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CORPORATE FINANCIAL REPORTING - A REVIEW OF LITERATURE

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ABSTRACT

Keywords: Corporate Reporting, Financial Reporting, Disclosures, Bombay Stock Exchange.

1. INTRODUCTION

Corporate Financial Reporting is an integral part of Corporate Reporting as most of the investment decisions of any prospective investor will be based on the financial health of the company. Financial information is always considered of utmost relevance as it gives a clear picture of the current as well as the future viability and profitability of the company. This article has reviewed the existing literature on the topic as many authors have studied the extent of Corporate Financial Reporting and also the impact of reporting performance of the organization. Several tools have been used to study the data. In the current article, the author has compiled the previous research done on the topic of Corporate Financial reporting.

2. RESEARCH METHODOLOGY

Objectives

The main objective of the current study is to review the existing literature on the concept of Corporate Financial reporting and compile the results of the various studies on the subject.

3. CORPORATE REPORTING AND FINANCIAL DISCLOSURES

Gupta (1977) analyzed the corporate financial reporting practices of companies in India, Australia, USA and UK etc. The findings of the study revealed that the annual reports were insufficient for satisfying the needs of the modern business conditions and did not completely disclose the information required in the days of complex business situations. The study suggested that the balance sheet and income statement, statement of financial highlights, descriptive statements, past year records, and statistical diagrams and charts etc. should be incorporated in an ideal manner in the annual reports of the companies to help the investors get a complete picture of the operations of the company. The corporate annual reports of the companies should be more useful and informative. These reports should be all purpose and should address the informational needs of the shareholders. He also emphasized the fact that the legal and regulatory framework in India and other countries of the world should be strong enough to cater to the ever increasing need of the corporate sector and the vast number of shareholders.

Singh and Bhargava (1978) investigated the disclosure practices of 40 public sector companies for 1972-73. Annual reports of the sample companies were studied and a list of 35 items was prepared containing both financial and non-financial information. They also tried to study the relationship between quality of disclosure and nature of industry. The findings of the study revealed that quality of disclosure varied from company to company and the nature of industry had a great influence on the quality of the disclosure, whereas the pattern of the organization did not influence it. They suggested that the image and transparency of public sector organizations can be improved manifold through better information disclosure. Thus, management must take more and more interest in the quality of disclosure of information. Also a minimum standard of disclosure should be prescribed for the companies to be able to meet the increasing needs of the various user groups.

Lal (1985) investigated the corporate reporting practices of private sector manufacturing companies in India. The researcher identified 50 parameters of disclosure to measure the extent of disclosure in the annual reports of these companies. The influence of four company characteristics like asset size, margin of profits, and type of industry that the company belongs to and whether the company is associated with any big business house were studied on the quality of disclosure. The results of the study showed that there has been considerable improvement in the disclosure quality over the years in the Indian corporate sector. The relationship between the studied variables and the extent of disclosure in the sample companies was found to be positive. Another result of the study showed that the extent of disclosure had a better association with the size of the company than the other three variables.

Chakraborti (1990) investigated the annual reports of companies to understand the corporate financial reporting practices in India. The researcher prepared a list of 23 items after in-depth analysis of the annual reports of the sample companies. The results of the study revealed that most of the annual reports disclosed the mandatory information more than the voluntary information. Over the years the quantum of disclosure of voluntary information increased and is finding more prominence in the annual reports of companies.

Rathod (1990) studied the annual reports of 10 public limited companies for the year 1987-88 to understand the trends and scenario of financial reporting in the corporate sector in India. The researcher used the content analysis method to read the annual reports in detail. The results of the study revealed that companies preferred to present their annual reports in magazine size and the front cover contained only the name of the company and the year to which the annual report pertains. All the annual reports under study contained the information about the contact numbers of important officials of the company in form of company directory. The annual reports of 5 companies contained the table of contents to help the shareholder locate the information of his interest. All the annual reports had a section for the directors’ report which provided both qualitative and quantitative information to the users.

Chander (1992) analyzed the disclosure practices of public and private sector companies in India in a comparative manner. 50 companies were chosen from each of the sample group i.e. public sector and private sector. The researcher prepared a list of 98 disclosure items after in- depth study of the annual reports of selected companies. He also investigated the relationship between disclosure of information, its timeliness, human resource and social accounting and the various company characteristics such as size, profitability, age and nature of industry. The results of the study showed that item wise and company wise disclosure was significantly better in public sector companies as compared to private sector companies. He also concluded that considerable improvements were seen in the disclosure practices of sample companies over the period of analysis. Disclosure scores were significantly associated with size of the company measured in terms of net tangible assets and age of the company. This phenomenon could be seen in both the sectors. Another important finding of the study was that public sector companies took more time in compiling their annual reports than private sector companies.

Meena (1995) investigated the corporate annual reports of state level public sector enterprises in Madhya Pradesh. The main objectives of the study were to identify the timeliness and readability of corporate annual reports and the extent of information disclosure. She identified, 215 mandatory and non mandatory from the annual reports of selected companies. The results of the study showed that the state of corporate reporting of public sector undertakings in Madhya Pradesh was not very impressive. They were not able to come up to the expectations of the stakeholders and were not even reporting the bare minimum as prescribed by the state. The study suggested that the minimum standards should be raised and the enforcement of these should be more stringent in case of public sector enterprises as they are entrusted with a bigger responsibility as compared to the private sector, which primarily works for profit motive.

Rao and Sarma (1997) based their study on 8 statements of accounting standards to find out the extent of disclosure made by companies. The accounting standards chosen for the study were AS 1-8, issued by the Institute of Chartered Accountants of India (ICAI). A content analysis was undertaken by studying the annual reports of the sample companies. The researchers chose a balanced sample with equal number of public and private sector companies. The companies were chosen on a random basis. The study tried to understand the disclosure practices of the public and the private sector, separately as well as together. Findings of the study showed that the disclosure practices of the sample companies were significantly deviant from the regulatory norms. The researchers considered the norms issued by the Institute of Chartered Accountants of India and the Indian Companies Act, 1956. The findings of the study revealed that out of the sample companies 49 percent did not disclose anything about the accounting standards followed. Among the sectors also there was huge difference in the disclosure practices of the sample companies.

Adams (1997) investigated the various factors affecting the extent voluntary disclosure practices of life insurance companies in New Zealand. Field interviews methodology was adopted to collect data for the study. The results of the study showed that voluntary disclosure practices were affected by several factors, which included factors which are specific to the company like company culture and also by factors which may be common to other companies as well like environmental conditions e.g. the state of market competition. The findings of the study spoke about the attitude of the corporate sector, especially the insurance companies with respect to voluntary disclosure practices. The study concluded that if field based research is carried out with sound conceptual framework, it can make a worthy contribution to the accounting field.

Kohli (1998) analyzed the level of disclosure of companies in the United States and India by doing a comparative study between the sample companies. The study was a comprehensive, comparative analysis to study the difference in disclosure levels of the companies based in these two countries. The researcher made a comprehensive list of disclosure items, both mandatory as well as voluntary. Binary coding was used to study the disclosure, which means a score of 1 if the item is disclosed and 0 if it is not disclosed. She tried to understand whether size of the company, its profitability, age, nature of industry and auditing firms has any effect on the disclosure level of Indian as well as US companies. Findings of the study showed that the disclosure levels of Indian companies have improved over the period of study. Total assets, turnover, profits, age of the company and auditing firms had a positive and significant effect on the disclosure score. The U.S. companies were ahead of the Indian companies in the matter of disclosure of corporate information. The study suggested that corporate annual reports must provide detailed information about their future plans and policies so that they are able to become more informative and decision oriented. Chakraborti (1990) investigated the annual reports of companies to understand the corporate financial reporting practices in India. The researcher prepared a list of 23 items after in-depth analysis of the annual reports of the sample companies. The results of the study revealed that most of the annual reports disclosed the mandatory information more than the voluntary information. Over the years the quantum of disclosure of voluntary information increased and is finding more prominence in the annual reports of companies. The study suggested that the companies engaged in varied types of activities must disclose segment wise information for the benefit of the individual shareholder, so that he is made aware of the operations of the company. Also, to increase the reliability and credibility of annual reports, the disclosure of significant accounting policies used in the preparation of financial statements should be made obligatory.

Ubha (1999) analyzed the expectations of investors and the reporting practices adopted by Indian companies. Content analysis was undertaken of the annual reports of the sample companies along with primary data collection through questionnaire from the individual investors. The researcher selected a list of 17 major items of disclosure to measure the gap between the expected and the actual reporting practices. Both mandatory as well as voluntary items of reporting were selected to study the gap. Findings of the study revealed that there exists a vast difference between the reporting practices in the annual reports of the companies. Majority of the sample companies disclosed only mandatory information, and only a few companies reported voluntary items of disclosure. When checking the demographic profile of the investors, neither their experience in investing nor their level of education was found to have much impact on the goals of investment. The study suggested that the regulatory norms should be followed in letter and spirit, and information should be presented in a simple and easy to interpret manner for the benefit of investors.

Botosan and Plumlee (2000) examined the association between the level of disclosure and the expected cost of equity capital. The level of disclosure was categorized into three types namely- annual report, quarterly and other published reports, and investor relations. The results of the study indicated that cost of equity capital decreases when the disclosures in annual report increases. As far as timely disclosures were concerned, the findings were reverse to what was expected. The researchers found a positive association between cost of equity capital and the level of more timely disclosures. Though this result was not expected but it matched the claims of company managers, who suggested that timely disclosures lead to stock price volatility and which in turn leads to increased cost of equity capital. Another result of the study showed that there is no association between investor relation activities and the cost equity capital. They also suggested that when different type of information is provided in a bundled format, it may result in loss in information and may lead to erroneous conclusions.

Narasimhan (2001) studied the impact of seven new Accounting Standards added by the Institute of Chartered Accountants of India, on the various aspects of corporate disclosure practices in India. The aspects chosen to be studied included related party disclosures, segment reporting, earnings per share, accounting for taxes on income and lease accounting. The results of the study indicated that the expectation of the stakeholders with relation to information is continuously increasing with the increase in the complexity of the business units and corporate frauds. The study concluded that the new accounting standards will definitely augment the disclosure status of Indian companies which might nearly reach the international standards for better comparison.

Bistra and Maria (2002) analyzed the disclosure practices of public sector companies in Bulgaria. To achieve the objectives, sample companies were chosen randomly. The study tried to examine the targets and the bottlenecks faced by companies in trying to achieve excellence in information disclosure. The results of the study showed that showed that the nature and extent of the information disclosed in the annual reports of companies do not completely meet the legal requirements. The board of directors were not motivated enough to disclose complete information rather disclosure of information was regarded as merely an information leak which may ultimately only benefit the competition.

Khanna, Kushvo and Srinivasan (2004) investigated the disclosure practices of companies from 24 countries in the Asia-Pacific and Europe. The main objective of the study was to find out if any relationship exists between disclosure scores of the sample companies and the level of international interaction. The study confirmed that there is a considerable Impact of various market interaction measures on disclosure score of the companies. For the purpose of analysis, transparency and disclosure scores developed by Standard and Poor's were taken as the basis. The results of the study showed that there exists a positive association between the disclosure scores of companies and various market level interactions like U.S. listing, exports to and operations in the United States. The findings were in line with the assumption that economic transactions across the border were associated with similarities in reporting and corporate governance practices.

Shankaraiah and Rao (2004) investigated the status of companies in Oman with respect to the implementation of the applicable accounting standards and their practices. The purpose of the study was to lay down guidelines to strengthen the adherence to accounting standards and improve their practices for good corporate governance. The researchers studied the annual reports of a sample of top 10 companies, out of which 6 were private and 4 were public companies in terms of assets for the year 2002-03. Results showed that the sample companies complied with around 20 to 25 accounting standards. They suggested that for improving the standards of corporate governance in the country, all the accounting standards should be made mandatory. This will increase the level of trust of the investors Of Oman in the corporate sector.

Singh (2005) investigated the financial reporting practices of banks in India. The study made a comparative analysis of public and private sector banking companies in India to find out their reporting practices. The research was based on comparative analysis of 29 public sector and 23 private sector banks. The researcher prepared a list of 31 major items of disclosure having several items from the director's report, notes to accounts, information depicted through charts, graphs and diagrams, performance highlights, financial performance ratios and corporate governance. The results of the study showed that the public sector and private sector banking companies disclosed only mandatory information. Another finding of the study was that there is no significant difference in the disclosure of majority items of financial ratios in both the sectors, although, public sector banks disclosed corporate governance information in a better manner than the private sector banks. He suggested that more voluntary information should be included in the annual reports of banks. The private sector banks should make their annual reports in a bi-lingual format for the better understanding of the shareholders.

Julia, Kochetygova, Nick, Oleg, Levon, Atanassian and Elena (2005) selected 30 banks in Russia on the basis of the size of their total assets as on January 1, 2005. The main aim of the research was to analyze their reporting practices. The sources of information considered for the study were annual reports, reporting by the companies on their websites and statutory filings. All these documents were available in the public domain on the website of the Central Bank of Russia of study. A disclosure index was prepared which contained 102 items. The results of the study showed that the disclosure score of the Russian banks was very low at 36 percent. As far as timeliness was concerned, the banks released their annual reports in a timely manner, either before or exactly on the cut-off date. Out of the sample only two banks had board-level audit committees. Others either did not have such committees or did not discuss their existence in the annual reports.

Vedpuriswar and Subramanian (2005) scrutinized the annual reports of Dr. Reddy's Laboratory, Infosys and ICICI Bank to find out their disclosure practices and corporate governance compliance. The results of the study indicated that the users found the annual reports difficult to read and understand. They considered the language of the annual reports not comprehensible and were not able to understand the underlying rules and accounting conventions. As stipulated by SEBI, certain information items are to be mandatorily included in the Management Discussion and Analysis Report by the Board of Directors. The study pointed out the fact that even the best managed companies were not depicting this information in their annual reports. They suggested that companies should make a true effort on their part to disclose all material information and not only what is to be disclosed mandatorily.

Wielligh and Berg Den (2005) assessed the financial statements of 5 largest insurance companies of South Africa based on their total assets for the year 2002. The main objective of the study was to identify the commonality in the disclosure practices of the sample companies. The researchers prepared a checklist of items which should be included in the annual reports of the companies. The annual report of Sanlam Ltd. and Liberty

Group were used as a starting point in designing the checklist. The results of the study showed that the financial statements were not comparable for the insurance companies. The researchers suggested that there should be clear demarcation of transactions with shareholders and policyholders in the income statement as well as the notes to accounts.

4. ANALYSIS AND FINDINGS

Several studies were reviewed from the existing literature in which many researchers studied the relationship between the studied performance variables and the extent of disclosure in the sample companies and the relationship was found to be positive. Some results showed that the extent of disclosure had a better association with the size of the company than the other variables. Most of the studies suggested that the companies engaged in varied types of activities must disclose segment wise information for the benefit of the individual shareholder, so that he is made aware of the operations of the company. Also, to increase the reliability and credibility of annual reports, the disclosure of significant accounting policies used in the preparation of financial statements should be made obligatory.

5. CONCLUSION

The review of existing literature shows that the corporate annual reports of the companies should be more useful and informative. These reports should be all purpose and should address the informational needs of the shareholders. The legal and regulatory framework in India and other countries of the world should be strong enough to cater to the ever increasing need of the corporate sector and the vast number of shareholders. The image and transparency of public sector organizations can be improved manifold through better information disclosure. Thus, management must take more and more interest in the quality of disclosure of information. Also a minimum standard of disclosure should be prescribed for the companies to be able to meet the increasing needs of the various user groups.

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