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Overview of Corporate Financial Reporting

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Abstract – Corporate financial reporting is an essential activity for all businesses. This form of accounting should provide investors and creditors with useful information that they can employ in making lending or investment decisions. Since stockholders and lending institutions rely on income or repayment from your business to accurately run their own companies and estimate their cash flow, it's essential that your company be able to present accurate, timely information that speaks to the overall health of your company. Failure to provide accurate information can not only lead to problems of reputation; it can cause legal difficulties. This paper reflects overview of corporate financial Reporting.

Key Words – Corporate, Financial, Reporting, Business

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1.1 INTRODUCTION:

Financial reporting relates to the provision of information to consumers about the economic operations of an organization. "Financial reporting has been defined by the American Accounting Association (1972) as "the communication to third parties (external users) of published financial statements and related -information from a business entity, including shareholders, creditors, consumers, government authorities and the media. It is the reporting to a user or group of users of an entity's accounting information (individual, corporation, company, government enterprise). The financial reporting carried out by a business entity's corporate form is referred to as CFR. In order to demonstrate its integrity, transparency and reliability, Saeed (1990) described corporate financial reporting as a communication mechanism in which a corporation reports the results of its business operations to its stakeholders. The CFR offers information on a company's business operations that are essential for economic decision-making, raising stock values, preserving equilibrium in share prices, and for workers, consumers, and managers to take reasonable decisions. The importance of financial reporting (disclosure) for economic decision-making was stressed by Mautz and May (1978) as, "Financial disclosure is essential to the functioning of a free business economy." To sustain a viable capital market, financial disclosure is needed. A viable capital market is necessary for the distribution of resources within the economy. It is in the market of resources that A large portion of the nation's resources are distributed to those businesses that efficiently serve customers, and money is withheld to those businesses that do not efficiently serve customers." Duff and Phelps (1976) emphasized the importance of financial reporting by increasing the market price and reducing the cost of capital as, "Consistent reporting to create an enterprise's long-term reputation by increasing the market price and reducing the cost of capital as, "Consistent reporting" Credibility is a subtle intangible of great significance to any company, it has a significant influence on corporate reporting practices.... This relation between credibility, corporate reporting, and the cost of capital has also been observed.... Good corporate reporting is a long-term strategy relevant to good and bad times.

Financial reporting is more detailed and complex in the corporate form of business entities, due to the distinction of ownership and management, than financial reporting in other types of business entities. Singh (2005) noted that due to the growth and development of the company class of entities, growing competition and increasing knowledge needs of business stakeholders, the value of corporate financial reporting increased.

The corporation provides its users with business operation information primarily through published annual reports, including balance sheet, profit and loss account, cash flow statement, account notes, corporate governance report, business responsibility report, corporate social responsibility report, director's report, etc. In addition to the

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released annual reports, businesses also provide meaningful information through numerous press conferences and news releases about their work on their websites. Knowledge consumers are the various business stakeholders, including creditors, clients, staff, shareholders, potential buyers, the government and the general public. The main purpose of corporate financial reporting is to provide the various stakeholders with complete, fair and sufficient information for informed decision making.

1.2 FINANCIAL STATEMENTS

The financial statements apply to statements like the balance sheet, record of profit and loss, statement of cash flow, statement of equity adjustments and notes on accounts. Different accounting and technical bodies from all over the world defined the goals of the financial statements. The following is the objectives provided by the Accounting Principles Board (1970), The Trueblood Report (1973), the International Accounting Standards Committee (1989) and the Accounting Standards Board on the goals of financial statements (2000):

► **Accounting Principles Board (1970)**

Statement No. 4 was issued by the Accounting Standards Board of America in 1970, and the goals of the financial statements were addressed in three groups, including concrete objectives, general objectives and qualitative objectives. Specific priorities relate to the provision of information on operating performance, the financial condition and improvements in the financial position. The information thus given must be fair and in line with widely accepted principles. The general goals are related to the provision of accurate information on economic obligations and resources, adjustments in economic obligations and resources, the company's earning potential and other related information. The qualitative objectives of the financial statements refer to the different characteristics that the information reported should have. Relevance, comprehensibility, verification, neutrality, timeliness, comparability and completeness are among these characteristics.

► **The True blood Report (1973)**

In 1971, the American Institute of Certified Public Accountants (AICPA) set up a study group to establish the goals of financial statements, led by Robert M. Trueblood. In October 1973, the study group submitted its report and, on the basis of consultations with different institutional and technical groups, produced twelve financial statement goals. As set out in the study, the basic purpose of financial statements is to provide valuable information for economic decision-making. The other eleven goals of the financial statements relate to the provision of information on future cash flows, earning capacity, management performance in resource management and use, and financial position statements, periodic profits, financial operations and social impacts. The information given should be important to the predictive process and should provide explanations and details about the company's different events and transactions.

Seven qualitative features that financial statement data should have were also listed in the True Blood Study. Reliability, understandability, continuity, comparability, relevance and materiality, freedom from bias and content rather than form are among these characteristics..

► **The International Accounting Standards Committee (1989)**

In the year 1989, the International Accounting Standards Committee (IASC) published a 'Framework for Financial Statements Preparation and Presentation.' In its structure, the IASC pointed out that the accounts should meet the needs of the majority of users. The goals of financial statements are as follows, as per this context,:

(i) To provide information on the results, financial condition and changes in the financial position of an organization that is useful to a wide range of users when making economic choices.

(ii) To illustrate the effects of management stewardship or management obligation for the resources entrusted to it;.

► **Accounting Standards Board (2000)**

In 2000, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) released the "Financial Statements Framework for Preparation and Presentation." In its framework, the ICAI ASB pointed out that the financial statements can fulfill the basic needs of the majority of users, even if they are unable to include all the details that users might need to make economic decisions. In this context, the four qualitative characteristics of financial statements were also examined, including understandability, importance, reliability and comparability. The goals of financial statements are as follows, as per this context,:

(i) To provide information on an enterprise's financial status, results and cash flows that is useful to a wide variety of consumers when making economic choices.

(ii) Demonstrate the effects of management stewardship or management responsibility for the resources entrusted to it.

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1.3 FINANCIAL REPORTING

Investment decision making and management transparency have been generally recognized as the key goals of financial statements. The Financial Accounting Standards Board (1978) stressed the financial reporting objective of investment decision-making as, "Financial reporting should provide information that is helpful to present and prospective investors and creditors and other users in making rational investment, credit and similar decisions." AICPA emphasized the objective of management transparency as, "Finanancial accountability."

The Board of Financial Accounting Principles (1978) and the Stamp Report (1980) have made important contributions to the establishment of financial reporting goals. The following is the discussion provided by the Financial Accounting Standards Board (1978) and the Stamp Report on financial reporting objectives (1980):

► **Financial Accounting Standards Board (1978)**

In 1978, the United States Financial Accounting Standards Board (FASB) released Definition No. 1 on the Goals of Financial Reporting for Business Organizations, which is considered to be the most detailed statement on financial reporting objectives. The financial reporting priorities as set out in this statement are as follows:

(i) To provide all company stakeholders with comprehensible knowledge that is useful for making informed decisions.

(ii) Provide information that is useful to investors, creditors and other users in determining the number, pacing and volatility of the relevant institution's prospective net cash inflows.

(iii) To provide an organization with information on its economic resources, claims on those resources, and shifts in resources and claims on those resources as a result of various incidents, transactions and circumstances.

(iv) To provide information over a period on the financial results of an entity.

(v) Provide the institution with information on its acquisition and use of cash, borrowing and repayment of loans, capital transactions, including dividends in cash and other distributions of its resources to shareholders, and other factors which may affect its liquidity or solvency.

(vi) To provide information about how the management of an organization has discharged its ownership responsibility for the use of the resources provided to it by the institution.

(vii) Supplying information that is useful to managers and directors in decision-making in the interests of owners.

► **Stamp Report (1980)**

A report on “Corporate Reporting: Its Future Evolution” was published by the Canadian Institute of Chartered Accountants in 1980. The report was published by Edward Stamp and is popularly known as Stamp Report. The study highlighted that the economic, political, legal, institutional and social factors prevailing in a country affect the priorities and scope of financial reporting. The study also pointed out that as improvements become possible, the financial reporting requirements should have fair scope for evolution and creativity. As specified in the Stamp report, the significant goals of company financial reporting are as follows:

(i) To include management accounting to equity and debt holders, the management's exercise of its stewardship role, its success (or otherwise) in achieving and sustaining the company's objective of delivering a satisfactory economic output.

(ii) Include such information in such a way that it minimizes the ambiguity as to the quality of the information and enables the consumer to make his own evaluation of the risks associated with the company.

(iii) Supplying information to satisfy the needs of practitioners and other specialized users.

1.4 FINANCIAL STATEMENTS USERS AND THEIR INFORMATIONAL NEEDS

The seven consumers of financial statements, including current and prospective investors, workers, lenders, vendors, customers, government and the public, were addressed in the ICAI ASB (2000). As provided in this context, the knowledge needs of these users are as follows.:

► **Investors**

Investors are risk capital suppliers who are concerned with the risk and return associated with their investments in order to determine whether to purchase, keep, or sell them. They will want to grasp the company's willingness to pay dividends..

► **Employees**

The workers are interested in data on the organization's stability and profitability. They are

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also interested in recognizing the organization's ability to offer job opportunities, wages and pension benefits.

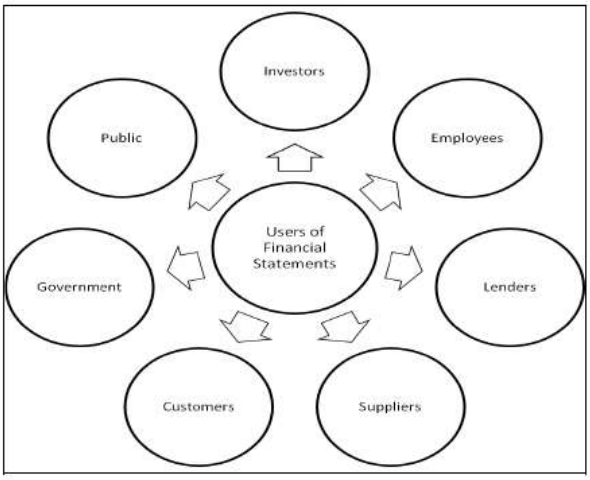

Figure 1.1: Users of Financial Statements

Source: Compiled by researcher from the website of ICAI

► **Lenders**

The lenders are interested in knowing the ability of the enterprise to repay their loans and interest on loans as and when they become due.

► **Suppliers**

The suppliers and other creditors are interested in knowing the ability of the enterprise to repay the amounts owing to them as and when they become due.

► **Customers**

Customers are interested in information about the continuation of an enterprise, particularly when they are engaged in or dependent on the enterprise in the long term.

► **Government**

Governments and their agencies are involved in supplying businesses with information to control their operations, to evaluate tax policies and to measure national revenues and related statistics.

► **Public**

The public is interested in recognizing the latest trends and changes in the company's prosperity, the reach of its operations and its contribution to the local economy.

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