CHAPTER-I
INTRODUCTION

Financial reporting and disclosure practices constitute means of information relating to operating and financial status of a business entity. Financial statements are useful for building investors' confidence and interest in stimulating the development of capital market. Now-a-days, financial information is being presented in a quantitatively and qualitatively structured manner. As the disclosure of corporate reporting is more regulatory in nature, a corporate body discloses profit and loss account, balance sheet, directors' report, auditors' report, cash flow statement, significant accounting policies and company's general business profile and statement relating to subsidiary companies to make the information more meaningful, exhaustive, relevant and transparent for the benefit of all stakeholders rather than only shareholders.

Besides these, the competitive corporate bodies have also gone for disclosure of more information required by law. Out of additional disclosure items, the corporate bodies like to disclose the information on social accounting, value added statement, profitability statement, human resource accounting, accounting for price level changes, etc.

Disclosure is an explanation or exhibit attached to a financial statement or embodied in a report containing a fact, opinion or details required or helpful in interpretation of the statement or the report. It is that aspect of financial reporting which has to do with the presentation of descriptive or supplementary data as distinguished from the general form of financial statements. It is an act of transmission of information from corporate entity to the public at large.

The general objectives of financial reporting and disclosure practices are to provide reliable information about economic resources and obligations of business enterprises in order to evaluate its strengths and weaknesses, its ability
to meet its commitments, etc. It also aims at providing reliable information about changes in net resources resulting from profit directed activities of a corporate entity.

The divorce between the ownership and the management of corporate sector enterprises, the increasing complexities and size of organizations, the growing awareness of the public and their keen interest in the affairs of companies, the changing socio-economic and political environment in the country, and the greater emphasis on rational decision making, etc; have enhanced the need for and significance of the financial disclosures by the companies.

The public's right to know more about organizations affairs affects the accounting system and contributes lot to the development of accounting. A society has a high degree of freedom at the individual level to know operational activities of a business enterprise. These characteristics make it essential that the members of the society are provided with adequate, understandable and dependable financial information from the business enterprises.

**Public Sector Undertakings and Financial Disclosure Practices:**

Most of the PSUs in India are incorporated under the provisions of the companies Act, 1956. Apparently, there is no difference between the PSUs and the private sector enterprises with respect to their preparation and presentation of accounts in compliance with statutory provisions.

Provisions of sections from 209 to 233B of the Companies Act, 1956, are equally applicable to Public Sector Undertaking, as they are applicable to the companies in private sectors. And mandatory accounting standards issued by Institute of Chartered Accountants of India (ICAI) are also equally applicable to the PSUs and the private sectors. But the financial reporting regulations in PSUs are slightly different from those in the private sector companies. PSUs have to work under the supervision and control of some regulatory agencies like Bureau
of Public Enterprises (BPE), the Committee of Public Undertakings (CPU), the Comptroller and Auditor General of India (C&AG), and the Stock Exchange Board of India (SEBI) guidelines in India. Thus, PSUs in India have to comply with various rules and guidelines issued by BPE and such other Governmental agencies over and above the provisions prescribed by the companies Act, 1956.

Further, the annual accounts of PSUs are subject to the scrutiny by a Parliamentary Committee, known as the Committee of Public Undertakings (CPU), which has the right to examine all the reports and accounts of PSUs, including the reports of C&AG on PSU Accounts. Accounts of PSU should be up to satisfaction of this Committee as regards:

(a) the money shown in the account as having been disbursed were legally available for and applicable to the service or purpose to which this has been applied;
(b) the expenditure conforms to the authority which governs it; and
(c) every re-appropriation has been made in accordance with provisions made in this behalf under rules framed by the competent authority.

In practice, the financial accounting and reporting practices in the PSUs are guided by:

- the Statutory requirements under the Companies Act, 1956,
- the guidelines issued by the Bureau of Public Enterprises,
- the guidelines provided by the Institute of Chartered Accountants of India,
- the guidelines issued by the SEBI, and
- the guidelines provided by the CBDT.

Need for the Study:

India has adopted socialistic pattern of society as its socio-economic goal. According to the Directive Principles of State Policy, the State is to transform the society on all fronts so that inequality and poverty of today is replaced by an egalitarian society in which there will be no concentration of power and the
resources of the nation are exploited and utilized for the common goal. For achieving this, State has to play a prominent role in owning and operating the means of production and distribution. This is achieved through the establishment of Public sector Undertakings. The Public Sector Undertakings through monopoly or otherwise controls the production and distribution of certain goods or services to the vulnerable sections of the society and thereby bring social justice to the economy.

Now, Public Sector Undertakings have attained the commanding heights of the economy and are influencing the economy to great extent. Since PSUs carry the onus of social responsibility, they have to assume a unique role in the economic progress of India. They have to aim at service rather than profits. Their strategies should aim at providing qualitative goods or services to the society.

These, being Government Companies, there is no or very less public holding in these companies. However, the public is very much interested to know about how the resources are utilized for providing quality services to all the sections of the society. But information disclosed in the annual report is the only source of financial information available to users or general public. These published reports are the main vehicles the firms use to communicate information to external users. Reports contain information on a firm’s profitability and liquidity to external users to make informed judgment about the company. The annual report can present the real picture of the institution for providing true and reliable information to the stakeholders. Various sections of the society, like corporate managerial people, shareholders, potential investors, debenture holders, creditors, banks, financial institutions, government, consumers, general public, trade unions, etc., take interest in the corporate reporting. They want information, which are related to their decision in the corporate reports. They require general and specific information for their decision-making and the corporate reporting is the only reliable source for this information. Hence, the above parties expect true, reliable and authentic information through the corporate reports.
In India, the PSUs present their annual reports in a traditional format. They provide only that information to the stakeholders, which would be mandatory by the legal provisions. According to the International Accounting Standards, the company should provide all material information whether its impact is unfavorable on the goodwill of the concern. All decision-makers have right to receive full information because they take decisions that are based on the information provided by the company.

Every stakeholder has a right to receive complete and reliable information from the company through the corporate reports. Now, the time has come to recognize this fact as a right of society and should present better information for the benefit of the general public. All the information should be regularly provided through proper system. If any party requires any specific information for decision, the same should be provided. The information provided is said to be reliable only when the corporate entity adheres to the various provisions as laid down under the relevant Acts.

The BPE and the ICAI have made a commendable contribution in the field of financial reporting by issuing specific guidelines and Accounting Standards for the presentation of accounts. The Companies Act, 1956, and other acts have also made a contribution in the field of reporting and disclosure practices to make information more reliable.

Against this background, a need was felt by the researcher to go into the details about the compliance with the provisions of the ASs issued by the ICAI, the provisions of companies Act, 1956 and the SEBI guidelines so as to know as to whether the operating and financial affairs are stakeholder friendly.

**Review of Earlier Literature:**

A number of studies have been conducted on the disclosure, financial reporting, investors' interest and protection, etc., by a number of researchers in the field of accounting and finance in India and abroad. A modest attempt has been to trace out the research gap so as to explore the suitable area for the
purpose of undertaking the research and to examine the relevance of the need felt by the researcher. Some of the research studies undertaken in the field so far are:

**Manju Gupta, Praveen. Saxena, and S.P. Kaushik (2002)¹:**

The study is conducted to examine the compliance of Indian Accounting Standards issued by the ICAI, among the public sector undertakings in India. The study highlights that the compliance of the standards is necessary to provide true and fair financial statements to the stakeholders and other users for better understanding of the financial condition of the company and it concludes that PSUs are not making significant progress and awareness in adopting accounting standards in spite of its urgent need in changing global scenario.

**Sawalia Bihari Verma (2001)²:**

The study entitled “Social Accounting Practices in Public undertakings in India” focuses on the concept of social accounting and its practices in India. And it concludes that the concept is relatively new in India and the undertakings should be aware of its responsibilities toward its members.


The study discusses the meaning of corporate governance in the context of present business environment, and identifies the need for proper corporate governance to protect the interests of all stakeholders. It analyzed the rules of corporate governance in India in comparison with the scenario in the developed countries and suggested the implementation of confederation of Indian Industry Code (IIC) of corporate governance.

**K. Raji Reddy (2001)⁴:**

The study primarily dealt with the conceptual framework of social Accounting and threw light on the objectives of social accounting, social accounting approaches etc.
Amita. S. Kantawala (2001)⁵:

The study focuses on the concept of corporate social accounting, objectives and need, formats, users of social information etc. The study concludes that there is need for developing a standard format for social responsibility accounting for all companies at least in the public sector.

Rais Ahmad (2001)⁶:

In this study, an attempt has been made to review and evaluate the present scenario of accounting and societal concerns and also throws light on practice of social accounting in India. The study concludes that in India, social accounting and reporting is in infancy stage and it has yet to get momentum.

Dinesh. K. Gupta (2001)⁷:

The study thoroughly analyses the HRA practices of selected companies in India and concludes that there is no uniformity in HRA practices and also suggests that the professional accounting bodies like ICAI and ICWAI should take more active interest to develop a uniform approach to HRA.

A. J. Arnold, and D. R. Mathews (2002)⁸:

The main purpose of this study is to provide a sound empirical basis for conclusions about disclosure practices in the U K across the second quarter of the last century. The study concludes that there is a substantial increase in disclosure level and actual levels of disclosure reflect both legislative requirements and their supplementation at the discretion of management.

Kamal Naser, And Rana Nuseibeh (2003)⁹:

The study assesses the quality of information disclosed by a sample of non-financial Saudi companies listed on the Saudi Stock Exchange. It also compares the extent of corporate disclosure before and after the creation of the Saudi Organization of certified Public Accountants (SOCPA) and concludes that there is high degree of compliance with the statutory requirements and also disclosed detailed voluntary information related to the items of information required by law.
Babatosh Banerjee (2002):  

The study addresses a number of issues like environmental management, its impact on profitability of a firm, and environmental disclosure requirements for environmental information. It suggests that proper improvements should be made for disclosure of environmental information in corporate annual reports.


The study deals with emerging issues in environmental accounting in India and abroad and it opines that there is yet no consensus about the role of accounting in trying to account for the environment.

Falguni Bandyopadyay (2002):  

The basic difference between Indian GAAP and US GAAP has been discussed in this study. Since US GAAPs are emerging as a globally accepted language, and the author argues that Indian Companies should also disclose their accounts concurrently in US GAAPs.


This study addresses the question “Do expert informational intermediaries add value?” by examining the informativeness of the audit report contained in the prospectus associated with a firm’s Initial Public Offering (IPO). The study evaluates the association between the type of audit opinion, the type of firm that renders the opinion and post IPO performance of the issuing company’s stock and it concludes that the auditors provide more informative opinions, in the sense that their pre IPO opinions are more predictive of post-IPO stock performance and more fittingly associated with pre-IPO distress.


The study develops a model of cultural, national and corporate factors that influence the financial disclosure of corporations and tested empirically using a sample of companies from 33 countries. The study finds that disclosure is influenced by factors from a broad range of social systems; cultural, political,
economic and corporate and concludes; acceptance of mandated disclosures from a body such as the IASC may be met with resistance.

Sheila Ellwood (2003)\textsuperscript{15}:

The study questions whether UK public sector accounting is really converging on GAAP and the extent to which there is comparability between the various parts of the public sector and between the public sector and the private sector. Using illustrations, the compliance of public sector accounting practice with ASB’s Statement of Principles and reporting Standards is investigated and concluded that UK public sector is making unique and adhoc adaptations to GAAP and these adaptations have been fragmentary and lack uniformity across the public sector.

Divesh. S.Sharma, and Errol. R. Iselin (2001)\textsuperscript{16}:

The study investigates the decision usefulness of reported cash flow and accrual information in a behavioral field solvency assessment experiment. It reveals that judgment based on cash flow information is more accurate than judgment on accrual information and it concludes that cash flow information has greater decision usefulness than accrual information for assessing corporate solvency.

Ole Kristian Hope (2003)\textsuperscript{17}:

Using a sample from 22 countries, the study evaluates the relation between the accuracy of analyst’s earning forecasts and level of annual report disclosure and between forecast accuracy and the degree of enforcement of accounting standards. It concludes that strong enforcement associated with higher forecast accuracy and firm level disclosure is positively related to forecast accuracy.

Siddartha Sarkar (2000)\textsuperscript{18}:

This study is an attempt to disclose the prevalent methods of inflation accounting in a nutshell and concentrates on the position of Indian Inflation
accounting practices among the corporate entities. This study also highlights on the Guidance Note on accounting for changing prices issued by the Research Committee of Institute of Chartered Accountants of India (ICAI) and concludes that India is an urgent need of generally accepted accounting method to keep parity with the global system of accounting.

K. C. Paul (1998)\textsuperscript{19}:

The study is related to Environmental Reporting Practices by companies and concludes that environmental reporting practices are of very casual nature and no regularity is noticed.

Umesh Holani (2001)\textsuperscript{20}:

The study focuses on evolutionary process of accounting and decision usefulness of accounting information in the present era. The provisions of Schedule VI of the Companies Act should be enlarged to present better information for the benefit of the general public, it concludes.

H. L. Verma, M. C. Gerg and K. P. Singh (2001)\textsuperscript{21}:

The study entitled "Disclosure of Accounting Standards Vis-a-vis Company Characteristics; A study of Indian Corporate Sector" analyses the quality of information disclosed and its relation with the size, sales, profit, age of the company. And it concludes that, qualities of information disclosed are not statistically related variables.

Sukhadar Singh (2001)\textsuperscript{22}:

In this study, an attempt has been made to study disclosure practices of inventory valuation policies in Public Enterprises of Punjab and comes to conclusion that there is need of full disclosure to have-in-depth analysis of the performance and financial position of the business.

Ramesh Kumar Garg (2000)\textsuperscript{23}:

The study highlights statutory guidelines issued by the Companies Act of 1956, the ICAI and the SEBI guidelines for disclosure practices in India and it
analyses the problems in corporate reporting practices. It concludes that Indian companies scarcely report any information other than what is statutorily required.


The study throws light on legal and listing requirements for financial reporting, users' expectations from corporate financial reports and it concludes that the corporate entities should give all relevant information to all interested parties.

H. L. Sharma (2000)

The study is an attempt to investigate the informational needs of the present and prospective employees and their trade unions already working in the organizations and disclosure practices of corporate entities. Interest of the workers and their trade unions is rapidly increasing in corporate disclosure but the majority of the joint stock companies devote their attention to satisfy the needs of the shareholders and loan providers. Hence, it concludes that joint stock companies should give proper care to disclose the full information required by employees and trade unions.

Dharminder Singh Ubha (2002)

The study evaluates the disclosure practices of corporate sector in the light of statutory and investors' requirements and also considers non-mandatory requirements. After scanning the annual reports of 100 private and public sector undertakings, the study concludes that all the corporate entities are more specific about mandatory requirements and they have not been interested in disclosure of non-mandatory information. Therefore, it is suggested that the companies should incorporate them in their annual reports.


The study highlights the statutory provisions about reporting on environmental aspects and existing scenario on the environmental reporting.
The study opines that most of the companies have formally complied with the statutory requirements as mentioned in the companies Act and the Director’s Report Rules, 1988 and suggests that the companies should accept the environmental reporting as a social obligation and transparency should be maintained in the annual reports.

C. S. Cheema, and Ravi Inder Singh (2004)\textsuperscript{28}:

In the study, it has been said that accounting has become multidimensional approach due to the replacement of the concept of shareholders with stakeholders. Environmental disclosure originated as a response to increased public concern over corporate environment performance. An effort has been made to examine the impact of the stakeholders on the status of environmental disclosure. The association of the status of environmental disclosure was examined with the size of the company, creditor’s influence, and foreign influence. Company size (i.e. size of stakeholders) and foreign influence was found to be significantly associated with the quality and quantity of environmental disclosure. Creditors’ influence was found to be insignificantly associated with the status of environmental disclosure. It concludes that the bigger companies disclose more environmental information in their annual reports and also the system of maintenance of accounts for environmental expenses is better in bigger companies. And it also concludes that companies dealing with the foreign customers are more environmental conscious and are providing better environmental disclosure.

S. Aravanan (2004)\textsuperscript{29}:

In this study, it is said that segment reporting is new to India. With AS-17 making it mandatory for companies fulfilling certain criteria, the Indian corporate sector has started publishing segment results. Segment reporting fixes a responsibility on the management that management will now be answerable to the performance of each segment. Segment reporting is the right direction towards improving the quality of financial statements. Therefore, in the interest
of shareholders and in their own interest, companies should give due importance to AS-17 and start complying with it in the right perspective.


The study evaluates the timeliness of corporate reporting and its effectiveness on the image of the corporate body. It is based on a sample of 30 PSUs and the annual reports scanned are related to the period of 2000-01 and 2001-02. The timeliness of corporate reporting was examined with respect to auditing time lag, reporting time lag and total time lag. Lastly, the study concludes that the effectiveness of information contained in the annual reports depends upon timeliness of corporate reporting.

Subhas Garg and Manisha sinha (2004):

This study deals with the importance of environmental disclosure for value of the corporations and developments across the world in environmental reporting practices. It gives the range of reporting initiatives, codes and guidelines that have emerged over the last two decades like the development of global Reporting Initiative (GRI) for sustainable reporting. It concludes that the number of companies reporting on environment in their annual reports or otherwise is quite low in comparison to their counterparts in other countries. And reporting practices followed by them are different and biased in favour of the organization.

Statement of the Problem:

A perusal of available literature clearly shows that there is a great vacuum in the analysis of the financial disclosure practices of Corporate entities in general and public sector undertakings in particular in the context of changed regulatory corporate environment. The public sector undertakings, being the government owned entities, owe a lot to the economy, industry and public at large in India. As public sector in India has to face a prime requirement of sound and scientific financial management, there are many sources to provide financial
help to these public sector undertakings. These sources comprise mainly equity and grants by the government, funds from government treasury, etc. The accountability of public sectors to the public is necessary; therefore, the annual report of an entity should present true, reliable, authentic and adequate information to the general public. An analysis of disclosure practices of public sector undertakings on these lines was felt necessary by the researcher. Hence, the statement of the problem:

"Financial Disclosure Practices in Selected Public Sector Undertakings in India."

Objectives of the Study:

The main objectives of the present research study are:

(1) To study the evolutionary process of the financial reporting and financial disclosure practices.
(2) To study the conceptual framework of financial reporting.
(3) To study the financial disclosure pronouncements in India.
(4) To examine the extent of compliance with financial disclosure pronouncements embodied in Accounting Standards.
(5) To examine the extent of compliance with financial disclosure pronouncements made by the Companies Act, 1956 through recent amendments.
(6) To study the extent of compliance with the listing requirements for corporate governance practices.
(7) To examine the contemporary disclosure practices followed by the selected PSUs.
(8) To offer useful suggestions for making the financial disclosure practices of the sample units more meaningful.

Scope of the Study:

The study is based on five public sector undertakings for evaluating how for these undertakings have been effective in their disclosure practices
individually and comparatively. The units selected are Hindustan Machine Tools Limited (HMT), Hindustan Aeronautics Limited (HAL), Indian Telephone Industries (ITI), Bharath Earth Movers Limited (BEML), Bharat Electronics Limited (BEL).

An analysis of the compliance with the provisions and the guidelines pronounced by the ICAI and other regulatory bodies is based on the coverage of half-a-decade period from 1998-99 to 2002-03.

Research Methodology:

(a) Hypotheses:

For the purpose of testing the degree of compliance with the financial disclosure pronouncements made by the Companies Act, the SEBI, the CBDT, and the BPE, the ANOVA technique has been used, and the following hypotheses have been formulated.

1. a) H₀: There is no significant variation in the degree of compliance with the guidelines issued under the Companies Act.
   b) H₁: There is significant variation in the degree of compliance with the guidelines issued under the Companies Act.

2. a) H₀: There is no significant variation in the degree of compliance with the guidelines issued by the SEBI.
   b) H₁: There is significant variation in the degree of compliance with the guidelines issued by the SEBI.

3. a) H₀: There is no significant variation in the degree of compliance with the disclosure norms issued by the CBDT.
   b) H₁: There is significant variation in the degree of compliance with the disclosure norms issued by the CBDT.

4. a) H₀: There is no significant variation in the degree of compliance with the guidelines issued by the BPE.
   b) H₁: There is significant variation in the degree of compliance with the guidelines issued by the BPE.
(b) Sources of Data:

To accomplish the objectives, the study is primarily based on secondary data. The secondary data for the purpose of study have been collected from the following sources:

- Annual reports of the selected sample units.
- Existing literature on financial disclosure practices.
- The Stock Exchange Board of India guidelines.
- Existing literature on Corporate Governance.

To study the evolutionary process of financial reporting and financial disclosure pronouncements in India, the existing literature and other secondary sources of information were used. And the compliance with financial disclosure pronouncements in India was studied by examining the annual reports of the selected PSUs.

(c) Tools of Analysis:

The data, thus, collected have been properly classified, analyzed, and interpreted with the help of appropriate tools like ratios, percentage, etc., besides ANOVA technique.

Research Design:

The present study has been outlined in eight chapters.

Chapter I:

It covers introduction, need for the study, review of literature, and statement of the problem, objectives, scope of the study, research methodology, and research design.

Chapter II:

This chapter throws light on the theoretical framework of financial disclosure practices. It includes the historical development of accounting and reporting in the world and innovations in disclosure practices in India and in other countries.
Chapter III:

This chapter gives information about meaning, role, growth and performance of public sector undertakings in Indian economy in the first part, and in the second part, it gives brief profile of the PSUs under study.

Chapter IV:

It provides detailed picture about financial disclosure pronouncements by Institute of Chartered Accountants of India (ICAI), Companies Act of 1956, Central Board of Direct Taxes (CBDT), Stock Exchange Board of India (SEBI) guidelines and guidelines issued by Bureau of Public Enterprises (BPE).

Chapter V:

It aims at analyzing the compliance with financial disclosure pronouncements by Institute of Chartered Accountants of India (ICAI) by the PSUs under the study.

Chapter VI:

It deals with analysis of compliance with pronouncements with special reference to provisions of Company’s Act, 1956 and the compliance with the pronouncements by the BPE, the SEBI and guidelines of other statutory bodies. It is also devoted for the study and analysis of contemporary disclosure practices by sample PSUs like analysis of social, environmental, human resource accounting practices etc.

Chapter VII:

It is devoted to study of the meaning and importance of corporate governance in the first part and an analysis of compliance with the Listing Requirements in the second part.

Chapter VIII:

In this chapter, a summary of the findings of the research work are presented, followed by suggestions based on findings emerged from data analysis.
References:


