

Annual Reporting Practice: A Comparative Study of Selected Foreign and Domestic Companies in Bangladesh

Shohrab Hussain Khan, Md. Sogir Hossain Khandoker and Mst. Dilruba Khanam
Department of Marketing, University of Chittagong, Chittagong-4331, Bangladesh

Abstract: Style and forms of annual reports varies from country to country, company to company due to the rules and regulation, the need of "user groups" or to the willingness of the company's management. In Bangladesh, public limited company has to prepare financial reports by following Accounting Standards adopted by ICAB. They also follow companies Act 1994, SEC rules 1987, IAS rules and other relevant regulations. Other than these non-financial information are included in the report. The study conducts a comparison of "Annual Reporting Practice" between the listed companies of CSE and some foreign companies. Because, most of the local companies of CSE do not follow the above regulations, so the present study has recommended some guidelines.

Key words: Annual reporting, Regulations, Company, Comparison, Standard

Introduction

Annual reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions. It must meet the needs of various types of users by providing information that is relevant to decision and informed judgments. The objectives of annual reporting are not immutable – they are affected by the economic, legal, political and social environment in which annual reporting takes place. The objectives are also affected by the characteristics and limitations of the kind of information that annual reporting can provide. Different types of organization prepare different annual reports for different purpose.

To meet the inside and outside demand, every business concern prepare annual reports based on different activities and financial results of the business entities. Annual report includes different reports and statements that contain detail information about business concern. Types and shape of annual report varies form organization to organization. In every annual report we see two broad segmentation. One part is related with non-financial affairs of the company and another part is financial part. It is obligatory to a public limited company to prepare and publish an annual report. In financial part of the annual report different financial statements are included that are prepared under some legal provisions. In Bangladesh every public limited company has to prepare financial reports by following Accounting Standards that were adopted by ICAB. They also follow companies Act 1994, SEC rules 1987 and other relevant rules and regulations regarding to preparing financial report. Other than different rules and regulations contents of non-financial reports are included on the basis of requirements of the user groups and willingness of the management of the organization.

Materials and Methods

Annual Reports are a corporate "Work of Art" and are not like a normal book. There is no single authorship. And there is no plot. Annual Reports have no beginning and no end as joint stock companies have no normal end of life and enjoy continuous entity. Putting annuals together year to year annual reports creates a kind of "never ending story" as the entity progresses along, merges, closes or is acquired (Internet).

Annual Reporting practice originated with the growth of joint stock companies and resulted in the separation of ownership from management and the enactment of laws for the disclosure of financial information by companies during the 19th and 20th centuries.

An organization may be a state owned company or a non-government company. Again a non- government company may be either a private limited company or a public limited company. Legitimately a public limited company should be listed in any Stock Exchange of the country in which the company is operating. And every listed company should publish an annual report by the authorization of Annual General Meeting (AGM). An annual report meet various need of different interested person or group. An annual report acts as a mirror of any organization. It helps individual investors to take investment decision. Annual reports also inform individual shareholders about the performance of the management. It helps to know how the management is operating the organization. Annual Report of a company also contains different information about the present and future policy and strategy of the company and the future potentiality of that company. Again every annual report contains financial information of a particular period of time. The financial reports are prepared according to the guidelines of International Accounting Standard (IAS).

Annual reporting is practiced in different ways in different countries. Style and forms of annual reports varies from

country to country and from company to company. And it varies due to different reasons. It may be due to the rules and regulation, may be due to the need of "user groups" or it may be due to the willingness of the management of the company.

It is obvious that "Annual Reporting Practice" of listed companies of Chittagong Stock Exchange (CSE) has some difference from that of different foreign companies. And these differences are posed from different viewpoint.

So for the better interest of the "user groups" of annual reports and to improve the "Annual Reporting Practice" of the listed companies of CSE it is required to find out the criteria on which the "Annual Reporting Practice" is differing. And to do so we have to conduct a comparative study of "Annual Reporting Practice" between the listed companies of CSE and some foreign companies.

Results and Discussions

The Study is Undertaken to Achieve the Following Objectives: To evaluate the annual reporting practice of listed companies of the CSE and that of foreign companies and to find out the criteria on which the annual reporting practice of listed companies of CSE are differing from that of foreign countries.

To find out the limitations and shortcomings of Annual Reports of the listed companies of Chittagong Stock Exchange.

To find out the way of improving the annual reporting practice of listed companies of CSE and to find out the criteria that should contained in annual reports to improve their efficiencies.

And to recommend the ways of preparing annual reports by following which an annual report can become interesting, understandable, eye appealing and above all can become purposive and beneficial.

Materials and Methods

In order to conduct the comparative study of "Annual Reporting Practice" between the listed companies of CSE and some foreign companies we have used both primary and secondary data. Primary data and information were collected by direct interviews with different personnel of user group. We have also conducted with some experts and some personnel of CA firms. Other then this we have also discussed with some individual investors to know about the related issues.

The major sources of secondary data were the annual reports of different companies. To make the study more precise and realistic we have selected some companies from both the area as sample. The sample of listed companies in CSE is selected from different categories so that the sample becomes representative. In CSE the listed companies are categorized in three different categories. The listed companies are categorized on the basis of some criteria and these categories are 'A', 'B' and 'C'. The sample is selected from all of these categories. On the other hand the sample of foreign companies are selected on the basis of some criteria. These are country of origin of the company, standard of reporting followed by the company and above all availability of the annual reports of the companies. By considering the above criteria we have selected some companies which are originated from England, operating in England and follows International Accounting Standard (IAS) in preparing and maintaining financial report.

Limitations: A good report "Sell the Result of the Study but should not over Sell". Obviously the study is far from perfect. Despite my sincerest endeavor in preparing a perfect report, some of the limitations are not escapable.

Limitations that are encountered during the study are as follows:

Study was confined on the annual reports available in the CSE Library

Necessary information were not available in the organized form

Due to short time and unavailability of necessary resources we could not collect sufficient necessary data about the study to prepare the report.

There was the shortage of adequate research papers conducted on the related issue.

Due to the business secrecy it was not possible to find out sufficient real information about the organizations.

In spite of the limitation we had tried with all of my effort to know and find out the perfect result of my research work.

And we have consulted with the relevant records and documents. Data and information have collected by fairly acceptable level of accuracy.

Comparative Features of Reporting Practice: In the comparative study we have find some issue on which annual reporting practice of the listed companies of CSE differs from that of some foreign companies.

Comparative features of annual reporting practice between some selected foreign companies and some listed companies of CSE are discussed in the following by segmenting the annual report into two broad part. These two parts are:

Comparative Features of Non-financial Reports

Comparative Features of Financial Reports.

Comparative Features of Non-financial Reports: In the study we have find some Comparative Features of Non-Financial Report. These are discussed bellow under different heads.

Chairman/ Chief Executive's and Directors Report: In the annual reports of the listed companies of CSE we have seen that Chairman of Board of Directors usually provide a concise report. Sometimes it seems that Chairman of the company provided the report only to maintain the norm or formality. From his statement it not be possible to find any message that will be helpful for the user groups. Other than this, in the annual reports of the listed companies of CSE, we find that the Report from Directors is very traditional and some times it seems to me as like as the advertisement of the company. They usually try to hide the real situation of the company and don't disclose the limitations or problems of that company.

But in the report of Chairman/ Chief Executive Officer or Board of Directors of the foreign companies we have seen different information of the company that may be either positive or negative. In their report they usually provide clear and informative statement. Their statement usually covers all conditions that are changing or existing. It also includes information about the goals, mission and vision of the company and information about what to be achieved, what already achieved and what missed. From their report or statement it is possible to be informed about the organization to some extend.

Board of Directors, Advisers, Bankers and Personnel: Under this head of annual report organizations usually disclose information about there Directors, Advisers, Principal Bankers, Auditors, Secretary and different Personnel. In Annual Reports of Foreign Companies information about them are disclosed elaborately along with their addresses and involvement with other organizations. By clear identification of them it is possible to disclose and inform about the related personnel and directors of any company.

Remuneration Committee Report: Shareholders of any company have the right to know information about the remuneration or any other benefits provided or enjoyed to/by the directors or any other senior executives. Shareholders also have the right to know about the criteria or rules based on which the company determines the remuneration and benefits for its directors and senior executives. In every company decisions about remuneration is determined by the remuneration committee. In order to maintain transparency and accountability organizations usually provide a report of Remuneration Committee in their Annual Reports.

In the study we have seen such kind of report in the annual reports of almost every foreign companies. But we have not find any report about remuneration policies that are followed by the companies in the Annual Reports of the listed companies of CSE.

On the other hand we have find that every company provides a report from the remuneration committee. In the report of the remuneration committee we have found that the following information are normally included:

- Information about Remuneration Policy
- Information about Remuneration Package
- Information about Share Scheme
- Information about Directors' Pension Arrangements
- Information about Service Contract
- Information about Non-Executive Directors
- Details of Directors' Remuneration and Share Options

Description of Products/ Services and Company Brands: In the annual reports of the listed companies of CSE we have found that description about product/ services and about the brands of them is not sufficient. By reading only Annual Report of any company it is vary difficult to find out appropriate information about the product/ services or abut the brand of any company. But now days some company includes information about their product or services and about their brand.

On the other hand almost every foreign company clearly states information about the products or services they provide. And by observing the annual report of foreign companies it is possible to be informed about the brand names of the companies.

Clear Description of Different Non-Principal Activities: By studying annual reports of the listed companies of CSE we have found that vary few companies include information about their non-principal activities. We know every company has some social responsibility. By going through the annual reports of the listed companies of CSE it is not possible to know that whether they are obeying their responsibilities or not.

But in the annual reports of the foreign companies it is possible to get clear description of different non-principal activities and different information thereon. In their annual reports they describe activities that are undertaken for the interest of the state as well as the nation and the society.

Green Reporting: We know that every company is contaminating or polluting our environment directly or indirectly. Some company drain chemically contaminated water in our nature, some company creates air emission, some company creates dust pollution and some create noise. On the other hand some company use different materials that are not eco-friendly.

So in the annual reports of any company should include information about their participation in total environmental pollution process and how they are facing this problems, what activities are undertaken in order to recovery the loss of our environment.

In the annual report of any company organization should describe the activities and actions that are undertaken in order to control environmental pollution.

Suppose any company installed an Effluent Treatment Plant in order to retreat polluted and hazardous water to a tolerant level for reuse. Then the company should include information about this undertaking by using photograph of that plant in their Annual Report.

In the study we have found that a little number of listed companies of CSE includes "Green Reporting" in their Annual Reports. But almost every company includes information about Environment in their annual reports either in terms of Green Reporting or any other name.

Information about R and D, New Product Development and Expansion: In the annual report of the listed companies of CSE we usually don't see elaborate description of the Research and Development activities undertaken by the companies.

But annual reports of foreign companies include elaborate description of R and D activities that are undertaken by the companies.

In the annual report of foreign company we also find information about the New Products in the pipeline. That is they describe about their new product development in their annual reports in order to inform related personnel about the future potentiality of the company.

But in the annual reports of listed companies of CSE we usually don't find such kind of report.

Again, annual reports of foreign companies include detailed information about any kinds of expansion of the company or dissolution of any subsidiaries of the company. But Annual Reports of the listed companies of CSE does not include such kind of information elaborately.

Past performances, Achievements and Non-Achievements: In the annual reports of the listed companies of CSE we have found that information about the performances, different achievements and failures are not elaborately disclosed. In order to disclose the true situation of any company it is required to disclose all kinds of positive or negative information.

On the other hand annual reports of foreign countries disclose such kinds of information elaborately. To disclose such kinds of information foreign companies use Tabular representations, Diagrams, Photographs etc.

Information that are usually included by the companies under this head are

substantial achievement in cost control and cost reduction

achievement in capacity utilization

achievement in production and operational activities

information about new product development

achievements in terms of Gross Profit, Net Profit, Return of Investment, Return on Capital Employed etc.

information about their different failure and Non-Achievements, etc.

Analysis of Different Financial and Operational Performances

In order to know about the level of activities and operations conducted by the companies and performance of the companies thereon it is required to include an analytical description in the annual reports of the companies. Analysis is conducted on the financial results of the company and on the operational activities of that company. The results of the analysis are presented in annual reports by using Trends, Diagrams, Tables, etc.

Usually analysis is conducted on:

- | | | |
|-------------------------|------------------------|------------------------------|
| -Level of Operation | -Capacity Utilization | -Cost Control |
| -Quantity of Production | -Market share | -Gross Profit and Net Profit |
| -Return on Investment | -Return on Total Asset | -Return on Capital Employed |
| -Shareholders' Equity | -Earning per Share | |

Annual reports of any company should include such kind of analysis for more than five years.

Though vary few listed companies of CSE includes such kinds of analytical description but almost every foreign companies includes such kind of analytical descriptions in their annual reports.

Stock Price History: For every shareholder of any company history of Stock Price of that company is very essential. It is also necessary for a potential investor who is thinking to invest his money by buying the stock of any company. Under this had history of any stock is included elaborately and such kind of history should be for more than five years. In the history of any stock it should be included the following:

- Name of Exchange in which the Stock is listed and traded
- Number of Shares
- Shareholders Equity per Share
- History of Market Price of Shares
- Trend of Price Over time
- Stock Symbol, etc.
- Number of Shareholders
- History of Dividend Payout Ratio
- Price Earning Ratio history
- History of Bonus/ Dividend

In the annual reports of the listed companies of CSE information about Stock Price are not available sufficiently and substantially. But in the annual reports of foreign companies we find such kinds of information elaborately and understandably.

Others: In the annual reports of some foreign companies we have found elaborate information about different Memorandum of Understanding (MOU) of the company with other organizations, description of different Contracts and Agreements etc. But such kinds of information are not found in the annual reports of the listed companies of CSE.

Some foreign companies disclose information about hiring Experts or Highly Qualified Personnel. But such kinds of information are not found in the annual reports of the listed companies of CSE.

Comparative Features of Financial Reports: The accounting process or financial reporting system, which generates financial information for external users, encompasses four principal financial statements:

Balance Sheet (Statement of financial position)

Income Statement (Statement of earnings)

Statement of cash flows

Statement of stockholders' Equity

Information provided in the financial statements is augmented by footnotes and other supplementary disclosures. Footnotes are an integral part of the financial statements and provide on such subjects as business segments, the financial position of retirement plans and off-balance-sheet obligations. These data are required by either GAAP (FASB statements) or regulatory authorities (the SEC). Footnotes provide information about the accounting methods, assumptions and estimates used by management to develop the data reported in the financial statements. They are designed to allow users to improve assessments of the amounts, timing and uncertainty of the estimates reported in the financial statements.

In the part of financial report of any listed company of CSE we have not found any substantial different criteria from that of foreign countries. It happens because during preparation of financial statements every company follows the guidelines and rules of International Accounting Standard (IAS).

In spite of following the same IAS there remains some differences between financial statements of listed companies and that of foreign companies. Through my study we have identified some comparative features that are discussed in the following paragraphs.

In the annual report of foreign companies we have seen that the name or head of items of financial statements are easily understandable to all even to the person who have no knowledge about different business term. But in annual reports of the listed companies of CSE we have seen that there are some names or heads of item that are not understandable to all. To explain this we can give an example.

In financial statements we usually see the item "Short term creditors". Here we not sure how short the time is? And it also may not be clear to a person who does not know about short-term creditors. But in the annual report of foreign companies this items are named as " amount that should be paid within one year". So this item is easily understandable to all user groups and all potential investors will be able to take decision buy considering the liquidity positions of that company to compensate the creditors demand.

So, in our annual report short term creditors have to define clearly so that our investors can take their decisions.

Precisely notes in the annual reports of the foreign companies explain some important items of Financial Statements, such as 'Short Term Borrowings'. But in the annual report of the listed companies of CSE such kind of influential items are not explained precisely. As a result any decision taken in favor of that company does not be flawless.

Information about different contingencies, Commitments etc. is disclosed clearly either in statement or in notes. But such kinds of information are not clearly identifiable in the financial reports of the listed companies of CSE.

Off Balance Sheet items of any companies are an important items, which should be considered precisely during taken financial decisions in favor of that company. Leasehold asset is an example of the Off Balance Sheet items. Foreign

companies usually include information about such kind of items either in statements or in Notes. But in the annual report of listed companies of CSE these items are not identified clearly

Among the financial statements one important statement is the 'Statement of Changes in Equity'. Information about changes in equity has to be disclosed by this statement. Almost every foreign company discloses this information through the annual report. But such kinds of statements are not found in the annual reports of listed companies of CSE.

I have found that information about accounting policies followed by the companies during preparing financial statements are stated along with Explanatory Notes in the annual reports of listed companies of CSE. Other than this, annual reports of listed companies of CSE do not contain sufficient and elaborate Explanatory Notes.

But almost every foreign company discloses information about accounting policies and Explanatory Notes distinctly. By observing the findings of my comparative study it is possible to know in what areas and how the annual reporting practice of the listed companies of CSE are staying behind from that of foreign companies. It is also possible to know about the limitations and weaknesses of the annual reporting practices of the listed companies of CSE. These limitations and weaknesses of annual reporting practice of listed companies of CSE can be eliminated by following some criteria and by including some different items or heads. In order to change the usual practices of preparing annual reports and to improve the quality of annual reports of the listed companies of CSE we are stating hereby some recommendations for further consideration. Recommendations are as follows:

Statement of Chairman/ Chief Executive should include all types of information in brief so that it is possible to get clear and precise idea about whole of the organization by any outsider of the organization. Their reports should cover every types of information, such as changing conditions, goals to achieve or achieved or missed, actions taken or not to be taken. These reports will not be used as an advertisement media of the company and should be well written and easily understandable.

Reports of Directors to shareholders should also be well written and understandable. This report should include all types of related information more elaborately. During preparing their reports they should highlight and consider all types issues. In their report they should also include all types of negative information in order to expose the true and precise scenario of the organization.

Annual report should include a report from remuneration committee. We have discussed earlier that shareholders have the right to know about the remuneration given to the directors and other facilities and benefits provided to them by the organization. In order to maintain transparency such kind of report with elaborate explanation should include in the annual reports.

In real situation maximum investors and shareholders does not know about the product or services of the company of which they have shares. So in the annual reports of the company it is required to include clear description of the products/ services they provide along with their photograph.

Organization should include information about social responsibility under the report of Non-Principal activities. In this report organization may include information about:

Activities undertaken for the education of the people of the country

Creation of employment opportunities

Activities undertaken to control the environment pollution

Activities undertaken for health and safety issues

Activities undertaken in order to train the safety and security issues of the employees

Organization should include a Green Reporting. In this report organization should include information about their participation in total environment pollution. In this report they should include information about their activities undertaken to face this pollution process.

Organization should include detailed information about the R & D activities of them, detailed information about the future products in the pipeline and detailed information about their activities for expansion and retrenchment.

In order to be more informative and fruitful Annual Reports can include a statement named "Human Resources Statement"

Analysis of past performances and achievements should include information about more than five years. And analysis should include different tools that disclose the actual feature and condition of the organization.

In Financial statement organization should use the name of heads that are easily understandable to all. As an example we can say that in place of item named "Current Liabilities" management can use the name of that item as " Due within One Year".

Notes of financial statements should include clear explanation of different items and should include more items in the Notes.

Conclusion

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From the above study we can conclude that organizations should prepare their annual reports in that way so that they become interesting, understandable or eye appealing. And organization should assure that their report is well written, clear and succinct. In order to make their annual reports fruitful and useable to the user groups Management should disclose actual scenario and the real condition of the organization; they should disclose all kinds of negative information along with the positive information and Financial reports should be audited through renowned and internationally recognized auditors' firm Management should use normal and clear language in annual reports so that it becomes understandable to the all kinds of users Annual reports of any company should be prepared in that way so that it can include every affairs of any organization and it can expose the whole.

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