EXTENT OF CORPORATE FINANCIAL REPORTING - A COMPARATIVE STUDY OF COMPANIES TRADING ON STOCK EXCHANGE AND SUSPENDED COMPANIES

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ABSTRACT

In this article the researcher has tried to study the extent of Corporate Financial Reporting and has undertaken a comparative analysis between companies which were trading on the Bombay Stock Exchange as on the date of the study and those which have been suspended from trading by the Securities and Exchange Board of India due to some compliance issue. A sample of 30 listed companies was taken and their annual reports containing the disclosures were studied, as the best document to gauge the state of affairs of a company is the Annual Report as it contains all sorts of information. Also, these 30 companies were identified from 5 different sectors and from each sector 3 trading (top performing on basis of market capitalization) and 3 suspended (penalized) companies were chosen for the study. The result of the study showed significant differences in Corporate Financial Reporting of trading and suspended companies.

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

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. While studying the financial aspects several items of the Balance Sheet can be studied as these are mandatory and almost all companies do disclose this information.

For the purpose of the study, 5 different sectors were identified – Auto, Pharma, Packaged Foods, Textiles and Reality. 6 companies were selected from each sector, 3 which were top in market capitalization and 3 companies which were suspended from trading on the Bombay Stock Exchange due to some compliance issue.

2. REVIEW OF LITERATURE

Kohli (2012) studied the level of disclosure of companies listed in India. She investigated the annual reports of companies listed in India of the year 2009-10 and found that 70.91 percent was the level of disclosure made by Indian companies. Disclosure and compliance index methodology was used to calculate the level of disclosure. The items of disclosure were marked on a binary scale i.e. 1 if the factor is disclosed and 0 if there is no disclosure. The results revealed that out of the sample companies, none was fully complying with the reporting norms as per the Indian Accounting Standards although these were mandatorily required. The results revealed that there is a strong and positive relationship between level of disclosure and the size of the company, profitability and whether the reporting is made in a timely manner in case of the sample companies.

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. 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.

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 that private sector companies.

Kohli (1998) analyzed the level of disclosure of companies in the United States and India by doing a comparative study between the ample 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.

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.

3. RESEARCH METHODOLOGY

Objectives

The main objective of the current study is to analyse the extent of Corporate Financial Reporting of trading and suspended organizations among the chosen sectors.

Hypothesis

$H_0$1.1- There is no significant difference in financial corporate reporting of trading and suspended organizations.

Internal Consistency Analysis of Financial reporting Practices

Under corporate reporting practices, of the foremost importance is the 'financial reporting / disclosures' and there are seven variables (V_1 to V_7) under it namely disclosures in 'balance sheet' (8 items), 'disclosure in P&L statement' (3 items), 'disclosure in cash flow statement' (3 items), 'disclosure in footnotes to accounts' (7 items), 'disclosure regarding remuneration to KMP' (5 items), 'disclosure on CSR (1 item), 'disclosure Others'

(8 items). Descriptions of the variables under financial reporting those are used for the study are shown in Table 3.1.

Table 3.1: Description of variables under Financial Reporting with results of internal consistency analysis

Variable No.	Description	No. of items/statements	α-value
V_1	Disclosure in Balance Sheet	8	0.901
V_2	Disclosure in P&L Statement	3	0.874
V_3	Disclosure in Cash Flow Statement	3	0.856
V_4	Disclosure in Footnotes to Accounts	7	0.889
V_5	Disclosure regarding remuneration to KMP	5	0.799
V_6	Disclosure on CSR	1	0.842
V_7	Disclosure Others	8	0.886

The α-value ranging from 0.799 to 0.901 portrays an internal consistency with value more than 0.70 for all the items, thus depicts a reliable measure. Likewise, no item was excluded from the list and considering the outcomes, all were accepted for inclusion in the final instrument.

4. ANALYSIS AND FINDINGS

This section of the paper covers various aspects related to (mandatory) ‘financial reporting / disclosures’. The list of reporting parameters / disclosures was adopted from the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and annual reports of the sampled organizations were mapped with the guidelines. For the purpose of analysis statistical measures including mean and standard deviation and independent sample t-test, were applied to test the hypotheses.

Table 4.1: Independent sample t - test for differences in financial corporate reporting between trading and suspended organizations.

Sl. No.	Statement	Status	N	Mean	SD	t - Value	Sig. (2-Tailed)
A	**Disclosures in Balance Sheet**						
1	Standalone Financial Results	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
2	Consolidated Financial Results	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
3	Dividend	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
4	Amount Proposed to be Carried to Reserves	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
5	Fixed Assets	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
6	Other Assets	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
7	Loans outstanding and borrowings - Short term Borrowings	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
8	Loans outstanding and borrowings - Long term Borrowings	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		

To study the disclosures in Balance Sheet the items chosen were: Standalone Financial Results, Consolidated Financial Results, Dividend, Amount Proposed to be Carried to Reserves, Fixed Assets, Other Assets, Loans Outstanding and Borrowings, Short Term and Long Term. The results revealed no difference in reporting practices between trading and suspended companies on aspect of disclosures in the Balance Sheet.

B	Disclosures in Profit and Loss Statement						
9	Revenue from operation (Segment Wise)	Trading	15	2.00	.000a		
		Suspended	15	2.00	.000a		
10	Other Income	Trading	15	2.00	.000a		
		Suspended	15	2.00	.000a		
11	Profit After Tax	Trading	15	2.00	.000a		
		Suspended	15	2.00	.000a		

C	Disclosures in Cash Flow Statement						
12	Cash from Operating Activities	Trading	15	2.00	.000a		
		Suspended	15	2.00	.000a		
13	Cash from Investing Activities	Trading	15	2.00	.000a		
		Suspended	15	2.00	.000a		
14	Cash from Financing Activities	Trading	15	2.00	.000a		
		Suspended	15	2.00	.000a		

For studying the Disclosures in Profit and Loss Statement and Cash Flow Statement, the items chosen were: Revenue from Operations, Profit after tax, other Income and Cash from Operating, Investing and Financing activities and no difference was found in the reporting practices of trading and suspended companies.

D	Disclosures in Footnotes to Accounts						
15	Break up of raw material consumed	Trading	15	1.53	.74	2.190	**.037***
		Suspended	15	.87	.92	2.190	**.037***
16	Current & Deferred Tax Liabilities	Trading	15	2.00	.00	1.740	.093**
		Suspended	15	1.73	.59	1.740	.104
17	Provisions for Contingent Liabilities	Trading	15	2.00	.00	1.784	**.085****
		Suspended	15	1.67	.72	1.784	**.096****
18	Investments	Trading	15	2.00	.00	1.000	.326
		Suspended	15	1.93	.26	1.000	.334
19	Employee Benefits	Trading	15	1.87	.35	.475	.638
		Suspended	15	1.80	.41	.475	.638
20	Changes In Inventories of Finished goods, WIP and Stock-in-Trade	Trading	15	2.00	.00	1.000	.326
		Suspended	15	1.93	.26	1.000	.334
21	Details of Tangible & Intangible Assets including their usable life	Trading	15	2.00	.000a		
		Suspended	15	2.00	.000a		

There were significant differences observed between trading and suspended companies in Disclosures in Footnotes to Accounts with respect to Break up of raw material consumed and Provisions for contingent liabilities.

E	**Disclosures regarding remuneration to Key Managerial Personnel**						
22	The ratio of the remuneration of each director to the median remuneration of the employees	Trading	15	2.00	0.000	1.871	**.072****
		Suspended	15	1.60	.828	1.871	**.082****
23	The percentage increase in remuneration of each Director, CFO & CS in the financial year	Trading	15	2.00	0.000	1.871	**.072****
		Suspended	15	1.60	.828	1.871	**.082****
24	The explanation on the relationship between remuneration and company performance	Trading	15	2.00	0.000	1.871	**.072****
		Suspended	15	1.60	.828	1.871	**.082****
25	Comparison of the remuneration of the Key Personnel against the performance	Trading	15	2.00	0.000	1.871	**.072****
		Suspended	15	1.60	.828	1.871	**.082****
26	Comparison of the remuneration of each Key Personnel against the performance	Trading	15	2.00	0.000	1.871	**.072****
		Suspended	15	1.60	.828	1.871	**.082****

Under the head of Disclosures regarding remuneration to Key Managerial Personnel significant differences were found between trading and suspended companies in all the chosen parameters.

F	**Disclosures on CSR**						
27	CSR Expenditure (Section 134)	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
G	**Disclosures – Others**						
28	Related Party Disclosures of transactions entered into by a company	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
29	Loans & advances in which directors are Interested	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
30	Statutory Audit Report along with adverse remarks (if any)	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
31	Secretarial Audit Report along with adverse remarks (if any)	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
32	Market price data	Trading	15	2.00	0.000	3.055	**.005***
		Suspended	15	1.20	1.014	3.055	**.009***
33	Performance against broad based indices	Trading	15	1.60	.828	5.821	**.000***
		Suspended	15	.13	.516	5.821	**.000***
34	Indebtedness	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
35	Material changes and commitments affecting the financial position of the company	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		

* Significant at 0.01 level **Significant at 0.05 level ***significant at 0.10 level

The trading and suspended companies differ significantly in reporting disclosures in the broad category of 'disclosures in footnotes' under the sub parameter of 'break up of raw material consumed' (mean value for trading = 1.53 and suspended = 0.87 with $p \leq 0.01$) and also on aspect of 'provisions for contingent liabilities' (mean value for trading = 2.00 and suspended = 1.67 with $p \leq 0.05$). As far as disclosures regarding 'remuneration to Key Managerial Personnel' is concerned, significant differences were observed between trading and suspended companies under all the sub parameters like – 'The ratio of the remuneration of each director to the median remuneration of the employees', 'The percentage increase in remuneration of each Director, CFO & CS in the financial year', 'The explanation on the relationship between remuneration and company performance', 'Comparison of the remuneration of the Key Personnel against the performance', 'Comparison of the remuneration of each Key Personnel against the performance' (mean value for trading = 2.00 and suspended = 1.67 with $p \leq 0.05$). The trading and suspended companies also significantly differed in reporting 'other disclosures' in the sub parameters of 'market price data' (mean value for trading = 2.00 and suspended = 1.20 with $p \leq 0.01$) and 'performance against broad based indices' (mean value for trading = 1.60 and suspended = 0.13 with $p \leq 0.01$) (Table 4.1).

No specific difference was noted on reporting under the head of 'disclosures in Balance Sheet', 'Disclosures in Profit and Loss Account', 'disclosures in Cash Flow' and 'disclosures on Corporate Social responsibility'. This is due to the fact that financial disclosures in the above mentioned categories are mandatory by nature and all the listed companies have to comply with such disclosures in their annual reports. There are other aspects also where no difference in reporting was noted between trading and suspended companies, indicating that all the companies have similar disclosure scores for these categories which are – 'Details of Tangible & Intangible Assets including their usable life', 'Related Party Disclosures of transactions entered into by a company', 'Loans & advances in which directors are Interested', 'Statutory Audit Report along with adverse remarks (if any)', 'Secretarial Audit Report along with adverse remarks (if any)', 'Indebtedness' and ;' Material changes and commitments affecting the financial position of the company'. This shows that all the sample companies disclosed all the information related to the above aspects even if it meant including the adverse remarks of the auditors or disclosing any material changes which may affect the company.

On further examination on composite mean scores of the major heads under 'financial reporting', the above stated observations were confirmed as significant differences were noted in reporting practices between trading and suspended companies on three aspects including 'disclosure in footnotes to accounts' (mean value for trading = 1.91 and suspended = 1.70 with $p \leq 0.01$), 'disclosure regarding remuneration to key managerial personnel' (mean value for trading = 2.00 and suspended = 1.60 with $p \leq 0.01$), and 'other disclosures' (mean value for trading = 1.95 and suspended = 1.67 with $p \leq 0.01$) (Table 4.2).

Table 4.2: Independent sample t-test for parameter wise differences in financial corporate reporting between trading and suspended organizations.

Sl. No.	Parameter	Status	N	Mean	SD	t - Value	Sig. (2-Tailed)
1	Disclosure in Balance Sheet	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
2	Disclosure in P&L Statement	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
3	Disclosure in Cash Flow Statement	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
4	Disclosure in Footnotes to Accounts	Trading	15	1.91	.140	2.778	**.010***
		Suspended	15	1.70	.256	2.778	**.011***
5	Disclosure regarding remuneration to KMP	Trading	15	2.00	.000	1.871	**.072***
		Suspended	15	1.60	.828	1.871	**.082***
6	Disclosure on CSR	Trading	15	2.00	.000[a]		
		Suspended	15	2.00	.000[a]		
7	Disclosure Others	Trading	15	1.95	.104	5.906	**.000***
		Suspended	15	1.67	.154	5.906	**.000***

* Significant at 0.01 level **Significant at 0.05 level ***significant at 0.10 level

Thus, on the basis of results of analysis (Table 4.1 and Table 4.2) and the discussions and inferences drawn above, the null hypothesis **$H_0$1.1** may be partially rejected since significant differences were noted in reporting practices of trading and suspended organizations in regard to 'financial disclosures' on some parameters.

5. CONCLUSION

From the above discussion and analysis it can be concluded that trading and suspended companies differ in terms of Corporate Financial Reporting. Although, a mandatory disclosure for all listed companies, still the study observed several differences in financial reporting between the sample companies. As far as disclosures in Balance Sheet, Profit Loss Account and Cash Flow Statement is concerned, there were no difference in reporting scores of the sample companies as these are a part of mandatory disclosures. Significant difference in reporting practices of trading and suspended companies were seen in case of footnotes, disclosures regarding remuneration of key managerial personnel and other disclosures. Therefore, we can conclude that, companies do report the mandatory minimum even if they are suspended from trading and do miss out on some financial aspects of reporting that trading companies do not.

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