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An Analytical Study of Financial Reporting Practices of Selected Fmcg Companies in India

KEYWORDS: Corporate Financial Reporting, Disclosure, FMCG, XBRL, CSR, Corporate Governance, IFRS etc.

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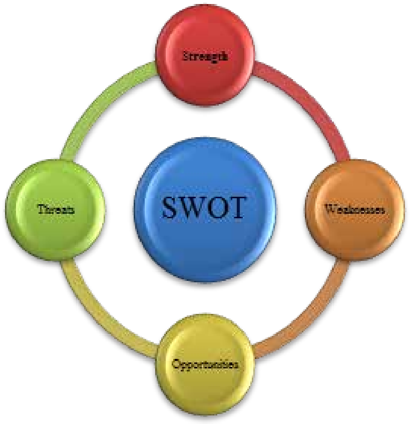
ABSTRACT *Corporate financial reporting practices of the different countries are different and also nature of the same even in India is distinctive to each corporate entity to another. Here, in this research paper researchers have tried to compare disclosure practices of selected FMCG companies in India only. Fast Moving Consumer Goods (FMCG) Sector is largest second sector in India. In this study there is a significant difference among the selected companies regarding Corporate Financial Reporting Practices. Reporting is of two kinds one is mandatory and other is voluntary. There may be no significant difference regarding Mandatory reporting but there is significant difference regarding voluntary reporting.*

INTRODUCTION:
Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. India's FMCG sector is the fourth largest sector in the economy and creates employment for more than three million people in downstream activities. Its principal constituents are Household Care, Personal Care and Food & Beverages. The total FMCG market is in excess of Rs. 85,000 Crores. It is currently growing at double digit growth rate and is expected to maintain a high growth rate. FMCG Industry is characterized by a well established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments.

SWOT ANALYSIS OF FMCG SECTOR:



Strengths:
• Low operational costs in the industries.

• Presence of established distribution networks in both urban and rural areas.

• Presence of well-popular brands in FMCG sector

Weaknesses:
• Lower scope of investing in technology and achieving economies of scale, especially

in small sectors in India.
• Low exports levels from Indian Territory.

• Highly competitive market and changing scenario.

• "Me-too" products, which illegally mimic the labels of the established brands. These products narrow the scope of FMCG products in rural and semi-urban market.

Opportunities:
• Untapped rural market in India.

• Rising income levels, i.e. increase in purchasing power of consumers today.

• Large domestic (local) market- a population of over one billion.

• Export potentiality and future benefits.

• High consumer goods spending

Threats:
• Removal of import restrictions resulting in replacing of domestic brands

• Slowdown in rural demands.

CORPORATE FINANCIAL REPORTING:
Today's dynamic business environment is heralding a revolution in the need for, and the way in which,

accounting data is utilized. This has resulted in talk of 'an accounting revolution' and the possible 'redefinition of accountancy'. However, it is all too easy to become caught up in this stampede for change, but how can accounting change and for it still to be called accounting?

Corporate financial reporting is not only to show the financial statements of corporate but it includes to highlight important financial data and to show the application financial policy. A good financial reporting will show true financial position of company. Company can save from hidden losses, if its accountant highlights critical points in it. This way, it is helpful tool to investors for better decision making.

Corporate financial reporting is the system of making corporate financial reports. These financial statements are income statement, balance sheet, cash flow statement, statement of retained earnings and financial policies explanation. Corporate financial reporting may be shown at the end of month or at the end of each quarter of the end of year.

The concept of disclosure is of great significance to the accomplishment of the objectives of financial reporting. Financial reporting is to the communication of financial information of an enterprise to the external world.

In India, corporate financial reporting is governed primarily by one central act i.e., Companies Act, 1956. Another body that has a major influence in reshaping Indian financial reporting is the Securities and Exchange Board of India (SEBI).

In corporate reporting practice, reports regarding financial information, HR information, Investments and assets information, consolidated information, corporate governance, Economic value added, segments, Director's report and auditor's report etc. are prepared and are disclosed by the companies in India as per prescribed reporting and accounting standards.

TYPES OF CORPORATE FINANCIAL REPORTS:

There are mainly two types of Reports: (1) Mandatory and (2) Voluntary.

(1) Mandatory Reports: Mandatory reports are those reports which are made compulsory to be disclosed and published by companies in India. i.e., Financial Statements like Balance sheet, Profit & Loss Statements, Auditor's Report, Consolidated financial statements, CSR, Corporate Governance Report etc.

(2) Voluntary Reports: Economic Value Added Statement, 10 years' highlights, chairman's report, HR Report, Ratio Analysis, Graphical presentation, products brands etc.

REVIEW OF LITERATURE:

A review of literature discusses published information of a particular subject area and sometimes information in a particular subject area within a certain period.

Talwar (2007) defined 'Corporate Governance' both in narrow sense and broad sense. In narrow sense, it concerns the relationships between corporate managers, directors and shareholders. It can also encompass the relationship of the corporation to stakeholders and society.

Barghva and Singh (2008) reported the disclosures of financial and non financial information in the annual reports of 40 public sector enterprises on the basis of index of disclosure card that consisted of 35 items and indicated that there were differences in quality of disclosure made by sample companies.

Wallace and Naser (1995) who, based on a review of the literature, identify five key aspects of 'quality' of disclosure: (1) adequate for a defined purpose; (2) informative; (3) timely; (4) understandable/readable; and (5) comprehensive. In their study, the researchers adopted 'comprehensiveness' of disclosure as the dependent variable, and proceeded to construct a specific measure of comprehensiveness.

Gray, Owen, & Maunders, (1987) define CSR as "the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large".

RESEARCH METHODOLOGY:

The advance learners' Dictionary of current English lays down the meaning of research as "a careful investigation or inquiry specially through search or new facts in any branch of knowledge."

Redman & Mory define research as a "systematized effort to gain new knowledge"

SCOPE OF RESEARCH STUDY:

The scope of the study restricted to Corporate Financial Reporting Practices by selected FMCG Companies in India only.

NATURE OF RESEARCH WORK:

The nature is exploratory (Formulative) in nature. The researcher has found out various problems for reporting segment information by FMCG Companies.

TIME PERIOD:

The study is based on 5 financial years only.

OBJECTIVES OF THE STUDY:

1. To study the significance of financial information disclosure.
2. To throw focus on disclosure practices of FMCG Companies.
3. To assess the compulsion of corporate financial reporting.
4. To examine the various problems facing by FMCG Companies in India for financial reporting.

FORMULATION OF HYPOTHESIS:

The study is based on the following hypotheses:

H_O There is no significant difference in average disclosure of Financial information of selected FMCG Companies.

H_1 There is significant difference in average disclosure of Financial information of selected FMCG Companies.

TYPES OF DATA:

The study is based on secondary data only.

SAMPLE DESIGN:

The researcher has taken 10 Fast Moving Consum-

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er Goods (FMCG) Companies randomly of India. All Companies selected are from private sector.

SOURCES OF DATA COLLECTION:
For the present study annual reports of the selected FMCG Companies have been used and referred for the data to be analyzed for this research work conducted.

ANALYSIS OF DATA:
Data & Information received through to annual reports and company's websites have been duly presented in the form of tables, graphs and figures. The data has also analyzed and interpreted.

RESEARCH TOOLS:
1. Interview of different investors for their views on Disclosure practices.
2. Library work for at least 45 hours.
3. Referred to more than 10 books/theses on accounts and reporting.
4. Internet – Websites visiting.
5. References and Opinions of professors and research scholars.
6. MS Office software, SPSS software used wherever required.

LIMITATIONS OF THE STUDY:
The major limitations of the study conducted are as under:

1. This study is based on Secondary Data only.
2. For this research study only four FMCG Companies have been selected from India.
3. Random sampling is used for the study.
4. This study is based on only 5 years from 2010-11 to 2014-15.
5. Data collected as per annual reports of the selected FMCG Companies.

DATA ANALYSIS & TESTING OF HYPOTHESIS:
To analyze the data collected from the different sources, researcher has come to test of research hypothesis so formulated to fulfil the objectives of the study. Here, ANOVA is applied to test the hypothesis and data analysis.

COMPARATIVE STATEMENT SHOWING REPORTING INDICES:

DISCLOSURE CONTENT (REPORTS & INFORMATION)	HUL	ITC	NESTLE	DABUR	MARICO	COLGATE	GODREJ CONSUMER	BRITANNIA	EMAMI	ZYDUS
1. Board of Directors / Committees	1	1	1	1	1	1	1	1	1	1
2. Corporate Governance Report	1	1	1	1	1	1	1	1	1	1
3. Shareholders' Information	1	1	1	1	1	1	1	1	1	1
4. Board of Directors & Management Discussion Analysis	1	1	1	1	1	1	1	1	1	1
5. Certificate of Compliance from Auditor (Independent)	1	1	1	1	1	1	1	1	1	1
6. CEO & CFO Certification	0	1	1	0	0	0	0	0	0	0
7. Balance Sheet	1	1	1	1	1	1	1	1	1	1
8. Statement of Profit & Loss	1	1	1	1	1	1	1	1	1	1
9. Cash flow statement & Segment Reporting (AS 17)	1	1	1	1	1	1	1	1	1	1
10. Notes to the Financial Statements (Schedule)	1	1	1	1	1	1	1	1	1	1
11. Report of the Auditors	1	1	1	1	1	1	1	1	1	1
12. Guide to subsidiaries, Joint Ventures & Associates	0	1	0	0	0	0	1	1	0	0
13. Salient features of the Financial Statements	0	1	0	0	0	0	0	0	0	0
14. Consolidated Financial Statements (Sec. 212)	1	1	1	1	1	1	1	1	1	1
15. Ten (10) Years' Highlights	1	1	0	1	1	1	0	1	1	0
16. Financial Highlights (Charts)	1	1	0	1	1	1	0	1	1	0
17. Business Responsibility Report	0	1	1	1	0	0	0	1	1	1
18. Business Update	0	1	0	0	0	0	0	0	0	0
19. Awards/Accolades/Achievements/Acknowledgements	0	1	0	0	0	0	0	0	0	0
20. Chairman's Report	1	1	1	1	1	1	1	1	1	1
21. Director's Report	1	1	1	1	1	1	1	1	1	1
22. Economic Value Added (EVA)	1	1	0	0	0	0	0	0	0	0
23. Brands Description (Images)	1	1	1	1	1	1	1	1	1	1
24. Related Party Disclosure	1	1	1	1	1	1	1	1	1	1
25. Environmental Report	0	0	0	0	0	0	0	0	0	0
26. Inflation Accounting	0	0	0	0	0	0	0	0	0	0
27. Human Resource Report	0	0	0	0	0	0	0	0	0	0
28. Forex Operation	1	1	1	0	0	0	1	0	0	0
29. Technological Information	1	1	1	1	1	1	1	1	0	0
30. Accounting Policies	1	1	1	1	1	1	1	1	1	1
Total Reports disclosed out of possible disclosure. (i.e.30)	21	27	20	20	19	19	19	21	19	17

*** 1= Diclosure 0= Non-disclosure**

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Anova: Single Factor:		Significance Level = 5%			
SUMMARY:					
Groups	Count	Sum	Average	Variance	
HUL	31	42	1.354839	13.50323	
ITC	31	54	1.741935	22.06452	
NESTLE	31	40	1.290323	12.27957	
DABUR	31	40	1.290323	12.27957	
MARICO	31	38	1.225806	11.11398	
COLGATE	31	38	1.225806	11.11398	
GODREJ	31	38	1.225806	11.11398	
BRITAN-NIA	31	42	1.354839	13.50323	
EMAMI	31	38	1.225806	11.11398	
ZYDUS	31	34	1.096774	8.956989	

ANOVA						
Source of Varia-tion	SS	df	MS	F	P-value	F crit
Be-tween Groups	8.206452	9	0.911828	0.071773	0.999905	1.911151
Within Groups	3811.29	300	12.7043			
Total	3819.497	309				

Interpretation / Statistical Inference:
As we found the value of P is higher than 5% (0.05), our significance level, null hypothesis (Ho) is rejected and alternate hypothesis is accepted. There is significant difference in average disclosure scores of the selected FMCG Companies in India for the last five financial years.

FINDINGS AND SUGGESTIONS:
1) There is significant difference among the selected FMCG Companies in India regarding average disclosure practices.

2) As P-value (0.999905) is higher than significant level (5% = 0.05) , null hypothesis is rejected and alternative hypothesis is remained accepted.

3) ITC is one which is in better practice of reporting than the rest 9 selected FMCG Companies. It's score is 27 out of 30 possible report scores (Disclosure Indices). And Zydus has the lowest score in compare to other companies.

4) Marico, Colgate, Godrej and Emami has equal score of reporting indices in the study. It is found that HUL and Britannia are equal in reporting practices and Nestle and Dabur are equal in Disclosure practices.

5) However, it is found that only because of Mandatory and compulsory discloser policy, such companies score more out of possible maximum scores. They should also disclose more on voluntary qualitative information as a part of corporate reporting.

6) It is found that all 10 Companies follow up government and statutory rules and provisions there so formulated.

7) More significant information on technology, management, auditing, environment protection, Price level changes, Social disclosure, foreign exposure and other related issues should also be covered in annual reports.

8) This study is limited to 5 years and FMCG Sector only as well as based only on secondary data. Further research can be done on Primary data and for other sectors too. More financial years can be taken for proper comparison and evaluation.

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