Enhancement of Value for Corporate Reporting in Current Competitive Era

The fundamental objective of financial accounting is to provide users of financial statements with useful information for the purpose of efficient and effective decision making. Outside of the firm, financial reporting should provide information that is useful to present and potential investors, creditors in making rational investment as well as credit decisions. Within the firm, accounting information is essential for the purpose of efficient managerial decision.
But in current competitive and globalised environment traditional reporting of business affairs are not sufficient to fulfil the requirements of shareholders, inventors and other interested parties, due to the changes in the nature of transactions, business activities, shifting of focus towards industrial economy to knowledge economy, and growing importance of service sector in the economy. At present stakeholders need qualitative nature of financial reporting, because it includes relevance, faithful representation, comparability and understandability of information. Keeping all these issues in view, this article is an attempt to highlight the important reporting methods which can be used in the preparation of financial statement to enhance the value of corporate reporting for the shareholders, investors, and other stakeholders and also enlarge and widen the usefulness of the annual reports in the globalised and competitive environment. The author has also evaluated the present position of Indian corporate's concerning the adaptation of contemporary reporting practices.

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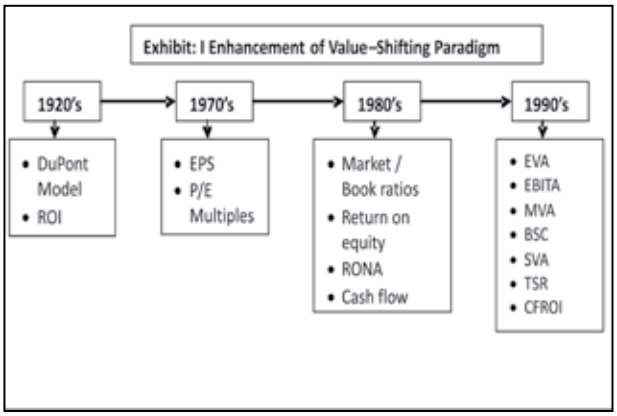
"What is not started today is never finished tomorrow"– *Johann Wolfgang von Goethe*

This quotation is equally relevant in case of accounting profession also, because whatever latest practice and methods we are adopting today for presentation/reporting of corporate data that leads to the leader in the tomorrow. Financial accounting and reporting practices have traditionally provided a basis for evaluating a company's business performance. The primary objective of financial accounting is to make available the users of financial statements with constructive information for the purpose of competent and valuable decision making. Outside of the firm, financial reporting should provide information that is useful to present and potential investors and creditors in making rational investment and credit decisions. Within the firm, accounting information is essential for the purposes of efficient managerial decision making-as managers need timely and accurate information in order to carry out the budgeting process and implement effective control mechanisms. Consequently, any event that is likely to affect a firm's current financial position or its future performance should be reflected in its annual accounts. Unfortunately, conventional financial statements appear to be rapidly becoming less useful within today's dynamic business environment[1]. Exhibit I indicates the shift of value paradigm in the last one century at global level of accounting profession. Especially, in the last twenty years

[1] S. Zambon (2002): "Accounting, Intangibles and Intellectual Capital: an overview of the issues and some considerations" WP4: Accounting, Audit, and Financial Analysis in the New Economy University of Ferrara.

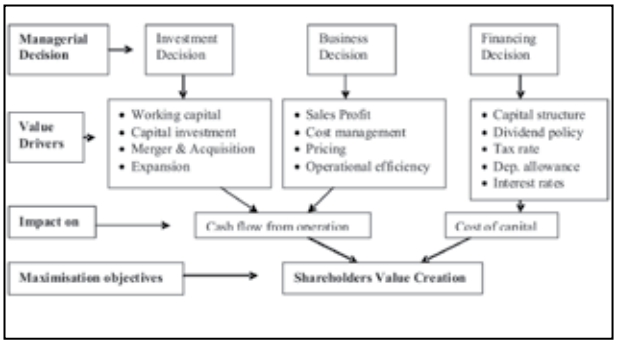
corporate's more focusing on EVA, MVA, SVA, TSR, for enhancement of value reporting in the contemporary environment.



Source: Madhu Sehrawat (2009): EVA and Performance measurement-text and case studies of Indian companies pp 9

Disclosure of accounting information is also an important aspect of the globalised environment. Disclosure means information regarding a business unit can be communicated with the help of reports and statements to the stakeholders, interested parties and potential investors will be informed of the strengths and weaknesses of a corporate, related with earning capacity, and activities of the management for the benefits of perspective investors. In regards one example is very appropriate *"UK based one retailer was facing supply issues with milk related products which constitute 9 per cent of sales. When the management information system threw up data (quality of reporting) regarding future challenges in this product strategy, the chain immediately started tying up with UK farmers on how to increase milk yields and address the shortfall[2] ."* It indicate that quality of reporting directly affect the business strategy. As Bushman and Smith[3] pointed out "Financial reporting and disclosure is an important component of a corporate governance system since it allows investors and other outside parties to monitor firm performance". In early times accounting was purely concerned with ascertainment of results of business enterprises (as indicated by exhibit II) and main objective of the corporates was to maximise the shareholder value and accordingly they performed various financial managerial activities. However, now a days financial reporting includes useful and other key information which provides the strength and earning capacity of the corporates (which cannot be measured in the money value) also disclosed to meet the users needs and expectations.

Exhibit: II Impact of Managerial Decision on Shareholders Value



Source: Ravi M Kishore (2005): Financial management text and cases, pp 224

Significance of Discloser and Reporting

As we know that annual reports are the one of the popular method of reporting since centuries. But, in the current competitive and globalised environment traditional reporting is not sufficient to fulfil the requirements of shareholders, inventors and other interested parties due to the change in the nature of transactions, business activities shifting of focus towards industrial economy to knowledge economy and growing importance of service sector in the economy. However, we have not received more realistic and useful information rather than only accounting information as provided by the companies under Indian GAAP. Therefore, we need voluntary reporting for following reasons:

Firstly, voluntary reporting contributes to reducing the information irregularity between management, shareholders and investors.

Secondly many useful information's /intangibles are not recognised in the financial statement, highly innovative companies where intangibles play a significant role have much greater difficulty attracting investors and banks. In these cases, voluntary disclosure of information can help to reduce the uncertainties of investors and banks and, at the same time, it allows companies to have greater access to funds[4] .

During the last two decades most industrialised economies have progressively moved towards a knowledge-based rapidly changing economy where investments in human resources, information technology, R&D and advertising have become essential in order to strengthen a firm's competitive position and ensure its future viability[5] . Qualitative nature of financial reporting is significant because it includes relevance, faithful representation, comparability and understandability of

[2] Quality of reporting and transparency- by Charles Tilley, chief executive ICMA, The Hindu business line, 28th October 2010 pp 12
[3] Bushman. R, J. and A. Smith. (2001). "Financial Accounting Information and Corporate Governance." Journal of Accounting and Economics 32 (1-3): 237-334
[4] RICARDIS (Reporting intellectual capital to augment research, development and innovation in (SMEs), 2006. Report to the commission of the high level expert group.
[5] Blair and Wallman (1997).

data and information. Relevance implies providing the right information to the right people. Faithful representation concerns with the financial reports to real world economic situation and assured stakeholders of the verifiability, neutrality and completeness of the information.

Keeping all these issues in view this research article is an attempt to highlights the important methods which can be used in the preparation of financial statement to enhance the value of corporate reporting for the shareholders, investors, and other stakeholders and also increase the usefulness of the annual reports in the globalise and competitive environment.

Tools for Value Enhancement for Corporate Reporting

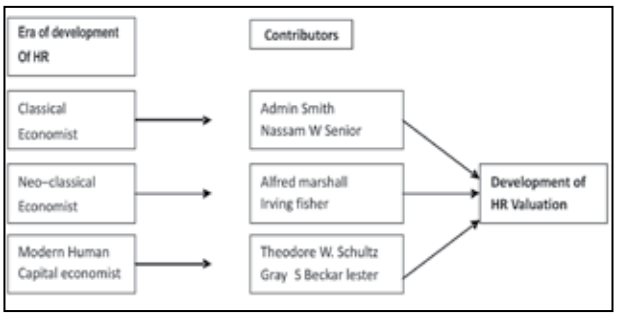
At present corporate financial reporting has taken an important place in the accounting world. There is increasing awareness among the investors about information provided by companies in their financial reports. With the help of the following tools/methods a firm can enhance the value of information for the various stakeholder for the decision making process.

Human Resource Valuation and Reporting

Human resources are one of the key elements of the knowledge economy. The conflict in accounting between human and non-human capital is natural. The latter is recognised as an asset and is, therefore, recorded in the books and reported in the financial statements, whereas the former is ignored by accountants for decades. Exhibit III indicates the different stages for the valuation and reporting for human assets which indicates that human resources are significant part of the corporate reporting but since many years it was ignored by the financial experts at the time of corporate reporting.

The most influential reason for the development of human capital is increase of service-oriented jobs in the economy. The nature of business activity has changed dramatically. Jobs in service-producing industries have increased greatly. At the same time manufacturing, farming, construction and other goods-producing jobs have fallen. We have changed from an economy in which the most significant business was industrial enterprises to one in which service business predominates.

Exhibit III: Era of Development of Human Resource and Valuation



Most of the enterprises, which follow human resource accounting, spare a separate section in their annual reports for a detailed account of their human resources. Human assets reporting in India usually includes a profile of human assets, the compensation pattern, training and development, human asset productivity, human asset value, and the total wealth of the organisation. The distinctive nature of our new economy is the importance of the human capital assets of an enterprise. The knowledge and skills of the employees in an entity, based on their educational development, training and experiential learning are increasingly the determinant of its ultimate success. The Microsoft Chief, Mr Bill Gates, once famously said: "Our primary assets, which are our software and software-development skills, do not show up on the balance-sheet at all". Obviously, he was indicating to his empire- the human skill.

Human Capital Valuation in India: In India HRA is not a new concept. In the 1974-1975's Bharat Heavy Electricals Limited (BHEL) and Steel Authority of India Limited (SAIL) initiated HRA, but unfortunately at that time, the HRA concepts were not in use widely. The concept started becoming popular in the mid 1990s once Infosys Technologies started valuing its employees in the financial years 1995-1996 by using Lev and Schwartz model, there after Satyam Computers, ONGC, HPCL and Reliance Industries introduced HRA in the year 2002. Nearly fifteen companies both public and private sector in India valued the human resources and included them in their annual report.

Exhibit IV: Human Resource Valuation Practices in India

S.N.	Name of the public Enterprises	HRA adopted (Year)	Model adopted	Discount rate applied
1	BHEL	1974-1975	Lev & Schwartz	12 per cent
2	SAIL	1983-1984	Lev & Schwartz	15 per cent
3	ONGC	1981-1982	Jaggi & Lev-Schwartz model	11 per cent
4	HPCL	1981-1982	Lev & Schwartz	11 per cent
5	CCI	1979-1980	Lev & Schwartz	11 per cent
6	NTPC	1986-1987	Lev & Schwartz	15 per cent
7	OIC	1982-1983	Lev & Schwartz	12 per cent
8	MMTC	1982-1983	Lev & Schwartz	15 per cent
9	MELON	1984-1985	Lev & Schwartz	12 per cent
10	EIL	1980-1981	Jaggi & Lev-Schwartz model	13 per cent
11	ELIC	1983-1984	Lev & Schwartz	10 per cent
12	KRL	1987-1988	Lev & Schwartz	12 per cent
13	MRL	1985-1986	Lev & Schwartz	15 per cent

Sources: Consolidated annual review of the companies.

Few companies are providing a separate section in their annual report about the number of employees, their grades, qualifications, remunerations and about the HRD, etc. There are many models for valuation of Human capital; each model has its own negatives and positives when it comes to practical application. In Indian context, present value of future earnings models (the Lev and Schwartz model) has an edge over the other models. This model has been widely adopted by Indian companies. Many Indian companies used the Lev & Schwartz model to compute the value of human resources. Their evaluation is based on the present value of future earnings of employees and on the assumptions such as, (a) employee compensation includes all direct and indirect benefits earned both in India and abroad, (b) the incremental earnings based on group/age have been considered, and (c) the future earnings have been discounted at the cost of capital in different rates.

Human Resource value reporting enables these companies to benchmark their performance and efficiency of their human resources with others. Infosys Technologies Ltd is absolutely providing all the information about its human resource and their valuation. The Human Asset value will disclose the value of human resources handling the organisational productivity and help to interpret return on capital employed properly. They establish a close relationship between workforce management and act as a bridge between the employer and employee. When expenditures on human resource such as recruitment cost, training cost and placement cost linked with return on investment (ROI) it become a vital tool for value addition and cost rationalisation. HRA is equally important for the country like India because our country has more human resource than others. If human resources are properly valued, then it is possible that we can preserve our human capital and with better utilisation we can make our country a developed one, within short period of time.

Brand Valuation and Reporting

Brand is an important element of intangible assets which is very popular in India as well as world in the era of globalisation. That brands are very important for the earning and market share enhancement points to view as to why more and more intentions are given by the shareholders as well as management regarding the valuation and reporting of Brand. Many Indian brands are popular and are leaders in Indian as well as global markets. For many businesses, brands have become critical for shareholder wealth creation. Global brands are still the most powerful and sustainable wealth creators in the business world and will continue to be so in the near future. The task of measuring brand value is a complex one. Several models are available for valuation of brand but the most widely used is the brand-earnings-multiple model. There are several variants of this model. According to the *Business Week*/Interbrand annual ranking of the world's most valuable brands conducted and published in August 2009, Coca-Cola was valued as the most valued brand in the world for the year 2009 at $67 billion, when its market capitalisation was $106 billion. Thus, the brand valuation of Coca-Cola was around 64 per cent of its market cap on the date of valuation. The study goes on to state that even established brands like Coca-Cola and Microsoft have started to recognise the need to nurture stronger ties with the customer[6] . Many Indian companies such as Infosys and Satyam have adapted the Generic brand-earnings-multiple model[7] to value their brands. They are using the following methodology for valuing the brand is as:

(a) **Determine brand earnings**-Determine brand profits by eliminating the non-brand profits from the total profits of the company, Restate the historical profits at present-day values, Provide for the remuneration of capital to be used for purposes other than promotion of the brand, Adjust for taxes

(b) **Determining the brand-strength or brand-earnings multiple-Brand-strength multiple** is a function of a multitude of factors such as leadership, stability, market, internationality, trend, support and protection. These factors have been evaluated on a scale of 1 to 100 internally by companies, based on the information available within.

Indian Experience: Brand valuation is a relatively new concept in Indian corporate environment. No specific guidelines have been issued by ICAI on brand valuation other then AS-26. Now AS-26 (Accounting for Intangible assets) is applicable, the brands can be valued if and only if they are purchased and not self generated.

Global brand valuation firm Brand Finance has adopted this method in its India's Top 50 Most Valuable Brands (BF Top 50), presented exclusively by ET. According to BF Top 50, which studied only listed consumer-facing corporate brands, the top brands are spread out evenly across sectors, from software, steel, petroleum, airlines and banking, proving that brands can create significant economic value even outside the traditional consumer goods sector. The valuation was performed by brand finance using the relief-from royalty approach[8] . According to **Mohanty B. K. (2010)**[9] this methodology has been used because of two reasons: first, it is the valuation methodology that is favoured by the fiscal and tax authorities because it calculates brand values by reference to documented, third party transactions; and second, because it can be performed on the basis of publicly available financial and

[6] www.businessweek.com.

[7] Michael Birkin ,"Valuation of Trademarks and Brand Names" Brand Valuation, edited by John Murphy, Business Books Limited, London)

[8] Relief-from-royalty is another method used by financial analysts. It is based on the concept that, if the company did not have the use of its brand name, it would need to license that right in exchange for a royalty fee. These royalty fees are usually based on a percentage of sales (not profits). The valuation consists of first estimating the fee as a percentage of sales and then projecting that fee over the useful life of the brand.

[9] Mohanty B. K. (2010): "Role of Branding in Business-Value Proposition" The Chartered Accountant. Vol 58 No 11, May, pp.1847-53.

marketing information. Researchers then estimate brand loyalty rates for each of the India's largest industry sectors. Those rates are then adjusted for each company after having understood its brand strength from poring over market surveys consumer research and investor relations material. Exhibit V indicates a list of top 20 brands. As per exhibit Reliance Industry is the leader the year 2008 as well 2009 with the brand value of 6807 ($ Mn) and 7844($ Mn) respectively. Then followed by SBI, Indian oil and other so on. So on a larger platform; the BF Top 50 list should an important signal for Corporate India to recognise brands as significant assets that drive business value.

Exhibit V: Rank of Top 20 Most Valuable Brands in India

Rank 2009	Brands	Brand Value 2009 ($ Mn)	Rank 2008	Brand Value 2008 ($ Mn)	Rating 2009
1	Reliance Industries	7844	1	6807	AA+
2	State Bank of India	5480	4	4215	AA+
3	Indian Oil	4807	3	4509	A
4	TCS	4177	2	4976	AA+
5	TATA Motors	3100	6	3289	AA+
6	BPCL	2620	9	2386	BBB+
7	Bharti Airtel	2512	8	2489	AAA
8	Wipro	2370	5	3295	AA+
9	ITC	2348	10	2204	AA
10	ICICI Bank	2277	7	2929	BBB+
11	HPCL	2274	12	2019	BBB-
12	TATA Steel	2264	14	1825	AAA-
13	L&T	1823	15	1757	AAA-
14	Infosys	1719	11	2117	AA-
15	United Braveries	1718	16	1531	AA
16	Reliance Communication	1436	13	1890	A-
17	Maruti Suzuki	1411	17	1328	AAA-
18	M & M	1335	18	1300	AA
19	Bajaj Auto	1010	20	1001	AA-
20	Hero Honda Motors	859	24	815	AA+

Source: The Economic Times dated 21st November, 2009

Abbreviations used: *AAA - Extremely Strong; AA - Very Strong; A – Strong; BBB – Average; BB - Under Performing*

Now a days brand and their valuation is important task in the hands of managers and financial experts to indicate the real worth of their hidden assets in the era of knowledge economy. Shareholders are equally also interested about the tangible as well intangible assets, which are responsible for the shareholders value creation even those who are not included in the financial statements of the companies. At international level Brand contributed more then 60 per cent of the market capitalisation of the leading US companies and out of 50 top rank brands 30 brands alone belong to US-based companies.

In India, brand valuation is not as popular when compared to international level, but few Indian companies are valuing their brands for the benefit of potential investors and their existing shareholders as a part of fair reporting and disclosure practices. Companies such as Infosys Technologies Ltd and Satyam Tech Mahindra are providing information about brand in their annual reports.

Economic Value Added (Eva®) Reporting

EVA® (Economic Value Added) was developed and registered by a New York-based consulting firm, Stern Steward & Co in 1990 to promote value-maximising behaviour in corporate managers[10]. It is a single, value-based measure that was intended to evaluate business strategies, capital projects and to maximise long-term shareholders wealth. The concept of Economic Value Added(EVA) is closely related to the concept of residual income of economics. Economic Value Added is a financial performance measure that comes closer than any other measure in disclosing the true economic profit of an enterprise. EVA is a performance measure, which reflects the impact of the performance on the shareholders' wealth. Economic value-added measures the profitability of a company after taking into account the cost of capital. It is the post-tax return on capital employed (adjusted for the tax shield on debt) less the cost of capital employed. Companies which earn higher returns than cost of capital known as value creator, and companies which earn lower returns than cost of capital are deemed destroyers of shareholder value.

Formula **EVA= NOPAT- (WACC* CE)**

Here, **NOPAT**= Net operating profit after tax, **WACC**= Weighted average cost of capital, **CE**= Capital employed.

As we know that there are various ways to create the shareholder value traditional (EPS, ROI, EPS/DPS analysis) as well as innovative techniques (TSR, EVA, MVA, CVA etc), but EVA is one of the important tools to measure shareholder value creation with the benchmark of the cost of capital

There are many Indian companies which are also using EVA for the different managerial aspect. For instance Infosys is using EVA for the better corporate information system, Marico industries are using it as singling device that capital is important and better utilisation, Dr Reddy's EVA is criterion for various rewards, such as pay hike, stock options and performance bonus. Tata Consultancy

[10] Stern Stewart & Co, 1999, Internet sitehttp:/www.sternstewart.com.

Services explains the part EVA plays in transforming TCS from an Indian enterprise with a global reach to a truly global organisation. Their first hand experience of the tool was a revelation of the fact that EVA results in an enlarged pie which benefits both the individual and the organisation. For the Godrej Group, EVA has been a tool to measure, motivate, manage and finally, overhaul the mindsets of people.

Exhibit: VI Indian Corporates and EVA Reporting

Company	Usage of EVA
INFOSYS	EVA is used as a tool to tell its clients that the value delivered by Infosys is greater than what the client pays for.
MARICO	As a signalling device to tell its employees that capital is important.
Dr. REDDY'S LAB	As a qualifying criterion to grant rewards such a variable pay, stock options and performance bonuses.
TCS	Here EVA is linked to compensation and has been implemented in great detail.
BHEL	EVA linked with the companies Business strategy and values along with discharge of economic and social responsibility.
HERO HONDA	EVA linked with the performance appraisal and reward to the employees and analyse value creation process.
HUL	Used EVA as a basis to measure the performance of each of its division. EVA locates performance on the basis of operating profit after charging the cost of capital
GODREJ	EVA is used not only as financial, but also as a way of structuring performance linked variable remuneration. EVA has been a tool to measure, motivate, manage and finally, overhaul the mindsets of people

Source: Compiled from annual reports of the sample companies.

EVA is new tool to measure companies' true earning capacity in the modern competitive era. EVA supported corporate entities to increase the profitability with the help of minimisation of the wasteful activities. It also enhances the good governance and reporting and disclosure practices of the corporate in the information age. To increase EVA, a company can improve its efficiency, reduce its cost of capital, or increase its capital. It's an issue of both quality and quantity.

Over the last one decade, companies in India have paid a great deal of attention to improving their EVA. Many companies they are reorganising Capital employed, their capital structure and sound working capital management. As far as shareholders point of view is concerned, EVA is a new tool to measure their real wealth creation rather then simple profitability and uniform reporting and disclosing practices of Indian companies create a right environment for transparent reporting practices.

Intangible Assets Score Sheet

Intangible assets score sheet is one of important tool about disclosure and reporting for intangible assets. Many companies published models for valuing two most important intangible assets – human resources and their brand value. This score sheet is developed by Karl-Erik Sveiby[11] who believes that such representation of intangible assets provides a tool to the investors for evaluating market-worthiness of the company. The various components of intangible assets score sheet are classified as follows:

External Structure-Our Clients: For any company whether manufacturing, process or service oriented unit, most valuable intangible asset is their client base. Under this form of external structure we include retention and growth of clients every year, repetition of orders, total clients during the year and addition of new clients in the current year. We also include regular clients and their contribution in the total revenue, efficiency includes sales per clients, etc. Clients base and their nationality (belongs to different countries) indicate popularity of product in the different countries and continents. Stability of client business shows repetition of business order important for the revenue growth and earning point of view which directly affects the market capitalisation of the company.

Internal Structure: Internal structure is one of the important intangible assets which differ from company to company. Internal assets are systems, technologies, methodologies, processes and tools that are specific to an organisation. These assets give the organisation a unique advantage over its competitors in the marketplace. It also includes research and development facilities which described as R&D/ total revenue, technological investment and total investment by the firm during the financial years. All theses are important to create and maintain intangible assets in the long run.

Competence — People: Competence of an organisation will depend upon the quality of the human resource which is working indirectly or as supporting staff. Quality of people also depends upon the qualifications and their experience with related work. Under the evaluation and reporting of competence the important factors are — total employees, employees added during the years, lateral added, staff education index and employees working from different nationalities. Gender classification such as male and female, stability of employees their age factor, and attrition of employees, etc. Some financial parameters like value added per employees, sales per employees will also be considered under the competence. When we compare all these with similar companies or competitors, we know the strength and competence of people.

Indian companies such as Infosys and Satyam Tech

[11] The New Organizational Wealth, Berrett-Koehler Publishers Inc., San Francisco.

Mahindra are providing information about intangible scoresheet in their annual reports as additional information, but many companies are far away from the current trends of reporting and their annual reports are lacking the intangible scoresheet.

Balance Sheet with Intangible Assets

Balance sheet with intangible assets is another way for the reporting and discloser of overall Intangible assets. Most of the Indian companies are still not incorporating intangible assets in their balance sheet while preparing annual reports. Historically, from the 1840s to the early 1990s, a corporate's value was mainly driven by its tangible assets–values presented in the corporate balance sheet. The managements of companies valued these resources and linked all their performance goals and matrices to these assets such as return on investment, capital turnover ratio, etc. The market capitalisation of companies also followed the value of tangible assets shown in the balance sheet with the difference rarely being above 25 per cent. In the later half of the 1990s, the relationship between market value and tangible asset value changed dramatically. By early 2000, the book value of the assets represented less than 15 per cent of the total market value. In short, intangible assets are the key drivers of market value in this new economy. A knowledge-intensive company leverages know-how, innovation and reputation to achieve success in the marketplace. Exhibit VII explains the balance sheet with intangible assets for the last one decade to know the contribution of the intangible in the total assets of Infosys.

Its clear from the exhibit that intangible assets reserve is consistently increases from ₹7884 crore to ₹134478 crore during the last ten years. Intangible assets of Infosys are in presented in two parts HR value and Brand value. Brand 'Infosys' value significantly increases from ₹5246 crore to ₹32345 crore during 1999-2k to 2008-2009. Similarly HR value also increases from ₹2237 crore to ₹102133 crore during 1999-2k to 2008-2009. When we are comparing value of IA with total assets (Including IA) it is always between 86 per cent and 90 per cent of the total assets during the study period. It clearly describes the strength of IA in the knowledge era as compare to tangible assets.

Indian companies such as Infosys, Satyam Tec Mahindra they are providing information about intangible scoresheet in their annual report as additional information's. There are many effective intangible assets which cannot be recognised by the firm in the current definition and practice due to unstable nature and continuous changes in their structure, shareholders and investors are away from the real potential of the firm other then tangible assets. Due to all these reasons real economic value of the firms not reflected by the traditional accounting system. The practice of the company in the disclosure of these intangible accounting parameters in the Annual published accounts of the company will definitely attract public interest and acts as a confidence building measure in the corporate world. On the basis of such intangible accounting parameters valued opinion about the performance and position of the company could be formed by they various stakeholders.

Exhibit VII: Balance Sheet With Intangible Assets

(Amount in Crore ₹)

Particulars	Amount (2009)	Amount (2008)	Amount (2007)	Amount (2006)	Amount (2005)	Amount (2004)	Amount (2003)	Amount (2002)	Amount (2001)	Amount (2000)
SOURCES OF FUNDS										
Shareholders Funds										
Share Capital	286	286	286	138	135	33	33	33	33	33
Reserves and funds										
Capital Reserves – IA	134478	130684	89069	69552	42487	29325	17905	16796	10500	7484
Other reserves	17968	13509	10969	6828	5090	3216	2828	2047	1357	800
Minority Interest	---	---	4	68	94	94	--	---	---	---
Total	**152732**	**144179**	**100328**	**76586**	**47806**	**32668**	**20766**	**18876**	**11889**	**8317**
APPLICATIONS OF FUNDS										
Fixed assets	5354	4777	3771	2226	1574	1032	773	718	558	207
INTANGIBLE ASSETS:										
Brand Value	**32345**	**31863**	**31617**	**22915**	**14153**	**8185**	**7488**	**7257**	**5376**	**5246**
Human Resource	**102133**	**98821**	**57452**	**46637**	**28334**	**21140**	**10417**	**9539**	**5123**	**2237**
Investments	---	72	25	755	1211	945	33	44	34	14
Deferred Tax assets	126	119	92	65	44	40	37	24	--	---
Current Assets										
Debtors	3672	3297	2436	1608	1322	651	512	337	302	136

Particulars	Amount (2009)	Amount (2008)	Amount (2007)	Amount (2006)	Amount (2005)	Amount (2004)	Amount (2003)	Amount (2002)	Amount (2001)	Amount (2000)
Cash and Bank Balances	9695	6950	5834	3429	1576	1722	1336	772	385	432
Loan and advances	3279	2771	1251	1297	1025	861	873	644	430	210
Less: C/L and provisions Current liabilities	2004	1912	1469	934	656	582	315	126	135	67
Provisions	1868	2279	681	1412	777	1326	388	333	185	99
Net Current Assets	12774	8827	7371	3988	2490	1326	2018	1293	798	612
Total	**152732**	**144479**	**100328**	**76586**	**47806**	**32668**	**20766**	**18876**	**11889**	**8317**
Percentage of I A/ total assets	**88 per cent**	**90.45 per cent**	**88.79 per cent**	**90.82 per cent**	**88.87**	**89.77 per cent**	**86.22 per cent**	**89.00 per cent**	**88.31 per cent**	**89.97 per cent**

Value Reporting

Value reporting is another unique feature of reporting and disclosure in the current competitive environment. It is believed that information asymmetry between the Management and shareholders should be minimised. Accordingly, Indian companies should always practise progressive and transparent disclosure. Infosys is the first in Indian companies to adopt US Generally Accepted Accounting Principles (GAAP)[12]. Thereafter, it rapidly progressed to additional disclosures that give deeper insights to the way they run business and into value creation. Infosys continues to provide information that is not mandated by law because it believes it will enable investors to make more informed choices about our performance. *The Value Reporting Revolution: Moving Beyond the Earnings Game*[13] , acknowledged the need to go beyond GAAP in providing information to shareholders. The book, *Building Public Trust: the Future of Corporate Reporting*[14], indicates business model and reporting.

To reduce information asymmetry, companies such as Infosys make the following disclosures in addition to the mandated Indian and US GAAP financial statements and supplementary data as required by the relevant statutes such as: Brand valuation, Balance sheet including intangible assets, Economic Value-Added (EVA®) statement, Intangible asset scorecard, Risk management report, Human resource accounting and value-added statement, etc.

These reports are integral to the Annual Report. By adopting similar internal measures to evaluate business performance, their employees are adjudged based on metrics that are additional to the financials. This balances financial and non-financial performance across all levels of the organisation. Accordingly, they seek to align the measures by which stakeholders measure their performance with what results in employee rewards. In fiscal 2005, Infosys adopted and furnished eXtensible Business Reporting Language (XBRL) data to the United States Securities and Exchange Commission (SEC) for the first time. They are the fourth company worldwide to adopt XBRL.

Exhibit: VIII

Reporting Under Indian GAAP and US GAAP

US GAAP (American generally accepted accounting principles) are the new accounting principles which are followed by all the USA companies as well as, all the international companies who want to raise capital from US capital market. With the international practice large Indian companies like Reliance, Infosys, and Indian Oil also fallow US GAAP along with Indian GAAP to take the advantages of US capital and technology available at lower cost of capital. For the Indian companies that are listed on American stock exchanges, there is a growing realisation that the publication of their annual accounts both under Indian and US GAAP adds to the comparability of their profits and financial position.

Besides this accounting as per US GAAP enhances company profile and reputation. In a financial environment

[12] Annual report of Infosys Technologies Ltd 2009

[13] Authored by Robert Eccles, Robert Herz, Mary Keegan and David Phillips, associated to accounting firm PricewaterhouseCoopers, John Wiley & Sons, Inc., USA, ©2001,

[14] published by John Wiley & Sons, Inc., USA, ©2002 PricewaterhouseCoopers

where the investor is getting increasingly cautious and aware, the companies have begun to understand that the investor will not even touch a company whose balance sheet is even not up to the mark. US GAAP, in this situation, gets that trust stamp of high quality, and makes the company an attractive investment proposition. The stricter disclosure norms do ensure greater transparency and enhance credibility in the capital market. To attract the international investor, thus, US GAAP is almost a must. With most Indian companies heading towards the western financial markets, accounting as per US GAAP has become an essential practice. Indian companies such as Infosys, Satyam Tech Mahindra, Wipro, Patni Computers, Ranbaxy, Dr Reddy's, Dabur, BHEL and RIL are providing information statements under US GAAP in their annual report as additional information, which is useful for the global investor to understand the financial information with their own accounting standards. But still many Indian companies are not disclosing information under US GAAP and they are deprived of the advantages of global investment and technology.

Current Cost Adjusted Financial Reporting

Financial statements are prepared with a view of presenting the financial position of the business on a particular date and displaying the result achieved during an accounting period. These statements are prepared on historical cost (original or acquisition cost) on the assumption that the purchasing power of the money remains the same. But the assumption is not valid as the purchasing power of the rupee goes on changing from time to time on account of changes (up words or down words) - in price level. There is a growing realisation that historical cost based accounting system does not adequately serve the needs if users of accounting information in view of high inflationary pressure. Now it's accepted by the all authorities to include statement of price level changes in annual reports of companies.

There are two popular methods as current purchasing power method (CPP) and current cost accounting methods (CCA). Current cost accounting (CCA) seeks to state the value of assets and liabilities in a balance sheet at their value and measure the profit or loss of an enterprise by matching current costs against current revenues. CCA is based on the concept of 'operating capability', which may be viewed as the amount of goods and services that an enterprise is capable of providing with its existing resources during a given period. In order to maintain its operating capability, an enterprise should remain in command of resources that form the basis of its activities. Consequently, it becomes necessary to take into account the rising cost of assets consumed in generating these revenues. CCA takes into account the changes in specific prices of assets as they affect the enterprise.

The basic purpose of current cost accounting is to provide more useful information than that which is available from historical cost accounts for the guidance of management of the business, shareholders and other interested parties, matters related with the financial viability of the business, return on investment, pricing policy, cost control, and distribution and capital rearing, etc. In spite of having implementation problems, some of the leading Indian companies are adopting inflation accounting for external reporting purpose, but such number is insignificant. Among public sector undertakings, Hindustan Machine Tools followed Hyde Guidelines and Bharat Heavy Electricals Ltd. followed the CCA method and also Hyde Guidelines in preparing their annual reports. Cement Corporation of India, Steel Authority of India and a few other companies have been taking into consideration the inflation adjusted data and presenting supplementary inflation adjusted accounts in their annual reports.

Value Added Reporting

Value added is a basic and important measurement to judge the performance of an enterprise. It indicates the net value or worth created by the manufacturer during a specific period of time. No enterprise can survive and grow, if it fails to generate wealth. An enterprise may exist without profit, but cannot survive without adding value. Value added reporting is a part of financial reporting that shows value addition by firm during the specific period of time and their application towards employees, government, capital providers for development and expansion activities. Value added is meaningful measure of corporate performance than conventional measures based on traditional financial accounting and can be particularly useful for employee oriented approach, which will allow more fruitful discussion with employees and can be especially useful in productivity arrangements. The value added is a basic and broad standard which comprises investment by shareholders, debenture holders, creditors and specialised financial institutions. If such investment does not create wealth (value addition), it means that is misuse of public funds. Therefore, the concept of value added has a direct linkage with the concept of social responsibility of the business. Value added can be particularly useful to management in comparing the performance of business within group or companies' performance with its industry as a whole. Financial reporting has traditionally concentrated on the needs of shareholders and creditors, but value added statement is important for stakeholders as well as employees for their remuneration point of view.

Generation of Value Added: Value addition is the increase in the market value brought by an alteration in the form, location and availability of a product or services, excluding the cost of brought in material or services used in the product or services. In simple words the value added is an excess of turnover + income from services over the cost of brought in material and cost of the services. Here turnover indicates (Gross sales + sales tax and duties –

(rebate + returns + commission + discount + Goods used for self consumption). In way of formula we can denote as:

$$Va = S + I - C$$

Here, Va means Value addition, S means sales, I mean Income from services and, C Cost of brought in material and services.

Application of Value Added: Value added will be shared by three segments e.g. (1) Employees, (2) Government, (3) Capital providers, and remaining share will be retained by the company for their development and expansion activities. The employees comprise all human resources e.g. workers and staff, the share available to them is salary and gratuity, contribution to the PF, bonus and remuneration to the top managerial persons. The government provides not only the infrastructural facilities, but also conditions encouraging to operational activities; hence the share of value added has also to be given to the government in form of custom duty, excise duty, sales tax, and wealth tax. Share holders are the ultimate claimant of value added. As such a share of the value added is given to them in the form of dividend, from the financial management point of view the profit ploughing back or retained earning also belongs to them. But since they have not yet been paid out they are to be separately distributed under the heading, reinvestment in business. Providers of capital by outsider agencies like bank, financial institutions, and debenture holders will be given in the form of interest.

From better discloser and transparency point of view, some public sector companies such as BHEL, SAIL, NTPC, HPCL and Infosys had started presenting value added statement in their annual reports. Value added reporting enhances the financial reporting which is traditionally concentrated on the needs of shareholders and creditors, but value added statement is important for various stakeholders of the society for social distribution of wealth which is created by corporate in a particular period.

Total Shareholder's Return

Total shareholder's Return (here after TSR) represents the change in capital value of a company over a period of one year, plus dividends, expressed as a percentage of gain or loss of the beginning capital value. TSR is a concept used to compare the performance of different stocks of companies and shares for a particular period. To bring in more accuracy into measuring the TSR, the debt component has been eliminated from the capital value. TSR reflects the gain delivered to shareholders by the company directly and indirectly, directly in the form of the dividend received by them for a year and indirectly in the form of enhancement of capital value by the stock during the financial year. TSR is calculated by deducting the opening market capitalisation from the closing market capitalisation, and adding the dividend paid. It is the gain expressed as a percentage of the opening market capitalisation. An alternative way of calculating of TSR is to apply the internal rate of return of all cash flows paid to investors during a particular period. However, whichever method we are using to calculate total shareholder return, the result essentially represents an indication of the overall return generated for stockholders, expressed in percentage terms.

Formula TSR= (CMC-OMC)+ D*100/ OMC , Here, TSR= Total shareholder's Return, CMC= Closing market capitalisation, OMC= opening market capitalisation, D = dividend

If a company is reporting and disclosing about TSR in annual reports, it's significant for the present and potential investors to take appropriate decision about investment. Along with that they can make inter industry comparison about dividend as well as capital appreciation for a particular year. Similarly, this information is equally important to managers for decision making process related with capital structure as well as dividend payout decision as a part of dividend and financial policy.

Market Value Added

Market Value Added (here after MVA) is a supplementary technique used to evaluate a company's performance in stakeholder value creation. MVA is the excess of the market value of the company over the value of investors' capital. In contrast to the economic profit, which is the value added by the company over a given period, the MVA is a measure of the investor's perception of value added. If MVA is positive, the firm has added value, creating value for shareholders. If it is negative, the firm has destroyed value. The amount of value added needs to be greater than the firm's investors could have achieved by investing in the market portfolio. Market Value Added is a modified version of EVA as the value is more related to market. In the ways of formula MVA express as follows:

MVA = v- k, where v= Current market value of debt and equity, k= capital invested in the firm (Share capital + Free Reserves + Debt).

MVA is important to know shareholders value creation for a specific period. If companies are providing information about MVA, they attract present and potential investor towards themselves. Outsider/external parties can evaluate the work done by the shareholders agent (directors) with the help of MVA. If MVA is positive during the year, it indicates work done by the Director's are positive and worthwhile for shareholders value creation point of view *vice versa* destroying the of wealth of shareholders.

Market Capitalisation

Market capitalisation is a measurement of the size of a business enterprise (corporation) equal to the share price times the number of shares outstanding of a public company. Market capitalisation is calculated by outstanding shares multiply by market value per share at the particular period (usually companies using last month

data of the financial years). Market capitalisation is a market estimate of a company's value, based on perceived future prospects, economic and monetary conditions.

Market capitalisation is one of the bases for the shareholders value creation. Reporting about the market capitalisation is useful for the various stakeholders. In long term perspective higher market capitalisation indicates higher demand for the shares in the open market due to higher earning/profitability and higher contribution in the business operations. Similarly it also depends upon the long term strategy of the company as to how they are utilising their resources such as manpower, their knowledge, competence and skills to enhance the earning for the shareholders. Market capitalisation can be expressed as follows:

mc = n* v, here mc =market capitalisation, n= number of outstanding shares, v = market value of shares on specific period.

Enterprises Value

Enterprise value (here after EV), is an economic measure reflecting the market value of a whole business. It is a sum of claims of all the security-holders, debtholders, preferred shareholders, minority shareholders, common equityholders, and others. It is an aggregated value of the firm based on the market value of the equity plus market value of the debt minus cash and cash equivalents for a specific period. EV attempts to ascertain the value of the company as on a particular date. EV is one of the fundamental metrics used in business valuation, financial modelling, accounting and portfolio analysis etc. EV is more comprehensive than market capitalisation, which only includes the market value of only equity. We can denote EV as:

Formula: **Enterprises value** = Common equity at market value + Debt at market value+ Minority interest at market value, (if any)–Associate company at market value, (if any)+ Preferred equity at market value– Cash and cash-equivalents.

Voluntary Reporting & Discloser Practices- A Survey of India Corporates

Disclosure and reporting of accounting information is an important aspect of the financial reporting. A comprehensive survey was done by the researcher to know the contemporary reporting practises adopted by the Indian corporates for the enhancement of value of financial statements/annual reports. In this survey, a parameter of 12 independent variables are taken by the researcher such as; Economic Value Added (EVA), Value Added Statement (VAD), Human Resource Accounting (HRA), Brand Valuation (BV), Intangible Assets Scoresheet (IAST), Balance Sheet with Intangible Assets (BS (IA)), Value Reporting (VR), Presentation of financial statement under US GAAP, Current Cost Adjustment Reporting(CCAR), Market Capitalisation (MVA), Enterprise Value (EV) and Total Shareholders Returns (TSR) to evaluate voluntary reporting practices to enhance the effectiveness and usefulness of financial statement in the competitive era. All the above parameters are not in mandatory nature under the corporate law, but new era companies are using them in financial statement significantly.

For each parameter one point is allocated and total maximum points for all the parameters are twelve, (if a company they reporting with all the above voluntary reporting methods). For this survey 60 leading BSE listed companies are taken to analyse voluntary reporting practice and how they are enhancing the value of financial statement along with other mandatory information's. All the 60 sample companies are categorised as per their nature of business such as; Information Technology industry, Pharmaceutical industry, FMCG industry, Automobiles industry, Tele communication industry, Infrastructure industry, Banking sector industry, and Capital goods industry. Out of the 60 samples companies, only 21 companies are using one or more voluntary reporting parameters in the last five years (refer exhibit X). Other companies are not employing any single parameter of voluntary reporting practices in their reporting statement.

Exhibit IX: Scale for Evaluation of Voluntary Reporting

Score range	Rank
10-12 points	Excellent
7-9 points	Very good
5-6 points	Good
3-4 points	Average
Below 3 points	Poor

After the determining the total score based on above parameters, they have been evaluated on five point scale as state in exhibit IX. Based on evaluation table, Indian companies are ranked as excellent, very good, good, average, and poor. According to reporting table and points scored by the various corporates; Infosys technology a leading (information technology) company score 11 points (they are reporting and disclosing with all parameters) and ranked as excellent. After that 7 points are scored by Satyam Mahindra Tec and secured very good rank for their reporting. Among the public sector companies BHEL is the company scored 5 points with the use of EVA, Value added statement, market capitalisation and presentation of financial statement under US GAAP and enterprises value also and rank as Good for reporting. Dr Reddy's also scored 5 point based on reporting practices and ranked as Good. However, other 16 companies secured less then 3 points out of the 12 points categories as poor performer in the area of voluntary reporting practice.

Similarly, when we analyse the adaptation of a particular method of reporting by the Indian corporates, EVA, Value

Added Statement, MVA or market capitalisation, and presentation of financial statement under US GAAP, these are the popular methods adopted by Indian companies during the last five years. Among the leading Government sector companies EVA, MVA, HRA and Value added reporting are popular as compared to other voluntary reporting methods.

It is clear from the above analysis that as far as voluntary reporting is concerned, Indian companies are not making serious efforts to adopt all such methods as a part of voluntary reporting practices. For example among the other important factors, brand is one of the popular intangible assets and many independent agencies (such as brand finance, intangible business, etc.) are valuing the brand value for Indian companies but they are not reporting about the brand value in their annual report as in separate section. Similarly, in the knowledge era human resources are the key elements in the service industries, but hardly few Indian companies are using HRA as additional information for the benefit of various stakeholders.

Exhibit X: Voluntary Reporting Methods adopted by Indian Corporates.

Companies	EVA	VAD	HRA	BV	IAST	BS(IA)	VR	USGAAP	CCAR	MVA	EV	TSR	Points
WIPRO	--	--	--	--	--	--	--	Y	--	Y	--	--	2
INFOSYS	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	---	11
TCS	Y	---	---	--	--	--	--	--	--	Y	--	--	2
SATYAM	Y	---	Y	Y	---	Y	---	Y	--	Y	Y	---	7
PATNI COM.	--	--	--	--	--	--	--	Y	--	--	--	--	1
RANBAXY	--	--	--	--	--	--	--	Y	---	--	--	--	1
Dr REDDYs	Y*	--	--	--	--	--	--	Y	--	Y*	Y	Y	5
NICHOLAS	Y	--	--	--	--	--	--	--	---	--	--	--	1
DABUR	--	--	--	--	--	--	--	Y	--	--	--	--	1
HUL	Y	--	--	--	--	--	--	--	---	Y	--	--	2
ITC	--	--	--	--	--	--	--	--	--	Y	--	--	1
MIRCO	Y	--	--	--	--	--	--	--	--	--	--	--	1
HERO HONDA	Y	--	--	--	--	--	--	--	--	Y	--	--	2
EICHER LTD	--	--	--	--	--	--	--	--	--	Y	--	--	1
SAIL	--	Y	--	--	--	--	--	--	--	--	--	--	1
NTPC	--	Y	--	--	--	--	--	--	--	--	--	--	1
ONGC	--	--	Y	--	--	--	--	--	--	--	--	--	1
HPCL	--	Y	Y	--	--	--	--	--	--	--	--	--	2
BHEL	Y	Y	--	--	--	--	--	Y	--	Y	Y	--	5
RIL	--	--	--	--	--	--	--	Y	--	Y	--	--	1
HINDALCO	--	--	--	--	--	--	--	--	--	Y	--	--	1

Source: Compiled from annual reports of the various companies from 2004-2005 to 2008-2009.

**Reporting and discloser up to the year 2007-2008*

Conclusion

After the analysis of current trends of voluntary corporate reporting, it is apparently understood that if a corporate entity adopted latest practices for corporate reporting (annual reports) it will fulfil the needs and requirements of the various stakeholders in the current competitive and knowledge environment. The right information to all stakeholders enhance the quality of reporting, enable effective decision making. Few Indian companies are applying all these voluntary reporting methods in their annual reports. However, still, a large group of the Indian corporates are away from the current reporting practices, their reporting is based on the traditional system of reporting. Specially, for corporates which are working in the global environment, it is essential to adopt global corporate reporting practices for better understanding of financial transactions, as well as critical information related with the future prospects of the company. ■