Corporate Reporting In Corporate Governance: Need a 'SMART' Face

Abstract

The present age is witnessing the phenomenon of investment in shares by almost all section of the people including the rich and not so rich, those who have some commercial education and those who do not. Yet there is no common language of Accountancy suitable for all because the ways in which profit and loss account and Balance sheet are prepared by companies are not intelligible to all. This paper purports to provide an accounting procedure that should be within general comprehension, it is divided in to three phases. For this issue I propose a 'SMART' ('SMART' means Simple, Moral, Accountable, Responsible and Transparent) Corporate reporting system, which is easily understandable to all of the stakeholders. In this paper I also discuss the Breaking areas of departure of Indian Accounting Standards from IFRS.

Keywords: Accounting, Layman, Communicator, Interference, Indian Accounting Standards (AS), International Financial Reporting Standards (IFRS).

Goutam Chatterjee
Associate Professor,
Deptt. of Commerce,
K.C. College, Hetampur,
Birbhum ,West Bengal

Introduction

Annual report is a very important part of corporate reporting. It is compulsory that each company must have to send their Annual Report to the shareholders and to the Security Exchange Board of India. But there is no clear picture in our hand presently that how the above report that includes Annual Final Accounts, Auditors' Report, Cash Flow etc are to be prepared. So through the loop hole there is a fare chance of malpractice in corporate reporting.

Corporate reporting is basically a communication system which communicates the financial information of a concern to the stakeholders with help of financial tools. But this financial tool is not easily understandable to the general people who do not have any specific training over it. In spite of that it is possible to make the Accounting Language to be understandable to a layman and it is needed because of the fact that a corporate involves the money of them.

In the modern era of globalization of business, to overcome the difference in accounts is an important issue. To solve the problem a reporting system has been proposed here called as 'SMART' Corporate reporting system which is easily understandable to all of the stakeholders. SMART' means Simple, Moral, Accountable, Responsible and Transparent.

The biggest scam in Indian Corporate history had been done after making a fraud of Rs 7136 crore by Satyam Computer. From the analysis it had been found after the scam that due to poor governance and poor reporting corruptions are incorporated which in turn made avalanching of its financial resources. As a result shares of the company fell about 78%, i.e. from Rs 188.70 to Rs 30.80 in just one day.

It is very necessary today that we must prepare our Accounts in such a manner that it should be easily understandable to all strata of the society.

At the beginning the following words are defined here:-

1. Accounting
2. Layman

'Accounting' is often described as a technique of measurement of Income and wealth.

According to "The Concise Oxford Dictionary", 'Layman' means a person without professional or specialized knowledge in a particular subject.

1.1 Statement of the problem

Now two questions arise from the above discussion. They are –

1. Is the Accounting a language?
2. If so, then is the layman's interference necessary in the field of "Accounting"?

Objectives of this paper

The main objectives of this paper are as follows-

1. To examine the concept of Accounting, Layman and related terms.
2. To review the role of accounting language.
3. To en light the future of simplified P&L and B/S.

2.1 SMART' Accounting Language and IFRS

My answer for the first questioning, in statement of problem is yes, accounting is a language. Here are the reasons; we know that for every language there are three features –

1. There is a communicator (i.e. A man)
2. Receiver (Another man)
3. Media (word or chart or graph)

All these features are available for accounting such as:

1. Accountant (as a communicator)
2. Owner, labor, creditors etc. (Receiver)
3. Account (Media)

So from the above discussion we can say that accounting is a language. Now another question is "the necessity of layman's interference"? We know that the readers of accounting language are mostly educated and well to do. Companies prepare annual accounts for mostly educated share holders. You may say why it is necessary that a layman is bothered about account.

Now the true situation is that more and more investment is coming form common people. They have no sufficient education. So style of presentation of annual account must be changed; other wise people shall have no interest in the business field, in other word for investment market.

In 1959 the "Institute of Charted Accountant of India" announced the holding of a competition in the matter of presentation of Company Accounts in the statutory from prescribed under the companies Act. 1956.

Now the presentation of "Accounts" is considered to be an important Art. In India the Spirit of Company law favors fullest disclosure and not the minimum disclosure.

Usually two sides of "T-form" of Balance Sheet and Profit & Loss are not very intelligible to the person who is not well versed in accounting. It is now generally accepted that the statements would be drawn up using layman's language as far as possible. This is possible if statements are drawn up in "Single Column-form".

According to companies Act 1956 there are two patterns;

A) Horizontal (skeleton) form.
B) Vertical form (Part I of Schedule – VI).

No form for P&L A/C is prescribed as per Part – II of Schedule – VI. For the help of account all companies prepare P&L A/C in four steps – (a) Manufacturing (b) Trading (c) P&L (d) P&L Appropriation A/C. But the total procedure given in above is clumsy for a layman.

'SMART" Account

May we consider a simplified P&L and B/S. (It may be converted in to Local or Regional languages)? **For the year 2008**

Saral Profit (loss) Statement	**Year**	
Particulars	**Current Rs.**	**Previous Rs.**
Income		
From sale	--	--
From commission, Interest, etc.	--	--
Expenditure		
For Raw materials, salary	--	--
For Depreciation	--	--
For Interest, other expenses	--	--
For etc.	--	--
(2 – 3) Profit before tax	--	--
Taxes	--	--
Profit after tax	--	--
Apportionment		
For Share holder	--	--
For Reserve	--	--

For 31.12.2008		
Simplified Conditions of Assets and Liabilities		
	Year	
Company has:	Current Rs.	Previous Rs.
Capital		
Fixed Capital	--	--
Working Capital (CA-CL)	--	--
Loan Capital	--	--
Assets		
F.A	--	--
Less: Depreciation		
Company has not		
Contingent liability	--	--
Secret Reserve	--	--
Fictitious Assets	--	--

The question arises that what is the necessity to accept the new IFRS (International Financial Reporting Standards) in place of AS (Indian Accounting Standards)? In the modern era of globalization, no doubt it is a right step because globalization means integrating the economy of a country with the world economy. To overcome the controversy, a comparison between AS & IFRS has been presented here. Before entering into the controversy, we must know what are IFRS and AS. International Financial Reporting Standards (IFRS) are Standards, Interpretations and the Framework for the Preparation and Presentation of Financial Statements adopted by International Accounting Standard Board (IASB).

Accounting Standard Board (ASB) was established in India on 21st April 1977 for harmonizing the diverse accounting practices and policies of India with International accounting Standard committee (IASC).

The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the period beginning from 1st April, 2011 onwards. This will be done by revising existing accounting standards to make them compatible with IFRS. International Financial Reporting Standards (IFRS) aim to bring all the countries across the world under a common set of global accounting standards that provide transparency, consistency and comparability in financial reporting. In fact, regulators across various countries are already demanding IFRS compatible financial statements. India is among the 150 countries that have announced its decision to adopt IFRS in 2011.

IFRS & AS

So 1st April 2011 is the date and from that date AS will converge fully with IFRS. Following are the departure of AS from IFRS:

Breaking the areas of departure of Indian Accounting Standards (AS) from IFRS

Table 1

Area	International Financial Reporting Standards (IFRS)	Indian Accounting Standards (AS)
Concept	Conceptually IFRS is more principle-based and in particular allows for "reasonable judgment". Since IFRS provides scope of subjective judgment in most of the cases it requires information to be presented on the basis of substance rather than rule. Redeemable preference shares, for example, are treated as liability since its nature demands returning after certain period of time. Similarly, convertible debentures get the status of equity, as it will stay with the company for the period the equity does.	Rigidity is fostered more in AS as it is rules-based and the choice of reasonable judgment is almost absent. As rules play the major role flexibility in accounting is a rare issue in AS. The example of preference shares may be cited as it, whether redeemable or non-redeemable, forms the part of share capital due to dividend paid in return. In case of debentures it gets the status of external liability in all cases whether redeemable or irredeemable.
Legal Requirements	Application of IFRS is purely based on the need and requirement of investors as their usage is given priority. Legal and managerial requirements are relegated and law should appear in conformity with standards.	In Indian Accounting Standards legal requirements get priority and different regulatory bodies with their required norms demand organizations they control to prepare and present their financial statements in accordance with the stipulated guidelines. Thus 'Law overrides standards' is an accepted principle in India. The example of Insurance companies in preparing their financial statements may make this candid, as their financial statements should be according to the norms prescribed by the Insurance Regulatory and Development Authority (IRDA).
Framework	IFRS introduces a fundamental change in financial reporting giving a robust framework where a clear guidance for setting standards has been provided. In the framework, given by IFRS, various components like Assets, Liabilities and Equity are clearly defined.	Indian Accounting Standards lack a clear direction on which the standards are set. No such framework is present where the components are clearly defined. Investors' needs are not given priority in framing the standards.
True and Fair View	The thrust under IFRS is given on preparing financial reports on fair value or mark to market value basis. Thus, true and fair concept loses its relevance and IAS- 1 also allows overriding this concept.	In most of the cases accounting is done on historical cost basis, so the information contained in financial statement requires a true and fair representation. Thus Indian Accounting Standards do not allow true and fair override.
Presentation	Regarding presentation of Financial Statements IFRS clearly stipulates the information required to be presented. IAS-1, i.e., "Presentation of Financial Statements" provides guidelines and overall requirements in presenting financial statements of companies. It requires certain information like information for business activities (including operating and investing activities), discontinued operations, financing activities and equity.	AS-1, i.e., "Disclosure of Accounting Policies" does not define standard requirements for disclosure of financial statement. Different regulatory bodies also stipulate the presentation format for the organizations they regulate. For Companies, Schedule VI of the Companies Act, 1956 defines format for balance sheet and its related statements. For insurance companies IRDA specifies how the financial statements will be presented.

The convergence from the national accounting principles to the IFRS requires the elaboration of a strategic plan at the highest level within the companies and not to limit the convergence only to a subject of accounting matters[1]

However, the question remains is corporate India ready to join the ranks of CANADA, RUSSIA, USA, JAPAN, EU, Australia, Singapore, and Sri Lanka, which are among the 150 IFRS- compliant countries?

Answer is simply No, because harmonizing Indian accounting standards with IFRS needs amendments in law and also needed E-Learning Course on IFRS, and still the process of reporting in IFRS is clumsy and critical for any laymen.

IFRS & GAAP

After a comparison between IFRS and Indian Accounting Standard, there is an accountability that explains the major differences between IFRS and GAAP. Generally Accepted Accounting Principles (GAAP) is the term used to refer to the standard framework of guidelines for financial accounting used in any given jurisdiction. GAAP includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements Here are the differences of GAAP & IFRS:-

Topic	**IFRS**	**U.S. GAAP**
Inventories	LIFO valuation is prohibited	LIFO valuation is allowed
Buildings, Property & Equipment, and Intangible Assets	Regular revaluations of assets are required when the revaluation option is chosen	Historical cost is used. Revaluations are NOT permitted
Asset impairments	Impairment is assessed using discounted cash flows. Reversal of impairment losses is sometimes allowed	Impairment is assessed using undiscounted cash flows. Reversal of impairment losses is NOT allowed
Restructuring Allowances	Recognition is allowed if a formal plan has been adopted and implementation initiated	Losses are not recognized unless a liability has been incurred, and no changes to the plan will occur
Convertible debt	Amounts are split between debt and equity	Usually recognized as a liability
Classification of deferred taxes	Non-current	Current or non-current based on underlying asset or liability
Revenue recognition	Occurs when the risks and rewards of control have been transferred	Similar to IFRS in principle, but there are numerous specific rules for specific types of transactions and industries
Purchased in-process research	May be capitalized and amortized	Valued and immediately expensed
Definition of a discontinued operation	Generally restricted to operating units	Less restrictive than IFRS
Comparative prior financial statements	At least one prior year comparison required	No requirement for private companies. SEC requires comparative statements
Accounting policies of parent and subsidiaries	Must be conformed	No conformity is required

Source http://www.fulcruminquiry.com/SEC_Allows_Foreign_Reporting.htm

Synopsis on activities of IFRS in future:

1. It will perform Shareholder Reporting.
2. It will also do external reporting to stakeholders through their stock markets.
3. Management Reporting such as Maximize investors' returns Segment reporting disclosure etc.

IFRS would not do the followings in future:

i) Regulatory reporting ii) Subsidiary reporting iii) Statutory Reporting iv) Tax Reporting

Conclusion

In Japan there is a proverb "Where Profit is. Loss is hidden nearby" and in India we say, "When there are assets, there is a liability". But at present, common presentation of assets and liabilities with company act are very clumsy and critical not easy to understand for a layman. So for that reasons an effort has been given here to present accounts in an easy way with an elusive manner, readable to all, without sufficient educational background. Our current share market show the indication of involvement of general people e.g. Maruti Udyog Ltd. and IPC (Indian Petroleum Corporation) Ltd. When they decide that they sold their share in general market then vast movement are seen within the people and large numbers of applications are received by those companies not only for big quantity requirement but also for very small requirement are seen from various corners of India.

SMART corporate reporting and corporate governance are the two pillars of success in corporate world. Capital market can be enhanced with help of these two SMART pillars after captivating savings of the investing layman. The transition to IFRS in India is no longer a question of whether and when but a question of how. A journey which started in 2006 is coming very nearer to its destination, But please take care.

Endnotes

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