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MODERN BANKING:DISCLOSURE PATTERN

Chand Babu

Research Scholar

Dr R.M.L Avadh university, Ayodhya

Dr. Mirza Shahab Shah

Associate professor &Head,

Faculty of commerce, K.S.Saket P.G. college, Ayodhya

INTRODUCTION

Financial reporting plays a vital role in various decisions making the different users of financial statements can easily evaluate and assess the earning performance, financial position and present and future cash flows etc. of a business enterprise, which helps them to make intelligent investment decisions necessary for efficient allocation of scarce resources. This requires a proper disclosure of financial data and other relevant information. There is an obvious need for reliable information which can be used to acquire an essential knowledge of the way in which the business enterprises are behaving in relation to the public interest. By perceiving enterprises behavior through communicated information, interested parties can use this knowledge, for the better decision making. Hence, facts disclosed in financial statements have an important role in accomplishing the objectives of financial accounting.

Disclosure can be defined as a process through which a business enterprise communicates with the external parties as well a internal parties concerned. In other words, discloser can be said to be the external reporting which helps in the communication of accounting information of a business unit which may by an individual, firm, company or government enterprise etc.

American Accounting Association defines disclosure as the movement of information from the private domain into public domain. Such a conversion of private into public information can takeplace in financial statements or through non accounting channels.

It is evident from the above that disclosure means reporting of quantitative and qualitative information of financial and non-financial nature regarding the reporting entity to outsiders for the purpose of their decision making

Rational of disclosure

The disclosure technique having a very important place in accounting theory and practice. It facilitates the users of the financial statements in making sound economic decisions such as investment decision etc. The management has to supply necessary information through financial reports and statements and at the same time, they have to show3 a true and fair view of the state of affairs of the financial position of the undertaking and its profitability. On the basis of such information, the investors can assess both the risk attached to their investment and the return on investment.

Now-a-days enterprises operate in diverse and complex economic situation. Transactions and events are products of such diverse and complex economic situation in which the enterprise operates. Accordingly it is believed that beunified and exhaustive list of accounting policies can be suggested which has universal application. Rather the choice of accounting policies is guided by specific circumstances and it involves judgment of the management. Disclosure of significant accounting policies followed id necessary if the view presented is to be properly appreciated by users of financial statements.

In the company law and various accounting standards statements Guidelines circulars etc. issued by the Institute of Chartered Accountants of India it has been attempted to reduce the large number of diverse accounting polices in use. Wide variation in the choice of accounting policies leads to create a set of accounting numbers which are not comparable across the enterprise. Proper disclosure of accounting policies would facilitate more meaningful comparison between financial statements of different enterprises. Following are some examples of the areas in which different accounting policies may be adopted by different enterprise-method of depreciation, depletion and amortization, treatment of expenditure during construction period, conversion or translation if foreign currency items, valuation of inventories, Treatment of goodwill, valuation of contingent liabilities etc.

So it will be difficult for the users of accounts to appreciate the performance and financial position of the reporting entity from the balance sheet and Profit and Loss A/C unless major/Significant policies are disclosed.

Components of Disclosure

The disclosure is a mechanism through which the accounting information of an entity is communicated to various users. The need for disclosure is achieved through the financial statements and reports.

Generally, there are three components used for disclosure viz.,

(a) Adequacy
(b) Fairness
(c) Full Disclosure

(a)Adequacy: The most commonly used concept is adequacy. This concept was disused by moonitz. He was of the opinion that concept of disclosure should be conceived of in the broadest possible term on the following lines:

(1) What should be disclosed?

(2) Towhom?

(3) How disclosure should be made?

The concept of adequate disclosure implies that all material information needed by the users of the financial statements and reports should be included in such financial statements and repots i.e. it should adequate to the need of the users. The adequacy of the information can be tested when it is reported outside the organization, but when reported inside the organization, the adequacy of the disclosure cannot be tested accurately as there is no test to measure it. Another difficulty is that the needs of the users will be different from user to user and as a result, adequacy can be obtained only to a certain extent.

The accounting Principles Board has indicated that the financial information that meres the qualitative objectives of financial accounting, also meets the reporting standard of adequate disclosure.

(b) Fairness: The concept of fair disclosure implies that all users of the information should be treated alike, in preparing the financial statements and reports.

Primary consideration tin the disclosure is guided by the concept of truth and fairness, which is a legal requirement. The information presented must be true and fair, because on the basis of this information alone the users make their economic decisions. Fairness of disclosure enhances the credibility of the management.

(c)Full Disclosure: the concept of full disclosure implies that all relevant information of the financial activities of the business enterprise is presented in the financial reports.

Full disclosure implies that published financial statements and related notes should include any economic information related to the accounting entity that is significant enough to affect the decisions of an informed and prudent user of financial statements full disclosure is aimed at improving the clarity, quality and quantity of economic data disclosed by the accounting entity. It increases the relevance and reliability of accounting information. Full disclosure is important for the following reasons.

1. Under GAAP, alternative accounting procedures, such as depreciation methods inventory methods and methods of revenue recognition are used under different circumstances.
2. Companies occasionally make changes in accounting or reportingprocedures which affect the comparability of financial statements
3. Full disclosure facilitates the functioning of an efficient capital market by providing additional information about items included in basic financial statements. This additional information may be useful in making investment decisions.

Disclosure Techniques

The information should be presented in such a manner that it can be easily understood by a person of average knowledge and prudence. The methods of disclosure of information have evolved as a result of the changing environment and consequential improvement in the ways of presentation effected by accountants on their own, on the recommendations of professional institute and as a result of government measures.

The effectiveness and success of disclosure not only depends on the knowledge of the needs of users or purposes of published accounting information but also requires suitable form of presenting the information. Ad-equate disclosure demands that information should be presented in such a manner that fosters understandability, with an emphasis on the points which have a considerable role in the use of the data.

The methods of disclosure have been differing form country to country due to techno, economic, socio, legal and political variations. Mainly the following disclosure techniques have been adopted by the banking companies in India:

*Disclosure by way of annual reports.

*Disclosure by way of chairman's speech at the Annual General Meeting of shareholders.

*Disclosure through the publication of Indian Bankers Association.

*Disclosure through RBI bulletin.

* Disclosure through Financial Magazines

*Disclosure through financial Newspapers and Websites

*Disclosure in Parliament in Response to Question of MPs

Disclosure by way of Annual Reports Annual report is a primary source of information for its various users and it is the most important and significant techniques of disclosure. It has been an established and accepted concept that material information should be disclosed in annual reports. This lead to detailing o reports with schedule, diagrams and notes in the reports to present the past, present and future scene of a corporate body. This is done with a view to satisfy various interest group of society.

On examination of the various annual reports of the banks in India, it has been revealed that their annual reports are having following contents, mainly:-

*Balance sheet with details through concerned schedules which form an integral part of the balance sheet.

*Profit and Loss Account with details through concerned schedules which form an integral part of the Balance Sheet

*Foot Notes below Balance sheet and Profit & Loss Account.

*Highlights of the Bank's Performance.

*Auditor's Report to the President of India. The Auditor's Report addresses the state bank of India in case of subsidiaries.

*Report of the Board of Directors to the State Bank of India and Govt. of India in terms of section 43(1) of the state bank of India ant 1959.

*Chairman's Statement.

*Details of Board of Directors

*Details of Auditors

*comments on world, Indian Economy

*Banking trends

*Monetary and Banking Developments

*Details regarding subsidiaries/affiliates.

*Comments on Banking and Financial Environment

The figures of the current year and the last year being shown in the Profit and Loss Account, Balance Sheet and the concerned schedules.

The format of Profit & Loss Account and Balance Sheet has been specified in third schedule to the Banking Regulation Act 1949. The auditors submit their reports as per the requirements of the Acts and the instruction of the RBI and ICAI issued from time to time. But the other details contained in the annual reports may vary from bank to bank.

Disclosure by way of Chairman's speech at the Annual General Meetings (AGM)

It is also one of important disclosure techniques being used by the banking companies in India. The Chairmandisclosesmany useful information in his speech at AGM. Normally it includes working results, performance, highlights future plants, recent trends in the Banking operations etc.

Disclosure through the Publications of Indian Banks Associations

The variouspublications of the Indian banks association provide useful information regarding the financial statements of banks to its users.

Disclosure through the publications of Indian institute of banker's. The publications of the Indian institute of banker's provide useful and relevant information pertaining to banking industry to its users

Disclosure through RBI bulletin

The reserve bank of India publishes RBI bulletin which disclose many important information pertaining to the financial sector and covers almost all the important aspects of banking industry. This is an official and one of the most significant publications of RBI which is very useful to its users in fulfillment of their needs.

Disclosure through RBI reports on Trends on Progress of Banking in India

The governor of the RBI submits the "Report on Trend and Progress of Banking in India" every year of the Banking Regulation Act 1949. It is a priced publication and provides many usefulinformation-

*financial performance of scheduled commercial banks.

*Liability and Asset structure of banks

*Working results of commercial banks.

*Prudential regulations and supervision.

*Restructuring of banks.

"Report on Trend and Progress of Banking in India" is providing many information regarding financial statements of banks whichare not being properly disclosed in their annual financial statements. Different financial ratios of public sector banks, private sector banks and foreign banks are being shown separately in the above report which enables the users of the financial statements in their decision making etc.

Disclosure through Bank's own journals

The banks publish their own journal which provides useful and important information to the users of the financial statements. The state bank of India is punishing the following journals:

-SBI monthly review

-State Bank Economic News Letter (weekly)

-State Bank Economic News Letter

Disclosure through Financial Magazines

The interviews of the chairman of different banks are published in the leading financial Magazines. Through the above interviews, many important and significant information's are being disclosed which facilitates the users of the financial statements in many ways.

Sometimes the quarterly performance of the banks are also published in the leading financial magazines like Dalal Street, capital market, business today, business India etc. with the comments of the experts. The users are benefited in a great deal from such useful information.

Disclosure through financial Newspapers and Websites

The banks publish their annual audited accounts in the leading financial newspapers like Economic Times, Financial Express, Business Line, Business Standard etc. and websites. Such annual audited accounts become base for all the users of the financial statements in their decision making.

Disclosure in Parliament in Response to Question of MPs

The members of parliaments sometimes ask for specific detailed information regarding the financial position of a bank . the questions ate usually asked regardingnon performing assets of public sector banks and other financial institutions their recovery the amount written off as bad debts and provisioning in respect of NPAs etc. the Govt. has to reply to MPs question in the parliament and such specific information becomes very useful for the users.

Legal Provisions for Disclosure of financial Items

The banking activities and accounting are governed by the following Acts:-

*The RBI act 1934

* The Banking Regulation Act,1949

* The SBI Act,1935

* The Companies Act, 1956

*The Banking Companies Act,1970

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