Chapter – 7

Summary and Conclusions

7.1 Introduction

In this chapter the essence of this dissertation has been summarised and an attempt has been made to arrive at the generalised conclusions from the findings of the empirical analysis in the previous chapters. These conclusions focus on the stated objective of this study to evaluate the current disclosure practices of Indian companies in the light of the informational needs of the major users of financial statements.

Accounting is an information system and its ultimate aim is to supply necessary information to the different user groups who are interested in corporate affairs. It helps them in their decision making by providing relevant information. This aim is achieved through disclosure or proper reporting of relevant information, mainly, through the published annual reports. Disclosure can be defined as a process through which a business enterprise communicates with the external parties. It is the movement of information from private domain to public domain. It mainly involves the company as issuer and the investors and creditors as primary users. (Dr. D. S. Ubha, 2001, p.125). In the present work, an effort has been made to make a study on the disclosure of corporate financial reporting at the time of presenting financial statement. We know that accounting information are too much necessary now a days to meet the needs of the various user groups and the information contained within accounting reports should reduce uncertainty in the minds of the users over the financial position and performance of the business.

Corporate reporting which is also known as corporate disclosure has increasingly gained significance during the recent years all over the world. Disclosure means, regarding reporting entity, reporting of quantitative and qualitative information of financial and non-financial nature to the different user for the purpose of their decision making. At the time of reporting it must be considered first, such as – for whom is the information disclosed? What is the purpose of disclosing information? How much the information should be disclosed? How should the information be disclosed? And when should the information be disclosed?
So before disclosing this information an entity must take into account these five questions.

At present corporate financial reporting is a vital part in every enterprise. It is the key to success for any company. The recent rapid surge in globalisation and the massive flow of cross border capital has created a huge rise in the number, types and expectations of stakeholders in any business. One of the important things is that there is continuous increase in the scope of financial reporting as compared to previous years. The requirements of today are more demanding than before as different types of stakeholders require different types of information from the same source i.e., financial reports. But the financial statements prepared today do not meet all the requirements of the stakeholders. This is so because of the emergence of the concept of ‘stakeholders’ and voluminous increase in their informational needs; increasing public interest in the securities markets and their regulation by the government; amendments in disclosure laws in various countries and the standards on disclosure which have been issued by various professional accounting bodies in India and abroad. But in spite of these rules, regulations, standards and laws, the theory and practice of financial accounting has come under severe criticism in the recent years and these financial scandals have put a question mark on the credibility of the existing accounting framework and the various regulations governing the field of accounting. All we know that corporate financial statements provide many accounting information which are useful for various user groups. Now the question is whether the information contained within accounting reports really reduces the uncertainty in the minds of the various user groups. If the answer is in negative then the question is what type of information they actually needed.

The study is an empirical one and is mainly based on the analysis of the data and information collected from the annual reports of different companies (1999-2000 to 2008-2009) directly from the web-site. The work is divided into six chapters which has covered other than a brief history of accounting regulation in India, a short description about financial reporting, corporate legislation and corporate governance in India, the basic problem associated with the diversity in the accounting practices in Indian company and some suggestions to overcome the problem. Therefore, the above discussion reveals that till now there is diversity in accounting practices in Indian
Corporate Sector regarding preparation and presentation of financial statements as per the companies act 1956 and the AS issued by the ICAI.

7.2 Key findings

Key findings of the study may be highlighted under the following heads:

- Disclosure practices of corporate sectors in India related to Financial Information.
- Disclosure practices of corporate sectors in India related to Non-Financial Information.
- Disclosure practices of corporate sectors in India related to Directors report.
- Disclosure practices of corporate sectors in India related to Report on Corporate Governance.
- Disclosure practices of corporate sectors in India related to Disclosure of Significant Accounting Policy and Notes on Account.

7.2-1 Disclosure practices of corporate sectors in India related to Financial Information

The financial information covered by the selected companies belonging to Group A and Group B, out of them most of the information are mandatory as per the Companies Act, 1956 and some of them are mandatory as per the Accounting Standard issued by the Institute of chartered Accountants of India. With the help of this study it can be easily understood that reporting practices in corporate sector regarding compliances with the provisions of the Companies Act, 1956, and the Accounting Standards issued by the ICAI has developed significantly. Presently, most of the companies started to disclose their additional financial information keeping in view the diversified needs of the users as well as society. Table-6.2 shows that there is proper improvement in the mean discloser in the different years from 9.26 during the period 1999-2000 to 14.90 in 2008-2009. The coefficient of variation in the starting three years have increased from 14.24 per cent in the 2000-2001 to 20.64 per cent in 2002-2003 but after that it starts decreasing. It indicates that there has been significant variation in item wise discloser in annual reports.
On the other hand most of the companies belonging to Group B disclosed only 5 to 7 items during the period 1999-2000 to 2000-2001 and only 5 or 6 companies disclose other voluntary information. (Table-6.4). It is revealed by the analysis that there is significant increase in the arithmetic mean, standard deviation and coefficient of variation. (Table-6.4). The arithmetic mean has been recorded at 7.22 during the period 1999-2000 and in 2008-09 it goes up to 13.42. Similarly standard deviation has been stand at 2.28 in the year 1999-2000 but it also goes up to 2.69 in the year 2008-09 under study. That means there is high degree of variation of items disclosed by the Group-B companies regarding financial information. The coefficient of variation has been 31.70 per cent in the year 1999-00 and at the end of the year 2008-09 it stands up to 19.48 per cent.

Now the comparative analysis of both the companies showed that only the companies belonging to Group A disclose more and more voluntary and non-voluntary financial information and make consistent in disclosing these valuable financial information.

7.2-2 Disclosure practices of corporate sectors in India related to Non-Financial Information

In respect of disclosure of Non-financial items most of the information are mandatory as per the Companies Act, 1956 but not as per Accounting Standards issued by the ICAI, like, Directors' Report [required by the company's act 1956 (sec 217)], Report on Corporate Governance [Pursuant to clause 49 of the listing agreement with Indian stock exchanges], Notice of AGM [with explanatory statement pursuant to Sec. 173(2) of the Companies Act 1956], Management Discussion and Analysis Report etc. These information are too much valuable in respect of different user groups. Most of the selected companies belonging to Group A during the period 1999-2000 to 2008-2009 under study have annexed these reports along with the annual reports during the period of the study. Thus there is 100 per cent compliance regarding these items. During the study period 1999-2000 to 2000-01 only 28 per cent and 72 per cent selected companies belonging to Group A disclosed Management Discussion and Analysis Report in their annual report (Table-6.6).

A glance of the Table-6.8, i.e., non-financial information disclosed by the elected companies belonging to Group B companies, however shows that most of the
companies belonging to this group disclosed more non-financial information than that of disclosure of financial information. Most of the time the selected companies belonging to Group B disclosed more non-financial information during the study period 1999-00 to 2008-09 than the selected companies belonging to Group A. The co-efficient of variation of the selected companies belonging to Group B have less than that of the companies belonging to Group A during the study period 1999-00 to 2008-09. It indicates that the companies belonging to Group B are more consistent or less variable than the companies belonging to Group A. Graph-6.6 cleared the above facts.

7.2-3 Disclosure practices of corporate sectors in India related to Directors’ Report

The directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations. They are also responsible to present their views on the different financial and non-financial activities of the enterprise during the year in the form of directors’ report. Thus it can be said that directors’ report is the nucleus of the annual report. Directors’ report which is the principal medium of communication should not only be clear and authentic but also accurate, unbiased and fair. A report disclosing certain information by the directors of the company is required by the Companies Act, 1956 (Sec 217). The annual report in the form of director’s report is a valuable source of information to the shareholders and other users. Thus, all key aspects are covered in the directors’ report. The purpose of the directors’ report is to place before the shareholders the state of the company’s affairs and salient features of its working results for the year covered, including future prospects. The reports, though presented to shareholders, are also used by bankers, debenture holders, and government and tax authorities. The directors’ report shall be read with other reports at the ordinary meeting.

Directors’ report is one of the most important non-financial statutory items and even it is covered by all the companies belong to Group A or B. But if we analyse the information disclosed under directors’ report by the selected 50 companies, we find that there is lack of uniformity in the reporting practices of it and there is a high degree of variation in the coverage of items under directors’ report. The Companies Act, 1956 has incorporated certain provisions regarding matters to be included in the
directors’ report like, Director’s Responsibility Statement [Pursuant to Sec. 217(2AA) of the Companies Act, 2000], Auditor and Auditors Report [Sec. 224 (1/B) in accordance with the provisions of the Companies Act, 1956], Energy Conservation, technology absorption and foreign exchange earnings [As prescribed under Sub-Section (1)(e) of Sec. 217 of Companies Act, 1956, read with the companies (discloser of particulars in the parts of Board of Directors’ Rules, 1988 with form A&B], Particulars of Employees [Sec. 217 (2-A) of the Companies Act, 1956, as a part of Directors’ Report], Information about Subsidiary Company [Sec. 212 of the Companies Act, 1956], Report on Corporate Governance [Pursuant to clause 49 of the listing agreement] and Management Discussion & Analysis Report [Under part v of the clause of the listing agreement]. All these are voluntary disclosures under directors’ report but so many companies belong to Group A and many more from the companies belongs to Group B ignored these items under directors’ report.

It is revealed by the analysis that the items covered under directors’ report varied from 1 to 12 items and overall it seems that the items covered under directors’ report by Group A companies is maximum than that of items covered by the Group B companies but at the same time it can be also concluded that the coefficient of variation in case of companies belonging to Group B has better than that of companies belonging to Group A during the study period 2006-07 to 2008-09. Graphical representation 6.9 also cleared the above facts.

7.2-4 Disclosure practices of corporate sectors in India related to Report on Corporate Governance

The ripples of the corporate scandals have submerged and inundated many parts of the globe including India where we have recently faced the Satyam episode of accounting fraud and breach of trust. To foil and frustrate the crude and evil corporate practice of the corporate management team and to protect the investors’ confidence and loyalty, the Government of India and the Securities and Exchange Board of India (SEBI), the chief corporate regulatory body in India jointly have taken the stern process of implementing the corporate governance practice in India with the mission of restoring the investors’ confidence to a large extent and attracting foreign funds in
India as an efficient and secured capital market. The Government of India, the Department of Company Affairs in collaboration with SEBI set up many committees to look after the state of corporate governance practice in India. Over years SEBI has taken various measures to look into the ways and means to regulate the corporate governance practice in India at par with international practice.

Based on the views and recommendations of various expert committees on corporate governance practices, SEBI has revised Clause 49 of the listing agreement to implement strict corporate governance regulations and to introduce boardroom mechanism by way of composing sufficient number of independent directors in the board and also to introduce audit committee to make the matter of corporate governance practice and corporate reporting regime more transparent and investors’ friendly. In achieving good corporate governance practice, the independent directors and the audit committee who are considered the two effective pillars of corporate success, sustainability and transparency should play their role model of perfection to work together harmoniously with statutory auditors, regulatory bodies and the board in a comprehensive manner to safeguard the interests of the diversified stakeholders.

Based on the above rules and recommendations the study analyses the quantity and quality of information disclosed under corporate governance report in the annual reports by the 25 selected Group A and 25 selected Group B companies under study during the period 1999-00 to 2008-09. Table-6.15 indicates that most of the companies belonging to Group A disclose 8 to 10 items under corporate governance report during the period 1999-00 to 2004-05 and during the period 2005-06 to 2008-09 most of the companies covered 10 to 11 items. But on the other hand Table-6.17 reflects that during the period 2000-01 to 2004-05 most of the companies belonging to Group B category under study disclosed 8 to 10 items under corporate governance report in their annual reports and in between the study period 2005-06 to 2008-09 most of the selected companies disclosed 11 to 13 items. Graph-6.12 shows that the co-efficient of variation of the companies belonging to Group B are less than that of the companies belonging to Group A in most of the period under study. Thus it can be observed from the Table-6.15 and Table-6.17 that the companies belonging to Group B covered more non-financial information in the annual reports during the period than that of Group A companies to achieve good corporate governance practice.
7.2-5 Disclosure practices of corporate sectors in India relating to Significant Accounting Policy and Notes on Account

The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements. Accounting policies have a significant influence on the financial statements. Disclosure of significant accounting policies deals with the disclosure of all significant accounting policies which have been adopted in the preparation and presentation of financial statements. Accounting policies generally deals with the principles, bases, conventions, rules and procedures adopted by the managements in preparing and presenting financial statements. Financial statements must be clear and understandable. They are based on accounting policies which are vary from enterprise to enterprise, both within a single country and among countries. Disclosure of significant accounting policies on which the financial statements are based is too much necessary so that they may be properly understood. The disclosure of these policies should be an integral part of the financial statements; it is helpful to users if they are all disclosed in one place. Sometimes a wrong or inappropriate treatment is adopted for items in balance sheets, income statements or profit & loss accounts, or other statements. So, In this case disclosure of the treatment adopted is necessary. Financial statements give information which is used by a variety of users, specially shareholders and creditors (present and potential) and employees. Other important categories of users include suppliers, customers, trade unions, financial analysts, statisticians, economists, and taxing and regulatory authorities. The users of financial statements require them as part of the information needed among other purposes, for making evaluations and financial decisions. They cannot make reliable judgments on these matters unless the financial statements clearly disclose the significant accounting policies which have been adopted in preparing them.

Table-6.19 gives a summary of 18 mandatory and non-mandatory items covered under the disclosure of significant accounting policies and notes on account. However, after scanning the annual reports of the companies it is observed that the companies belonging to Group A cover 5 to 9 items during the study period 1999-2000 to 2000-01 and in between the period 2004-05 to 2008-09 most of the
companies covered 15 to 19 items under the study. On the other hand Table-6.21 reflects that most of the selected companies belonging to Group B covered 10 to 14 items during the study period 2001-02 to 2008-09. The graphical representation 6.15 indicates that both the groups of companies try to disclose better and more information under significant accounting policies and notes on account to achieve better corporate governance practices. The graphical representation also indicates that both the groups of companies wish to minimise the value of coefficient of variation in all the financial years to minimise the degree of variation in item-wise disclosure of the information under significant accounting policies and notes on account.

Finally the results of disclosure of information under various categories of both the groups of companies are tested under Pearson’s Correlation Coefficient method, Spearman’s Rank Correlation Coefficient method and Kendall’s Correlation Coefficient method at 0.05 and 0.01 levels. From the companies belonging to Group A it was found that 3 measures are statistically significant at 0.05 level under both Pearson method, Spearman method and Kendall method and 3 measures are significant at 0.01 level under both Pearson method, Spearman method and Kendall method. From the correlation analysis of Group A companies it is also observed that the degree of correlation becomes higher and significant in case of correlation study between Financial Information Disclosure (Item 1) and Disclosure on Corporate Governance Practice (Item 4) and also between Non-financial Information Disclosure (Item 2) and Disclosure on Corporate Governance Practice (Item 4) for the Group A companies. From the correlation analysis of the selected 25 Group B companies under Pearson’s Correlation Coefficient method, Spearman’s Rank Correlation Coefficient method and Kendall’s Correlation Coefficient method wherefrom it is observed that out of total 33 measures of correlation coefficients, 30 measures are positive and 3 measures are negative and out of 30 positive coefficients 3 measures are found statistically significant at 0.01 level under both Pearson method, Spearman method and Kendall method. That means there exists a high degree of positive and significant association between the disclosure of Financial Information, Non-financial Information and disclosure under Corporate Governance Practice followed by both the selected Group A and Group B companies under study.
After an analysis of various tables, it can be concluded that most of the companies belonging to Group A and Group B covered all the statutory information. Regarding information as required under Companies Act, 1956, most of the companies disclosed their financial information as per the Act, although there is some diversity in accounting practices by some companies. Many more companies provide their annual report as per AS issued by ICAI and they disclosed more information in the financial statement what is required under the Companies Act, 1956. Most of the enterprises started to disclose any mandatory information in the annual report after the date of commencement of the Accounting Standard issued and the date from when it’s mandatory in nature. In between the financial years 1999-2000 to 2000-01 most of the companies belong to both the groups ignored the reporting of so many valuable items in the financial statements and it’s also observed that some top level companies ignored the reporting of so many valuable items in the annual reports. Taking the example of Reliance Industries, WIPRO, CIPLA and Oil and Natural Gas Corporation, we noticed that these companies provide much more information in their annual report what is required under the act. This is a good practice followed by these companies.

Directors’ Report is one of the most important non-financial statutory items and even it is covered by all the companies belong to Group A or B, though the deep analysis of the annual reports of the study period it can be concluded that there is lack of uniformity in the reporting practices and there is a high degree of variation in the coverage of items under directors’ report. The Companies Act has incorporated certain provisions regarding matters to be included in the directors’ report but still now most of the companies belonging to Group A and many more from the companies belonging to Group B ignored these items under directors’ report.

SEBI guidelines, issue to protect the shareholders interest, then Annexure – I of clause 49 of the listing agreement covered Board of Directors, Audit Committee, Subsidiary Companies Disclosures, CEO/CFO certification, Report on Corporate Governance and Compliance. All these are mandatory information to be disclosed under the corporate governance report. Apart from these there are certain other non-mandatory but voluntary information which are necessary on the part of the various user groups to be covered under the corporate governance report but most of the companies belonging to both the groups ignored these items in the annual reports.
Disclosure of significant accounting policies and notes on account is mandatory as per AS 1 issued by the ICAI. This area has been generally covered by the different accounting standards issued by the ICAI but the analysis depicts that there are lots of variation in disclosing the different items covered under significant accounting policies and notes on account. But the variation in disclosing the items minimizes as the different rules and standards issued by the different regulatory bodies.

The information provided by the selected companies in their annual reports (1999-2000 to 2008-09) suggest that how different financial information are useful to the user groups and as well as for the society and how these information acts as a key information for the management groups in the development of the reporting practices.

In the present study we find that:-

- All the selected companies disclosed their mandatory information in the annual report.
- Due to the introduction of accounting standard and changes in the Companies Act, there has been increase in the quality and quantity of information provided in the annual reports of the different companies.
- The companies whose market capitalisation are top as per Bombay Stock Exchange disclosed more information in their annual reports.
- Most of the large companies provide much more financial information (RIL, WIPRO and ONGC) as required by the Companies Act and AS.
- The qualities of information provided by the large companies have improved considerable in the international scenario.
- At present the quality of reporting practices improved too much as both the groups of companies provide vital information.

However following are the limitations of the study:

- The size of the sample is small i.e. only 50 companies. An increase in the number of sample may give different picture.
- The study analyses the position for ten accounting periods. Analysis of more period of time would have given a better picture.
✓ Selection of companies is based upon availability of annual reports. So the selection procedure may be biased.

So, over all it may be concluded that if the company provide more useful financial information in their annual report as per Companies Act, 1956 and Accounting Standards issued by the ICAI then it will depict a clear picture of the financial statements and it may be much more useful for the financial information user groups whether it’s a supplier, Investors or the Government.

**Conclusion and Suggestions:**

Regarding information as required under the Companies Act, 1956, the various aspects of regulation of accounting in India have been examined in this study. The preparation and presentation of corporate financial statement to best serve the stakeholders is still in its formative stage in India. The selected 50 companies under the study have been trying over years to follow good corporate governance practices and some of them have been very successful and competent in better corporate disclosure practice.

The standard setting process in India by the ICAI has been examined in this study but there is a lack of structural independence in the standards setting process and there is no any effective system to enforce it in every enterprise. Thus, for the purpose of getting qualitative standards full freedom should be provided to IASB in standard setting process.

Out of these there is huge difference in some key areas among Indian GAAP and US GAAP. These key areas are-Equity Method, Depreciation Rate, Foreign Currency Translation, Revolution of Fixed Assets, Depreciation on Revalued Fixed Assets, Changes in Accounting Policies, Proposed Dividend, Inventory, Revenue Recognition, Goodwill etc. Now take the example of Goodwill. AS-26 recognises only purchased goodwill not self generated goodwill and suggests the amortization over 10 years. However, goodwill arising as per AS-14 ‘Amalgamation by way of Purchase’ is amortised over 5 years but as per US GAAP goodwill is amortised over period not exceeding 10 years for Institute that register with SEC 20 years is generally viewed as maximum period of amortisation. So, these differences arises diversity in
accounting practices. So, for the purpose of perfect harmonisation of Indian GAAP with the US GAAP there should be greater emphasis to eliminate the differences between them at first.

Preparation of Environmental Accounting is also an important part for the manufacturing concern at the time of preparing financial statement. In the study it has been found that so many manufacturing concerns did not show the Environmental Information in a perfect format. So, it should be made mandatory for every manufacturing enterprise to show environmental information in prescribed format.

At present, there is no formal enforcing body to enforce compliances with accounting standards and Companies Act, 1956. Based on the analysis, the following suggestions can be made:

- The guidelines issued by the Institute of Chartered Accountants of India, which is a regulatory body of the accounting practices in India, should be followed in letter and spirit. These guidelines may or may not be the mandatory ones but these are definitely useful for the better presentation of accounts. At present certain companies do follow the mandatory guidelines but overlook the non-mandatory ones which is not a good practice.

- The directors’ report can be a very useful instrument of information. But the Companies Act is vague about the thing to be included in the directors’ report and as a result great variation is found in the items disclosed through directors’ report. It is suggested that the act should be more precise and specific about the things to be included in it.

- The emerging issues in accounting liken Human Resource Accounting, Inflation Accounting and Corporate Social Accounting has been disclosed by less than 10 per cent of companies. It is, therefore, suggested that the companies should not only disclose these items in annual reports but also make the investors aware of their importance.

- In the present competitive environment companies can survive and grow only through research and development. It has been revealed that near about 80 per
cent top most companies belonging to Group A disclosed this vital information under significant accounting policies and notes on account as per AS 8. It is suggested that the annual reports should disclosed this vital information and explain whether it is expensed out or capitalized.

- The investors consider newspapers and periodicals as important source of their information. It is, therefore, suggested that important and useful parts of the annual reports should be published in them.

- Last but not least, it must be accepted without an iota of doubt that the social obligations of a company are much more important than its statutory obligations. Thus, if the financial reporting is to be really useful for the society, it must provide relevant, reliable, timely and transparent information about its various events and actions.

- Increasing the needs of accounting regulation with the changing needs of the society.
- Increasing the quality and quantity of accounting information to make them more useful to the user groups for their economic decisions.
- Improving the company’s financial reporting system to give true and fair view of company’s financial position and results of operation.
- Giving more stress on presentation of Corporate Governance Report.
- Improving the responsibilities and objectivity of all those associated with reporting and auditing.
- Detecting the causes of diversity in accounting practices.
Promoting convergence of accounting principles that were used by business other organisations for financial reporting around the world.

Giving full freedom to IASB in standard setting process.

Updating the standards of reporting to make it competitive with reporting practices at the international level.

Introducing structural independence in standards setting process.

Harmonising the Indian GAAP with the US GAAP.

Giving more stress on preparation of environmental accounting and reporting by all manufacturing enterprises to present environmental pollution as far as possible.

Based on the conclusion and suggestions it may be once again reiterated that the corporate bodies should come forward and work together harmoniously to contribute towards better corporate governance practice for the greater interests of the society keeping in view their corporate social responsibility performance with special reference to corporate reporting practices as a part of their umbilical nexus with the society.