the same way as grammar formalizes the inherent structure of natural languages."

Tribhowan N.jain (1973)

"Accounting resembles a language in that some of its rules are definite whereas others are not. Accountants differ as to how a given event should be reports, just as grammarians differ as to many matters of sentence structure, punctuation and choice of words. Nevertheless, just as many practices are clearly poor language (English), many practices are definitely poor accounting. Languages evolve and change in response to the changing needs of society, and so do accounting."

Anthony and Reece
THE ROLE OF FINANCIAL INFORMATION IN ECONOMIC GROWTH

- Financial Information Disclosure
- Capital Market Uncertainty
- Capital Market Size
- Capital market information Processing
- Efficient Capital Market Allocation of Scarce
- Economic Growth
- Capital Market Risk Sharing
Description of Above Diagramme

1. Accounting information disclosure minimizes the capital market uncertainty. This is accomplished through the disclosure of the value and risk of each asset traded on the capital market.

2. The reduced capital market uncertainty encourages more investors to buy and sell securities in the capital market. It has been documented that higher capital market uncertainty induces security buyers to underprice high-quality security. Consequently the seller of such security will withdraw from the market, which reduces the size of the market.

3. The capital market size affects both the market information processing risk sharing. Other things being equal, the larger the capital market, the more efficient is the information processing. The capital market information processing generates the security prices. The security prices affect the ability of the capital market to efficiently allocate scarce resources.

4. The larger the market portfolio, the smaller the market risk per asset is and the easier it is for investors to hold/purchase an efficient portfolio of securities. The optional risk sharing leads to an efficient allocation of savings.

5. The capital market helps in the development of savings which effect economic growth through investment. The capital market transfers the accumulated savings to the most efficient investment opportunity. This function of capital market stimulus economic growth.
1.4 FINANCIAL REPORTING

Financial reporting may be defined as communication of published financial statements and related information from a business enterprise to the external users including shareholders, creditors, customers, governmental authorities and the public. It is the reporting of accounting information of an entity to a user or group of users.

Company financial reporting is a total communication system involving the company as issuer (preparer); the investors and creditors as primary users, other external users; the accounting profession as measurers and auditors; and the company law regulatory or administrative authorities.

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

However, it is difficult, if not possible, to have clear distinction between financial reporting and financial statements. But it is now an accepted fact that financial reporting has a broader scope than the financial statements which are only one of the many means of conveying information about enterprise financial performance.

1. Financial statements are a central feature of financial reporting. They are a principal means of communicating accounting information to those outside an enterprise. Financial reporting may also contain information from sources other than accounting records, accounting systems are generally organized on the basis of elements of financial statements and provide the bulk of the information for financial statements.

2. Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by accounting system, that is, information about an enterprise’s resources, obligations, earnings, etc. Information communicated by means of financial reporting other than financial statements may take various forms and
relate to various matters. News releases, management’s forecasts or other descriptions of its plans or expectations, and descriptions of an enterprise’s social or environmental impact are the main examples of reports giving financial information other than financial statements or giving only non-financial information.

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

1.5 OBJECTIVES OF FINANCIAL REPORTING

DEVELOPMENTS OF FINANCIAL REPORTING OBJECTIVES

The subject of financial reporting objectives has been generally recognized as very important in accounting area since a long time. Many accounting bodies and professional institutes all over the world have made attempts to define the objectives of financial statements and financial reporting which are vital to the development of financial accounting theory and practices. It can be rightly said that most of the attempts in the area of financial reporting objectives has been made at International level like in USA and UK and accounting developments in these countries have great impact on accounting developments and practices other countries of the world.

1.5.1 ACCOUNTING PRINCIPLES BOARD (APB)

In USA, the APB statement No. 4 “Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises”, (1970) was the first publication which formulated the objectives of financial statements. These objectives may be summarized as follows:
1. The particular objectives of financial reporting are to present fairly, and in conformity with generally accepted accounting principles, financial position, results of operations, and other changes in financial position.

2. The general objectives of financial reporting are:

(a) to provide reliable information about economic resources and obligations of a business enterprise in order to (i) evaluate its strength and weakness, (ii) show its financing and investments, (iii) evaluate its ability to meet its commitments, and (iv) show its resource base for growth.

(b) to provide reliable information about changes in net resources resulting from a business enterprise’s profit-directed activities in order to (i) show to investors expected dividend return, (ii) show the operation’s ability to pay creditors and suppliers, provide jobs for employees, pay taxes, and generate funds for expansion, (iii) provide management with information for planning and control, and (iv) show its long-term profitability.

(c) to provide financial information useful for estimating the earnings potential of the firm.

(d) to provide other needed information about changes in economic resources and obligations.

(e) to disclose other information relevant to statements user’s needs.

3. The Qualitative objectives of financial reporting are the following:

a) Relevance, which means selecting the information most likely to aid users in their economic decisions.

b) Understandability, which implies not only that the selected information must be intelligible but also that the users can understand it.

c) Verifiability, which implies that the accounting results may be corroborates but independent measures using the same measurement methods.
d) Neutrality, which implies that the accounting information is directed towards the common needs of users rather than the particular needs of specific users.

e) Timeliness, which implies an early communication of information to avoid delays in economic decision-making.

f) Comparability, which implies that differences should not be the result of different financial accounting treatments.

g) Completeness, which implies that all the information that reasonably fulfils the requirements of other qualitative objectives should be reported.

1.5.2 TRUEBLOOD REPORT

To develop objectives of financial reporting, a study group was appointed in 1971 by American Institute of Certified Public Accountants under the Chairmanship of Robert M. Trueblood. The study group solicited the views of more than 5000 corporations, professional firms, unions, public interest groups, national and international accounting organisations and financial publications.

The objectives developed in the Study Group Report are as follows:

1. The basic objective of financial statements is to provide information useful for making economic decisions.

2. An objective of financial statements is to serve, primarily, those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise’s economic activities.

3. An objective of financial statements is to provide information useful to investors and creditors for predicting, comparing and evaluating potential cash flows to them in terms of amount, timing and related uncertainty.
4. An objective of financial statements is to provide users with information for predicting, comparing, and evaluating enterprise earning power.

5. An objective of financial statements is to supply information useful in judging management's ability to utilize enterprise resources effectively in achieving the primary enterprise goal.

6. An objective of financial statements is to provide factual and interpretative information about transactions and other events which is useful for predicting, comparing and evaluating enterprises earning power. Basic underlying assumptions with respect to matters subject to interpretation, evaluation, prediction, or estimation should be disclosed.

7. An objective is to provide a statement of periodic earnings useful for predicting, comparing and evaluating enterprise earning power.

8. An objective is to provide a statement of financial activities useful for predicting, comparing and evaluating enterprise earning power.

9. An objective of financial statements is to provide information useful for the predicative process. Financial forecasts should be provided when they will enhance the reliability of user's predictions.

10. An objective of financial statements for governmental and non-profit organisations is to provide information useful for evaluating the effectiveness of management of resources in achieving the organisation's goals.

11. An objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment.

1.5.3 THE CORPORATE REPORT (UK)

The Accounting Steering Committee of the Institute of Chartered Accountants in England and Wales Published "The Corporate Report" in 1976 as a discussion paper.
covering the scope and aims of published financial reports, public accountability of economic entities, working concepts as a basis for financial reporting and most suitable means of measuring and reporting the economic position, performance and prospects of undertakings. The Corporate Report’s main findings are as follows:

1. The basic philosophy and starting point of the Corporate Report is that financial statements should be appropriate to their expected use by potential users. In other words, they should attempt to satisfy the information needs of their users.

2. The report assigned responsibility for reporting to the ‘economic entity’ having an impact on society through its activities. The economic entities are itemized as: limited companies, listed and unlisted, pension schemes, charitable and other trusts, and not-for-profit organisation, non-commercially oriented Central Government departments and agencies.

3. The report defined users as those having a reasonable right to information and whose information needs should be recognized by corporate reports. The users are identified as the equity investor group, the loan creditor group, the employee group, the analyst-advisor group, the business contact group, the government and the public.

4. To satisfy the fundamental objectives of annual reports set by the basic philosophy, seven desirable characteristics are cited, namely, that the corporate report be relevant, understandable, reliable, complete, objective, timely, and comparable.

1.5.4 FASB “The Objectives of Financial Reporting by Business Enterprises”

Probably the most comprehensive statement on objectives of financial reporting is FASB (USA) Concept No. 1 “Objectives of Financial Reporting by Business Enterprises” issued in November 1978 by US Financial Accounting Standards Board. The objectives of financial reporting developed in this statement are the following:
1. Financial reporting should provide information that is useful to present and potential investors, creditors and other users in making rational investments, credit and similar decisions.

2. The information should be comprehensible to those who have a reasonable understanding of business and economic activities are willing to study the information with reasonable diligence.

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

4. Financial reporting should provide information about the economic resources of an enterprises, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owner’s equity), and the effects of transactions, events, and circumstances that change resources and claim to those resources.

5. Financial reporting should provide information about an enterprise’s financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investments and credit decisions reflect investor’s and creditor’s expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

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

7. Financial reporting should provide information about how an enterprise obtains and spend cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distribution of enterprise resources to owners, about other factors that may affect an enterprise’s liquidity or solvency.
8. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it.

9. Financial Reporting should provide information that is useful to managers and directors in making decisions in the interests of owners.

Besides the objectives, the FASB Concept No. 1 contains the following important highlights:

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

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

3. The objectives are also affected by the characteristics and limitations of the kind of information that financial reporting can provide:

   (i) The information pertains to business enterprises rather than to industries or the economy as a whole.

   (ii) The information often results from approximate, rather than exact, measures.

   (iii) The information largely reflects the financial effects of transactions and events that have already happened.

   (iv) The information is but one source of information needed by those who make decisions about business enterprises.

   (v) The information is provided and used at a cost.

4. The objectives in this statement (Concept No. 1) are those of general purpose external financial reporting by business enterprises:
(i) The objectives stem primarily from the needs of external users who lack the authority to prescribe the information they want and must rely on information management communicates to them.

(ii) The objectives are directed toward the common interest of many users in the ability of an enterprise to generate favourable cash flows but are phrased using investment and credit decisions as a reference to give them a focus.

(iii) The objectives pertain to financial reporting and are not restricted to financial statements.

5. ‘Investors’ and ‘Creditors’ are used broadly and include not only those who have or contemplate having a claim to enterprise resources but also those who advise or represent them.

6. Although investment and credit decisions reflect investors’ and creditors’ expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

7. The primary focus of financial reporting is information about earnings and its components.

8. Information about enterprises earning based on accrual accounting generally provides a better indication of an enterprise’s present and continuing ability to generate favourable cash flows than information limited to the financial effects of cash receipts and payments.

9. Financial reporting is expected to provide information about an enterprises’ financial performance during a period and about how management of an enterprise has discharged its stewardship responsibility to owners.

10. Financial accounting is not designed to measure the value of a business enterprise, but the information it provides may be helpful to those who wish to estimate its value.

11. Investors, creditors, and others may use reported earnings and information about the elements of financial statements in various ways to assess the
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prospects for cash flows. Although financial reporting should provide basic information to aid them, they do their own evaluating, estimating, predicting, assessing, confirming, changing, or rejecting.

12. Management knows more about the enterprise and its affairs than investors, creditors, or other outsiders and accordingly can often increase the usefulness of financial information by identifying certain events and circumstances and explaining their financial effects on the enterprise.

1.5.5 CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (CICA’s) STAMP REPORT

The Canadian Institute of Chartered Accountants (CICA) published a report in June 1980 on ‘Corporate Reporting: Its Future Evolution’ which was written by Edward Stamp, popularly known as Stamp Report, it mentions the following as the important objectives of company financial reporting:

1. One of the primary objectives of published corporate financial reports is to provide an accounting by management to both equity and debt investors, not only a management’s exercise of its stewardship function but also of its success (or otherwise) in achieving the goal of producing a satisfactory economic performance by the enterprise and maintaining it in a strong and healthy financial position.

2. It is an objective of good financial reporting to provide such information in such a form as to minimize uncertainty about the validity of information, and to enable the user to make his own assessment of the risks associated with the enterprise.

3. It is necessary that the standards governing financial reporting should have ample scope for innovation and evolution as improvements become feasible.

4. The objectives of financial reporting should be taken to be directed towards the need of users who are capable of comprehending a complete set of
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financial statements or alternatively, to the needs of experts who will be called on by the unsophisticated users to advise them.

The Stamp Report’s financial reporting objectives and scope are influenced by the economic, legal, political, institutional and social factors prevailing in a country. Therefore, these factors need to be considered before developing financial reporting objectives in any country.

1.6 GENERAL OBJECTIVES OF FINANCIAL REPORTING

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

At present, the following may be described as the primary objectives of financial reporting

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

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

3. Financial reporting should provide information that is useful to present and potential investors, creditors and other users in making rational investment, credit decisions and other any type of decisions as well. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.
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4. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans.

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

6. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, vents, and circumstances that change resources and claim to those resources.

7. Financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investor's and creditor's expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

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

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

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

11. Financial reporting should provide information that is useful to managers and directors in making decisions in the interest of owners.
12. Financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions.

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

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

1.7 FINANCIAL REPORTING AND MATERIALITY PRINCIPLE

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

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

Materiality of information is very important factor for financial reporting because immaterial information is very much responsible for downing the position of company in the minds of their stakeholders.
1.8 FINANCIAL REPORTING
AND FULL-DISCLOSURE PRINCIPLE

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

In today’s dynamic scenario, transparency is one of the influencing factors because while investing in any company the user first to see all the material information regrinding company for security purpose as well. So, companies are responsible to provide all financial as well as non-financial information which is relevant for investment decision making by the users.

1.9 USERS IN FINANCIAL REPORTING

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

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

Company financial reporting is intended to provide external users information that is useful in making business and economic decisions, that is, for making reasoned
choices among alternative uses of scarce resources in the conduct of business and
economic activities. Thus, users are potentially interested in the information provided
by the financial reporting.

The following list of users of financial information is found out:

1 Shareholders 2 Lenders
3 Suppliers 4 Potential investors
5 Creditors 6 Employees
7 Management 8 Directors
9 Customers 10 Financial Analysts
11 Advisors 12 Brokers
13 Stock exchanges 14 Lawyers
15 Economists 16 Taxing Agencies
17 Labour Unions 18 Trade Associations
19 Business Researchers 20 Teachers and Students
21 Academicians 22 Public

Potential users of financial information most directly concerned with particular
business enterprises are generally interested in its ability to generate favourable cash
flows because their decisions relate to amounts, timing, and uncertainties of expected
cash flows.

Generally, above listed stakeholders or users use financial information in order to
satisfy some of their different needs for information. These needs include the
following:

*Investors*: The providers of risk capital and their advisors are concerned with
the risk inherent in, and return, provided by their investments. They need
information to help them determine whether they should buy, hold or sell.
Shareholders are also interested in information which enables them to assess the ability of the enterprise to pay dividends.

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

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

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

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

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

- **Public**: Enterprises affect members of the public in a variety of ways. For example; enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.
While all the information needs of these users cannot be met by financial reporting, there are needs which are common to all users. As investors are providers of risk capital to the enterprise, the provision of financial information that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

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

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

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

To communicate with the stakeholders of the company is the primary responsibility of the company. Provide all the relevant financial and non-financial information to its stakeholders as and when they required for taking investment decisions. Media for corporate reporting and investor relations activities are changing as a result of the increasing speed of developments in the communication industry. New communication tools and channels are developed that act as complements or substitutes for the way communication has been performed in the past. One of the fastest developing communication channels today is the Internet. The Internet is increasingly considered as a comprehensive instrument for investor relations activities. In particular, corporations use their World Wide Web homepage as a platform to present financial data, especially annual reports, databases on press releases and other company-specific information.

The internet has become widely acknowledged as a key medium for communicating business and financial information, principally through the investor relations sections of corporate websites. Investors, analysts and others have become accustomed to using these sites to obtain the information they need.

The Internet can be qualified as a medium for investor relations activities. On the one hand, the potential benefits cover aspects such as the Internet being an alternative medium to carry out traditional investor relations activities. In this way, the Internet can be seen as an alternative distribution channel for corporate information with the quality of combining cost reductions for the reporting corporation with additional benefits for the target groups (e.g. by providing balance sheets and income statements in spreadsheet software-compatible format).

On the other hand, new forms of communication that are inherent to Internet technology become possible; examples are Internet chat settings (i.e. text-based online dialogue) of company representatives with financial analysts and more timely and more disaggregated corporate reporting. Application of Internet technology is possible in the following areas:
• Distribution of corporate reports via the Internet, thereby exploiting technology-specific presentation advantages using nearly unlimited storage capacity;
• Identification and tracking of users with the help of cookie technology;
• Provision of press releases and further information services;
• Direct communication between the investor relations department and target groups, using features such as individual electronic mailings or mailing lists, online participation in company general meetings, analyst conferences or Internet chat settings.

The main characteristic of the Internet as a medium for investor relations is that almost every element of investor relations can be combined within this medium. It is not surprising that corporations use Internet technology within their stakeholder’s relations activities to a growing extent.

In summary, the Internet offers the facility to provide all interested groups with information to make well-informed, timely investment decisions thus reducing the information advantages of institutional investors and information intermediaries.

The internet represents an opportunity to provide layers of increasingly detailed information on the company’s operations, financial performance and the industry as a whole, enabling investors to search for and obtain the information they need for their particular purposes. It also offers an opportunity for companies to use technologies effectively in disclosing information. In this environment, companies must evaluate what information to provide online, how to use technology in providing it, and, most importantly, how to organize their websites so that users can easily find and use the information they need.

The inherent nature of the Internet affects financial reporting in the sense that information on a website is available to anyone, anywhere and at any time. Financial reporting on the Internet reduces the cost of financial reporting, makes instantaneous reporting a reality, adds breadth and depth to business reporting, allows analytical tools to be used on underlying business data and makes it easier to disseminate reports to any place in the world where there is a computer.

The worldwide network of computer networks is known as the Internet. Heralded as the information superhighway, it has over the past few years been used as a new
marketing application for companies where the Internet serves as a communication tool affecting the access, dissemination, interaction and presentation of financial reporting. In this new approach businesses are using the Internet to market their companies to shareholders and investors.

Although Internet reporting is still in its infancy, providing financial reports voluntarily via the Internet is an important and increasingly used tool that can enhance investor relations and traditional corporate report offerings. The uses of the Internet by companies for purposes of reporting range from the unsophisticated use of Internet technology, where printed financial statements are duplicated in an electronic format, to a more innovative approach, where shareholders are addressed in audio formats, real-time monthly sales figures are given with clear narrative explanation of results, or video presentations of shareholder annual general meetings are placed on companies’ websites (Xiao 2003).

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

1.11 THE ROLE OF THE INTERNET

The Internet is heralded as the information superhighway. Some characteristics of the Internet are particularly relevant to financial reporting. As the information superhighway, the Internet is mainly a communication tool as opposed to a data processing tool. As a communication system, it is more likely to affect the communicative aspects of financial reporting such as access, dissemination, interaction and presentation.
First, the World Wide Web, a part of the Internet, adopts hypertext/hypermedia, an associative linking technique which links texts and/or multimedia in a non-linear manner. This provides a great potential to change the way in which financial information is presented.

Second, the Internet allows one-way, two-way and multi-way communications and permits the development of highly interactive applications. This offers the possibility of interactive user-provider communication of corporate information rather than the current one-way provider-dominated reporting process.

Moreover, the Internet allows real-time as well as delayed communications and thus may enhance timeliness of financial information.

Further, the Internet can be accessed anywhere in the world, making accounting data electronically portable and globally accessible on the one hand and making it more difficult to regulate cross-border financial reporting on the other.

A further main feature of the Internet is its ability to integrate with other technologies, such as database, wireless communication and multimedia. As a result, the Internet is increasingly converging with these other technologies. The Internet, viewed in this context, may also affect some data processing aspects of financial reporting (i.e., the underlying recording and measurement system).

However, the Internet is but one of many factors that affect financial reporting and whether these scenarios will occur will be affected by both technological and non-technological factors.

**1.12 OVERALL PURPOSE OF INTERNET FINANCIAL REPORTING**

Business and financial reporting information provided on a website needs to be relevant, current, complete, clear, and well-organized. This is a strategic issue and requires the same degree of deliberation as any other strategic area of a business. Developing a good strategy involves giving careful thought to how to effectively present information for an online audience. It is important that companies incorporate
electronic disclosures in their overall policies with regard to corporate disclosure of information to investors.

To be most effective, the investor relations section of a website should be regarded as the entity’s main conduit for communicating information to investors and planned as such to include information specifically intended for it. This means it should be more than a repository of information available elsewhere; more than an internet bulletin board.

The investor relations site should contain enough overview and strategic information to give a clear indication as to why the user should invest in the company. The information should convey a message consistent with the actual financial performance, important transactions, and issues and difficulties experienced by the company during the year. But the information should also have a forward-looking orientation, showing the growth strategy and future of the industry and the company, competitive/industry issues and appropriate legal disclaimers.

As with all reporting, information presented must be timely, complete and up-to-date. It helps in this respect if the date of the posting of the information is disclosed. Moreover, it is critical that investor information be clearly separated from marketing information and that the site not be overly promotional. The presentation of information on a website involves not only the information being given, but the use of technology.

This needs to be recognized and taken into consideration in developing website strategy. The effective use of technology should make the information visible and easy to access without overwhelming the user. There should be contextual information within the investor relations site. In other words, sufficient information should be easily available to enable the information to be interpreted in context, without having to link back and forth to other sections of the website.

1.13 INIMITABLE ISSUES IN INTERNET FINANCIAL REPORTING

A great volume of information can be presented on the web, and this raises the issue of information overload. Companies can have libraries of abundant, excellent
information of significant importance to an investor, but it is important that consideration be given to how it will be accessed and used. It can also be difficult to tell what is new, or what has been added or changed. Planning the architecture is the most time consuming but important part of establishing an effective website.

This activity provides the foundation that ensures information is organized and presented in such a way that users can easily navigate the site, and find and use the information they need for a particular purpose.

Information is only valuable if it is kept up to date. Accordingly, it is essential that a reliable process exist for monitoring website content and providing updates as soon as new information becomes available.

It can be difficult to determine where a particular type of information ends, because of the use of hyperlinks. In a set of financial statements, for example, if there is a link to a document on inventories, it may not be clear whether the document is part of the financial statements and whether or not it is audited. When links from audited material to unaudited material are included, there should be a clear warning to the user that he or she is moving to unaudited material.

Links can also be inserted to the websites of other organizations. Then it may not be at all clear who has provided the information and what responsibility the company takes for it. Accordingly, it is helpful if the site flags changes like this, by inserting a warning that the user is leaving the company's website. This changes the manner in which information might be perceived and used.
1.14 NEED OF THE STUDY

A report by the Gartner India group says that India records the highest Internet user growth rate in the Asia-Pacific region and is the fifth largest Internet-user market in the same region. The report estimated that the number of regular Internet users in the country is more than 8 crores. While we are all going gung-ho over the Internet growth in the country, one is stunned by the fact that data on India, if any, on the web, mostly resides in foreign web sites.

Modern India is changing and developing at an incredible rate, embracing information technology to fuel economic development, education and social change. Internet usage in India continues to grow at a slow but steady pace, both in breadth and depth, with the overall internet-using population in urban India reaching 30.32 million - a growth of 28% from April 2006 to April 2007 - according to the “India Online 2007” study from JuxtConsult. The needs and strategy of reporting have been changing very fastly. Business environment has become challengeable for all the existing player of the market in every field of business. Information will enable the users of financial statements to effectively assess the underlying risks and returns of an enterprise and take more informed decisions relating to the enterprise. Hence, it has become more necessary for company to provide detailed information and provide transparency in disclosure.

Through internet information can be accessed (almost) any time and everywhere, and generally at a low cost; the information is up-to-date; there are few limits on data availability; information can include dynamic presentations and multimedia; and there is the possibility of interactive information demand and supply. These developments have a significant effect on the dissemination of information and on the trading of goods, including shares, and thus on the organizational structures of how these activities are performed. They also open up new and astounding opportunities for financial disclosure that affect all interested parties, notably corporations, investors, auditors, and information intermediaries. These opportunities concern standard setters as well as regulators.

So on the basis we can say that there is enormous growth in Internet users in India and also there is increasing graph of transparency in disclosure practices of the companies,
there is need to study the trend or practices of Internet financial reporting in Indian scenario.

1.14.1 WHY INTERNET FINANCIAL REPORTING IN INDIAN SCENARIO?

1. Advantages of Internet Financial Reporting over Paper Based financial reporting (on the basis of literature available).

2. Growth of Internet Users in India.

3. Globalisation and Internet.
1.14.2 ADVANTAGES OF INTERNET FINANCIAL REPORTING OVER PAPER BASED FINANCIAL REPORTING:

Internet provides so many better options for making the financial reporting in very vibrant manner by which the user is very friendly and flexible to use this information accordingly which is not possible in the paper based financial reporting.

Following are the some points concluded from the different available literature which attested that Internet financial reporting is very important for today's dynamic scenario and also its weightage over the paper based financial reporting:

- Internet financial reporting recommends a low cost solution to the users as well as to the company or producers to access of corporate information by using an established network structure that all can participate in easily. Companies can virtually eradicate the substantial cost of printing and disseminating financial reports to the huge number of stakeholders.

- Internet financial reporting provides transmit (mass communication) medium for corporate reports. Financial information can be accessed by a much wider audience worldwide than the paper based financial reporting. There are no national borders for the companies to reach the international customer/stakeholders/potential client. It also improving the access to potential investors for small companies as well.

- Flexibility in user models of data provided. Increasing the quality and quantity of data disclosed on the Internet financial reporting.

- This is very important superiority of Internet financial reporting over the paper based financial reporting that the regular maintenance of websites means that the financial information provided can be kept updated easily and whereas paper reports have a very short shelf-life.
- The use of graphics, Ability for downloading of data, Press release provision, Trend Data and analysis, Dynamic Data Provision & Non-financial measures of performance provided better services to their users.

- Internet tools provides effortlessness options for the company to dissemination of financial information for users, analysts, and other interested parties like website browsers, different hyperlinks, connectivity with other sites, etc. All these techniques/options searching about specific data thus save time, integrate several sections of the annual report and link to the financial information to the other pertinent information or nonfinancial information, and enable users to recover information.

- In short, we can say that the concept of Internet financial reporting increases the scope of the financial information, annual reports, quarterly reports, shareholders information, etc.

### 1.14.3 GROWTH OF INTERNET USERS IN INDIA

Internet is a worldwide network of computer systems. This network provides an electronic medium for delivering, gathering and analyzing information of all kinds and on virtually every subject, worthwhile or otherwise. There is enormous growth of the Internet users in India from last 8 years. From the year 2001 to 2009 there is growth of more than 1000% of Internet users in India and currently India is the fifth largest Internet users in the world.

([www.worldstats.com](http://www.worldstats.com)) So this is another motivating factor for the researchers to do this study for the importance of the Indian corporate scenario.

There are some statistical data available regarding the growth of Internet users in India and also the main applications of Internet.
Growth of Internet Users from the year 1998 to 2009 with the percentage of Penetration over total Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Users</th>
<th>% of Penetration over Population</th>
<th>Source of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>1,400,000</td>
<td>0.1%</td>
<td>ITU</td>
</tr>
<tr>
<td>1999</td>
<td>2,800,000</td>
<td>0.3%</td>
<td>ITU</td>
</tr>
<tr>
<td>2000</td>
<td>5,500,000</td>
<td>0.5%</td>
<td>ITU</td>
</tr>
<tr>
<td>2001</td>
<td>7,000,000</td>
<td>0.7%</td>
<td>ITU</td>
</tr>
<tr>
<td>2002</td>
<td>16,500,000</td>
<td>1.6%</td>
<td>ITU</td>
</tr>
<tr>
<td>2003</td>
<td>22,500,000</td>
<td>2.1%</td>
<td>ITU</td>
</tr>
<tr>
<td>2004</td>
<td>39,200,000</td>
<td>3.6%</td>
<td>C.I. Almanac</td>
</tr>
<tr>
<td>2005</td>
<td>50,600,000</td>
<td>4.5%</td>
<td>C.I. Almanac</td>
</tr>
<tr>
<td>2006</td>
<td>40,000,000</td>
<td>3.6%</td>
<td>IAMAI</td>
</tr>
<tr>
<td>2007</td>
<td>42,000,000</td>
<td>3.7%</td>
<td>IWS</td>
</tr>
<tr>
<td>2009</td>
<td>81,000,000</td>
<td>7.0%</td>
<td>ITU</td>
</tr>
</tbody>
</table>

Table 1.1

Top 10 Countries with highest number of Internet Users in ASIA
Status of use of Internet for financial information search in India

For the Year 2008 and 2009

(Source: I-cube 2008/09 IAMAI)

<table>
<thead>
<tr>
<th>Application of Internet</th>
<th>% (2008)</th>
<th>% (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-mail</td>
<td>91%</td>
<td>87%</td>
</tr>
<tr>
<td>General Information Search</td>
<td>76%</td>
<td>80%</td>
</tr>
<tr>
<td>Education Information Search</td>
<td>49%</td>
<td>65%</td>
</tr>
<tr>
<td>Text Chat</td>
<td>46%</td>
<td>45%</td>
</tr>
<tr>
<td>Online Gaming</td>
<td>41%</td>
<td>40%</td>
</tr>
<tr>
<td>Online Job Sites</td>
<td>37%</td>
<td>33%</td>
</tr>
<tr>
<td>Music/Video on the Internet</td>
<td>32%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Financial Information Search</strong></td>
<td><strong>21%</strong></td>
<td><strong>24%</strong></td>
</tr>
<tr>
<td>Booking Travel Tickets</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Online Banking</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>%Online News</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Internet Telephony/Video Chat/Voice Chat</td>
<td>13%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Table 1.2

This table shows that in the year 2008, there were 21% users' uses Internet for searching financial information which is very good sign for Indian perspective with reference to Internet financial reporting in the year 2009 there were 24% Internet users search financial information on the Internet.

On comparing the years, the trend is increasing regarding internet financial reporting which shows the importance of this concept and also proves that there is need to study in Indian scenario.
1.14.4 GLOBALISATION AND INTERNET

The Internet is often described as an engine of globalization that knocks down borders and imposes market democracy on every nation. As Internet becomes integrated into the practices of businesses, governments, and social movements, it is becoming possible to define what such a wild claim might mean. Some of the necessary ideas derive from the economic aspects of information technology. Others concern the place of information in social change.

The 21st century has ushered in a new era in man's ongoing quest for a better life and a better world. For the first time in history, we can now claim to live in "One World." Globalization has removed many of the gaps that have existed between and among nations. While the physical divide is still present, the impact of the Information Highway on how we communicate and live in the present day is simply staggering.

Through globalization, cultural exchange is now open and dynamic. Economies have also been merged, with the economic life of an Asian country affecting other nations in other parts of the world, and vice-versa. Rapid improvements in information technology have allowed us to exchange information and communicate almost everywhere, anywhere, and anytime. The nature of business and how it is done had also improved by leaps and bounds all because of globalization.

Indeed, globalization has spawned a new age of connectivity in culture, society, economy, social life, technology, and politics. Globalization, as a general term, is best understood as the spread of ideas about the environment, democracy, human rights, and less complicated issues like fashion and fads. The mass marketing of computers and the wide availability of Internet services have brought many parts of the world together, as if we are all woven on a single pattern or web of daily life. Countries today do not just export raw materials or the usual projects. Global exchange is now taking place as the market of ideas, culture, and beliefs expand through the use of technology.

Because of the electronic media, vast amounts of important information can reach any parts of the globe in no time. Business establishments, whether big or small, are using the Internet in many ways to build or expand their company's growth. With the ever
improving technology comes a new market, high demand for products, and also greater competition. Making investments in information and communication technology is now a must for any business enterprise.

Another form of improved technology is the fusion of the Internet and the fax machine, giving birth to Internet faxing. Internet faxing is faster and more economical than traditional faxing. It is a general term which refers to the convenient use of faxing technology over the Internet. It is a method of using e-mail or a particular website like FREEiFAX that offers internet faxing services. FREEiFAX has combined the speed and efficiency of e-mails and the low cost sending or broadcasting documents. Through e-mails, these faxes are sent faster and free the subscriber from the time-consuming task of making several phone calls to check if the transmitted documented actually got through. This kind of service enables business companies to save time and money. Additionally FREEiFAX Internet faxing does not require the purchase of another device, accessories or any additional configuration or phone lines. All that is needed is a computer with an Internet connection and an e-mail account.

Many economists claim that globalization and the Internet have created many advantages for small and medium-sized businesses around the world. This advantage can be utilized while avoiding many business obstacles by using Internet faxing properly.

RESULT

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

In view of the growing importance of the financial reporting on the internet in the globalize scenario, there is need to study the present trend or status of financial reporting on the internet in India. A few researchers have tried to
analyse the trend or present status of the financial reporting on the internet in India. These researchers are mostly general articles based and they studied on the limited objectives. Hence, there is need to study is more significant in the competitive environment to analyze, examine and evaluate the Internet Financial Reporting practices by the Indian corporate sectors. So the need was predicted to given importance to this topic and opting it as a research topic.

1.15 OBJECTIVES OF THE STUDY

Objectives are the main pillars of any research study because all the research work is done according to these objectives. This is one of the pioneer studies in Indian corporate scenario so the present research study has been made to achieve the following objectives:

1. To study the practices of using internet for financial reporting by Indian Companies.

2. To study the Timeliness of interim financial reports published on the internet by Indian companies.

3. To compare the contents of annual reports published in Internet Financial Reporting (IFR) with Traditional Financial Reporting (TFR).

4. To analyse the Investors' perception regarding internet financial reporting in India.
1.16 RESEARCH METHODOLOGY

1.16.1 SAMPLE SIZE

The present research study has been divided into two parts:
   a). To study the Practices of Internet Financial Reporting in Indian Scenario with different aspects.
   b) To study the Investor's perception regarding Internet financial reporting.

Sample Size as to Internet financial reporting practices

As already stated that this is the pioneer study in Indian scenario so researcher selected blue-chip Indian companies as sample size for study the:

- Internet financial reporting practices in Indian scenario.
- Timeliness of presenting quarterly financial reporting published on the Internet by the Indian Companies.
- Comparison between the contents of Internet financial reporting Paper based financial reporting.

For attained above objectives following companies have been selected which are India's top most companies:

   BSE SENSEX : 30 Companies
   NSE NIFTY : 50 Companies

These totals are 80 Companies but there are some companies which are common in both the stock exchanges. Following statistics have been found according to the objectives:

**Internet financial reporting practices in Indian scenario.**

For this researcher have been select companies which are listed in BSE SENSEX and NSE NIFTY as on 31st March, 2009.
But there were 29 companies are common in both the stock exchanges, so
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researcher is restricted to study this objective with only 51 companies which are listed below:

- **Timeliness of presenting quarterly financial reporting published on the Internet by the Indian Companies.**

  For this, researcher selected those companies which are listed in BSE SENSEX and NSE NIFTY as on last day of each quarter of the Financial Year 2008-09 and 2009-10. The companies are selected of the following dates:
  - First Quarter: April to June 2008 & 2009 ---- 30th June 2008 & 2009
  - Fourth Quarter: January to March 2009 & 2010 ---- 31st March 2009 & 2010

- **Comparison between the contents of Internet financial reporting and Paper based financial reporting.**

  For this particular objective researcher have been selected companies on the following basis:
  1. There were 80 (30+50) companies are selected which are listed in BSE SENSEX and NSE NIFTY respectively as on 31st March 2008.
  2. Out of these, 29 companies are common in both the exchanges so for this particular objectives there were only 51 companies.
  3. Researcher has been sent a letter for approaching the company’s annual report of the F.Y. 2008-09 to registered office of all the selected 51 companies through SPEED-POST.
  4. But there were only 37 companies have been replied with their Annual reports.
  5. So, the study of this objective was restricted to only 37 companies.

**Sample Size as to Analysis of Investor’s Perception**

The sample size for analysed Investor’s perception regarding Internet financial reporting in Indian scenario, following criteria was applied:

- This study is Internet based study so the researcher dispatched questionnaires through Internet via e-mail Ids.
There were 650 questionnaires have been sent through e-mail Ids to different investors whose names and e-mail Ids have been collected from different stock brokers of AGRA, GWALIOR and N.DELHI. But there were only 122 respondents filled the same.

Out of these 122 respondents, 22 of them were not considered due to following reasons:

- 15 questionnaires were incomplete in different ways like some investors only filled their profiles, some filled only basic questions, etc.
- Rest 7 was ignored because of not understanding the responses.

So the sample size for analysis of Investor's perception on Internet financial reporting in Indian scenario was restricted to 100 only.

1.16.2 DATA COLLECTION

There are different parameters or criteria of data collection according to the nature of the particular objectives. So here the objective wise parameters is enlighten regarding data collection:

- Study the Practices of using Internet for Financial Reporting by Indian Companies.
  - The sample size for this objective is 51 Companies.
  - Researcher have been downloaded Annual Reports of the selected Companies from the websites of their companies.

- To study the Timeliness of interim financial reports published on the internet by Indian companies.
  - The sample size was differ from quarter to quarter according to the number of companies exist same in both the exchanges.
Researchers have been downloaded quarterly reports of selected companies of each quarter and also see the timeline in different slabs accordingly.

Comparison of the Contents of Annual Reports published in Internet Financial Reporting (IFR) with Traditional Financial Reporting (TFR).

- The sample size for this objective was restricted to only 37 Companies.
- For Paper based financial reporting, researcher selected Annual reports of the F.Y. 2008-09 for this objective.
  
  Researcher has been sent a letter to the Registered Office of the selected Companies through SPEED-POST for getting Paper Based Annual Reports.
- For Internet financial reporting, Researcher has been downloaded Annual Reports of F.Y. 2008-09 of the selected companies from their websites on the Internet.

Analyze the Investors' perception regarding internet financial reporting in India.

- This section of the study is Primary Data based.
- Researcher has prepared a well-constructed questionnaire and sent it to 650 investors online through e-mail Ids.
- The e-mail Ids of the investors have been collected from different stock brokers of the city AGRA, GWALIOR, and N. DELHI.

1.16.3 ANALYSIS OF DATA

The criteria for data analysis is also differ according to objectives. The following criteria were applied for achieving particular objectives accordingly:

Study the practices of using internet for financial reporting by Indian Companies.
For this objective, researcher has prepared a checklist containing 57 items in different 5 sections. These are:

- Corporate Information
- Corporate Governance
- Shareholder Information
- Financial Information
- Environmental & Social Reporting

**Scoring Criteria:** 1 mark given to each item and total marks given out of total items shown on their website.

**Corporate Information:** This section contains 8 items which covers all the important information regarding company's performance, their R&D activities, global operations, etc.

These are:

1. Chairman’s Statement
2. Board of Directors
3. Key Management
4. Global Operation (if any)
5. New Venture (if any)
6. Research & Development
7. Award, Recognition & Certification
8. Signified Accounting Policies

**Scoring Criteria:** Each item carries 1 mark each and total marks given out of total items shown by the company on their website.

**Corporate Governance:** This section contains 12 items according to clause-49 of the SEBI's listing agreement. These items fulfilled the basic requirements of Corporate Governance.

1. Company Corporate Governance Policy
2. Board of Directors
3. Name & Background of BODs & Year of appoint.
4. Size & Composition of Board
5. Shares & Stock options held by BODs
6. Board Meetings
7. Audit Committee
8. Compensation Committee
9. Shareholders Grievance Committee
10. Nomination Committee
Chapter-1 - Introduction

11. Risk Mgmt Committee
12. Details of Communication mode

Shareholder Information: It covers 9 items

1. Share Price Chart
2. Dividend Policy
3. Investor Complaints
4. Shareholding Patterns
5. Listing on Stock Exchanges
6. Distribution of Shareholdings
7. Investor Contacts
8. Dividend Payment History
9. Financial Calendar

Financial Information: This section is very important part of the study and it divided into 3 parts:

Financial Information-I- It contains 8 items describes general financial information which is according to the requirement of the Indian Companies Act, 1956:

1. Balance Sheet
2. Profit & Loss A/c
3. Cash Flow Statement
4. Schedules to B/S and P&L Account
5. Notes on B/S and Notes on P&L Account
6. Balance Sheet Abstract
7. Auditor's Report
8. Sources & Utilisation of Funds

Financial Information-II- It contains 5 items according to the Section 212(4) of the Indian Companies Act, 1956. Companies are liable to show their consolidated accounts in their annual reports.

2. Schedules to Consolidated B/S and P&L Account
3. Notes on Consolidated B/S and P&L Account
4. Consolidated Cash Flow Statement
5. Schedules and Notes on Consolidated CFS

Financial Information-III- This section contains general financial information which is important for taking decision making.

1. Summary of Financial Information of Subsidiary Company
2. Years at a Glance
3. Financial Ratios
4. Dividend Statistics
5. Financial Statistics
6. Financial Historic Data
7. Management Discussion & Analysis
8. Number of Pages Report

**Environmental & Social Reporting:** The main elements of included in this section are:

1. Detailed Corporate Social Report
2. Highlight of Corporate Social Reporting

**Study the Timeliness of Interim financial reports published on the Internet by Indian companies.**

For this objective, following process was adopted during the study:

1. Downloaded the quarterly reports of the selected companies which are listed at the last day of the quarter from the Internet.
2. For study the timeliness, researcher has been made three slabs namely:
   a) Within 10 days from the end of quarter
   b) From 11 to 15 days from the end of quarter
   c) From 16 to 30 days from the end of quarter
3. To noted down the date of presenting quarterly reports on the websites of selected companies and then put them into aforesaid slabs.
4. Analyse the timeliness of presenting quarterly reports individually of all four quarters on the basis of dates of published reports on the websites.
5. Also analysed all four quarters with each other and found that in which quarter the companies are more flexible to publish their quarterly results on the websites quickly.
6. Lastly to check that which company and which sector are more quickly published their quarterly results on the websites.

**Compare the contents of annual reports published in Internet Financial Reporting (IFR) with Traditional Financial Reporting (TFR).**
For attained this objective, researcher was applied following procedure:
1. For this, checklist was prepared of fifty-six items in five different sections which covers all the annual report.
2. Compare the contents of Internet financial reporting with traditional financial reporting individually of each section of selected companies (37 Companies).
3. Added all the score calculated of all five sections of each company and check the variance between the Internet financial reporting and traditional financial reporting.

To analyse the Investors’ perception regarding internet financial reporting in India.
1. Researcher has been prepared a well-structured questionnaire.
2. This questionnaire was divided into 4 parts like, Investors’ General Profile, Awareness Questions / Conceptual Questions, Rank Related Questions, Investor’s Own Opinion Questions.
3. Rank was given to the rank related questions on the basis of weighted average.
4. Test of significance was checked/tested by Z-Test of some awareness questions as well as some investor’s own opinion questions.
Every Empirical work has to pass through certain limitations this work has also its own limitations.

Following limitations have been realized during the research study:

- Sample size of the companies was restricted to only BSE SENSEX and NSE NIFTY and excludes the rest listed companies.
- This Research Study has covered the Research Period of only 2008-09 & 2009-10 for analysis purpose, decision making and all the analysis or inferences was found on that behalf only.
- To analyze the Company’s performance on the Internet only on the basis of disclosures made in Annual Reports.
- Assuming that the disclosed reporting practices in Annual Reports of the companies are ‘Authentic’.
- Problem was occurred in collecting the questionnaires from the investors. Researchers were sent questionnaires three to four times to investors but they not replied easily.
- Due to the nature of the study, all the annual reports were collected/downloaded through Internet from their websites and believed that these are reliable for the study.
- As regards to collect hard copy of Annual Reports of the companies, researcher was sent letters to the corporate offices of all the sample companies but only thirty-seven companies are replied with their Annual Reports and rest are not sent their reports. So due to this the research was restricted to only thirty-seven companies.
- This was one of the pioneer study in Indian scenario on this topic so the problem was occurred in collecting the data and also Internet is not very popular among the investors so they not replied easily.
SUMMARY

This chapter described the introduction of the study that included introductory part, need of the study, objectives of the study, etc. This is true not only of the days of Paciolo but also important for present-day accounting survival. Seeking, one of the few historians who have paid attention to the subject, says that book-keeping developed as a direct result of the establishment of partnership on a large scale. As an information system, accounting links an information source or transmitter (like the accountants), a media of communication (like the financial statements/data) and a set of receivers (like external existing users/potential users). When accounting is looked upon as a process of communication, it is defined as “the process of encoding observations in the language of the accounting system, of manipulating the signs and statements of the systems and decoding and transmitting the results.”

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

Objectives of financial reporting is strictly developed on the basis of different observations and inference and conclusions made by different committees worldwide like Accounting Principal Board, Trueblood Report, The Corporate Report (UK), FASB – The objectives of financial reporting, Canadian Institute of Chartered Institute—Stamp Report,

To communicate with the stakeholders of the company is the primary responsibility of the company. The internet has become widely acknowledged as a key medium for communicating business and financial information, principally through the investor relations sections of corporate websites. Investors, analysts and others have become accustomed to using these sites to obtain the information they need.

It can be difficult to determine where a particular type of information ends, because of the use of hyperlinks. In a set of financial statements, for example, if there is a link to a document on inventories, it may not be clear whether the document is part of the financial statements and whether or not it is audited. When links from audited
material to unaudited material are included, there should be a clear warning to the user that he or she is moving to unaudited material.

Need of the study can be categorized into three major groups namely, Advantages of Internet Financial Reporting over Paper Based financial reporting (on the basis of literature available), Growth of Internet Users in India and Globalisation and Internet.

The following study has been made to achieved the objectives like; to study the practices of using internet for financial reporting by Indian Companies, study the Timeliness of interim financial reports published on the internet by Indian companies, compare the contents of annual reports published in Internet Financial Reporting (IFR) with Traditional Financial Reporting (TFR) and to analyse the Investors’ perception regarding internet financial reporting in India.

The primary data was collected through questionnaires and secondary data has been collected through journals, available literatures, annual reports of companies, reports, books, periodicals, etc. Analysis of practices of Internet financial reporting was based on the checklist contained five variables namely corporate information, corporate governance, shareholder information, financial information and environmental and social reporting and also applied different test for testing significance level like z-test, chi-square test, etc.
REFERENCES

- Sundar (2000); British Council (2002); PiC (2004); Arora and Puranik (2004).
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