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A REVIEW OF THE PRACTICES OF CORPORATE DISCLOSURE IN INDIA

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Abstract

Currently, corporate financial transparency by companies is a significant subject of concern. Disclosure is beneficial to the business sector since it boosts the organization's image. Businesses that give all of the necessary information aid investors in making informed investment choices. Because it makes investors feel entirely prepared to make investment choices based on existing information, it helps to reduce skepticism and speculation. Financial statements are a vital instrument for acquiring information about a company's operational results and financial position, and they should not be overlooked. Only financial information on corporate events is included, and no critical conclusions are drawn, such as management efficiency, firm strength, and weakness, future progress index, or other indicators of future performance. Annual reports generally include two types of disclosures: those mandated by law and those that are optional. In India, the Companies Act 2013 makes required disclosures a requirement. Companies that make voluntary disclosures in their annual reports do so because they do not feel compelled to do so by law. Full disclosure transparency and openness in financial reporting may aid in the promotion of a trusting atmosphere and the improvement of investor confidence. Enhanced transparency and openness are essential drivers of company success and long-term performance, and they also contribute to the maximization of shareholder value. This study is an effort to get theoretical knowledge of the disclosure techniques used by Companies.

Keywords-: Corporate financial transparency, financial reporting, investor confidence, financial statements, Disclosure

Introduction

IASB produces a comprehensive set of international financial reporting standards widely used. When IASB regulations were first issued in 2005, they were embraced by most companies, either as a mandate or an option. To encourage compliance, a reassessment of the degree of obligatory disclosures and compliance, as well as the role of enforcement agencies, is required(**Baker & Barbu, 2007**). Financial reports, comprising financial statements, footnotes, management discussion and analysis, and other legally necessary filings, are used by companies to offer disclosure(**HEALY et al., 1999**). Firms have the option to enhance their disclosure level above the legally required level once they have satisfied the legal requirements. However, required disclosure obligations are subject to the firm's disclosure policy. The objective of this study is to examine the disclosure procedures of companies. It is critical to understand the consequences of firm disclosure before looking for reasons to encourage voluntary firm disclosure. Disclosure is defined as the process by which an entity interacts with the outside world throughout this research(**Chandra, 1974**).Investor relations is the name given to corporate contact with investors(**Achleitner & Bassen, 2000**). According to recent definitions of the business's investor relation function, Investor relations is defined as the junction of firm performance and capital market performance appraisal(**Achleitner & Bassen, 2000**).This is similar to how other conceptions of investor relations see things. According to Allen (2004), Investor relations is a proactive and strategic executive role that integrates aspects of finance and communication to offer the investing community an accurate representation of a firm's current performance and future prospects.

A corporate disclosure strategy is now described as the process of creating, developing, and executing a disclosure level that incorporates both retrospective and prospective quantitative and qualitative communications**(Lev, 1992)**. A disclosure position is the consequence of a particular business disclosure strategy. A firm's typical reaction to disclosure concerns under normal circumstances is determined by its disclosure position**(Gibbins et al., 1992)**. Regulatory financial reports, including financial statements, footnotes, management discussion and analysis, and other legally mandated filings, can be used to offer information **(Achleitner & Bassen, 2000)**; **(HEALY et al., 1999)**. Furthermore, companies participate in voluntary communication through road shows, analyst presentations, conference calls, news releases, websites, and other investor relations initiatives **(Healy & Palepu, 2001)**.At the same time, the impact of company information disclosure may be studied from various perspectives. Capital markets and company owners are seen as crucial consumers of 15 information about firm performance in this study's definitions. As a result, identifying the extent and type of firm disclosure and exploring the interaction between businesses and investors is a good place to start when thinking about company disclosure and investors.

Literature Review

Chakraborti (1990) examined the annual reports of 50 corporations from 1980 to 1985 to see what had changed in India's corporate financial reporting. After scanning the annual reports of a few firms, a 23-item index was created. According to the study's findings, annual reports revealed more statutory information than non-statutory information. Over time, there was an improvement in the disclosure of non-statutory information. He proposed that the disclosure of significant accounting policies used in the preparation of financial statements is made mandatory in order to improve the reliability and credibility of annual reports and that companies engaged in a variety of activities disclose their data segment by segment so that the government and users can properly evaluate their performance.

(Hossain et al., 1995)conducted study on voluntary disclosure in New Zealand company annual reports. The a priori expectations in this investigation are based on agency theory. The five firm-specific characteristics are firm size, leverage, assets-in-place, auditor type, and international listing status. According to cross-sectional regression results, the degree of voluntary disclosure is substantially connected to business size, international listing status, and leverage. Assets–in–place and auditor type, on the other hand, are not significant explanatory factors. A study of this nature would be beneficial to accounting policymakers because it aids them in (a) better understanding corporate disclosure behaviour, (b) explaining why companies use specific disclosure strategies, and (c) developing a coherent and acceptable set of mandatory disclosure requirements.

(Popa & Ion, 2008)defined optional disclosure as an additional offer of information in respect to various national legislation or international company reporting standards, i.e., anything that is not required by law but becomes voluntary via conduct surrounding publishing. In other words, voluntary information represents additional information, which is dependent on both the enterprise governance's free choice and the regulations in place, as well as outside pressures from the capital markets, financial analysts, consulting firms, and other factors, as well as cultural and political factors. (Although voluntary disclosure refers to reporting outside of financial statements that is not explicitly governed by norms or laws, it is widely acknowledged that many of these "voluntary disclosures" are made in response to stock exchange commission requests for information on the company's presentation, analysis, and management presentations regarding risk and opportunities.) In order to raise money and attract investors, even in the absence of regulation, companies often provide their business information openly. The agency theory emphasizes the reasons why managers make voluntary disclosures in addition to mandatory disclosures. According to agency theory, voluntary disclosures, whether in the

form of traditional disclosure, online disclosure, or XBRL disclosure, occur as a way for firms to reduce their agency costs.

As a result, voluntary corporate disclosure has been defined as a firm's disclosure beyond what is required. Voluntary disclosure is not required. Discretionary disclosure (also known as voluntary or non-mandatory disclosure) is when a person makes a disclosure not required by law**(Gary K. Meek, 1995).** They are given because required disclosures are insufficient to interact with 'stakeholders' rather than just the firm's shareholders **(Boesso & Kumar, 2007).** Discretionary disclosures complement and supplement the firm's statutory disclosures **(Ho & Wong, 2001).**

Stakeholders' and stockholders' information demands are being given much attention these days. To meet the needs of stakeholders, corporations are making voluntary disclosures in the form of:

- Accounting for inflation (changes in price levels)
- Human resource accounting
- Social Accounting
- Statement of Value Added
- Statement of changes in the financial position
- Financial ratios and history
- Efforts to Reduce Pollution

Objectives of the research

- ✓ This research aims to learn about the fundamentals of corporate disclosure in India.
- ✓ To study driving forces behind disclosure in India.
- ✓ To explore the Companies Act 2013's disclosure requirements.
- ✓ To examine current trends in India's corporate disclosure.

Critical Concepts of Corporate Disclosures Practices in India

- It is necessary to disclose all key accounting policies used in producing and presenting financial statements.
- There should be a single location for the disclosure of essential accounting policies, and the disclosure of significant accounting policies should be done in one place.
- Accounting policy changes that have a significant impact now or are reasonably projected to have a significant impact in the future should be disclosed. An item's impact on the financial statements should be mentioned to the degree practicable if accounting rules have changed significantly in the current quarter. If any portion of the amount cannot be ascertained, there should be an explanation given.
- Specific disclosure is unnecessary, provided the fundamental accounting principles of going concerned, consistency, and accrual are followed in financial statements. The information should be revealed if a fundamental accounting assumption is not followed.

The driving forces behind the disclosure

Competition for money is the primary motivator for disclosing decision-oriented information to various user groups. As a result, the form of corporate disclosure would eventually be shaped by market forces. Corporations compete in the capital markets not just with one another but also to get money at a reduced cost. Many academics have found a link between a company's capital cost and the amount of information it discloses in its annual report. Corporate financial reporting is seen as a pre-requisite for expanding capital markets because of this connection and decision usefulness of public financial

statements. Apart from stock market concerns, various factors may motivate a company's management to release information voluntarily rather than waiting for required obligations. The following are some of the most crucial considerations:

- Political Cost consideration
- User requirements Consideration
- Ideological goals Considerations

Political Cost Consideration-: Political expenses include fines, penalties, and possibly public animosity toward the firm. Political costs are increasingly being recognized as a factor in choices for increased disclosure in the form of social and environmental data. Environmental data can be disclosed to reassure the public or regulatory bodies that businesses care about the environment and are doing all necessary to minimize the negative impact of their operations on the environment.

User requirement consideration -: Companies may reveal social information to fulfill the demand for such information(**Guthrie & Parker, 1990**). The argument is founded on the utility model of the users. The decision to provide more information voluntarily is based on the demands of the users and how the management interprets these needs.

Unrealistic goals Considerations -: It has been suggested that corporations might be encouraged to voluntarily reveal extra information to further their own political and ideological objectives. Such disclosure would be influenced by corporations' agendas, ideologies, and aims, which are likely to differ even within the same industry. As a result, disclosing such information will differ from one firm to the next.

Disclosure requirements under the Companies Act 2013

a) Any additions, modifications, substitutions, deletions, inters, or changes to the heading or a subheading of the financial statements or statements comprising them that are mandated by the Act and Accounting Standards as they apply to companies must be made, and the requirements of this Schedule must remain in effect.

b) The disclosure requirements set out in this Schedule are in addition to, not in place of, the disclosure obligations outlined in the Accounting Standards promulgated according to the Companies Act of 2013. Unless required to be declared on the face of the Financial Statements, further disclosures stipulated in the Accounting Standards must be provided in the notes to accounts or by way of a supplementary statement. Additional disclosures required by the Companies Act must be included in the notes to the accounts, in addition to those outlined in this Schedule.

c) In addition to the information given in the Financial Statements, notes to accounts must include (a) narrative explanations or disaggregation's of items recognized in those statements; and (b) statements that do not provide information on objects that do not meet the criteria for recognition.

(i) Each item on the Balance Sheet and Statement of Profit and Loss must be cross-referenced to any relevant information in the notes to accounts. When producing the Financial Statements, including the notes to accounts, a balance must be struck between providing excessive detail that may not be useful to consumers of financial statements and not presenting crucial information due to excessive aggregation.

d) The values in the Financial Statements may be rounded off depending on the company's turnover, as

Seen below:

Turnover	Rounding off
Less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals.
One hundred rupees or more	To the nearest lakhs, millions or crores, or decimals.

(e) Except for the initial Financial Statements presented to the Company (after its incorporation), all items disclosed in the Financial Statements, including notes, must also include the comparable amounts (comparatives) for the immediately previous reporting period.

(f) The terminology used in this Schedule shall be under the applicable Accounting Standards.

Annual Reports

- Under the Companies Act of 2013, the term 'Annual Report' is exclusively mentioned for Government Companies and the Central Government.
- Section 134 of the Companies (Accounts) Rules, 2014 and Rule 8 of the Companies (Accounts) Rules, 2014, should be referred to for disclosures in the Board's Report.
- The term "Annual Report" applied to Listed Companies is defined under the SEBI (LODR) Regulations, 2015.
- Companies Act, 2013 must be referred to in the case of unlisted companies, and LODR Regulations must be followed in the case of listed companies.

The Companies Act, 2013 mandates full disclosure for all businesses.

Report's Table of Contents:	Act / Rule referred to
Financial Summary/ Highlights, Operations, State of Affairs	Section 134 Rule 8(5)(i) of Cos (Accounts) Rules, 2014
Events After the date of financial statements	Section 134(3) (l)
Change in the Nature of Business, if any	Rule 8(ii) of Cos (Accounts) Rules, 2014
Dividend, if declared& amount, if any, carried forwarded to Reserves.	Section 134 (3) (k) & (j)
No. of Board Meetings held during the year	Section 134 (3) (b)
Directors and Key Managerial Personnel appointed or resigned during the year	Rule5 (iii) of Cos. (Accounts) Rules, 2014
Director's Responsibility Statement	Section 134 (3) (c) & 134 (5)
Information about the Financial Performance / Financial Position of the Subsidiaries / Associates/ JV	Rule 8(1) of Cos (Accounts) Rules, 2014 Rule 8(5) of Cos (Accounts) Rules, 2014
Extract of Annual Return Annexure	Section 134 (3) (a)
Conservation of Energy, Technology Absorption and Foreign Exchange Outgo	Section 134 (3) (m) Rule 8 of Cos (Accounts) Rules, 2014
Significant & Material Orders Passed by the Regulators if any	Rule 8 (5) (vii) Cos (Accounts) Rules, 2014
Details on the adequacy of internal financial controls, if any	Rule8(5) (viii) Cos (Accounts) Rules, 2014

Detailed information on the terms and conditions of loans, guarantees, or investments	Section 134 (3) (g)
Risk Management Policy	Section 134 (3) (n)
Corporate Social Responsibility (CSR) Policy - Reason for not spending	Section 134(3) (o) Rule 8 of Cos. (CSR Policy) Rules,2014
Related Party Transactions -Justification for Related Party Transactions - Form AOC-2	Section 134(3) (h) &Rule 8(2) of Cos. (Accounts) Rules,2014 Section 188(2)
Auditor-reported information of fraud	Section 134 (3) (ca)

Disclosures for Listed and Certain Unlisted Companies –Companies Act, 2013

Contents of the Report	Reference to Act / Rule
Declaration from Independent Directors on Annual basis	Section 134 (3) (d)
Composition of Audit Committee-Reasons for not accepting therecommendations of the Audit Committee	Section 177 (8)
The policy laid down by the Nomination and Remuneration Committee for Remuneration of Directors, KMP & other employees and the Criteria formulated by the Committee for Determining Qualifications, Positive attributes, Independence of a Director	Provision to Section 178 (4) & Section 134
Secretarial Audit-Qualifications in Audit Reports, (by the company secretary in practice in his secretarial audit report)	Section 204 (3)
Formal Annual Evaluation of Board, Committees, and Independent Directors	Section 134 (3) (p)
Details of Vigil Mechanism process implemented in the Company	Provision to section 177 (10)

Source-: Disclosure in Annual report (ICSI)

Recent Development of Corporate Disclosure

Financial reporting is critical to a country's commercial and economic success. Its importance grows in the wake of liberalization and globalization, which have resulted in a dramatic increase in the volume of business over the last several decades, underlining the need for more attention and openness in corporate operations. These factors have steered in unprecedented changes in the business sector and have assisted in developing novel methods for conveying financial data to the market. Information technology has also advanced significantly, resulting in significant changes in how businesses are conductedworldwide. The globalization and integration of markets have had a significant impact on the flow of capital.

Innovative financial tools have been developed to cope with changing global economic realities and a more complicated corporate environment. As a result, the financial reporting landscape has changed dramatically, posing new problems and possibilities. A business is regarded as a socioeconomic entity with financial and social goals in today's world. Financial reporting is primarily concerned with a company's commercial and economic accountability, whereas social responsibility disclosures are concerned with the social consequences of its actions. As a result, investors should be given more and better data to help them properly assess company performance. In this new era of financial reporting, voluntary disclosures of value contributed, human resource accounting, and social reporting are strongly encouraged. There is also a need for more corporate transparency to account for new business and economic factors.

Value Added Statements

The notion of value added is a performance metric for reporting the wealth created over time by commercial activity. The corporate report defines value-added as the firm's wealth overtime via its own and employee efforts. The value-added is calculated by subtracting the cost of products and services acquired from outside sources from the total cost of a firm's output and other income. The value-added statement indicates the value created or generated and distributed to interested parties like workers, shareholders, capital promoters, and the government. A financial statement illustrates how a company's profits are distributed among those who contributed to its formation. The value-added statement accentuates the connection between people and capital. In actuality, the value-added statement is a modified form of the profit and loss account, with income defined to include incentives from a far broader group than simply shareholders.

Human Resource Accounting

The quality of an organization's human resources determines its true competency. Human resources are the most important component in a company's output since the other variables are meaningless without them. Economic and material resources are usedto attain organizational objectives through the united efforts of human resources. Despite all technological advancements, the relevance and usefulness of Human Resource Accounting (HRA) in this context have drawn much attention. The practice of monitoring and reporting an organization's human resources is known as human resource accounting. HRA recognized human resources as a valuable asset and assigned a monetary value to the company's human resources. The process of discovering and measuring data on human resources and presenting this information to interested parties is characterized as human resource accounting. It entails accounting for human capital investments and their replacement costs and accounting for the economic worth of people to a company.

Social Reporting

With the advent of the concept of 'stakeholders,' corporations are now held to account for the interests of all stakeholders, not just shareholders who put their money in the firm. Corporate operations have economic and social consequences, which is a well-known fact. Financial accounting procedures are used to calculate the economic effects of company operations.

Conclusion

The research mentioned above shows that stakeholders are interested in both financial and non-financial information, as is evident. Corporate Disclosure has become crucial for firms to enhance their image in the business environment. Firms should report different sets of data to different categories of consumers due to disclosure obligations. Currently, the disclosure system fails to discriminate between the many

distinct demands of financial reporting information users. While some users may be content with lengthy disclosures, the majority are flooded with material that is simply too extensive and complex for them to comprehend. Most users' information sets may be small and, beyond a common core, determined by each company to represent its unique conditions. Disclosure regulations in the common core should be kept to a bare minimum to enable effective communication. Both pieces of information should be available online to anyone who wants to look at them. Over the years, a large number of disclosure obligations have grown. As a result of the information overload, issues regarding the relevance and use of some information have arisen. Today, preparers may take steps to ensure that their disclosures are clear and comprehensible. Other capital market players can help by promoting the disclosure of only the most important and relevant data. Exercising well-reasoned judgment to identify appropriate disclosures within established norms and legal constraints should advance financial statement presentation and give users the information they need to make decisions. Navigation within the financial accounts can also be aided by organization and presentation.

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