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FINANCIAL REPORTING -SCHEDULE III - A QUALITY ASPECT

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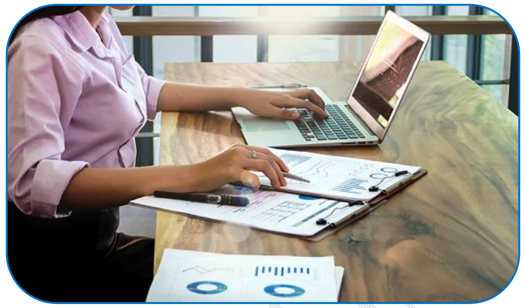

ABSTRACT:

Economic development of a nation needs capital formation. To achieve development plans a high rate of capital formation is aimed at in all developing countries. To stimulate and guide capital formation, the growth of capital market is a prerequisite. An efficient capital market helps the investors in getting information about various investment opportunities making sound investment decisions and to diversify and reduce risk. Accounting plays a very crucial role in creating and sustaining the level of confidence needed for the success of capital market.The whole aim of accounting is to keep systematic records of financial transactions so they can be communicated to the various stakeholders. The way this information is communicated to the relevant parties is through financial statements.Financial statements' analysis and reporting are one of the bedrocks of modern business.The Ministry of Corporate Affairs (MCA) has issued Schedule III which laysdown a format for preparation and presentation of financial statements byIndian companies for financial years commencing on or after 1st April, 2014.This Schedule III has some significant Conceptual changes such asCurrent/Non-current distinction, primacy to the requirements of theaccounting standards, etc.Thequalitative characteristics of financial statements mainly areunderstandability,Relevance, Reliability and Comparability.This paper discusses about the qualitative characteristic of "comparability" and tries to find out whether Schedule III improves the comparability of Financial Statements.

KEYWORDS: *Economic development , capital formation , Financial Statements.*

INTRODUCTION:

Country's economic growth is to an extentdependent on the Corporate Laws. The Companies Act 2013 was enacted to improve corporate governance and better transparency in the corporate sector which is imperative to inculcate confidence amongst investors in Indian market and to further strengthen regulations for the companies, keeping in view the changing economic environment as well as the growth of our economy. Schedule III of the Companies Act, 2013 was notified along with the Act itself on 29 August, 2013thereby providing the manner in which every company registered under the Act shall prepare its Financial Statements. As per Section 2(40) of the Companies Act, 2013,

Financial Statement in relation to a company, includes-
(i) a balance sheet as at the end of the financial year;
(ii) a profit and loss account, or in case of company carrying out activity not for profit, an income and expenditure account for the financial year;
(iii) cash flow statement for the financial year;
(iv) Statement of changes in equity, if applicable; and

(v) Any explanatory note annexed to, or forming part of, any document referred to sub-clause (i) to (iv) stated above.

An objective of financial statements is to serve primarily to those users who have limited authority, ability or resources to obtain information of business and who rely on financial statements as their principal source of information about an enterprise's economic activities. Accounting information that is provided in financial statements, to facilitate economic decisions and to make it useful to users should possess certain characteristics.Thequalitative characteristics of financial statements mainly areunderstandability,Relevance, Reliability and Comparability.

Understandability:

The financial statements are published to address the shareholders of the company. So it is important that these statements must be prepared in such a way that is easy to understand and interpret for the shareholders. The information provided in these statements must be clear and legible. For the sake of understandability, the management must consider not only the statutory data and information but also the voluntary information disclosures which would make financial statements easier to understand. The aim is to ensure that no one misunderstands what is sought to be communicated.

Relevance:

Information is considered relevant which adds value to the decision making process by providing the required bits and pieces of past, present and future times. Through relevant information users can evaluate whether they are moving along the right path i.e. making correct decisions.Information is also said to be relevant when it is capable of confirming or correcting the existing thought process and information.

Reliability:

Information is reliable when it is dependable and this is possible if it is: free from errors, especially material errors, complete and free from bias and not misleading. Information may be relevant but this alone does not suffice for reliability as well. Information must be reliable as well as relevant in order to be useful for decision making. There are many other factors that contribute towards the reliability of the financial information.

Comparability:

Comparability of information refers to its ability to stand useful overtime and against the financial information from other sources. Users cannot evaluate different aspects of entity's financial position and financial performance if they are unable to compare the financial information of one period with another or financial information of one entity with another entity's financial information.

Need of the study:

Schedule VI as per Companies Act 1956 was revised as there was a need for enhancing the disclosure requirements under the then existing Schedule VI. From Financial Year 11-12, Revised Schedule VI came in force.

The 1956 Act has been in need of a substantial revamp for quite some time now, to make it more contemporary and relevant to corporates, regulators and other stakeholders in India.The long-awaited Companies Bill 2013 got its assent in the LokSabha on 18 December 2012 and in the RajyaSabha on 8 August 2013. After having obtained the assent of the President of India on 29 August 2013, it has become the much awaited Companies Act; 2013.The changes in the 2013 Act have far-reaching implications that are set to significantly change the manner in which corporates operate in India.

Companies Act 2013 was introduced by the Government and the Schedule III became applicable for the Balance Sheet and Statement of Profit and Loss to be prepared for the financial year commencing on or after April 1, 2014. There are a few amendments to Schedule III till date. There are lots of changes in disclosure norms as per Schedule III. Financial statements to become useful for the users and specifically investors, it is essential to possess certain qualities. One of the qualitative characteristic is “Comparability”. This paper tries to find out from the perspective of investors whether they think that Schedule III improves the comparability of financial statements.

LITERATURE REVIEW:

A literature review is the starting point in any research. It is in depth and critical study of the previous research. Literature review is carried out to know the research done in similar area earlier. It gives a theoretical base for the research work. It helps in defining the research problem and nature of the research by identifying research gap. It is easy to formulate the objectives of the research in particular area and define hypothesis with the help of literature review.

For this research paper various articles were referred regarding Revised Schedule VI as per Companies Act 1956, Schedule III as per Companies Act, 2013.Article in Business line-on 26thMarch2009 was regarding the need for revision in schedule VI considering the economic and regulatory changes that have taken place globally. Article in ICAI Journal May 2012 regarding Reality Check in Implementing the Revised Schedule VI stated that the changes brought out in the financial reporting through the Revised Schedule VI cannot be considered as a simple exercise of representation of numbers in a different format, but requires careful consideration of various factors duly reflecting the business considerations and the investor expectations. Guidance note issued by the ICAI has highlighted Key points of Financial Reporting under Companies Act, 2013 as,

There will be uniform accounting period i.e. from 1st April to 31st March of next year for Companies.

Accounting Standards have been given supremacy over Schedule III. This is in line with IFRS which mandates that no statute can override the Standards.

For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

The schedule sets out minimum requirements for disclosure

Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts.

Financial Statements to include cash flow statement and statement of changes in equity. Format of cash flow statement is not prescribed in Schedule III.

Bifurcation of assets and liabilities amongst current and non-current is required.

Changes earlier introduced in Revised Schedule VI which have been retained in Schedule III were understood from literature review.These changes in format and disclosure norms were used to design the questionnaire. Few research articles were studied to have an insight of the qualitative characteristics of Financial Statements.

Objective:

To study the impact of Schedule III as per Companies Act 2013 on investors with special reference to quality of comparability.

Hypothesis:

H_0: Schedule III does not improve the comparability of financial statements.

H_1: Schedule III improves the comparability of Financial Statements.

Research Methodology:

The research is based on primary data.
Type of Research: Descriptive
Sampling Method: Judgmental
Sample size 50

Type of Data: Primary
Tools Used for analysis: Mean, SD, t test, Binomial test etc

Data Analysis:

H0: Revised Schedule VI does not improve the comparability of Financial Statements.
H1: Revised Schedule VI does improve the comparability of Financial Statements.

Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
The Revised schedule VI, intends to familiarise investors with Ind-AS / IFRS by using certain concepts such as currentnoncurrent classification etc.It aims at better presentation and disclosure intended to facilitate cross border comparability for users of financial statements.	50	3.78	.887	-.457	.337	.546	.662
Valid N (listwise)	50						

Values of skewness and kurtosis indicates normal distribution (withing + - 2). Therefore, parametric test is used to test the hypothesis.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
The Revised schedule VI, intends to familiarise investors with Ind-AS / IFRS by using certain concepts such as currentnoncurrent classification etcIt aims at better presentation and disclosure intended to facilitate cross border comparability for users of financial statements.	50	3.78	.887	.125

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
The Revised schedule VI, intends to familiarise investors with Ind-AS / IFRS by using certain concepts such as currentnoncurrent classification etc. It aims at better presentation and disclosure intended to facilitate cross border comparability for users of financial statements.	6.216	49	.000	.780	.53	1.03

The scale used to measure the opinion of respondents was 5 point likert scale, where 3rd pointer was neutral. Therefore, value of 3 is considered to test the hypothesis of comparability. Mean is 3.78.

Since, $p < 0.05$, null hypothesis is rejected. It is concluded that Revised Schedule VI improves the comparability of Financial Statements.

CONCLUSION:

Schedule III as per Companies Act 2013 laysdown a format for preparation and presentation of financial statements byIndian companies. It is a new generation Financial Statement.As perSection 129(1) the financial statements shall give a true and fair view ofthe state of affairs of the company or companies, comply with theaccounting standards notified under section 133 and shall be in theform or forms as may be provided for different class or classes of companies in Schedule III. The IND AS are basically standards that have been harmonized with the International Financial Reporting Standards (IFRS) to make reporting by Indian companies, more globally accessible and comparable.

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