

## **A COMPARATIVE STUDY ON QUALITY OF INTERIM REPORTS OF SELECT AUTOMOBILE AND PHARMACEUTICAL COMPANIES**

**Nithyananda Patel R\***

**Dr T Renuka Murthy\*\***

**Abstract:** Interim Financial Reports published by companies every quarterly is considered to be the prime source for the stakeholders to keep track of the financial performance of the company. There has been a lot of discussions in and around business people and federations about the compliance of the standards of interim reports. Interim reports being a transparent disclosure document, companies have a hesitant approach towards the disclosure of information as per the standards. Though companies claim to have disclosed the reports as per the standards, the claim seems to be failed by reports of the recent studies on the quality of interim reports of companies in India from majority of the sectors. In India the standards of the interim reports are governed by IAS – 34, AS - 25 and SEBI Guidelines. The above standards streamlines the format of the reports of the companies publishing interims. This study is aimed at assessing the quality of recently published interim reports of two major industrial sectors of India viz., automobile and pharmaceutical sectors. Quality of the interim is measured on two dimensions namely content and context. Majorly the study has attempted to find the minimum requirement disclosures as per the standards and the evaluation has been done using the scorecard developed by Mak Yuen Teen and Penelope Phoon-Cohen for business times named Business Times Corporate Transparency Index. Evaluation is based on the four major criteria's namely content, context, timeliness and auditing.

Keywords:

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\* Assistant Professor, Global Institute of Business Studies, Bangalore

\*\* Professor & Head, Department of MBA, VTU Regional Center - Mysore

## **I.1.INTRODUCTION**

In the modern business environment, the main objective of financial reporting is to assemble financial information useful for investors, simplifying decisions related to investment and granting loans. The importance of disclosures in financial reporting between corporates and users is increasing due to increasing complexities of economic and financial events. In today's scenario companies have adopted different means of disclosing information to different stakeholders. The information to different stakeholders is being provided through annual financial reports, interim financial reports and other various circulars etc. Among this Interim financial report is now being recognized as one of the important tools for providing information and analyzing the company's performances. In regard to that separate accounting standard has been developed in India to cater the requirement of stakeholders. The Council of the Institute of Chartered Accounts of India issued Accounting Standard (AS) 25, 'Interim Financial Reporting', Company is required to prepare an interim financial report and it should comply with this standard.

## **I.2.COMPONENTS OF INTERIM REPORTS:**

Interim Financial Reporting is the financial results of any period that is shorter than a fiscal year. The objective of Accounting Standard (AS) 25 is to suggest the minimum content of an interim financial report and to suggest the principles for recognition and measure in complete or condensed financial statements for an interim period.

A complete set of financial statements normally includes:

- Balance sheet
- Statement of Profit and loss
- Cash flow statement
- Notes including those relating to accounting policies and other statements.

Minimum Components for an Interim Financial Report are:

- A Condensed balance sheet
- A Condensed Statement of Comprehensive Income
- A Condensed Statement of changes in Equity
- A Condensed Statement of cash flows and selected explanatory notes.

**Scope of Interim Reports:**

- Accounting Standard (AS25) does not mandate which enterprise should be required to present interim financial reports.
- A statute governing an enterprise may require an enterprise to prepare and present certain information at an interim date which may be different in form and content as required by this standard.
- The requirements related to cash flow statement, complete or condensed, contained in this standard are applicable.

**Form and Content of Interim Financial Statements:**

- If an enterprise prepares and presents a set of condensed financial statements in its interim financial report then it includes, each of the headings and sub-headings that were included in its most recent annual financial statements and selected explanatory notes as required by the standard (AS 25).
- If an enterprise presents basic and diluted earnings per share in its annual financial statements should be accordance with Accounting Standard (AS 20).
- It includes both the consolidated financial statements and separate financial statements, complete or condensed.

**Period for which Interim Financial Statements are necessary to be presented:**

Interim reports should include interim financial statements for periods as follows:

- A Balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.
- Statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods of the immediately preceding financial year.
- Cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year to date period of the immediately preceding financial year.

## **II.1.OBJECTIVES OF THE STUDY**

This study was carried out on employees of select pharmaceutical company to find the following objectives:

- To identify the factors influencing of labour productivity in
- To measure the impact of identified factors of productivity as a function.

## **II.2. RESEARCH DESIGN**

Descriptive research design was used by the researcher. The major purpose of the descriptive research was to identify the provisions of interim reports and the standards set for preparation of interim reports by authorities.

## **II.3. SAMPLE DESIGN:**

The researcher used interim reports of 5 selected automobile and 5 pharmaceutical companies from their website. Companies were selected based on the judgement based on their size and turnover.

## **IV. DATA ANALYSIS AND INTERPRETATION**

### **INTERIM FINANCIAL REPORTING PRACTICES INDEX OF SELECT AUTOMOBILE AND PHARMACEUTICAL COMPANIES**

A comparative analysis Interim Financial reporting practices of selected Pharmaceutical and Automobile companies were carried out in this chapter. For analysis purpose they were measured based on the content and context criterions of the interim financial reports. For this purpose an indexed named “**BUSINESS TIMES CORPORATE TRANSPARENCY INDEX**” developed by Mak Yuen Teen and Penelope Phoon-Cohen was used. Above index was modified according to both industries environment. The index rates companies majorly on two aspects viz,

- The quality of their interim financial disclosures and
- The way they are presented to the stakeholders.

Scoring for organization can be high on the index when they provide information beyond the requirements specified in the listing requirements (content) and provide such information in a timely, transparent and accessible manner to the market.

**METHODOLOGY FOR ANALYSIS:**

The procedure involves reviewing, analysing and scoring of quarterly financial reports of the selected automobile and pharmaceutical companies. Scoring in index is made against the financial reports of selected companies in two sections: "content" and "context".

The "content" section assesses the quality and quantity of information in the interim financial report and the "context" section scores the effectiveness of how the "content" is communicated to the users. The index provides a maximum score of 100, out of which 60 points are allocated to the content section and 40 points to the context section. For content section interim reports' minimum components were considered for indexing and scoring has been awarded as per the disclosures in each company's report against requirements of respective minimum component headings. As regards to context section the factors are related to time period, formats and certain other legal requirements.

**FACTORS CONSIDERED FOR INDEXATION****TABLE NO: 1**

| <b>PARTICULARS</b>   | <b>MS</b> |
|--|-----------|
| <b>CONTENTS</b>  |           |
| <b>COMPLETENESS OF THE REPORT</b>  |           |
| Condensed Balance Sheet  | 12        |
| Condensed Profit and Loss Account  | 15        |
| Condensed Cash Flow Statement  | 6         |
| Detailed Explanatory Notes   | 7         |
| Segmental information  | 10        |
| Other Details  | 10        |
| <b>Maximum for Content (A)</b>   | <b>60</b> |
| <b>CONTEXT</b>   |           |
| <b>TIMELINESS OF RELEASE OF RESULTS</b>  |           |
| Results announced within 30 days (15 for this category) if 1 <sup>st</sup> ten days= 15, next ten days = 10, last ten days of the month=5. | 15        |

|   |            |
|---|------------|
| Results announced after 30th day but before 60th day: (03 for this category)  |            |
| 0Results announced after 60 days (00 for this category)   |            |
| Audited and Unaudited Result(Audited =8 and Unaudited =5)   | 8          |
| Result approved by BOD/Management/Chief<br>Financial Officer, 1 <sup>st</sup> ten days= 5, next ten days = 3, last ten days of the month=1. | 5          |
| Results announced/displayed on company's website/newspaper/circular<br>(6/4/2 marks respectively)   | 6          |
| Requisite Format and Period   | 6          |
| <b>Maximum for Context (B)</b>  | <b>40</b>  |
| <b>MAXIMUM OVERALL (A+B)</b>  | <b>100</b> |

**ABBREVIATIONS USED****Automobile Sector**

M&amp;M = Mahindra &amp; Mahindra

MS = Maruti Suzuki

HM = Hero Motors

TM = Tata Motors

BA = Bajaj Auto Ltd

**Pharmaceutical Sector**

SP = Sun Pharma

ZC = Zydus Cadila

ARO= Aurobindo Pharma

DRR= Dr. Reddy's

LU= Lupin

**CALCULATION OF INTERIM FINANCIAL REPORTING PRACTICE'S INDEX OF AUTOMOBILE SECTORS****TABLE NO: 2**

| <b>PARTICULARS</b>                | <b>MS</b> | <b>M&amp;M</b> | <b>MS</b> | <b>HM</b> | <b>TM</b> | <b>BA</b> |
|-----------------------------------|-----------|----------------|-----------|-----------|-----------|-----------|
| <b>CONTENTS</b>                   |           |                |           |           |           |           |
| Condensed Balance Sheet           | <b>12</b> | 10             | 10        | 10        | 12        | 10        |
| Condensed Profit and Loss Account | <b>15</b> | 13             | 12        | 12        | 14        | 10        |
| Condensed Cash Flow Statement     | <b>6</b>  | 6              | 3         | 3         | 6         | 3         |
| Detailed Explanatory Notes        | <b>7</b>  | 7              | 7         | 7         | 7         | 7         |

|  |           |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Segmental information  | <b>10</b> | 00        | 00        | 00        | 00        | 00        |
| Other Details  | <b>10</b> | 10        | 10        | 10        | 10        | 10        |
| <b>Maximum for Content</b>   | <b>60</b> | 46        | 42        | 42        | 47        | 40        |
| <b>In terms of Percentage</b>  |           | <b>77</b> | <b>70</b> | <b>70</b> | <b>78</b> | <b>67</b> |
| <b>CONTEXT</b>   |           |           |           |           |           |           |
| Timeliness of release of results (mutually exclusive)  |           |           |           |           |           |           |
| Results announced within 30 days (15 for this category) if 1 <sup>st</sup> ten days= 15, next ten days = 10, last ten days of the month=5. | <b>15</b> | 5         | 5         | 5         | 10        | 5         |
| Results announced after 30th day but before 60th day: (03 for this category)   |           | 0         | 0         | 0         | 0         | 0         |
| 0Results announced after 60 days (00 for this category)  |           | 0         | 0         | 0         | 0         | 0         |
| Audited and Unaudited Result(Audited =8 and Unaudited =5)  | <b>8</b>  | 5         | 5         | 5         | 5         | 5         |
| Result approved by BOD/Management/Chief Financial Officer, 1 <sup>st</sup> ten days= 5, next ten days = 3, last ten days of the month=l.   | <b>5</b>  | 3         | 3         | 3         | 3         | 3         |
| Results announced/displayed on company's website/newspaper/circular (6/4/2 marks respectively)   | <b>6</b>  | 6         | 6         | 6         | 6         | 6         |
| Requisite Format and Period  | <b>6</b>  | 4         | 5         | 3         | 4         | 3         |
| <b>Maximum for Context</b>   | <b>40</b> | 23        | 24        | 22        | 28        | 22        |
| <b>In terms of percentage</b>  |           | 58        | 60        | 55        | 70        | 55        |
| <b>Maximum Obtain marks</b>  |           | <b>69</b> | <b>66</b> | <b>64</b> | <b>75</b> | <b>62</b> |
| <b>RANKING</b>   |           | <b>2</b>  | <b>3</b>  | <b>4</b>  | <b>1</b>  | <b>5</b>  |

## CALCULATION OF INTERIM FINANCIAL REPORTING PRACTICE'S INDEX OF PHARMACEUTICAL SECTORS

**TABLE NO: 3**

| <b>PARTICULARS</b>   | <b>MS</b> | <b>SP</b> | <b>ZC</b> | <b>ARO</b> | <b>DR.R</b> | <b>LU</b> |
|--|-----------|-----------|-----------|------------|-------------|-----------|
| <b>CONTENTS</b>  |           |           |           |            |             |           |
| Condensed Balance Sheet  | <b>12</b> | 12        | 10        | 10         | 12          | 12        |
| Condensed Profit and Loss Account  | <b>15</b> | 14        | 10        | 10         | 12          | 14        |
| Condensed Cash Flow Statement  | <b>6</b>  | 6         | 4         | 5          | 5           | 6         |
| Detailed Explanatory Notes   | <b>7</b>  | 7         | 5         | 5          | 5           | 6         |
| Segmental information  | <b>10</b> | 00        | 00        | 00         | 00          | 00        |
| Other Details  | <b>10</b> | 10        | 10        | 10         | 10          | 10        |
| <b>Maximum for Content</b>   | <b>60</b> | 49        | 39        | 40         | 44          | 48        |
| <b>In terms of Percentage</b>  |           | 82        | 65        | 67         | 73          | 80        |
| <b>CONTEXT</b>   |           |           |           |            |             |           |
| Timeliness of release of results (mutually exclusive)  |           |           |           |            |             |           |
| Results announced within 30 days (15 for this category) if 1 <sup>st</sup> ten days= 15, next ten days = 10, last ten days of the month=5. | <b>15</b> | 5         | 5         | 5          | 5           | 5         |
| Results announced after 30th day but before 60th day: (05 for this category)   |           | 0         | 0         | 0          | 0           | 0         |
| Results announced after 60 days (00 for this category)   |           | 0         | 0         | 0          | 0           | 0         |
| Audited and Unaudited Result(Audited =8 and Unaudited =5)  | <b>8</b>  | 5         | 5         | 5          | 5           | 5         |
| Result approved by BOD/Management/Chief Financial Officer, 1 <sup>st</sup> ten days= 5, next ten days = 3, last ten days of the month=1.   | <b>5</b>  | 3         | 3         | 3          | 3           | 3         |
| Results announced/displayed on company's website/newspaper/circular (6/4/2 marks respectively)   | <b>6</b>  | 6         | 6         | 6          | 6           | 6         |



|                               |           |           |           |           |           |           |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Requisite Format and Period   | <b>6</b>  | 5         | 4         | 4         | 4         | 5         |
| <b>Maximum for Context</b>    | <b>40</b> | 24        | 23        | 23        | 23        | 24        |
| <b>In terms of percentage</b> |           | 60        | 58        | 58        | 58        | 60        |
| <b>Maximum Obtain marks</b>   |           | <b>73</b> | <b>62</b> | <b>63</b> | <b>67</b> | <b>72</b> |
| <b>RANKING</b>                |           | <b>1</b>  | <b>5</b>  | <b>4</b>  | <b>3</b>  | <b>2</b>  |

### **ANALYSIS OF INDEXATION TABLE – AUTOMOBILE INDUSTRY**

The analysis of the content section of the indexation table shows that the Tata Motors and Mahindra & Mahindra are complying more towards the various disclosures required in the various statements and other details. In terms of percentage the disclosure of selected companies ranges between 67 to 77 percent. With regards to context section, only Tata Motors is found to be following greater compliances towards timeliness in releasing results, conducting the board meeting and the approval of the results. All the four other banks are below 70 percent as regard to compliance of timeliness. On the whole the results of the index section shows that the Tata Motors is leading from the front followed by Mahindra & Mahindra, Maruti Suzuki, Hero Motors and Bajaj Auto Ltd is at the bottom of the level at par.

### **ANALYSIS OF INDEXATION TABLE – PHARMACEUTICAL INDUSTRY**

The analysis of the content section of the indexation table shows that the Sun Pharma and Lupin are complying more disclosures as required by the standard. However, in terms of percentage the disclosure ranges between 65 to 82 percent. With regards to context section Sun Pharma and Lupin were found to be following greater compliances towards timeliness in releasing results, conducting the board meeting and the approval of the results. On the whole the results of the index section shows that the Sun Pharma is leading from the front followed by Lupin, Dr. Reddy's, Aurobindo Pharma and Zydus Cadila. On comparison of score of index table of the banks of both countries, it is found that both industries are complying with provision as laid down in their standards and their disclosures in same level. Considering content Sun Pharma from automobile industry tops the table whereas, in context compliance Tata Motors leads the race in comparison.

## V. LIMITATIONS

- The study is confined only to 2 industries pharmaceutical and automobile companies and only to 5 companies from each industry.
- This study only estimates the context and content part of the interim reports.
- This study deploys only limited statistical analysis.

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