

CORPORATE ANNUAL REPORTS⁵

An annual report is a comprehensive report on a company's activities throughout the preceding year. Annual reports are intended to give stakeholders/financial institutions, viz. the shareholders, creditors

⁵ The annual report is a document published by a company at the end of each financial year.

etc. information about the company's activities and financial performance. In most cases, companies are required to file the annual reports with the Registrar of Joint Stock Companies. Companies listed with the stock exchange are also required to report about their operating and financial results more frequently depending upon the rules of the stock exchange concerned. Typically, annual reports include the following:

1. Notice as to Company's Annual General Meeting
2. Chairman's Statement
3. Directors' Report
4. Corporate Governance Report
5. Financial Statements including

- (i) Profit & Loss Account and Balance Sheet
- (ii) Cash Flow Statement
- (iii) Auditors' Report
- (iv) Notes to the Financial Statements
- (v) Accounting Policies

A brief note about each of the above items is being given below:

1. Notice as to Company's Annual General Meeting Annual General Meeting is a regular meeting of the members of the company held annually for the purpose of transacting the company's ordinary business which includes

- (a) Passing of the annual accounts.
- (b) Declaration of dividends.
- (c) Election of Directors for those who are retiring by rotation.
- (d) Payment and fixation of the auditors' remuneration.

All other items of the agenda except those given above shall be considered as a special business. A written notice of at least 21 days is required to call an annual general meeting of the shareholders.

2. Chairman's Statement It is an important medium through which a company's management communicates with its stakeholders, viz. shareholders, present and prospective investors and others interested in the operating and financial performance of the company. The statement highlights the company's future plans, industrial relations, company's position in the industry, research and development efforts etc.

3. Directors' Report It is a report submitted by Directors of the company to its shareholders apprising them of the performance of the company under their direction. According to Section 217 of the Companies Act, the following are some of the important details to be incorporated in the Directors' Report:

- (1) There shall be attached to every balance sheet laid before a company in general meeting, a report by its Board of Directors, with respect to
 - (a) the state of the company's affairs
 - (b) the amounts, if any, which it proposes to carry to any reserves in the balance sheet
 - (c) the amount, if any, which it recommends should be paid by way of dividend
 - (d) material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance sheet relates and the date of the report;

- (e) the conservation of energy, technology absorption, foreign exchange earnings and outgo, in such manner as may be prescribed.

(2) **The name of every** employee of the company who has been paid remuneration for that year at a rate which is not less than such sum as may be prescribed.⁶

(3) Director's report shall also include a Director's Responsibility Statement indicating therein:

- (a) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (b) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period.
- (c) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (d) that the directors had prepared the annual accounts on a going-concern basis.

4. Corporate Governance Report The report requires the corporation for timely and accurate disclosures on all matters regarding their financial position, performance, ownership and governance. Corporate governance rests upon the four pillars of transparency, full disclosure, independent monitoring and fairness to all especially to minority shareholders. In India, SEBI issued a circular in February, 2000, as a result of which Clause 49 was incorporated in the listing agreements of the stock exchanges. This clause is as good as any global standard on corporate governance providing for matters concerning composition of board of directors, audit committee, remuneration of directors, board meetings, disclosure to shareholders etc.

5. Financial Statements 1. *Profit & Loss Account and Balance Sheet*: According to Sections 210 & 211 of the Companies Act, at every annual general meeting of the company, the Board of Directors shall lay before the company:

- (a) a Balance Sheet as at the end of accounting period
- (b) a Profit & Loss Account/Statement or an Income Statement for that period.

The *P & L* Account statement may show separately the gross profit, net profit and the appropriations.

According to Section 211, the Profit & Loss Account and the Balance Sheet should show a true and fair view of the statement of affairs of the company. The Balance Sheet should be in the form given in Part-I of Schedule-VI or as near thereto as the circumstances permit. The Profit & Loss Account should comply with the requirements of Part-II of Schedule-VI of the Companies Act.⁷

2. *Cash Flow Statement*: Balance Sheet and Profit & Loss Account, prepared on the basis of accounting norms and principles, contain certain non-cash items. The liquidity position of the company cannot be judged on the basis of their statements. This is possible by preparing a cash flow statement in the format as prescribed by AS-3 (Revised) issued by the Institute of Chartered Accountants of India.

3. *Auditors' Report:* The Auditors' Report discloses whether the accounts represents a true and fair view of state of affairs of business or not. It also states whether the company has followed the various accounting standards and guidelines issued by the Institute of Chartered Accountants of India from time to time.

4. *Notes to the Financial Statements:* The notes to the financial statements give explanation about items given in the financial statements to make them more clear, comprehensive and explanatory.

5. *Accounting Policies:* Accounting policies refer to the specific accounting principles and the methods adopted by the company in applying those principles in the preparation and presentation of financial statements. There is no single list of accounting policies which are applicable to all circumstances. The choice of appropriate accounting policies applicable in specific circumstances of each enterprise calls for considerable judgment by the management of the enterprise.