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Corporate Disclosure Practices in India – A Study

KEYWORDS: Disclosure practices, Value added statement, Social reporting, Human Resource Accounting and Financial reporting

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ABSTRACT This paper has been made an attempt on the theoretical view of corporate disclosure practices in India. The concept of disclosure is great significance to the accomplishment of objectives of financial reporting. Corporate disclosure is an important issue now-a-days. Financial reporting is the communication of financial information of an enterprise to the external world. The theory is that fully informed consumer would more likely make better choices. Knowing the trust cost of everything would force consumers to be better educated and more informed. Corporate annual report is considered as the most effective means of communication to various users groups which bring out relevant financial and non financial information about corporate performance. As a medium for communicating information, annual reports generally include two types – mandatory and voluntary disclosures. In India mandatory disclosures are required as per the provisions of companies Act 2013. Voluntary disclosures are those which are voluntarily disclosed by companies in their annual reports without any compulsion from the any statute. The importance of corporate disclosure practices has been of major interest both in theory and in practice. Full disclosure practice along with transparency in financial reporting can build climate of trust and boost confidence of investors' community. Full disclosure and transparency are driving forces for the success of businesses and sustainable performance and helps in maximization of wealth of shareholders. This paper examines theoretical background of corporate disclosure practises in India.

Introduction

Obviously, legal requirements alone do not sufficiently explain why managers go beyond mandatory information disclosure because firms do pursue additional voluntary disclosure activities (Skinner, 1994). Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis and other legally required filings (Achleitner and Bassen, 2001; Healy et al., 1999). Apart from that, firms engage in voluntary communication, such as roadshows, analysts' presentations and conference calls, press releases, internet sites and other investor relations activities (Healy and Palepu, 2001). After firms have met legally required disclosure, they have the discretion to increase the disclosure level beyond the mandatory level. But even mandatory disclosure requirements are subject to the firm's disclosure policy. This study examines corporate disclosure policies. To search for reasons that promote voluntary firm disclosure, it is crucial to know the implications of firm disclosure. Throughout this study, disclosure is defined as the process though which an entity communicates with the outside world (Chandra, 1974). Corporate communication with investors is henceforth called investor relations (Achleitner and Bassen, 2001). Recent definitions of the firm's investor relation function characterize investor relations as the intersection between the firm performance and the performance evaluation by capital markets (Achleitner and Bassen, 2001). This is in line with the view of other definitions of investor relations. According to Allen (2004), investor relations is defined as a proactive and strategic executive function that combines elements of finance and communication to provide the investment community with an accurate portrayal of both a firm's current performance and its future prospects. A corporate disclosure strategy is henceforth defined as the process of developing and implementing a disclosure level that includes quantitative and qualitative communications of retrospective and of prospective nature (Lev, 1992). This is consistent with the view of Eccles and Mavrinac (1995) who point out that a firm's processes of disclosure and communication are set by the firm's strategy for corporate information disclosure (Gibbins et al., 1990). The result of a particular corporate disclosure strategy is a disclosure position. A disclosure position determines an average response to disclosure issues under normal circumstances for a given firm (Gibbins et al., 1990). Firms can provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis and other legally required filings (Achleitner and Bassen, 2001; Healy et al., 1999). Moreover, firms engage in voluntary communication, such as roadshows, analysts' presentations and conference calls, press releases, internet sites and other investor relations activities (Healy and Palepu, 2001). Firms consequently disclose information by using investor relations instruments (Kuperman, 2000). Investor relations instruments are tools used by firms to disclose information to outside users of firm information (Chandra, 1975; Mohanram, 1998). While the impact of information disclosure by firms can be examined on a broad spectrum, all definitions in this study place special emphasis on capital markets and the firm's owners as users of 15 information on firm performance. Therefore, this study focuses exclusively on the term investor relations. Hence, the appropriate starting point for a consideration of firm disclosure and investors is to identify the range and nature of firm disclosure and to explore the relationship between firms and investors.sss

Review of Literature

Chakraborti (1990) analyzed the annual reports of 50 com-

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panies for 1980 and 1985 to find out the recent developments in corporate financial reporting in India. An index of 23 items was constructed after scanning the annual reports of selected companies. Findings of study showed that the annual reports disclosed more statutory information than the non-statutory information. There was improvement in the disclosure of non-statutory information over the period of time. He suggested that the disclosure of significant accounting policies used in the preparation of financial statements should be made obligatory to enhance the reliability and credibility of the annual reports and companies engaged in diversified activities should disclose their information segment wise so that the government and the users may evaluate their performance properly.

M. Hossian, M.H.B Perera, A.R. Rahman researched on voluntary disclosure in the annual reports of New Zealand companies. In this study the a priori expectations are based on agency theory. The five firm – specific characteristics are: firm size, leverage, assets – in- place, type of auditor, and foreign listing status. The results obtained from cross sectional regression show that the firm size, foreign listing status and leverage are significantly related to the extent of voluntary disclosure. In contrast asset – in –place and type of auditor are not significant explanatory variables. A study of this type would be of particular relevance to the accounting policy makers because, inter alia, it helps them in (a) understanding corporate disclosure behaviour, (b) explaining why firms adopt certain disclosure strategies, and (c) developing a coherent and acceptable set of mandatory disclosure requirements.

Objectives of the Study
- To study the main principles of corporate disclosure practice in India.
- To study motives behind disclosure in India.
- To examine the disclosure requirements under the Companies Act 2013.
- To analyse the recent developments in Corporate disclosure in India

Main Principles of Corporate Disclosure Practices in India
- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.
- Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material Disclosure of Accounting Policies 7 effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

Motives behind disclosure
It is argued that competition for capital is the major motivating force to disclose decision – oriented information to different user groups. Hence, market forces would ultimately shape the nature of corporate disclosure. Corporations not only compete among each other in the capital markets but also attempt to obtain capital at a lower cost. It is indicated by many researchers that there is relationship between a firm's capital cost and its level of disclosure in its annual report. Due to such linkage and decision usefulness of published financial statement, corporate financial reporting is perceived as a pre-requisite for the growth of capital markets. Apart from stock market considerations, there are varieties of considerations that may motive management of a company to disclose information voluntarily and not wait for mandatory requirements. Some of these important considerations are:

- Political costs consideration
- Users needs consideration, and
- Ideological goal consideration

Political costs consideration
Fines, penalties, potential public hostility toward the company are the example of political costs. It is now recognised that political costs may play an important role in decisions relating to additional disclosure in the form of social and environmental information. Disclosure of environmental information can be considered to reassure the public or the regulating agencies that companies were concerned about the environment and were doing everything possible to reduce the negative impact of their activities on the environment.

Users' needs consideration
Guthrie and parker have argued that companies may disclose social information to meet the stakeholders demand for such information. The argument is based on users' utility model. Disclosure of additional information on a voluntary basis depends on the users need, and how these needs are perceived by management of companies.

Ideological goal consideration
It has been argued that the companies would be motivated to disclose voluntarily additional information to serve their own political and ideological goals. Such disclosure would be guided by companies' agenda, ideological and goals which are likely to be different for different companies even within the same industry. Consequently, disclosure of such information will vary from company to company.

Disclosure requirements under the companies act 2013
a) Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, inters, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly.

b) The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.

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c) (*i*) Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required (*a*) narrative descriptions or disaggregation's of items recognised in those statements; and (*b*) information about items that do not qualify for recognition in those statements.

(*ii*) Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.

d). (*i*) Depending upon the turnover of the company, the figures appearing in the Financial Statements may be rounded off as given below:

Turnover	Rounding off
Less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals theeof.
One hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

(*ii*) Once a unit of measurement is used, it shall be used uniformly in the Financial Statements.

e). Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.

f). For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

Recent developments of Corporate Disclosure

The financial reporting has a very important role in the growth and development of a country's business and economy. Its role becomes far more crucial in the wake of liberalisation and globalisation, which have led to a remarkable surge in the volume of business in the last couple of decades, highlighting the need for greater vigilance and transparency in the working of business organisations. These forces have led to unprecedented changes in the corporate world and have been instrumental in creating innovative means for communicating financial information to the market place. The field of information technology also has undergone remarkable advance resulting in dramatic changes in the way business is ransacked all over the world. The wide expansion and integration of global markets has greatly influenced the movement of funds. Innovative financial instruments have been evolved to deal with new global economic realities and a more complex business environment. As a result, financial reporting context has also undergone tremendous changes presenting newer challenges and opportunities. In this modern world, company is considered as a socio economic entity having financial and social objectives. The focus of financial reporting is on the commercial and economic accountability of the companies, but social responsibility disclosures deal with social impacts of corporate actions. Thus investors should be provided with additional and enhanced information enabling them to measure the performance of companies in a better way. Voluntary disclosures regarding value added, human resource accounting and social reporting are very much urged and welcomed in annual reports in this new era of financial reporting. Further corporate disclosure to incorporate new dimensions in the business and economy are also needed.

Value Added Statement

The concept of value added is a performance measure for reporting the wealth generated by a business undertaking over a period of time. The Value added has been defined by the corporate report as the wealth the company has been able to create by its own and its employee's efforts during a period. The value added is arrived at by deducting the value of goods and services purchased from outside, from the total value of the output of a firm and other income. The value added statement shows the value created or generated and the distribution of it to interested groups like employees, shareholders, promoters of capital and the government. It is a statement which shows the income of a company as an entity and how that is divided among people who have contributed to its creation. The interdependence of manpower and capital is made more apparent by the value added statement. In fact, the value added statement is a modified version of the profit and loss account and income is defined to include the rewards of a much wider group than just the shareholders.

Human Resource Accounting

The real competence of an organisation lies in the quality of its human resources. The human resources of an organisation are the most vital factor of production, because the other factors of production are worthless without the involvement of human resources. It is through the combined efforts of human resources that economic and material resources are utilised for the achievement of organisation objectives. In spite of all technological developments, the importance and value of Human Resource Accounting (HRA) has gained considerable amount of' interest in this context. Human Resource Accounting is the process of measuring and reporting the human resources of an organisation. HRA identified human resources as an asset and attach monetary value to the firm's human resources. The human resource accounting is defined as the process of identifying and measuring data about human resources and communicating this information to the interested parties. It involves accounting for investments in people and their replacement cost and also involves accounting for the economic value of people to an organisation.

Social Reporting

With the emergence of the concept of 'stakeholders' the corporate world is now responsible not only to the shareholders, who have invested their funds in the companies, but also to al1 stakeholders who are either winners or losers from the corporate activities. It is a well established fact that corporate activities have economic as well as social impacts. Economic impacts of corporate activities are measured by the financial accounting methods.

Conclusion

Disclosure requirements should allow firms to report separate information sets to different types of users. At present the disclosure system fails to distinguish between the very different needs of the various users of financial reporting information. While some users may be happy with lengthy disclosures, the majority are sent information that is far longer and more complex than they can make use of. The information set for most users could be short and, beyond a minimal common core, decided by each firm to reflect its own particular circumstances. Regulation of disclosures

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in the common core should itself be minimal so as to allow for effective communication. Both information sets should be online and available for anyone who wants to access them. Disclosure requirements have accumulated over many years. This information overload has led to questions about relevancy and usefulness of certain information. Preparers can take actions today to make sure they are preparing clear and understandable disclosures. Other capital market participants also have a role to play by encouraging disclosure of only important, relevant information. Within established rules and legal requirements, exercising well reasoned judgment to determine relevant disclosures should streamline financial statement presentation and provide users with the information that is most important for decision making. Organization and formatting can also enhance navigation within the financial statements.

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