

Core Concepts and Significance of Reporting Related to Disclosure of Accounts



Accountancy

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ABSTRACT

Corporate reporting is the process which is essential to every stakeholder. It is of significant importance because the investors' decisions are all based on the information supplied in the published accounts during corporate reporting. So companies are in a great pressure to present their statements in such a way that it can fulfill the needs of all the stakeholders. But it is not an easy task. During Corporate reporting process, a company faces lot of challenges in deciding the degree of extent, content, time and method best suitable for corporate reporting. These are known as core concepts of corporate reporting related with publishing information. In this article these various core concepts are discussed in brief. The data is of secondary nature.

INTRODUCTION

There are various concepts of reporting which are regarded as the core concepts related to the disclosing of corporate information. These concepts throw lights on the Identifying the users of reporting, Identifying the content that should be reported, Identifying the extent of information to be reported and Identifying the method to be used in reporting. These are discussed as below:

Identifying the users of reporting.

Identifying the content that should be reported.

Identifying the extent of information to be reported.

Identifying the method to be used in reporting.

DISCUSSION

The above mention concepts are discussed in detail as follows:

1. Identifying the users of reporting: There are various users who require financial information for their needs. The information ranges from short term to long term, Monetary or non-monetary, financial or non-financial or may be related to past, present or future. So the information needed by every user is according to his need. Hence each user need of information is different from another user. As a result a company has to prepare reports that should cater to the needs of every user. The company will have to identify various users and their needs. The user and their needs can be stated as below:

Creditors: This group is interested to know the credit worthiness of the company so as to decide how much money he can lent to the company.

Investors: This group is interested in knowing earning capacity, dividend policies and future growth prospects of company.

Suppliers: They are interested in knowing the company ability to generate cash flows so that they can be ensured about the safety of their payments.

Customers: They are interested in knowing the quality standards, warranty and guarantee conditions, pricing policy and after sale services of the company.

Labour Unions: They are interested to know about the pay scale of wages, Employment policies and Labour condition in the company.

Taxation authorities: They are interested in finding out the taxable income of companies and its proper assessment.

Government: They are interested in assessing the national income, curbing unethical practices, making fiscal, economic and other policies.

NGO's: Non-government organizations are interested to know the environmental effect of business activities and other social welfare impact due to the companies.

2. Identifying the content that should be reported: This core

concept is related to the need of the information by the user. The company will report the information which is critical to various users of information. The company generally report information by preparing various statements. Some of the important ones are as follows:

1. Balance Sheet
2. Income Statement
3. Cash flow Statement
4. Directors Report
5. Auditors Report
6. Ratio Analysis
7. CSR Report
8. Fund flow statement
9. Financial Highlights
10. Chairman's Speech

3. Identifying the extent of information that should be reported: The Company cannot report its all activities to the stakeholders as it is also not feasible. The information which is to be reported should be in such an extent that it can achieve the dual objectives of corporate reporting. One objective is that the information to be reported should be such that stakeholders can take rational decisions by using them. Another objective is that the Company should report only relevant and material information to the stakeholders. Hence the extent of information to be reported must be based on two lines:

Information must be material: A company should report that much information which is sufficient enough so that the users can make rational judgments based on it.

Information must be relevant: A company should report that much information which is relevant to the stakeholders. Irrelevant reporting of information is not feasible at all due to high costs in publishing information.

4. Identifying the method to be used in reporting: The method that should be used for reporting information in India should be according to the provisions of Schedule III of the Companies Act 2013. The Statements can be prepared and reported as:

Balance Sheet: The Balance Sheet is needed to be prepared according to the Part- 1 of the Schedule III of the Companies Act, 2013.

Income Statement: The Income Statement is needed to be prepared according to the Part-II of the Schedule III of the Companies Act, 2013.

IFRS: International Standards like IFRS must be taken into account as they help in improving the standards of reporting.

SIGNIFICANCE OF CORPORATE REPORTING

Corporate Reporting helps in communicating the information about the company to various stakeholders. Both the company and stakeholders are benefitted by it. The significance of corporate reporting can be studied in the following points:

Reducing the cost of company: Corporate reporting helps the company to assess itself and also find out the deviations in the activities. This helps the company to correct it and as a result the cost of the company will be reduced.

Proper utilization of resources: Corporate reporting helps the company to identify their critical and weak resources. Hence the company can use the efficient resources to the full capacity.

Customer Satisfaction: The customers feel satisfied as they get full information about the company's products, pricing policies and future prospects. This increases the confidence of customers in the company.

Competitive Advantage: Companies which regularly report its information showing its contribution to society and welfare activities will give competitive advantage to the reporting company than other companies.

Support of society: The society generally keeps an eye on every company and those companies which report about their social and welfare activities will get full support from the local society which will further increase the reputation of the company.

Relationships with Regulators: The companies which regularly report its financial information fulfilling various regulations fixed by the legal authorities will help the company to maintain cordial relations with the regulators.

Transparency: Corporate reporting helps in increasing the transparency of the information as all the companies have to publish reports containing financial and non-financial information.

Global Exposure: Corporate reporting helps the companies to face global exposure. Many MNC's are producing corporate reports and this helps various companies to face competition at international level.

Easy Credit Facilities: Various financial institutions which provide credit facilities to the companies keep an eye on reporting by companies. So a company can impress the creditors by regularly reporting about their sound financial position.

Attract investors: Corporate Reporting helps the company to attract various investors by showing their financial position and earning capacities.

Minimizing Wastage: Corporate Reporting helps the companies in minimizing their wastages by keeping a check on its financial position. The problems are identified early and it helps in avoiding wastage of resources.

Comparisons: Corporate reporting helps in making comparisons of various companies. This keeps a check on performance of various companies.

CONCLUSION

It is concluded that there are various core concepts related to disclosure of accounts. These concepts are to be carefully studied by the companies before deciding the corporate reporting process. Also corporate reporting proves to be very beneficial for the companies as it provides various benefits to the companies.

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