Financial Reporting Practices in Corporate Sector of India

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ABSTRACT

Corporate financial reporting is a series of activities that allows companies to record operating data and report accurate accounting statements at the end of each month and quarter. Corporate financial reporting not only to show the financial statement of corporate but it includes too high light important financial data and to show the application of financial policy. A good financial reporting will show true financial position of company. Company can save from hidden losses if its accountant high lights critical point in it. In this way, it is helpful tool to investors for better decision making.

Keywords: *corporate financial reporting, IFRS, credit decision, balance sheet, income statement, financial policy, stakeholders.*

Meaning and concept of financial reporting

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

1st Corporate financial report: Income statement

An organization's income statement is an important report on which investors, financial analysts and corporate business partners rely to gauge a company's economic health. It is also called profit and loss accounts. In income statement we come to know whether company is earning profit or suffering loss. We can find the main expenses of company and main sources of earning and also find that, what amount, is given in the form of dividend which is showed in statement in statement of retained earning net income after all adjustment is transferred to reserved and surplus section is liability side of balance sheet.

2nd Corporate financial report: Balance sheet

A corporate balance sheet is also known as a statement of financial condition or statement financial position. It provides information about a company's assets, liabilities and equity capital and this financial report is useful for balance sheet analysis. Assets are economic resources that a company owns liabilities are debts an organization must repay. Equity capital represents funds that financial market participants invest company.

3rd Corporate financial report: Cash flow statement

A cash flow statement indicated liquidity movements within a company's operations. In other words, the report tells the tale of the company's cash payments and receipts over a period of time. The statement indicates (in this order). Cash flow from operating activities cash flow from investing activities and cash flow from financing activities, these indications are helpful to analyze cash flow. This report explains the sources and applications of liquidity of company.

4th Corporate financial report: Explanation of financial policies and notes

Big corporate also makes some financial notes and explain the financial policies in detail with above financial reports. In these polices, company, debt terms and dividend policy. It also show list of loss of impairment on fixed assets.

An accounting process includes (1) Recording (2) Classification (3) Summarization of financial transaction.

Financial report come as a third step i.e. summarization. These reports periods useful information to management and other interested parties infect the sale object of accounting process is to prepare financial reports. Financial reports of any organization one said to be substance of accounting process/ financial reports are prepared at the end of accounting period (i.e. one year). John N. Mayer "The term financial reports as used in Modern business enterprises. They are the balance sheet or airport of financial position and the income report or on profit or loss report."

Financial reports are those documents wherein financial information related to a business are given. These reports are prepared at the end of accounting process as such are called final product of financial accounting.

Significance of financial reporting

The concept of corporate financial reporting has gained much significance due to the expansion and growth of company form of organization, increased competition and increase in the information needs of the users. The corporate financial reporting is a system of communication between the management and the user-groups of the financial statements; in order to report the results of the business activities of a corporate enterprise and also to demonstrate the credibility, accountability and reliability of its working Kohler's dictionary for accountants defines it as an explanation or exhibit attached to a financial statement, or embodied in a report containing a fact, opinion or detail required or helpful in the interpretation of the statement or report. As per American Accounting Association the financial reporting is the movement of information from the private domain (i.e. inside information) into the public domain. It is a process through which an entity communicates with the outside world.

The subject of financial reporting has gained significance during the recent years because of various compelling factors, such as the expansion and growth of the company form of organization; shift in the emphasis from the concept of 'shareholders' to 'stakeholders' and increase in their informational needs; the enactments and amendments in disclosure laws in various countries; professionalism of management; emergence of accounting as a recognized profession; and the pronouncements on disclosure made by various professional accounting bodies in India and abroad. A series of scandals that have rocked the financial markets and shake investor confidence have further increased the importance of financial reporting.

Besides investors, disclosure is significant from the point of view of large number of other potential users. Such potential users include, present and prospective investors, lenders, suppliers, creditors, employees, management, customers, financial analysts and advisors, brokers, underwriters, stock exchange authorities, legislators, financial press and reporting agencies, labour unions, trade associations, business researchers, academicians and above all the public at large. Disclosure has behavioral implications for such a wide range of users. There is an obvious need for reliable information which they can use to acquire an essential knowledge of the way in which business enterprises are behaving in relation to the public interest. By perceiving enterprise behavior through communicated information, interested parties can use this knowledge to amend or adopt their own behavior vis-à-vis. the enterprise concerned. Thus financial reporting in fact is an effective communication of accounting information.

The concept of fair disclosure implies that the accounting and other information should be unbiased and impartial. Its objective is to provide equal treatment to all potential financial statement readers. The task of defining the term 'adequate disclosure' is more difficult because the adequacy of disclosure cannot be tested accurately and precisely since no definite test exists in financial reporting to measure it and moreover, it is a subjective term. In very comprehensive terms a disclosure can be an 'adequate disclosure' when it entails the answers of to whom, why, how much, what and when the information to be disclosed.

Uses of financial reporting

The general purpose of the financial statements is to provide information about the results of operations, financial position, and cash flows of an organization. This information is used by the readers of financial statements to make decisions regarding the allocation of resources. At a more refined level, there is a different purpose associated with each of the financial statements. The income statement informs the reader about the ability of a business to generate a profit. In addition, it reveals the volume of sales, and the nature of the various types of expenses, depending upon how expense information is aggregated. When reviewed over multiple time periods, the income statement can also be used to analyze trends in the results of company operations. The purpose of the balance sheet is to inform the reader about the current status of the business as of the date listed on the balance sheet. This information is used to estimate the liquidity, funding, and debt position of an entity, and is the basis for a number of liquidity ratios.

Finally, the purpose of the statement of cash flows is to show the nature of cash receipts and disbursements, by a variety of categories. This information is of considerable use, since cash flows do not always match the revenues and expenses shown in the income statement.

As a group, the entire set of financial statements can also be assigned several additional purposes, which are:

Credit decisions: Lenders use the entire set of information in the financials to determine whether they should extend credit to a business, or restrict the amount of credit already extended.

Investment decisions: Investors use the information to decide whether to invest, and the price per share at which they want to invest. An acquirer uses the information to develop a price at which to offer to buy a business.

Taxation decisions: Government entities may tax a business based on its assets or income, and can derive this information from the financials.

Union bargaining decisions: A union can base its bargaining positions on the perceived ability of a business to pay; this information can be gleaned from the financial statements.

In addition, financial statements can be presented for individual subsidiaries or business segments, to determine their results at a more refined level of detail. In short, the financial statements have a number of purposes, depending upon who is reading the information and which financial statements are being perused.

Financial reporting in corporate sector of India

A financial reporting system supported by good governance, high quality standards and sound regulatory framework is the key to economic development of a country. Financial reporting system, providing essential financial information about the company to its shareholders and other stakeholders, needs to be reliable, free from bias and should enable comparison on the basis of common benchmarks. This, in turn, necessitates an appropriate financial reporting system that incorporates sound accounting principles and reflects a true and fair view of the financial health of the company while ensuring legally enforceable accountability. In a globalised world, such a system should also be uniform across borders so that there is comparability on the basis of common benchmarks.

The growing inter-linkages in the world economy and the recent global financial meltdown have thrown up important challenges that the world community must meet jointly. In the aftermath of the financial crisis, there is growing realization across the world of the need for enabling a single set of high quality global Accounting Standards, which would be based on common accounting principles while providing reliable and comparable financial information. With this in view, G-20 had called upon the international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting-processes; and complete their convergence projects by 2011. International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), are increasingly being recognized as global accounting standards, and are in use in over 100 countries with about 40 more countries (including India) being in the process of converging with them.

Conclusion

In the aftermath of the global financial crisis, it is particularly important that along with a common understanding on accounting principles and standards, there should also be strong and effective corporate governance. More so, since the IFRS are principle based and will require exercise of judgment by the company management. In doing so, there will be a need for managements to exercise their judgment in the best interest of the stakeholders. On the other hand, companies also need to be given enough time to understand and assess the impact of the change, proposed to be brought about by the IFRS based accounting standards, and consider it for communication with the stakeholders like the Government agencies, lenders etc. All the regulatory bodies involved in the implementation of the roadmap for convergence with IFRS must also, well in time, establish the necessary legal and regulatory environment that sets the direction for and enables convergence with IFRS in order to meet the set deadlines. Ensuring tax parity on non-converged and converged accounts also holds the key to the effective implementation of the whole convergence exercise. It is hoped that clarity on the above issues would come within time and the Indian corporate sector and professionals would be able to achieve convergence well in time.

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