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**Dr. Shahla Rahman Khan**  
Associate Professor,  
Department of Commerce,  
DAV PG College, Dehradun,  
Uttarakhand, India

## A study of TATA chemicals & IFFCO companies with special reference to corporate financial reporting

**Dr. Shahla Rahman Khan**

### Abstract

In order to overcome the limitations of man and money and to tide over the risks attached to the businesses activities, entrepreneurs invented the concept of doing business along with others. Thus came into existence partnerships. There was division of ownership and risk amongst the entrepreneur known as partners. To compensate for the contribution of capital and labor and sharing of risks, the profits of the business were shared amongst the partners either equally or as agreed. For many centuries the sole proprietorship and partnerships were the organizational forms employed in doing business. Edward Peragallo in his Origin and Evolution of Double Entry Book Keeping states that one of the great achievements of the Florentines was the development of large associations (partnerships) where capital was pooled together. Initially they were within the family groups but later on the family aspect of partnership disappeared fully. There were two types of partners. The first group consisted of those who invested money but do not took part in the affairs and whose liability was restricted to their capital contributions. The second category consisted of those who managed the venture and took responsibility for the partnership debts.

**Keywords:** Corporate financial reporting, statutory statements, non- statutory statements

### Introduction

Financial Reporting is the process of making available information relating to the operating results of an organization relating to a specified period of time and financial position at a certain point of time. The former is accomplished through the income statement and the latter through the balance sheet. These two documents are supplemented with the cash flow statement. The objectives of financial reporting are to assess the working results and financial position of the entity and to assess the extent of the management in fulfilling the stewardship function. Before the advent of joint stock company form of organization financial reporting. A company is an artificial person created by law and clothed with all most all the legal rights and privileges of a natural person. A company has got a set of well-defined objectives as mentioned in the memorandum of association, for the attainment of which the company has to employ all its human and physical resources at its command. The onerous duty of managing the affairs of the company is bestowed on the management of the company consisting of the Board of Directors and other employees of the company. The Board of Directors has the delegated authority of the owner members to take decisions and to manage the affairs of the company. The board in turn may delegate their authority to professional managers.

### Disclosures in corporate financial reporting

The objectives of corporate financial reporting could be fulfilled only when proper disclosures are made by the entities in its financial and non- financial statements. With rapid changes in the operating environment of business enterprises, the legal, financial economic and social obligations have undergone a tremendous change. Corporate financial reporting should enable the users to assess the impact of such environmental changes on the activities of the business and the activities of the business on such environment.

AICPA study group has recommended the following disclosures so that corporate financial reports could fulfill its objectives in letter and spirit.

- 1) Basic underlying assumption is with respect to matters subject to interpretation, evaluation, prediction or estimation.
- 2) Transactions and events which are part of incomplete earnings cycle, current values

**Corresponding Author;**  
**Dr. Shahla Rahman Khan**  
Associate Professor,  
Department of Commerce,  
DAV PG College, Dehradun,  
Uttarakhand, India

when they are significantly different from historical costs.

- 3) Changes in the values reflected in the successive statements.
- 4) Factual aspects of enterprise transactions having or expected to have significant effect on cash.
- 5) Simple quantifications supplemented in order to present their (current events) actual complexities by disclosure of ranges of precision, reliability and uncertainty.
- 6) Business forecasts provided they enhance the reliability of users' predictions.

### Objectives of the study

- 1) To examine the general framework of Corporate Financial Reporting with reference selected corporate units to IFFCO & TATA Chemicals.
- 2) To scrutinize the Accounting Standards followed in Corporate Financial Reporting in and their comparison to the requirements with reference selected corporate units to IFFCO & TATA Chemicals.
- 3) To recognize the Accounting Practices followed in India and their comparison with reference selected corporate units to IFFCO & TATA Chemicals.

### Review literature

D. Leake asserted in 1931 that "accounting science must directly concern itself not only between individual and individual but between bodies of employers and bodies of employed and also between individual and the state, individual and municipality and between nation and nation. Roper (1948) used the interview technique and postal survey techniques to determine useful alternative accounting disclosure to individual decision makers. Littleton (1953), Bromwich (1985) has given elaborate definitions as to what accounting standards are meant to be. Kitchen (1954) made comments pertinent to accounting standards when he critically reviewed the terminology of cost accounting. It is argued that the existence of free riders constitutes evidence that published accounting information shares some of the characteristics of what are called public goods. The essence of such goods is that consumption by one doesn't reduce its availability to others (Samuelson 1954). Therefore, it is argued that Gons and Depute (1974) that the prohibition of insider trading gives accounting information some public goods characteristics (Gons 1976 Watts 1976). In testing for the adequacy of financial statement disclosure researchers have used different strategies. One way of testing was to develop a description of the user's approach to financial statement analysis in order to evaluate the reasoning underlying that approach and then assess the implications of that approach reasoning for various disclosures. (C. T. Horngreen 1957). Another strategy employed is to focus the study in certain interest groups and survey their perceptions and attitudes about disclosures (R. D. Bradish 1965). Yet another way of study has been to determine the extent to which important information is disclosed in financial statements using a normative index of disclosure (S.S. Singhvi *et al.* 1971, S.L. Busby 1974, Jawaharlal 1985).

### About selected companies

#### Tata chemicals

Tata Chemicals Ltd is a global company with interests in businesses that focus on LIFE - living industrial and farming essentials. Tata Chemicals currently is the world's third largest producer of soda ash with manufacturing facilities in

Asia Europe Africa and North America. Tata Chemicals is the world's third largest producer of sodium bicarbonate which has applications that range from food to pharmaceuticals to air pollution control. Tata Chemicals is the pioneer and market leader in India's branded Iodised salt segment. The company sells pulses and spices under the Tata Sampann brand. The company's Tata Swach range of water purifiers includes a low-cost nanotechnology-based purifier that provides safe drinking water at affordable prices. The company also makes nutraceuticals for healthy and tasty modern food. With its Farming Essentials portfolio the company through its subsidiary Rallis India has a strong position in the crop protection business. Tata Chemicals Ltd was incorporated on January 23 1939. In the year 1942 the company completed the bromine plant the first unit of the company's chemical works. In the year 1943 they commissioned the auxiliary power plant. Also they commenced the production of caustic soda liquid chlorine bleaching powder hydrochloric acid and zinc chloride. In February 1944 the company started the soda ash production. During the year the company was given the rights to manufacture salt and marine minerals and to use limestone and other raw materials within the Kathiawad region.

#### IFFCO: Indian Farmers Fertilizer Cooperative

IFFCO, is a multi-state cooperative society. IFFCO is wholly owned by Cooperative Societies of India. The society is engaged in the business of manufacturing and marketing of fertilizers. IFFCO is headquartered in New Delhi, India. Started in 1967 with 57 member cooperatives, it is today the biggest co-op in the world by turnover on GDP per capita (as per World Cooperative Monitor 2021), with around 35,000 member cooperatives reaching over 50 million Indian farmers. With around 19% market share in urea and around 31% market share in complex fertilizers (P2O5 terms) IFFCO is India's largest fertilizer manufacturer. The cooperative was ranked 66th on the Fortune India 500 list of India's biggest corporations as of 2017 with a net worth of \$2.6 billion as of March, 2021.

**Table 1:** Format of Balance Sheet used

Year	Horizontal	Vertical
2009-10	0	2
2010-11	0	2
2011-12	0	2
2012-13	0	2
2013-14	0	2
2014-15	0	2
2015-16	0	2
2016-17	0	2
2017-18	0	2
2018-19	0	2
2019-20	0	2

**Source:** Various Annual Reports of Tata Chemicals & IFFCO)

It is revealed that selected companies i.e. TATA CHEMICALS & IFFCO studied published their balance sheet for all the 7 years in the vertical format and no company has used the horizontal format.

#### Format of publication of Profit and Loss Account

Schedule VI of the Act does not contain any format for publication of profit and loss account. Part II of the schedule prescribes the information to be included in the profit and loss account and the disclosures to be made. Companies may present their profit and loss account in the horizontal or

in the vertical format which has been adopted conventionally by accountants. Survey of the profit and loss account of the 20 companies for 7 years included in the study revealed the following with regard to the format of presentation of profit and loss account.

**Table 2:** Format of Profit and Loss Account used

Year	Horizontal	Vertical
2009-10	0	2
2010-11	0	2
2011-12	0	2
2012-13	0	2
2013-14	0	2
2014-15	0	2
2015-16	0	2
2016-17	0	2
2017-18	0	2
2018-19	0	2
2019-20	0	2

**Source:** Various Annual Reports of TATA CHEMICALS & IFFCO)

The study reveals that the sample companies have published their profit and loss account in the vertical format which is accepted by convention for publication of profit and loss account.

### Statements included and disclosures made in the Annual Reports

A survey was undertaken to assess the statements included and disclosures made by companies in the annual reports of the two companies selected for the study for the period of 7 years. The study was done by grouping the statements and disclosure in to statutory statements/reports and non-statutory statements/reports. Two statements /reports were identified in the statutory category and three in the non-statutory category.

### Statutory Statements/Reports

**Table 3:** Statement Showing Statutory Statements Included in Annual Reports (average)

Sr. No	Statutory statements	No.
1	General Information	2
2	List of Directors	2
3	Notice of Annual General Meeting	1
4	Mgmt. Disc. & Analysis Report	2
5	Directors Report	2
6	Annexure to Directors Report	2
7	Auditors Report	2
8	Annexure to Auditors Report	2
9	Balance Sheet	2
10	Schedules to Balance Sheet	2
11	Profit & Loss Account	2
12	Schedules to Profit and Loss a/c	2
13	Significant Accounting Policies	2
14	Notes on Accounts	2
15	B/S Abstract etc.	2
16	Statement Pursuant to Sec.212.	2
17	Cash Flow Statement	2
18	Financial Statement of Subsidiaries	2
19	Consolidated Financial Statements	1
20	Corporate Governance Report	2

**Source:** Various Annual Reports of TATA CHEMICALS & IFFCO)

**Table 4:** Statement Showing Statutory Statements Included in Annual Reports by Tata Chemicals & IFFCO

Sr. No	Company	Yes/No
1	Tata Chemicals	Yes
2	IFFCO Ltd	Yes

**Source:** Various Annual Report of TATA CHEMICALS & IFFCO)

### Non-Statutory Statements/Reports

Study the sample companies shows that on an average 5.78(say 6) companies have disclosed all the statements/reports identified under the category of non-statutory statements numbering 30. This is a very low level of disclosure.

**Table 5:** Statement Showing Non - Statutory Statements Included in Annual Reports

Sr. No	Non-statutory statements	No.
1	Vision /Mission Statement	1
2	Contents	1
3	Objectives of the Company	2
4	Principal Executives	1
5	About the Company	2
6	About the Products Brands	2
7	Achievements	1
8	Awards/Recognitions	Nil
9	Business Model	Nil
10	Chairman's Communication	1
11	Performance for 5 / 10Yrs	1
12	Key Indicators	Nil
13	Operating Review	Nil
14	Financial Review	2
15	Risk Management	1
16	Return on Original Investment	Nil
17	Product Flow Chart	1
18	Graphs/Charts	1
19	Environmental Report	Nil
20	Social Report	Nil
21	EVA Statement	Nil
22	Contribution to Exchequer	Nil
23	Projects Information	2
24	International Trade- Details	Nil
25	Human Resources	1
26	Inter. Accountant's Report	Nil
27	Reconciliation US GAAP	Nil
28	Investor Guide	2
29	Attendance Form	1
30	Shareholder Information	Nil

**Source:** Various Annual Reports of TATA CHEMICALS & IFFCO

**Table 6:** Statement Showing Non Statutory Statements Included in Annual Reports by TATA CHEMICALS and IFFCO Ltd

Sr. No	Company	Yes/No
1	Tata Chemicals	Yes
2	IFFCO Ltd	Yes

**Source:** Various Annual Reports of TATA CHEMICALS & IFFCO

The various heads under which disclosure should be made in the profit and loss account may be indicated. This will lead to proper classification of the income and expenditure of the company. Companies must be encouraged to disclose more and more information relating to its working by specifying the various items of disclosure that could be made in the annual reports. Financial Statements should be

published within a period of 60 days from the close accounting period to enhance their timeliness and relevance to the shareholders and other users. Uniformity in the reporting figures must be made. They should be either in lakhs or crores. Measurements expressed in millions and billions must be done away with. All figures may be rounded off to `000. Sufficiently large readable letter size must be used in the printing of corporate reports and uniformity must be ensured across all companies in this matter.

### Findings

1. Companies in India publish their financial statements in compliance with the statutes, rules and regulations governing the preparation and presentation of such statements.
2. While companies disclose almost all the information as required in the balance sheet, the disclosure in the profit and loss account is of a lesser degree.
3. The disclosure of non-statutory information by companies is very low.
4. The relevance of financial information provided by companies in India in their annual reports is only 'moderate' from the user's point of view.
5. The reliability of financial information provided by companies in India in their annual reports is only 'moderate' from the user's point of view.

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