



## MANDATORY AND VOLUNTARY DISCLOSURE OF INDIAN COMPANIES— A STUDY WITH REFERENCE TO INVESTORS IN CHENNAI REGION

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**ABSTRACT** The paper has made an attempt the Opinion of the investors regarding mandatory and voluntary disclosure of Indian Companies. Disclosures of the annual report submitted by companies are divided into two mandatory disclosure and voluntary disclosure. Express mandatory disclosure of information is presented in the financial statements as set Securities and Exchange Commission. Voluntary disclosure conveys information provided voluntarily by companies outside the mandatory disclosure. Voluntary disclosure is a disclosure of information beyond the minimum requirements of the applicable capital market regulations. Financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements should be understandable, relevant, reliable and comparable. Corporate accounting disclosure is of great significance to accomplish financial accounting objectives as well as to contribute to the efficient allocation of resources through healthy economic decisions. The disclosure of accounting practices have developed in accordance with the changing economic, political, technological and social environments to accomplish the objectives of financial reporting.

**KEYWORDS :** Mandatory Disclosure, Voluntary Disclosure, Corporate Financial Reporting, Financial Position

### INTRODUCTION

Disclosure of annual reports by corporate companies listed in stock exchange is the communication of financial as well as non-financial information to the investors (shareholders). The annual reports consist of all details regarding business activities that are disclosed either mandatory or voluntary. Therefore, as a medium for communicating information, annual reports generally include two types of disclosures - mandatory and voluntary disclosures. In India, mandatory disclosures are required as per the provisions of Companies Act 1956, and its various amendments. Voluntary disclosures are those which are voluntarily disclosed by companies in their annual reports without any compulsion from the statutory body (Government). In this part of this chapter, a focus is made to evaluate the status of mandatory and voluntary accounting disclosure of corporate companies as perceived by investors.

Accounting aims to provide financial information about a business enterprise to various interested groups for decision making. It is a process of identifying, measuring and communicating economic information to permit informed judgment and decisions by the users of information. It is a service activity and its function is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions

Financial reporting is the communication of financial information of an enterprise to the external world. Bedford conceptualizes the financial reporting process as consisting of four procedural steps:

- Perception of the significant activity of the accounting entity or in the environment in which the entity performs. Implicit in the traditional perception is the belief that financial transactions represent significant activities.
- Symbolizing the perceived activities in such a fashion that a database of the activities is available that can then be analyzed to grasp an understanding of the interrelationship of the mass of perceived activities. Conventionally, this symbolization has taken the form of recordings in accounts, journals, and ledgers using well-established bookkeeping and measurement procedures.
- Analysis of the model of activities in order to summarize the interrelationships among activities and to provide a status picture or map of the entity. Traditionally, this analysis process has been viewed as one of developing accounting reports to provide insights into the nature or entity activities.
- Communication (transmission) of the analysis to users of the accounting products to guide decision makers in directing future activities of the entity or in changing their relationship with the entity.

### REVIEW OF LITERATURE

**García-Meca, E., & García-Sánchez, I. M. (2017).**<sup>1</sup> Studied the influence of managerial ability on the quality of their financial reporting. Using a large bank sample from nine different countries for the period 2004–2010, they found that bank earnings quality and accounting conservatism increase with abler managers who disclose more accurate earnings and report higher information about banks' future earnings and cash flows. The results confirm that managerial abilities play a significant role in the quality of financial reporting in banks, and capable bank managers are less likely to manage earnings opportunistically. This study is timely and relevant in giving recent emphasis on earnings quality of banks over the last few years, and the criticisms of managerial abilities after the financial crisis. It is evident that this study can help standard-setters and regulators to understand better the business practices and accounting behavior of banks in the light of managerial abilities.

### OBJECTIVES OF THE STUDY

- To compare Socio Economic Factors of Age and Gender variables of investors and Mandatory & Voluntary Corporate Accounting Disclosure Practices of Indian Listed Companies in Chennai Region.
- To analyse the perception of the investor regarding status of Mandatory Corporate Accounting Disclosure Practices of Indian Listed Companies.
- To analyse the opinion of the investor regarding status of Voluntary Corporate Accounting Disclosure Practices of Indian Listed Companies.

### RESEARCH METHODOLOGY

This research is based on descriptive and analytical in nature. It is descriptive since data were collected from the questionnaire that was distributed. It also studies the opinion of the investors regarding mandatory and voluntary disclosure of corporate accounting. The data required for the study was collected by using structured questionnaire, which was primary in nature. The Secondary sources of data were collected from sources such as standard text books, conference materials, news papers, journals, magazines, publications, articles, research papers, websites, manuals, booklets etc. For this study simple random sampling was adopted. At the end of data collection, data were collected from a total of 450 investors of which 15 questionnaires are found to be improperly filled and hence 435 usable questionnaires were found to be fit. The statistical tools of independent sample t-test, one sample t-test, ANOVA are used for the study.

### RESULTS AND DISCUSSION

Table 1 shows the results of the analysis distributing the investors in the sample by socio-economic characteristics. As shown in the table,

the total number of respondents from investor population is 433, and out of this, 295 respondents (67.8%) are male and the remaining 140 respondents (32.2%) are female.

**Table 1: Distribution of Respondents in the Sample by Socio-Economic Characteristics**

Socio-Economic Characteristics	Number of Respondents	% to Total
<b>Sex</b>		
Male	295	67.8
Female	140	32.2
<b>Age</b>		
25 – 35	99	22.8
36 – 45	169	38.9
45 – 55	97	22.3
> 55	70	16.1
<b>Education</b>		
Secondary	139	32.0
Graduate	135	31.0
Post-Graduate	102	23.4
Professional Course	59	13.6
<b>Job Status</b>		
Self-Employed	115	26.4
Government Employee	111	25.5
Private Employee	103	23.7
Professional	106	24.4
<b>Monthly Income</b>		
Up to Rs.25000	126	29.0
Rs.25001-50000	117	26.9
Rs.50001-75000	103	23.7
> Rs.75000	89	20.5
Total Sample	435	100.0

Source: Primary Data.

Majority of the respondents are in the age group of 36 to 45 years (38.9%), followed by the respondent group with age level of 25 – 35 years (22.8%) and 45 – 55 years (22.3%). The respondents aged above 55 years constitute 16.1 per cent (70 out of 435) of the total sample. The secondary educated are the highest occupying 32.0 per cent of the total sample followed by graduates with 31.0 per cent, post-graduates with 23.4 per cent and professionally educated with 13.6 per cent. Self-employed is the job status for 26.4 per cent of the respondents. Next to this, government employee constitutes 25.5 per cent of the sample followed by 24.4 per cent and 23.7 per cent of the sample with job status as private employee and professional respectively. The monthly income is up to Rs.25000 for 29.0 per cent, Rs.25001-50000 for 26.9 per cent, Rs.50001-75000 for 23.7 per cent and above Rs.75000 for 20.5 per cent of the respondents in the sample.

Table 2 presents the results of the analysis distributing the investors in the sample based on the years of experience in stock market investments.

**Table 2: Status of Mandatory Corporate Accounting Disclosure as Perceived by Investors**

Major Components of Mandatory Disclosure	Mean	SD	t-Value
Income and Expense items	4.14	0.78	30.70**
Balance Sheet Items	4.33	0.71	39.10**
Cash / fund flow with auditor's report	3.86	0.72	24.80**
Accounting Policy with income tax information	3.35	1.05	6.90**
All Mandatory Disclosure Items	4.02	0.47	44.80**

Source: Primary Data.\*\*\*Significant at 1% level.

As presented in the table, the investors have scored a high of 4.33 on the average on disclosure of balance sheet items, which falls in “good” range. Next to this, scoring of investors on income and expense items is high and in good range (Mean = 4.14) followed by disclosure on cash / fund flow with auditor's report (Mean = 3.86). The mean scores of all these three mandatory disclosure aspects are well above and significantly much higher than 3, the value for moderate. Regarding disclosure of accounting policy with income tax information, the mean perception score of the investors falls in moderate range but

significantly above the hypothetical mean of 3, value for moderate, in turn indicating that the investors have perceived the disclosure of this mandatory aspect near good. The mean perception score of the investors on entire mandatory disclosure items, 4.02 also falls in good range and significantly much higher than moderate value of 3.

Overall, it is found that disclosure of balance sheet items, income and expense items, cash / fund flow with auditors reports is good but the level of disclosure balance sheet items are relatively better than the disclosure income / expense items and cash / fund flow with auditor's reports. The disclosure of accounting policy with income tax information is found to be much higher than moderate level and the disclosure of entire mandatory corporate accounting reports is good according to the investors.

Table 3 shows the results of independent sample t-test comparing the mean perception scores on disclosure of mandatory corporate annually reports by gender status of the investors in the sample

**Table 3: Status of Mandatory Corporate Accounting Disclosure – Comparison between Male and Female Investors**

Major Components of Mandatory Disclosure	Sex		t Value (DF = 433)
	Male	Female	
Income and Expense items	4.09 (0.80)	4.25 (0.73)	2.05*
Balance Sheet Items	4.38 (0.70)	4.22 (0.72)	2.20*
Cash / fund flow with auditor's report	3.80 (0.75)	3.98 (0.65)	2.43*
Accounting Policy with income tax information	3.28 (1.05)	3.50 (1.02)	1.96*
All Mandatory Disclosure Items	3.99 (0.48)	4.08 (0.46)	1.88NS

Source: Primary Data.

Figures in brackets are standard deviations. NS-Not Significant; \*Significant at 5% level.

According to the t-test results shown in the table, it is apparent that the level of good perception of the female investors on disclosure of income and expense items (Mean = 4.25) is significantly higher compared to that of male investors (Mean = 4.09) (t value = 2.05, p < 0.05). Both male and female investors have on the average perceived the disclosure of balance sheet items and cash / fund flow with auditor's reports as good, but the degree of good opinion among female investors is significantly higher than their male counterparts (t values are significant).

Regarding disclosure of accounting policy with income tax information, the female investors have scored in good range (Mean = 3.50) whereas the male investors perceived it as moderate (Mean = 3.28). Both male and female investors differ significantly in this regard (t value = 1.96, p < 0.05). However, on disclosure of entire mandatory corporate annual reports, there is no significant difference in the level of good opinion between male and female investors (t value is insignificant).

Hence, it is found that altogether when entire items in the mandatory corporate annual reports, there is consensus in good opinion level between male and female investors, in turn indicating consistency in disclosure of mandatory corporate annual reports. At the same time, disclosure of income / expense, balance sheet, cash / fund flow with auditor's report and accounting policy with income tax information when considered separately, there is no consistency in the disclosure as male and female differ in the opinion level.

The results of descriptive analysis and one-sample t-test eliciting the status of six major factors of voluntary disclosure of corporate annual reports are shown in Table 4

**Table 4: Status of Voluntary Corporate Accounting Disclosure as Perceived by Investors**

Major Components of Voluntary Disclosure	Mean	SD	t-Value
Employee Information, Social Responsibility and Environmental Policy	3.89	0.88	21.00**
Board Structure Disclosure	3.12	0.96	2.56*
Financial Information	4.00	0.92	22.75**

Forward-looking Information	3.93	0.78	24.98**
General Corporate Information	3.59	0.75	16.44**
Audit Committee	2.74	1.05	-5.13**
All Voluntary Disclosure Items	3.61	0.48	26.63**

Source: Primary Data. \*Significant at 5% level; \*\*Significant at 1% level.

As shown in the table, disclosure of financial information, forward-looking Information, information on employee, social responsibility & environmental policy and general corporation information is rated as good and such good rating is higher regarding disclosure of financial information followed by forward-looking information. The investors have rated disclosure of information on board structure and audit committee as moderate. But the observed mean score for disclosure of information on board structure is significantly higher than hypothetical mean value of 3 for moderate level. This envisages that disclosure of information about board structure is not good but above moderate level. Similarly, the observed mean score for information on audit committee, though in moderate range, is significantly below 3, in turn envisaging that the disclosure of this information is not poor but below moderate. The investors in the sample have rated disclosure of all voluntary corporate annual report items as good (Mean = 3.61).

In sum, it is found that the voluntary disclosure of corporation information on financial aspects is ranked first followed by disclosure of forward-looking information, disclosure of information on employee, social responsibility & environmental policy and general corporate information in good perception of the investors. The disclosure of information on board structure is above moderate whereas that of audit committee is below moderate.

Table 5 presents the t-test results comparing the perceived status of voluntary disclosure of corporate annual reports between male and female investors.

**Table 5: Status of Voluntary Corporate Accounting Disclosure – Comparison between Male and Female Investors**

Major Components of Voluntary Disclosure	Sex		t Value (DF = 433)
	Male	Female	
Employee Information, Social Responsibility and Environmental Policy	3.86 (0.87)	3.96 (0.91)	1.17 <sup>NS</sup>
Board Structure Disclosure	3.09 (0.95)	3.17 (0.98)	0.82 <sup>NS</sup>
Financial Information	3.98 (0.92)	4.04 (0.92)	0.57 <sup>NS</sup>
Forward-looking Information	3.97 (0.76)	3.85 (0.80)	1.44 <sup>NS</sup>
General Corporate Information	3.55 (0.74)	3.67 (0.75)	1.64 <sup>NS</sup>
Audit Committee	2.74 (1.04)	2.74 (1.08)	0.03 <sup>NS</sup>
All Voluntary Disclosure Items	3.59 (0.47)	3.65 (0.50)	1.26 <sup>NS</sup>

Source: Primary Data.

Figures in brackets are standard deviations. NS-Not Significant; \*Significant at 5% level.

As per the table, there is no significant difference between male and female investors in rating the disclosure of financial information, forward-looking information, employee information, social responsibility & environmental policy and general corporate information as well as all voluntary disclosure items as good.

Regarding disclosure of information on board structure and audit committee, there is consensus in moderate opinion between male and female investors. Hence, it is found that disclosure of voluntary items in corporate annual reports has similar effect on male and female investors' opinion.

Table 6 is depicted with results of the analysis comparing investors' perception of voluntary disclosure of corporate annual reports by age levels. As depicted in the table, investors of all ages have scored in good range in respect of voluntary corporate disclosure of information about employee, social responsibility & environmental policy, financial information, forward-looking information and general corporate Information but differ significantly regarding general

corporate information (F value = 3.96, p < 0.01). About disclosure of board structure and audit committee, the investors of all ages have given moderate opinion with consensus (F values are not significant). There is also consensus in good opinion about disclosure of all voluntary items taken together (Mean values are in good range and F value is insignificant).

**Table 6: Status of Voluntary Corporate Accounting Disclosure – Comparison by Age Levels of Investors**

Major Components of Voluntary Disclosure	Age (in years)				F value (DF = 3, 431)
	25 - 35	36 - 45	45 - 55	> 55	
Employee Information, Social Responsibility and Environmental Policy	3.77 (0.96)	3.85 (0.87)	3.98 (0.87)	4.04 (0.80)	1.69 <sup>NS</sup>
Board Structure Disclosure	3.20 (0.88)	3.05 (1.01)	3.22 (0.94)	3.03 (1.00)	1.03 <sup>NS</sup>
Financial Information	3.95 (0.87)	4.03 (0.92)	3.86 (0.95)	4.20 (0.90)	1.95 <sup>NS</sup>
Forward-looking Information	3.92 (0.79)	3.97 (0.75)	3.88 (0.81)	3.91 (0.79)	0.30 <sup>NS</sup>
General Corporate Information	3.41 (0.79)	3.62 (0.73)	3.58 (0.75)	3.80 (0.67)	3.96 <sup>**</sup>
Audit Committee	2.77 (1.08)	2.71 (1.08)	2.66 (0.94)	2.90 (1.09)	0.82 <sup>NS</sup>
All Voluntary Disclosure Items	3.54 (0.52)	3.60 (0.48)	3.61 (0.45)	3.72 (0.43)	1.98 <sup>NS</sup>

Source: Primary Data.

Figures in brackets are standard deviation. NS-Not significant; \*\*Significant at 1% level

Overall, it is found that except disclosure of generation corporate information, the investors have perceived all other aspects of voluntary disclosure similarly irrespective of the difference in age levels.

#### FINDINGS OF THE STUDY

- Majority of the respondents are in the age group of 36 to 45 years (38.9%), followed by the respondent group with age level of 25 – 35 years (22.8%) and 45 – 55 years (22.3%). The respondents aged above 55 years constitute 16.1 per cent (70 out of 435) of the total sample.
- The investors have scored a high of 4.33 on the average on disclosure of balance sheet items, which falls in “good” range. Next to this, scoring of investors on income and expense items is high and in good range (Mean = 4.14) followed by disclosure on cash / fund flow with auditor's report (Mean = 3.86).
- Disclosure of accounting policy with income tax information, the female investors have scored in good range (Mean = 3.50) whereas the male investors perceived it as moderate (Mean = 3.28).
- Disclosure of information on board structure and audit committee, there is consensus in moderate opinion between male and female investors.

#### CONCLUSION

The disclosure of balance sheet items, income and expense items, cash / fund flow with auditor's reports is good but the level of disclosure balance sheet items are relatively better than the disclosure income / expense items and cash / fund flow with auditor's reports. The disclosure of accounting policy with income tax information is found to be much higher than moderate level and the disclosure of entire mandatory corporate accounting reports is good according to the investors. Disclosure of generation corporate information, the investors have perceived all other aspects of voluntary disclosure similarly irrespective of the difference in age levels.

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