

**Session : 2019-20**  
**M.COM.- FIRST YEAR**  
**(II SEMESTER)**

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**CORPORATE FINANCIAL ACCOUNTING**  
**(I-2002)**

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**UNIT – IV : CORPORATE FINANCIAL**  
**REPORTING**

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**Dr. S.K.GHAI**

# LEARNING OBJECTIVES

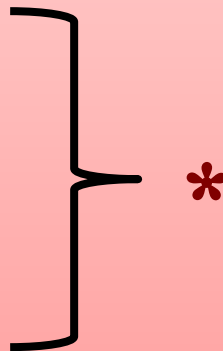
*After you have gone through this unit, you should be able to describe –*

- Meaning of Corporate Financial Reporting (**CFR**);
- Types of Corporate Financial Reporting;
- Annual Corporate Report (**ACR**) : Meaning, contents & significance;
- Factors compelling **CFR**;
- Objectives of **CFR**;
- Value Added Statement (**VAS**): Meaning, Difference between Value Added & Profit, Advantages & Weaknesses of **VAS**;
- Gross Value Added (**GVA**) **v/s** Net Value Added (**NVA**)
- Economic Value Added (**EVA**) : Meaning, Components, Benefits and Drawbacks, VA **v/s** EVA;
- Market Value Added (**MVA**);
- Shareholder Value Added (**SVA**).

# MEANING

- *CFR* is a process through which an entity communicates with the outside world.
- It is also known as a system of communication between the management and the user-groups of the financial statements.
- The purpose behind communicating with the user-groups are
  - **(i)** to report the results of the business activities of a corporate entity and **(ii)** to demonstrate the C.A.R.\* of its working.

- **Credibility**
- **Accountability**
- **Reliability**



# TYPES OF CFR

As we know that **CFR** is the system of making corporate financial reports. Therefore, these reports can be of following types, which may be shown *at the end of each month* or *at the end of each quarter* or *at the end of year* –

**1<sup>st</sup> : Income Statement**

**2<sup>nd</sup> : Balance Sheet**

**3<sup>rd</sup> : Cash Flow Statement**

**4<sup>th</sup> : Explanation of Financial Policies & Notes**

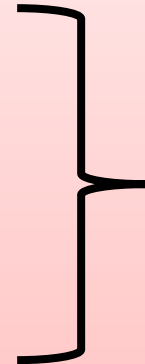
# **ANNUAL CORPORATE REPORT**

- ▶ An annual report is a comprehensive report.
- ▶ It intends to give information to shareholders and other interested people about a company's activities and financial performance throughout the preceding year.
- ▶ Companies listed on a stock exchange are required to engage in corporate reporting at more frequent intervals (depending on the rules of the stock exchange involved)

# CONTENTS OF ANNUAL REPORT

A typical annual report includes the following -

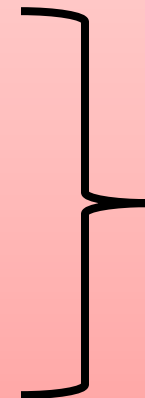
- ▶ Chairman's report.
- ▶ Chief Executive Officer's (C.E.O.) report.
- ▶ Auditor's report on corporate governance.
- ▶ Corporate governance statement of compliance.
- ▶ Mission statement.
- ▶ Statement of directors' responsibilities.
- ▶ Invitation to the company's Annual General Meeting. (AGM)



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**It should also include financial report statements including:**

- ▶ Income Statement.
- ▶ Balance Sheet.
- ▶ Cash Flow statement
- ▶ Statement of retained earnings.
- ▶ Notes to the financial statements.
- ▶ Accounting policies.
- ▶ Auditor's report on financial statements.



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# CONTENTS OF ANNUAL REPORT

**NOTE:** *Other information deemed relevant to stakeholders may be included in an annual report. This may include –*

- 1. Corporate reporting on operations for manufacturing concerns,*
- 2. Corporate Social Responsibility (CSR) reporting for organizations with environmentally or socially sensitive operations etc.*

# **SIGNIFICANCE OF ANNUAL REPORT**

1. Annual report, being the audited document, provides authenticated information about the concerned issuing entity which in turn, creates confidence among the public.
2. It is relatively more and easily accessible than any other source of information.
3. It is the single document which contains some valuable information (besides financial statement) which is not provided by any other single medium. For example, highlights of the year, historical data, significant performance ratios, accounting policies, price level adjusted statements, human resource accounting, company's present and future policies etc.

*In short, it can be said that annual report is the communication tool that reflects corporate performance, accomplishments, objectives and mission.*

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# FACTORS COMPELLING *CFR*

The subject of ***CFR*** has gained importance during the recent years b'coz of the following compelling factors –

1. The expansion and growth of the company form of organization.
2. Shift in the emphasis from the concept of '**shareholders**' to '**stakeholders**'.
3. Increase in the informational needs of stakeholders.
4. The enactments and amendments in disclosure laws in various countries.
5. The pronouncements on disclosure made by various professional accounting bodies in India (viz., **ICAI**) and abroad.
6. Professionalism of management.
7. Emergence of accounting as a recognized profession.
8. A series of scandals (like, **Harshad Mehta scam**) that have rocked the financial markets and shaken investor confidence have further increased the importance of financial reporting.

## OBJECTIVES OF CFR

**CFR** is not an end in itself but is a means to certain objectives.

► The fundamental objective of CFR is to communicate; economic measurements of information, about the **resources** and **performance** of the reporting corporate entity; (which are) useful to those having reasonable rights to such information and interest in such entity.

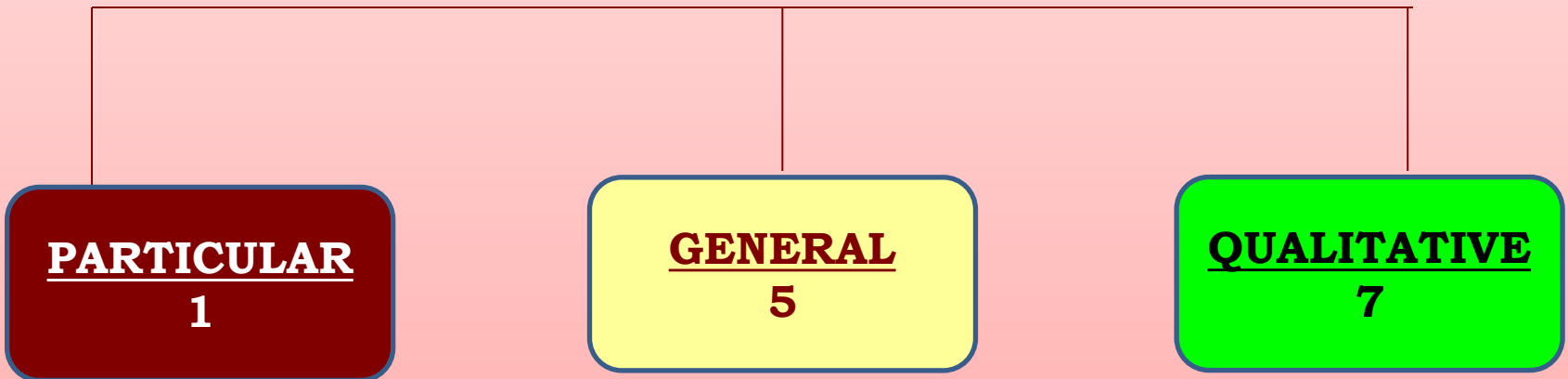
► The annual financial statements of a company help its management to regulate the prices of its goods and services.

► It also helps its external users (e.g. it helps **existing and potential investors** in evaluating their past decisions and making changes in their investment policies; it helps **creditors** in assessing company's worthiness, profitability and liquidity; and **government** in administering the system of taxing the companies *etc.*)

# **OBJECTIVES OF CFR**

## **(The Accounting Principle Board of America)**

- ▶ It issued its statement (4).
- ▶ This statement states the following objectives –



# REFERENCE BOOKS

1. **Warren/Reeve/Duchac's Corporate Financial Accounting 13E and CengageNOW™v2! Market-leading Corporate Financial Accounting (ISBN-13: 978-1285868783 ISBN-10: 1285868781)**
2. **International Journal of Accounting and Finance (ISSN online:1752-8232 ISSN print: 1752-8224)**
3. **Shukla S.M. & Gupta K.L., Corporate Financial Accounting (Sahitya Bhawan Publications)**
4. **Gupta K.G., Corporate Financial Accounting (K.G.Publications)**
5. **Gupta R.L. Advanced Financial Accounting, (S.Chand & Co.)**

# REFERENCE BOOKS

6. Maheshwari S.N., Advanced Accounting – Vol.II, (**Vikas Publishing House**)
7. Shukla M.C. & T.S.Grewal, Advanced Accountancy (**Sultan Chand & Co.**)
8. Jain & Narang, Financial Accounting (**Kalyani Publishers**)

**THANKS!**

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