

INTERIM FINANCIAL REPORTING: CONCEPT AND REGULATORY REQUIREMENTS

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Abstract:

The interim financial reporting has become a challenging task now-a-days. Interim financial statements increase communication between companies and the public, and provide investors with up-to-date information between annual reporting periods. Public disclosure of information, particularly in the interim period, needs to be regulated for its timeliness of presentation and for forecasting earning and share prices. In India, the Securities & Exchange Board of India (SEBI), the securities regulator, has directed stock exchanges to secure that companies listed on them comply with Clause 41 of the Listing agreement in preparation and presentation of interim financial results. In this paper an attempt has been made to investigate the conceptual issues and regulatory requirements of interim financial reporting. The study shows that in India, interim financial disclosure requirements have not been developed to such extent as required by market participants.

Key Words: Interim financial reporting, Clause 41 listing agreement, SEBI, Ind AS 34, IAS 34

1. Introduction

The interim financial reporting has become a challenging task now-a-days. With the passage of time and increasing volatility of the market 'more information faster' is the watchword of today. Timely and reliable reporting is very useful for investors, creditor's government and others to understand an enterprise's capability to generate earnings and cash flows, and to know about its economic condition and liquidity. Annual statements in comparison, complete in information content take more time to disclose them. Hence, interim results get more importance

than results at the year-end. It has been proved that in the current period of global recession satisfaction of investors is must. They want continuous information about their investment. Waiting for final results is very anxious to them. So that companies should make proper and timely interim financial reporting to improve the ability of investors, to satisfy the lenders and to ensure security against fluctuations. The interim financial report containing condensed financial statements in intended to provide an update on the latest annual financial statement it light on new events, activities and circumstances. Interim statements are designed to provide a timely reporting of pertinent financial information with highlights of significant happenings. The report is intended to assist the investors and other users in foreseeing the performance trend of the business.

The purpose of this study is to investigate the conceptual issues and regulatory requirements of interim financial reporting. Now-a-days, it is very important because it will highlight the important disclosure items that investors find most useful and this investigate could help accounting regulators and companies concentrate on information that is of value to investors.

2. Objective of the Study

The main objectives of the Study are:

- To present a short review of the conceptual issues concerning different aspects of interim financial reporting
- To analyze and interpret the regulatory requirements of interim financial reporting in India.

3. Conceptual Issues:

Interim financial report is a report containing either a complete set of financial statements or a set of condensed financial statements for an interim period. A set of financial statements normally comprises balance sheet, statement of profit and loss, cash flow statement, and selected explanatory notes. Accounting standards on this subject (AS 25, Ind AS 34 and IAS 34) requires publication of IFR. Interim Financial Results (IFRs) is not clearly defined by the Indian standard (AS 25), but is deemed to mean quarterly profit and loss statement

3.1 Interim Period:

Interim Period is a financial reporting period shorter than a full financial year.

3.2 Contents of an Interim financial report:

Minimum Components of an interim Financial Report are condensed balance sheet, condensed statement of profit and loss, condensed cash flow statement and selected explanatory notes. However presentation of a complete set of financial statements or more than the minimum line items or selected explanatory notes is not prohibited or discouraged.

According to AS 25 a complete set of financial statements normally includes:

- Balance Sheet
- Statement of Profit and Loss
- Cash Flow statement and
- Notes including those relating to accounting policies and other statements and explanatory material that are an integral part of the financial statements.

According to Ind AS 34 a complete set of financial statements normally includes:

- A balance sheet as at the end of the period (including statement of changes in equity for the period which is presented as a part of the balance sheet);
- A statement of profit and loss for the period;
- A statement of cash flows for the period;
- Notes, comprising a summary of significant accounting policies and other explanatory information; and
- A balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

According to IFRS 34 content of an interim financial report includes:

- A statement of Financial Position as at the end

of the period.

- A statement of comprehensive income for the period.
- A statement of changes in equity for the period.
- A Statement of Cash Flow for the period
- Notes, comprising a summary of significant accounting policies and others explanatory information
- A statement of financial position as at the beginning of the earliest comparative period when an equity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial, statements, or when it reclassifies items in its a financial statements.

4. Regulatory Requirements

On the international arena, for the first time the International Accounting Standards Board (IASB) issued an accounting standard (IAS 34: Interim Financial Reports) in February 1998 to be effective from 1st January 1999 to deal specifically with interim reporting. The objective of the standard is to improve interim financial disclosure by prescribing the minimum content of an interim financial report and to provide the principles for recognition and measurement in the interim financial statements.

In India, the requirement of publishing interim financial reports was, for the first time, introduced by way of publication of unaudited half-yearly results through amendments in Clause 41 of the listing agreement with effect from March 1988. After a decade it was modified, incorporating publication of unaudited quarterly results with effect from June 1998. As per the SEBI mandate introduced with effect from the quarter ending on June 1998, all listed companies are required to publish quarterly financial results. Listing agreement is the standard agreement entered into between the company seeking listing and the stock exchange where listing is sought. Any stock exchange has the power to alter the clauses of the agreement unilaterally and companies listed with that exchange are bound to accept such change to enjoy the facility of listing. The listing agreement is the most influential aspect of stock exchange regulation as far as financial reporting is concerned. The SEBI has used this vehicle to make certain important reforms in the field of corporate financial reporting e.g. requirement to prepare and publish interim financial results, limited review of interim results by the auditor, etc. The SEBI has the power to direct all recognized stock exchanges requiring change in any clause of listing agreement.

The Institute of Chartered Accountants of India has issued As-25 for 'Interim Financial Reporting' which is a benchmark for interim financial reporting. It comes into effect in respect of accounting periods commencing on or after 01-04-2002. It is Applicable to all enterprises required or electing to prepare and present an interim financial report. The Main objective is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in a complete or condensed financial statement for an interim period. The scope is stated in As-25 that if any enterprise is required or elects to prepare and present an interim financial report, it should comply with this standard.

The Ministry of Corporate Affairs has notified convergence of 35 Indian Accounting Standards (Ind AS) with international Financial Reporting Standards (IFRS) on 25 February, 2011. These include Ind AS 34: Interim Financial Reporting. With this notification, India now has two parallel sets of interim financial reporting standards-the existing Indian Accounting Standards (AS 25) and the Indian Accounting standards converged with IFRS (Ind AS 34). Ind AS 34 does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards.

The following important provisions of Clause 41 of Listing Agreement with stock exchanges related to preparing and presenting unaudited financial results covers substantial part of the interim financial reporting:

4.1 Preparation and Submission of Financial Results:

- The financial results filed and published in compliance with this clause shall be prepared on the basis of accrual accounting policy and in accordance with uniform accounting practices adopted for all the periods.
- The company shall submit its quarterly, year to date and annual financial results to the stock change in the manner prescribed in this clause.
- The company has an option either to submit audited or unaudited quarterly and year to date financial results to the stock exchange within forty-five days of end of each quarter (other

than the last quarter), subject to the following:

- ◆ In case the issuer opts to submit unaudited financial results, they shall be subjected to limited review by the statutory auditors of the issuer (or in case of public sector undertakings, by any practicing Chartered Accountant) and such limited reviewed results (financial results accompanied by the limited review report) shall be submitted within forty-five days from the end of the quarter.
- ◆ In case the company opts to submit audited financial results, they shall be accompanied by the audit report.
- The issuer shall submit audited financial results for the entire financial year, within sixty days of the end of the financial year. The issuer shall also submit the audited financial results in respect of the last quarter along with the results for the entire financial year, with a note that the figures of last quarter are the balancing figures between audited figures in respect of the full financial year and the published year to date figures up to the third quarter of the current financial year
- If the company has subsidiaries, it may, in addition to submitting quarterly and year to date stand alone financial results to the stock exchange within forty-five days of the end of the quarter, also submit quarterly and year to date consolidated financial results within forty-five days from the end of the quarter; and while submitting annual audited financial results prepared on stand-alone basis, it shall also submit annual audited consolidated financial results to the stock exchange within sixty days from the end of the financial year.
- The financial results covered under this sub-clause shall be submitted to the stock exchange within fifteen minutes of conclusion of the meeting of the Board or Committee in which they were approved pursuant to sub-clause (II), through such mode as may be specified by the stock exchange.
- In case the company has subsidiaries and it opts to submit consolidated financial results, it may submit the consolidated financials as per the International Financial Reporting Standards (IFRS) notified by the International Accounting Standards Board.
- The company shall ensure that the limited review/audit reports submitted to the stock exchanges on a quarterly/annual basis shall be

given only by an auditor who has subjected himself to the peer review process of Institute of Chartered Accountants of India (ICAI) and holds a valid certificate issued by the Peer Review Board of the ICAI.

4.2 Manner of Approval and Authentication of the Financial Results:

- The quarterly financial results submitted shall be approved by the Board of Directors of the company or by a committee thereof, other than the audit committee. Provided that when the quarterly financial results are approved by the Committee they shall be placed before the Board at its next meeting: Provided further than while placing the financial results before the Board, the Chief Executive Officer and Chief Financial Officer of the company, by whatever name called, shall certify that the financial results do not contain any false or misleading statement or figures and do not omit any material fact which may make the statements or figures contained therein misleading.
- The Committee mentioned in item (a) above shall consist of not less than one third of the directors and shall include the managing director and at least one independent director.
- The financial results submitted to the stock exchange shall be signed by the Chairman or managing director, or a whole time director. In the absence of all of them, it shall be signed by any other director of the company who is duly authorized by the Board to sign the financial results.
- The limited review report shall be placed before the Board of directors or the Committee before being submitted to the stock exchange where the variation between un-audited financials and financials amended pursuant to limited review for the same period, exceeds 10%. Provided that when the limited review report is placed before the Committee they shall also be placed before the Board at its next meeting.
- The annual audited financial results shall be approved by the Board of Directors of the company and shall be signed in the manner specified.

4.3 Intimation of Board Meeting

- The company shall give prior intimation of the date and purpose of meetings of the Board or Committee in which the financial results will be considered at least seven clear calendar days prior to the meeting (excluding the date of the

intimation and date of the meeting).

- The company shall also simultaneously issue a public notice in at least in one English daily newspaper circulating in the whole or substantially the whole of India and in one daily newspaper published in the language of the region, where the registered office of the company is situated.

4.4 Other Requirements as to Financial Results

- Where there is a variation between the unaudited quarterly or year to date financial results and the results amended pursuant to limited review for the same period, and The variation in net profit or net loss after tax is in excess of 10% or Rs.10 laths, whichever is higher; or The variation in exceptional or extraordinary items is in excess of 10% or Rs.10 laths, whichever is higher - the company shall submit to the stock exchange an explanation of the reasons for variations, while submitting the limited review report. The explanation of variations so submitted shall be approved by the Board of Directors: Provided that in case of results for the last quarter, the above sub-clause shall apply in respect of variation, if any, between the year to date figures contained in the unaudited results and the figures contained in the annual audited results.
- If the auditor has expressed any qualification or other reservation in respect of audited financial results submitted or published under this clause, the company shall disclose such qualification or other reservation and impact of the same on the profit or loss, while publishing or submitting such results.
- If the auditor has expressed any qualification or other reservation in his audit report or limited review report in respect of the financial results of any previous financial year or quarter which has an impact on the profit or loss of the reportable period, the company shall include as a note to the financial results how the qualification or other reservation has been resolved; or if it has not been resolved, the reason therefore and the steps which the company intends to take in the matter.
- If the company has changed its name suggesting any new line of business, it shall disclose the net sales or income, expenditure and net profit or loss after tax figures pertaining to the said new line of business separately in the financial results and shall continue to make such

disclosures for the three years succeeding the date of change in name. Provided that tax expense shall be allocated between the said new line of business and other business of the company in the ratio of the respective figures of net profit before tax, subject to any exemption, deduction or concession available under the tax laws.

- If the company had not commenced commercial production or commercial operations during the reportable period, the company shall, instead of submitting financial results, disclose the details of amount raised, the portions thereof which is utilized and that remaining unutilized, the details of investment made pending utilization, brief description of the project which is pending completion, status of the project and expected date of commencement of commercial production or commercial operations.
- The quarterly and year to date results shall be prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 (AS 25 - Interim Financial Reporting) issued by the Institute of Chartered Accountants of India (ICAI)/ Company (Accounting Standards) Rules, 2006, whichever is applicable.
- All items of income and expenditure arising out of transactions of exceptional nature shall be disclosed.
- Extraordinary items, if any, shall be disclosed in accordance with Accounting Standard 5 (AS 5 - Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies) issued by the Institute of Chartered Accountants of India (ICAI)/ Company (Accounting Standards) Rules, 2006, whichever is applicable.
- Changes in accounting policies, if any, shall be disclosed in accordance with Accounting Standard 5 (AS 5 - Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies) issued by the Institute of Chartered Accountants of India (ICAI)/ Company (Accounting Standards) Rules, 2006, whichever is applicable.
- Companies, whose revenues are subject to material seasonal variations, shall disclose the seasonal nature of their activities. In addition, they may supplement their financial results with information for the 12 months period ending on the last day of the quarter for the current and preceding years on a rolling basis.

- The company shall disclose any event or transaction which occurred during or before the quarter that is material to an understanding of the results for the quarter including but not limited to completion of expansion and diversification programmes, strikes and lock-outs, change in management and change in capital structure. The company shall also disclose similar material events or transactions that take place subsequent to the end of the quarter.
- The company shall disclose the following in respect of dividends paid or recommended for the year, including interim dividends:
 - ◆ In case the company opts to submit audited financial results, they shall be accompanied by the audit report.
 - ◆ Amount of dividend distributed or proposed for distribution per share; the amounts in respect of different classes of shares shall be distinguished and the nominal values of shares shall also be indicated;
 - ◆ Where dividend is paid or proposed to be paid pro-rata for shares allotted during the year, the date of allotment and number of shares allotted, pro-rata amount of dividend per share and the aggregate amount of dividend paid or proposed to be paid on pro-rata basis.
- The company shall disclose the effect on the financial results of material changes in the composition of the company, if any, including but not limited to business combinations, acquisitions or disposal of subsidiaries and long term investments, any other form of restructuring and discontinuance of operations.
- The company shall also disclose the number of investor complaints pending at the beginning of the quarter, those received and disposed of during the quarter and those remaining unresolved at the end of the quarter.

4.5 Formats:

- The quarterly financial results shall be in the format given in Annexure I for companies other than banks and that given in Annexure II for banks.
- Manufacturing, trading and service companies, which have followed functional (secondary) classification of expenditure in the annual profit and loss account published in the most recent annual report or which proposed to follow such classification for the current financial year, may

furnish quarterly financial results in the alternative format given in Annexure III. The alternative format can be used only if such format is used consistently from the first quarter of the financial year.

- Consolidated financial results shall be in the same format as is applicable to stand-alone financial results. Additionally, details relating to minority interest, share of associates and other related items shall be separately given as additional row items.
- Annual audited financial results shall be in the format as is applicable to quarterly financial results. However, columns and figures relating to the last quarter, year to date results and corresponding three months in previous year need not be given.
- If the company has more than one reportable primary segment in terms of Accounting Standard 17 (AS 17-Segment Reporting) issued by ICAI/Company (Accounting Standards) Rules, 2006, it shall also submit quarterly or annual segment information as part of financial results in the format given in Annexure IV.
- Limited review reports shall be given by auditors in the format given in Annexure V for companies other than banks (including those using the alternative format of financial results) and in the format given in Annexure VI for banks.
- In case of audited financial reports, the audit report shall be given in the format given in Annexure VII for companies other than banks (including those using the alternative format of financial results) and in the format given in Annexure VIII for banks.
- Disclosure of Balance Sheet items as per items (ea) shall be in the format specified in Annexure IX drawn from Schedule VI of the Companies Act, or its equivalent formats in other statutes, as applicable.

4.6 Publication of financial results in newspapers

- The company shall, within 48 hours of conclusion of the Board or Committee meeting at which the financial results were approved, publish a copy of the financial results which were submitted to the stock exchange in at least in one English daily newspaper circulating in the whole or substantially the whole of India and in one daily newspaper published in the language of the region, where the registered office of the company is situated. Provided that where the

company has opted to submit audited financial results, it shall also publish the qualifications or reservations, if any, expressed by the auditor together with the audited results.

- Where the company has submitted consolidated financial results in addition to stand-alone financial results, it shall publish "consolidated financial results along with the following items on a stand-alone basis, as a foot note:- (a) Turnover (b) Profit before tax (c) Profit after tax" in the newspapers, subject to the following:
 - (i) It shall intimate the stock exchange in the first quarter of the financial year or within such extended period as may be specified by SEBI in this regard and shall not change the same during the financial year;
 - (ii) In case the company changes its option in any subsequent year, it shall furnish comparable figures for the previous year in accordance with the option exercised for the current year.
 - (iii) It shall give a reference in the newspaper publication, to the places, such as the company's website and stock exchanges' websites, where the standalone results of the company are available.
 - (iv) Companies that are required to prepare consolidated financial results for the first time at the end of a financial year shall exercise the option mentioned at (b) above in respect of the quarter during the financial year in which they first acquire the subsidiary.

5. Conclusion

The major objective of financial reporting is assumed to be providing information to help investors in making investment decisions. Interim reports play an important role as a source of frequent information for investors. With the liberalization of financial and capital market in the late 1980's, there has been mounting pressure on India to provide good quality information on international standards in both financial and private sectors to promote the stability of the market. The real utility of interim financial reporting is reflected from the fact that it provides latest data to investors and investment analysts in the process of continuous reporting to update and adjust their projections about future health of the company.

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