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FOOTNOTES ADDING VALUE TO FINANCIAL STATEMENTS: A CASE STUDY OF SELECTED TEXTILE COMPANIES

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INTRODUCTION

The financial statement in an annual report is supposed to be clean and easy to follow. In order to maintain this cleanliness, other calculations are left for the footnotes. Footnotes give a detailed description of the practices and reporting policies of the company's accounting methods along with the disclosure of additional information that cannot be shown in the statements themselves. In other words, footnotes expand on the quantitative financial statements by providing qualitative information that allows for a greater understanding of a company's true financial performance over a specified time period. It's very important for investors to read the footnotes included in a company's periodic reports. Understanding accounting disclosures gives investors the ability to recognize early warning signs that can help prevent investment disasters, companies are required to disclose the impact of adopting accounting rules. This information sometime reveals some bad news that may hurt stock prices. Reading between the lines of these disclosures will give the diligent investor an advantage. Without footnotes financial statements would be incomplete and possibly misleading. Footnotes are essential supplements to financial statements.

The notes to the accounts give the background information needed to correctly interpret the rest of the accounts. This is also where companies bury what they do not want investors to notice. It is not uncommon for the market not to notice information buried in the notes, so if we have to look in for an edge in valuation it is certainly one place to look — but it is time consuming. This paper is an effort to analyze the extent of disclosure in the "Notes to Accounts" section of Annual Reports by different Indian companies in Textile Sector, since notes to accounts is not mandatory to be shown in annual reports so companies are reluctant to show this information or obscure it in such a way that it is unable for user to use it in their decision making. In this paper we have identified some items which are mandatory to disclose in the Notes to Accounts then we had given the disclosure index to different companies by comparing those required items with the actual item presented in the annual report. Data for three consecutive years have been taken to compare the pattern in Company's extent of disclosure in different years.

Review of available literature:-

A number of studies have been conducted on the various aspects of corporate disclosure but studies dealing specially with "Notes to Account" are very few.
Surendra S. Singhvi & Harsha B. Desai (1971) in their article entitled "An Empirical Analysis of the Quality of corporate Financial Disclosure" demonstrated that inadequate corporate disclosure in annual report is likely to widen fluctuation in the market price of a security, since investment decision, in the absence of adequate information, are based on less objective measure.

B.Mack Tennyson, Robert N. Ingram & Michacl T. Dergan (1990) in their article "Assessing the information content of Narrative Disclosure in explaining Bankruptcy" investigates the association between financial distress and management's narrative disclosure.

Stephen H. Penman(1990) in his paper "financial reporting Quality is fair value a plus & minus" taken a demand approach in considering the plus and minuses of fair value accounting i.e. whether fair value enhance the task of equity valuation & stewardship assessment.

Russell lundholms'(1995) in his study **"**Motives for Disclosure and Non-Disclosure: A Framework and review of the Evidence" describes a theoretical model that explains how some firms make disclosure choices and how other player (analyst, investor etc.) respond to these choices .

R K Srivastav and P T Giridharan(1992) discussed in his article "New Model for Reporting in the 21st century" the limitation of traditional financial reporting viz. lower level of transparency, inability to cater variety of stakeholder, exceptional focus on numerical figures

Surendra S. Singhvi & Harsha B. Desai(1971) in their article entitled "An Empirical Analysis of the Quality of corporate Financial Disclosure" demonstrated that inadequate corporate disclosure in annual report is likely to widen fluctuation in the market price of a security, since investment decision, in the absence of adequate information, are based on less objective measure. They further demonstrated that the corporation which disclose in adequate information are likely to be : (a) Small in size as measured by total assets, (b) Small in size as measured by no of stackholder, (c) Free from requirement, (d) Audited by a small CPA firm, (e) Less profitable as measured by earnings margin.

Malcolrm Smith & Richard Taffler (1995) in their paper "The incremental effect of narrative accounting information in corporate annual reports" explore three specific issue the information content of narrative disclosure in a specific decision environment, the incremental information associated with combining narrative disclosure and accounting information and the strategies adopted to combine different and potentially conflicting source

of information in a decision task and on the basis of total sample of 270 respondents they substantiates the claim that the narrative provides a useful discriminator b/w failed & non-failed cases, though in each case inferior to that provided by a financial statement information.

Stephen Buzby (1974) in this article "Selected Item of Information & their disclosure in Annual Reports" has presented the result of a mailed questionnaire survey of financial analysts which sought to determined the relative importance of 38 selected items of information. The extant of disclosure of 38 items was them measured for a sample of annual reports from small & medium size companies. The result in dictated that many of the items were inadequately disclosed in the sample and that the correlation b/w the relative importance or the items and extent of this disclosure was small. Thus it can be concluded that an opportunity exists for an expansion of the extent of disclosure in the annual report of small & medium size of companies.

Pankaj M Madhani(2000) discussed in the articles "Role of voluntary Disclosure and Transparency in financial reporting " discusses various factors affecting corporate voluntary disclosure practices and highlighs characteristics of voluntary disclosure. Voluntary disclosure and transparency plays a significant role in corporate reporting practices. One major issue in voluntary disclosure is about making publicly available firm sensitive and critical information which may benefit competitors. Voluntary disclosure provides various benefits like increased management credibility higher institutional ownership, increased liquidity, greater analyst following higher share prices, decreased volatility, decreased bid ask spread etc.

R K Srivastav and P T Giridharan discuss in the article (1999) "New Model for Reporting in the 21^{st} century" describe limitation of traditional financial reporting viz. lower level of transparency, inability to cater variety of stakeholder, exceptional focus on numerical figures etc there is a lot of information gap between the manager information about business and information available to investors and other stakeholder. Information on non-financial components is increasingly becoming important in financial reporting. Aross the globe various reporting models are used namely1. The balanced scorecard 2 the jenkis report 3 value dynamics 4 global reporting initiative 5 brooking institution 6 strategic scorecard and 7FASB working model for the statement of comprehensive income.

S Vijaylakshmi and M S Narasimhan (1992) focus in his article " Corporate Disclosure and firm Characteristics in India" highlight importance regulatory initiatives related to improving transparency and disclosure practices among Indian corporate various regulatory and non-regulatory factors like size, ownership, profitability , liquidity, leverage, industry and audit firm size influence corporate disclosure level of firm. The research study reveals that transparency and disclosure level of Indian firms have improved subsequently. The authors also highlight disclosure areas where non- compliance is high.

Objective:-

The objective of this paper is to study the pattern of disclosure of ten textile companies.

(1) To examine the extent of accounting footnote disclosures by corporate.

(2) To compare the extent of accounting footnote disclosure overtime and inter be the corporate.

Sample and Data collection:- Ten companies have been selected from textile sector for the study purpose. The net worth of the selected companies are almost comparable. The annual reports of these companies for the year 2006-07, 2007-08 & 2008-09 have been collected and the notes on accounts in particular were examined for analysis purpose.

Hypotheses:-

For the purpose of above objectives following null hypotheses were taken:

H_{01}: The mean disclosure index between selected companies is homogeneous

H_{02}: The mean disclosure index within a company over the studied period (06-07 to 08-09) is homogeneous.

Disclosure Index:- In order to measure extent of disclosure through footnotes to accounts, an attempt has been made to construct a disclosure index. The disclosure index in this study consists of 30 items of information & these items are further divided into possible sub-items thus making 113 item in total. Indian Accounting standards and IFRS were consulted to identify the exhaustive list of items which should be disclosed in notes to accounts according to existing Disclosure Requirement in India.

Scoring of Items of Information:- Each sub item in the disclosure index has been assigned a score having value 0 or 1. If a sub- item is disclosed in the annual report, the item is assigned score 1 while in case of non-disclosure, score 0 is given. The score for each year for each company is then summed up. The total represents the score attained by a given company in given particular year. Thus the maximum score which a company can attain is 113 since there are total 113 sub-items. In the final step of the scoring process, the actual score attained by a given company is divided by the maximum score.

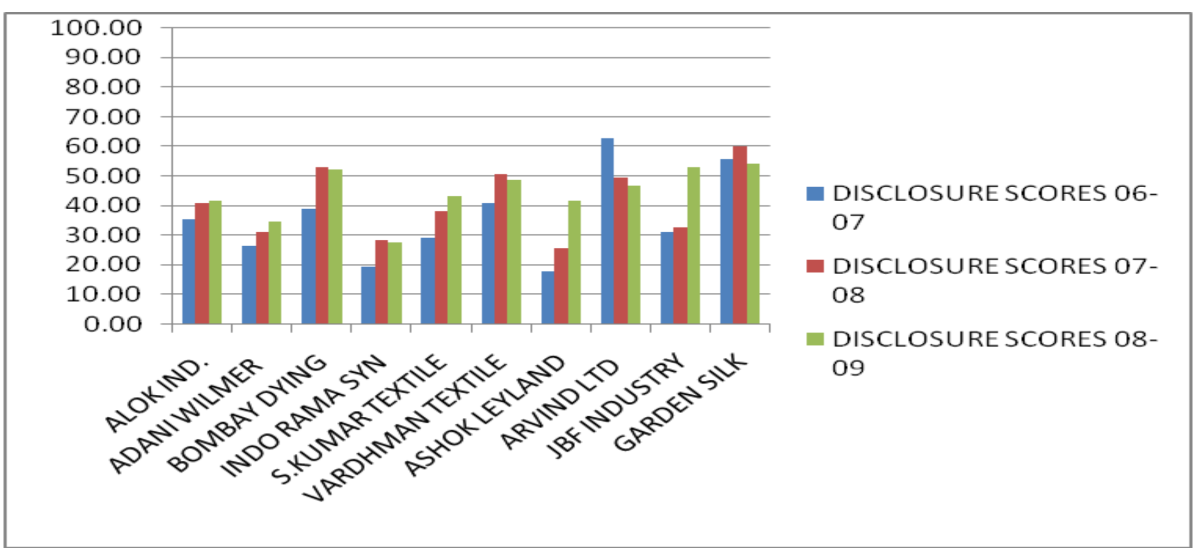
This quotient is multiplied by 100, the resulting is termed as Disclosure Index. This depicts, as a percentage, the extent to which a given company disclosed the information which it is required to disclose in its notes to accounts. Equal weight is assigned to each sub-item to keep objectivity and fairness in the scoring system.

Data Analysis: - The Table-1 shows the Disclosure Score (expressed as percentage) of the ten companies under study for three consecutive years starring from year 2006-07. By looking at table we can infer that in year 06-07 the disclosure index of Arvind Ltd. is maximum with 62.83 but as we move to the next year the disclosure index is decreasing i.e. 49.56 and 46.9, while in year 2008-09 Garden Silk is the company with maximum disclosure index of 53.98. Garden Silk is showing consistent pattern throughout the three years.

TABLE-1:Company-Wise Disclosure Scores of The Selected Textile Companies

S.NO.	COMPANY	DISCLOSURE SCORES		
		06-07	07-08	08-09
1	ALOK IND.	35.40	40.71	41.59
2	ADANI WILMER	26.55	30.97	34.51
3	BOMBAY DYING	38.94	53.10	52.21
4	INDO RAMA SYN	19.47	28.32	27.43
5	S.KUMAR TEXTILE	29.20	38.05	43.36
6	VARDHMAN TEXTILE	40.71	50.44	48.67
7	ASHOK LEYLAND	17.70	25.66	41.59
8	ARVIND LTD	62.83	49.56	46.90
9	JBF INDUSTRY	30.97	32.74	53.10
10	GARDEN SILK	55.75	60.18	53.98

Chart-1:-Bar Diagram of Disclosure Score of Selected Companies



Above graphic depiction shows the disclosure index for all the selected companies in all three years.

Table-2 shows that in year2006-07 most of the companies are having the disclosure index in the range of 25-50, though the extent of disclosure has improved in year 2007-08 in comparison with the year 2006-07 but the situation has remained same in year 07-08 & 08-09. Less than one third companies are disclosing 50-75% of the information which is required for making judicious economic decision by various users of Annual Reports

TABLE-2: Frequency Distribution of Disclosure Score of Companies Over The Study Period

DISCLOSURE SCORES	NUMBER OF COMPANIES		
	2006-07	**2007-08**	**2008-09**
LESS THAN 25	2	0	0
25-50	6	7	7
50-75	2	3	3
75-100	0	0	0

Table-3 depicts the year-wise percentage change in the Disclosure Index of the companies under study. Here we can clearly see that all the companies are showing positive sign since their disclosure index is increasing i.e. now they are showing more sought to be information.

The Maximum percentage increase as is evident from the table is Indo Rama Syn with 45.45% change from year 06-07 to 07-08 while Ashok Leyland is the maximum gainer from year 07-08 to 08-09. Arvind Ltd is showing the negative results as disclosure index of this company was 62.83 in year 06-07 while it decreased in next years to 46.90.

Table-3: Year-Wise Change In Disclosure Score (In Percentage)

S.NO.	COMPANY	2006	2007	%CHANGE	2007	2008	%CHANGE
1	**ALOK IND.**	35.40	40.71	15.00	40.71	41.59	2.17
2	**ADANI WILMER**	26.55	30.97	16.67	30.97	34.51	11.43
3	**BOMBAY DYING**	38.94	53.10	36.36	53.10	52.21	-1.67
4	**INDO RAMA SYN**	19.47	28.32	45.45	28.32	27.43	-3.13
5	**S.KUMAR TEXTILE**	29.20	38.05	30.30	38.05	43.36	13.95
6	**VARDHMAN TEXTILE**	40.71	50.44	23.91	50.44	48.67	-3.51
7	**ASHOK LEYLAND**	17.70	25.66	45.00	25.66	41.59	62.07
8	**ARVIND LTD**	62.83	49.56	-21.13	49.56	46.90	-5.36
9	**JBF INDUSTRY**	30.97	32.74	5.71	32.74	53.10	62.16
10	**GARDEN SILK**	55.75	60.18	7.94	60.18	53.98	-10.29

Table-4 shows the descriptive statistics of the Disclosure Index of all the companies in all the three years. In year 2006-07 all the companies under study were showing only 35% of the required information but in year 2007-08 the extent of disclosure was increased to 40.97% and it further increased in year 2008-09 when the average disclosure index rose by almost 4 percentage point from previous year. The pattern in year 2006-07 shows that disclosure index is widely dispersed with standard deviation of 14.57 while this dispersion reduces in year 2008-09 with S.D. of 8.53.

TABLE-4: Descriptive Statistics of The Companies For Each Year of Study- Period

CHARECTERISTICS	2006-07	2007-08	2008-09
MEAN	35.75	40.97	44.34
C.V.	14.57	11.78	8.53
RANGE	17.70 - 62.83	28.32 - 60.18	27.43 - 53.98

In table-5 we applied the ANOVA for checking the Difference in means for the companies over the study period i.e. whether within a company disclosure practices changed or not from the year 2006-07 to 2008-09.

table-6 shows the result of ANOVA, here the group are representing the 3 years, it entails us that the p-value for ANOVA is 0.28276 which is significant at level 0.05. So we accept the Null Hypothesis H_{01} and can infer that there is no significant difference in the level of disclosure within a company over the three year study period, it remains homogeneous. .

TABLE-5: ANOVA TABLE

Sourceof Variation	SS	Df	MS	F	P-value	F crit
Between Groups	374.187	2	187.0937	1.32	0.28276	3.35413
Within Groups	3815.02	27	141.2971			
Total	4189.2	29				

TABLE-6: ANOVA TABLE

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	3041.11	9	337.901	5.886312	0.000482	2.392814
Within Groups	1148.09	20	57.4046			
Total	4189.20	29				

TABLE-6 shows us the result of ANOVA for testing the null hypothesis H01, here group represents the companies. The P-value for ANOVA is 0.000482 which is less than the significant level 0.05, so we can reject the Null hypothesis and can infer that there is a significant difference between the disclosure practices of the company, as we can see that the disclosure score of Garden Silk is 55.75 while that of Ashok Leyland is 17.70.

Conclusion:- This study summarizes, classifies and analyses disclosures in "Notes to Accounts" for selected companies in Textiles sector. At this time, the Indian Accountants does not have a well-defined conceptual framework to use as a guideline for establishing Footnote Disclosure requirements. Other countries face a similar situation. From the above findings, the conclusion is emerging that a large number of items of information contained in the index of disclosure have not been disclosed in the annual reports covered by this study. The results of Hypothesis-testing shows us that there is no significant difference between the levels of disclosure in different years and it remain on average same in consecutive years but data also reveals that the disclosure practices of different companies are varied and there is a significant change in the disclosure score of different companies. Thus this study suggest us that there should be a uniform guideline for companies which should be followed by them for disclosing "Notes to Accounts".

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