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STUDY ON RECENT TRENDS IN CORPORATE REPORTING

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ABSTRACT

There is a lot of divergence between corporate reporting practices of various companies. The main reason for this divergence is globalisation, whereby the whole global economy has come under one single roof. While the earlier practices adopted by companies for domestic reporting were more simple, nowadays due to convergence, these reporting practices have become much more detailed and complex. This paper aims to explore the recent trends in corporate reporting practices that provide a medium of communication with various users of corporate information. With these practices the scope of mandatory publication by the companies would be expanded. Policies that are economical and add value to corporate reports should be encouraged so as to enhance the usefulness of these reports to both internal and external users.

Keywords: Corporate Reporting, Globalisation, Convergence, Recent Trends, Companies Act, Disclosures

1. INTRODUCTION

There is a lot of diversity with regard to financial disclosure by various domestic as well as multinational companies specifically with regard to publication of accounts. Mandatory disclosures are very limited in case of private companies not only in India, but also in countries like USA, Japan and UK. However, in case of European companies, public filing of accounts is an essential requirement. According to Committee on Accounting Concepts and Standards (1957), the accumulation and communication of information is the primary function of accounting, which is essential to gain an understanding of activities of an enterprise irrespective of the size or type of concern. Accounting has emerged as a complete information system in itself while the financial statements act as a medium of communication about the company's position.

In case of a company form of organization where ownership and management is in different hands, it is all the more important to present the reports of companies activities before the shareholders who appoint the directors to manage such businesses in which their funds have been invested. In the Indian Companies Act, there are detailed provisions relating to the maintenance of accounts, financial statement preparation, along with reporting requirements to the shareholders who are not limited to a single place or location but are scattered all around the country or even outside the country. Section 129 of companies act 2013 provides for the legal requirements with regard to financial statement preparation, adoption, disclosure, audit and like. Schedule-III of the Act also prescribes the format of financial statements. So the accounts of companies in the form of annual reports, also called published accounts are laid down before the public to communicate information with regard to company's performance. Maystadt (2013) observed" Accounting statements are more than a mere language convention and accounts can influence the behaviour of market participants and ultimately market". So, the scope of accounting has gone far beyond internal reporting only. Jeffries has very rightly remarked" Accounting massively has departed from the bookkeeping role not being any longer solely the language of business but a reflection of networking of businesses" Jefferies (2016). The present study focuses on the recent trends that are being adopted for the purpose of corporate reporting and can help improve companies' image. This can prove to be useful for companies as well as stakeholders who can understand these important yet easily understandable practices from a layman's perspective.

Objectives of the Study

1. To understand the concept of corporate Reporting and its importance.
2. To study the types of disclosures.
3. To determine the new mandatory and voluntary trends, adopted by companies in financial disclosure.

2. LITERATURE REVIEW

Hopewood (1987) noticed that accounting is not a passive instrument of technical administration, it is not a means for merely revealing the pregiven aspects of organisational functioning. Hines (1988) said that "accounting is socially constructed and departed from its original stewardship of resources by management rule. Its informing role is rather, proactive, influencing organisations structuring, economy, politics and society at large". Mandatory disclosures and protection of investors was studied by Easterbrook and Fischal (1984) who claimed that mandatory disclosures would improve the incentives. Roberts (1992) stressed upon social responsibility disclosure and associated stakeholders' power and economic performance to the level of corporate social disclosures.

Recent Trends in Presentation of Published Accounts

Financial Reporting may be defined as communication of published financial statements and related information from a business enterprise to third parties (external users) including shareholders, creditors, customers, government authorities and public. Key benefits of published accounts include transparency, accountability and informed decision making.

Objectives of Corporate Reporting

* To provide information with regard to concerns earning capacity
* To provide information in respect of sales, products and production capacity etc.
* To provide information to government and non-government bodies so that they can make a judgement about the effectiveness of resources used in achievement of organisation goals.
* To provide information about various sources as well as applications of funds.
* To provide information about the liquidity as well as solvency position of the concern.
* To give information with regard to assets and liabilities at the end of a particular financial period .
* To provide information about company's Social Responsibilities.
* To provide information to various stakeholders about various aspects, such as earning capacity, accounting policies, cash flows, etc.
* To provide information to different users so that they can make predictions and comparisons along with evaluation of enterprises overall position.

Disclosures in Published Accounts

The disclosures given in financial statements can broadly be classified into two categories as statutory disclosures and non-statutory disclosures. Statutory disclosures revolve around the compulsory requirements under legislative or regulatory provisions provided under different statutes while non stationary disclosures include voluntary disclosures that are not a compulsory requirement under any law.

STATUTORY DISCLOSURES

* Disclosure requirements under SEBI ACT 1992

Under section 3 of SEBI Act, 1992, SEBI has statutory powers for protecting the interest of the investors and promoting the development of securities market and regulating the security market. It has regulatory jurisdiction that extend over the corporates. SEBI Act includes certain disclosure requirements like-disclosure of cash flow statement, disclosure of material and price sensitive information, dispatch of copy of complete and full annual report to the shareholders, disclosure of interim unaudited financial results, Corporate governance report, compliance with accounting standards issued by ICAI etc

* Disclosure requirements under Companies Act 2013

Under section 2(40)of the Companies Act 2013, the financial statements of the company should include Profit and Loss account, Balance Sheet, Cash Flow Statement, Statement of Change in Equity, any Explanatory Notes, Auditors Report, Directors Report and Corporate Governance Report. As per the Amendment made on 6th April 2016 by the Ministry of Corporate Affairs(MCA) Schedule III of the Companies Act has been divided into 2 parts or divisions on the basis of their financial statements as -

Division I- Whose financial statements must comply with the current accounting standards

Division II- Whose financial statements are drawn up in compliance with Ind AS (Indian Accounting Standards)

NON-STATUTORY/ MODERN VOLUNTARY DISCLOSURES

* Economic Value Added

Economic value-added measures the financial performance of a company that is based on residual income, which is calculated by deducting cost of capital from operating profit. It measures the value that the company generates from the funds invested in it. The traditional measures like residual income, ROI etc. fail to predict the shareholder's wealth creation by the company. So EVA is being used as a performance measure to present a clear picture of wealth created or destroyed by the company for its shareholders.

* Human Resource Accounting (HRA)

Human Resource Accounting is a process of measuring and reporting the value generated by human resources working for an organisation. HRA recognises the human resources as an asset and records it in the books of accounts as per its valuation. Accounting for human resources generates and presents valuable and significant information relating to human resources. The growing trend towards measurement and reporting of human assets in corporate annual report is particularly noticeable among public sector companies. Companies like ONGC, Infosys, BHEL, RIL are trend setters in area of HR accounting. Different organisations adopt different disclosure practices, for example, Infosys discloses HR information in its annual report under the heading intangible assets while ONGC discloses it in notes and separate HR statement.

* Social Accounting and Reporting

The changing environmental forces and social parameters have induced business enterprises to account for and report information with regard to the discharge of its social obligations. High level industrialisation has given rise to many problems for the society, which has necessitated the corporate sector to contribute some amount (out of the huge amount of funds available at their disposal) towards social activities for the well-being and betterment of the society and thus nullify the adverse effects of industrialization on the society at large. Social accounting, also known as social audit ,social reporting or social responsibility accounting aims to measure and report to general public about the social welfare initiatives undertaken by the concern and their effects on the society. It includes reporting on cost incurred on employment of anti pollution, safety and health devices and other societal benefits, along with the impact of business concern on the society, its amenities and Environment. In the present times social profit is considered as a barometer of responsible business behavior. CSR has become a necessity from the point of view of public interest groups , social organisations, investors and government and can go a long way in improving the image of the firm. Companies present their social activities in annual reports in the form of cost-benefit analysis, where social balance sheet shows social investments in the form of water supply road schools, hospital townships on the assets. Site and liability side represents organisation and social equity. This approach is adopted by SAIL, MMTC, etc. Some other companies employ a separate approach whereby they prepare separate schedules, which represent employee benefits and services, social overheads and township, maintenance etc.

***Environmental Reporting**

Managing environmental responsibilities has become an integral part of doing business today. In the global economy, poor environmental performance can damage a concerns public image and lead to diminishing financial performance. Environmental activities need the rigorous attention as other functions of business. Corporate enterprises have started focusing towards environmental responsibilities by building a synergy between the economic and environmental policies. Environmental reporting in India is more or less the result of environmental rules and regulations like hazardous waste management and handling rule 1989, recycled plastic manufacture and usage rule 1999, noise pollution regulation and control rule, 2000 the etc. It is more widely adopted by industries in sectors like chemicals, fertilizers, Mining and metallurgy, oil and gas power and pharmaceutical. It is still in its infancy stage in India, where it does not provide much information to the stakeholders. Reporting in general is unsystematic and inadequate due to less pressure to disclose. Most of the companies disclose environmental information on their websites as compared to annual reports.

*** Inflation Accounting**

Due to high rate of inflation in Indian economy, it has become very important to report about price level changes in annual reports of companies in order to present a true and fair view of position of company, both Balance Sheet and Profit and Loss account must be adjusted to reflect the effect of inflation on the overall performance and financial position of the company. Most of the concerns adopting price level accounting continue to prepare the primary financial statements in the conventional way on historical cost basis whereas the supplementary information reflecting the effect of changing prices is presented by large companies in their financial statements on voluntary basis. Price adjusted statements are not only useful in external reporting, they also provide useful information for internal management purposes. It also provide relevant information to various levels of management so as to assist in managerial decision-making control and evaluation.

*** Value-Added Statement (VAS)**

A new trend in social accounting is value-added statement that reflects the true position of a company. It is aimed at supplementing the existing system of corporate financial accounting and reporting. It shows the value created /value-added or generated and its distribution to the interest groups like employees, shareholders promoters of capital along with government. VAS is prepared and published voluntarily within the annual financial reports. The traditional profit and loss account only shows the profit or loss made, but does not give information about the extent to which the wealth is created by the business unit. In a given period, the newly developed method of value edition has brought a new dimension to the existing system of corporate financial accounting by disclosing additional information regarding the amount of wealth an entity has created in accounting period along with the distribution of wealth among those who have contributed towards its creation.

***Brand accounting**

Brands are intangible assets that are controlled by an enterprise as a result of past events and future economic benefits are expected to flow from it to the enterprise. It is related with providing a basis for valuation of brands and their disclosure in financial statements of the concern. Brand being an intangible asset like goodwill does not have a physical identity. The capitalised value of brand can be shown as an intangible asset, but the brand that is internally generated is not recognised in the books of the concern. However, in today's competitive business environment, even internally generated brand cannot be ignored. It leaves a lasting impression on the customer who does not change his preference even for cheaper substitutes. The accounting profession is now recognising the importance of disclosing the brand value whether it is created or acquired in corporate financial statements. Many Indian companies have realised the importance of brand value and have started, including it in its Annual financial Statement. Coca-Cola is a perfect example with high Brand Value.

***Triple Bottom Line Reporting**

The concept of triple bottom line reporting is comprised of 2 terms triple and bottom line. Bottom line refers to the operating result, which is generally recorded in the last line of income statement. While triple is representative of 3 dimensions of financial performance, which is social, economic and environmental performance. The underlying it is to tie the social environmental impact of organisational activities to its economic performance. Although voluntary in nature, it has a wide scope as compared to the financial reporting as it includes not only reporting on financial performance, but also on social and environmental performance. It can help identify those environmental and social risks that have the capability to materially effect the long-term financial performance. Companies that prepare and present their sustainability reports in a proper manner are Wipro and Infosys.

3. CONCLUSION

Other than these trends many other practices are followed in preparation and presentation of published accounts, which includes disclosure of different accounting policies being followed by the corporate entity, use of various graphs, diagrams and charts to present the data in a more refined and conclusive manner. The presentation of various important accounting ratios that are helpful in assessing company's liquidity, solvency growth, leverage profitability, turnover, valuation etc. also is present in published accounts of many companies. The companies also make use of tools like schedules for a detailed information, rounding off figures to make their reporting more precise and clearer. Segment reporting is another trend, which is quite popular among multinational companies. Other than these management policies and overview of the company, disclosure of accounting policies and sustainability reporting form a part of voluntary disclosures that are being adopted by various corporate entities while preparing their financial statements or published accounts.

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CONFLICT OF INTEREST

None.

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