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Financial Reporting of Latest Provisions Under The New Corporate Law Regime

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Abstract

Indian Corporate Sector is continuously moving towards better and improved measures of governance and transparency. A true and fair reporting by the companies is considered as an essential measure for every company for its growth and survival; as well as for the protection of the interest of its various stakeholders. The introduction of the new company's act i.e. Company Act 2013 has brought in many changes in the financial reporting of Indian Corporate Sector to improve the corporate reporting practices of the companies and to take it to a step further.

The present paper examines these new provisions of the Companies Act 2013 and subsequent new rules and laws that are given by Securities and Exchange Board of India, Ministry of Corporate Affairs and all other organisations dealing with the reporting practices in India. The paper further makes comparison of disclosures done by Large, Mid and Small Cap companies of these new provisions between two years and finds out whether there were significant differences between reporting practices of these three samples over the period of two years. The results suggested that there was significant difference between the large, mid and small cap companies between two years. However, in the previous year 2015-16, there was no significant difference between the score of large, mid and small cap companies, which means that all companies irrespective of their market capitalization have started disclosing numerous reporting provisions as per the recent changes.

INTRODUCTION

There is a strong need to boost the governance, accountability and

reporting requirements in India. With the help of the new Companies Act 2013, India has moved towards various such improved measures of transparency and better legislation for companies. Not only the Companies Act 2013 but also Company Rules 2014, revised Clause 49 of listing agreement and other subsequent laws and rules has been helpful in changing the scenario of reporting practices in India.

The Companies Act 2013 has replaced the previous Companies Act 1956. This Act was passed by the Parliament on 29th August 2013 after receiving assent from the President of India. The Act constituted of 7 schedules and 470 sections divided into 29 chapters. The Act aimed at providing better governance and easing the process of doing business in India. There were many changes seen in this new Act like introduction of One Person Company, Small Company, Dormant Company, Mergers and Acquisitions, Class Action Suits, Serious Fraud Investigation Office and many more.

Financial Reporting is considered as a key measure to report about the performance of the company. They include the Profit and Loss Statement, Balance Sheet, Cash Flow Statement, Director's Report and many other kinds of information that is useful to the stakeholders to assess the financial position and working of the Company.

"Disclosure – an explanation or exhibit attached to a Financial Statement or embodied in a report (or auditor's report) containing a fact, opinion or details required or helpful in the interpretation of statement or report, an expanded fielding or a footnote." Kohler Eric (1979).

Corporate Financial Reporting is a process by which Companies communicate with the outside world. The present paper seeks to study the new provisions of Companies Act 2013 and subsequent rules and laws to study whether the companies have started making disclosures of these new provisions in the previous year 2015-16 and also making a comparison of these new disclosures with the older year to know if the companies were complying to any of these provisions earlier as well.

REVIEW OF LITERATURE

Goswami (2015) in the study on implications of CSR rules under Companies Act 2013, focused on Companies Act 2013 and on levying and disclosing the corporate social responsibility activities as a mandatory provision. It also discussed the chief loopholes in the Act which can act as a hurdle in the practical applicability of this Act. The paper concluded that CSR concept should be broadened by making amendments in Schedule VII. Furthermore, on the expenditure done by the company

on the CSR activities, tax deductions should be given on such activities and a separate body should be maintained for regulating the compliances and the obligations under Section 135.

Kumar (2014) analysed the key rules of Companies Act 2013. The paper focused on the provisions, implications and key rules of Companies Act 2013. It was based on exploratory research and secondary sources were used. The paper highlighted various changes in the new company law especially the introduction of corporate social responsibility as an important step. The author viewed that the provisions of this new act will raise the standard of Corporate Governance and will positively change the framework of governing the companies.

Parida (2014) compared the director's profile according to the Companies Act 2013 with that of the Companies Act 1956.The author measured the key changes and studied the role of directors as well as the independent directors by making a comparison between Companies Act 1956 and Companies Act 2013. The author viewed that Corporate Governance has been better than before with the introduction of new company law. The author further concluded that we can expect enhanced transparency, accountability and responsibility from the companies with the applicability of this act.

Khuntia (2014) studied the role of Companies Act 2013 with respect to Corporate Governance. It outlined the reforms brought in by Companies Act 2013 regarding Corporate Governance like requirement of Independent Directors, Nomination and Remuneration Committee, Corporate Social Responsibility Committee, Stakeholder Relationship Committee, Vigil Mechanism Formulation and so on. According to the author, the Act is forward looking and in balance with the standards maintained internationally. The author also concluded that for the smooth flow of the provisions, the Ministry of Corporate Affairs should issue circulars and clarification from time to time.

Sharma and Dang (2014) analysed the new Companies Act as a move towards better governance. This paper also studied the changing corporate laws in India. It studied the points where the Companies Act 2013 was better than Companies Act 1956. It further studied its role towards better corporate governance. The author is of view that there is a need to alter laws with time. The study further added though the new Act is better than the older version but still there are loopholes in the new Act like lack of punitive or penal actions under Section 135 with respect to Corporate Social Responsibility.

Borman and Chakraborty (2014) studied the Corporate Social Responsibility under the Companies Act 2013. It analysed the challenges and issues regarding CSR implementation. The nature of study was descriptive. According to the author,

the various issues related to CSR that were not given due care included preference of CSR activities over Corporate responsibilities and contribution to funds started by government. Though the author was also of the view that these activities will help to contribute equitable social and economical development. Furthermore, these new provisions will help to induce new investments, accountability and opportunities for the stakeholders.

Bhatia and Mehandiratta (2014) made comparisons between certain sections between the older and the new act i.e. Companies Act 2013 and Companies Act 1956. The paper highlighted the concepts of One Man Company, Small Company, Dormant Company, Corporate Social Responsibility and e-governance. The paper further discussed the amendments regarding private companies that included number of directorships, limit of number of members, investor protection and transparency, insider's trading, price sensitive information, class action suits and so on. The study found out that a total of 98 sections were amended.

Ball (2012) studied the pros and cons of adaptation of the International Financial Reporting Standards. According to him, the increased market and political forces had made integration of financial reporting standards and practices important. But he also remained unclear how much convergence will happen in financial reporting practices. On the pro side, he concluded a great success has been achieved in setting up high quality IFRS standards and also for persuading 100 countries to adopt them. But on the con side, it is found that there was a substantial difference found in implementation of IFRS. The author was also of the view that the idea of uniform financial reporting seemed naive.

Hussain (2008) studied the extent of both voluntary and mandatory disclosures of listed banking companies in India. It also found out the relationship of various company attributes and extent of both mandatory and voluntary disclosures which were studied for 101 and 84 disclosures respectively. The results of the study showed that banks were very compliant of disclosing mandatory items but it wasn't so in case of voluntary items. The author concluded that close monitoring of the regulating authorities has lead to higher compliances and greater disclosures.

OBJECTIVES

The main aim of the paper is to study the financial reporting practices of the large, mid and small cap companies according to the new corporate law regime (i.e. after the introduction of Companies Act 2013). The objectives are detailed as under :

(a) It aims to find out whether there is significant difference in financial