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## A STUDY ON INTERIM FINANCIAL REPORTING IN INDIA

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### **Abstract**

This paper focuses on Interim Financial Reporting framework and regulatory requirements to be satisfied by publicly traded companies listed on Indian stock market. In fact, from investors' point of view, Interim Financial Reports are second most essential source of information after annual reports. International Accounting Standard (IAS) 34: Interim financial reporting is also discussed in order to know meaning, objectives, users, form and minimum content of Interim Financial Reporting. In India, SEBI is the governing body of capital market. In this paper SEBI's framework for preparation, authentication and submission of Financial Results by listed companies is elaborated with the help of clause 41 of SEBI Listing Agreement. Clause 41 explains manner of Preparation, Submission, approval, authentication of the financial results, requirement regarding Intimation of Board Meeting, Other disclosure requirements, Form of results publication and requirement of Publication of financial results in newspapers is also discussed.

**Keywords:** Interim Financial Reporting, clause 41 of listing agreement, IAS 34, Financial Reporting Regulatory Framework of SEBI.

### **Introduction**

An interim financial report is defined as being a financial report containing either a complete set of financial statements (as described in IAS 1 Presentation of financial Statements) or a set of condensed financial

statements (as described in IAS 34) for an Interim period. An 'interim period' is any financial reporting period which is shorter than a full financial year [IAS 34.4]. These are such financial statements that relate to a period of three months (which are called quarterly financial statements) or six months (which are called half-yearly financial statements). IAS 34 - Interim Financial Reporting, 2004 states that 'An enterprise should apply the same accounting policies in the interim financial statements as in the annual financial statements. Unlike annual financial statements, Interim Financial Statements are not required to be audited.

However, most jurisdictions mandate that Interim Financial Reports must be reviewed. Despite being unaudited, Interim Financial Statements play a vital role in the financial system in the economy as they meet crucial informational needs to the interested users by providing timely information to them.

### **Interim Financial Reports**

According to (Bagshaw, 2000), "Interim reports are the only regular financial information received by shareholders between annual reports and the quality of this price- sensitive information is therefore crucial. Despite this, the regulation of interim reports is still fairly light, and concern has been expressed over many years as to the quality and problems associated with interim reports." The IAS 34 does not mandate business entities to publish interim financial reports, how frequently, or how soon after the end of an interim period.

However, Governments, Regulatory Bodies like SEBI, Stock Exchanges, and Accountancy Bodies often notify entities whose debt or equity securities are publicly traded to publish Interim Financial Reports.

IAS 34 applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards. The International Accounting Standards Committee encourages publicly traded entities to provide interim financial reports that conform to

the recognition, measurement, and disclosure principles set out in IAS 34 [IAS 34.1]. Specifically, publicly traded entities are encouraged:

1. To provide Interim Financial Reports at least as of the end of the first half of the financial year; and
2. To make their Interim Financial Reports available not later than 60 days after the end of the interim period.

Each financial report, annual or interim, is evaluated on its own for conformity to International Financial Reporting Standards. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entity's annual financial statements from conforming to International Financial Reporting Standards if they otherwise do so.

If an entity's interim financial report is described as complying with International Financial Reporting Standards, it must comply with all of the requirements of IAS 34.

### **Objectives and Users of Interim Financial Report**

Objective of IAS 34 is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

The purpose of interim financial statements is, to provide to users in due time the accounting information necessary for elaboration of operational or funding or investment decision.

Users, based on data contained in the interim financial statements, can project company's performance in the near future. In addition, interim financial statements can give to users, meaningful information regarding business development, directions and information on the seasonality of some

activities, information of disclosure that could be highlighted in the financial statements for the financial year.

The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements prepared for this purpose meet the common needs of most of the users.

However, financial statements do not provide all the information that users may need to make economic decisions since (a) they largely portray the financial effects of past events, and (b) do not necessarily provide non-financial information. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.

The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public in large. They use financial statements to satisfy some of their information needs.

### **Form and Minimum Content of an Interim Financial Report**

According to IAS 34, an interim financial report shall include, at a minimum, the following components:

1. A condensed statement of financial position;
2. A condensed statement of profit or loss and other comprehensive income;
3. A condensed statement of changes in equity;
4. A Condensed statement of cash flows; and
5. Selected explanatory notes.

### **SEBI Regulatory Framework of Interim Financial Reporting**

The precise format and contents of interim reports issued by publicly-held companies are defined by the Securities and Exchange Board of India (SEBI) in Annexures to clause 41 of Listing Agreement.

These reports are reviewed by a company's auditors, rather than undergoing a complete audit (which would be impractical, given the rapidity with which these reports are released to the public). As per Clause 41 of SEBI Listing Agreement following are procedures and requirements to be fulfilled before submission of Interim Financial Report.

### **Preparation and Submission of Financial Results**

The financial results filed and published 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 exchange 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. 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 standalone financial results, also submit quarterly and year to date consolidated financial results within forty-five days from the end of the quarter; and also follow the same while submitting annual audited financial results. As a part of its audited or unaudited financial results, a statement of assets and liabilities as at the end of the half-year also should be submitted.

However, when a company opts to submit un-audited financial results for the last quarter of the financial year, it shall, submit a statement of assets and liabilities as at the end of the financial year only along with the audited financial results for the entire financial year, as soon as they are approved by the Board. Within fifteen minutes of conclusion of the Board or Committee meeting in which the financial results were approved, shall be submitted to the stock exchange through mode as may be specified by the stock exchange. The member of Institute of Chartered Accountants of India (ICAI) who holds a valid certificate issued by the Peer Review Board of the ICAI can only give limited review/audit reports for submission to the stock exchanges on a quarterly/annual basis.

Things to note here is IAS 34 allows reporting entity to submit at least half yearly report within 60 days. On other hand clause 41 of SEBI Listing Agreement requires quarterly financial reporting within 45 days, now a days XBRL (eXtensible Business Reporting Language) is also available for listed companies to submit online reports. BSE is the first and only Stock Exchange in India to introduce and implement XBRL based reporting. (Accessed on 3 March 2018)

### **Manner of approval and authentication of the financial results**

The quarterly financial results submitted under clause 41 shall be approved by the Board of Directors of the company or by a committee there of, other than the audit committee. But the whole responsibility of authenticity and materiality of facts and figures stated in financial results is of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the company, by whatever name called. The Committee of Board of Director 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 there of, 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%.

The annual audited financial results shall be approved by the Board of Directors of the company and shall be signed in the manner specified in item(c) above. In short, quarterly financial results as per clause 41 should be approved by Board of Directors of the company or by a committee thereof for submission, but the responsibility to keep these reports free from any misstatement and omission of facts and figures is that of CEO or CFO of the company.

### **Intimation of Board Meeting**

At least seven clear calendar days before 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. Also issue a public notice in one daily English and regional language newspaper.

### **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 or in exceptional or extraordinary items are in excess of 10% or Rs.10 lakhs, whichever is higher, then the company shall submit to the stock exchange an explanation of the reasons for variations which is approved by the Board of Directors, while submitting the limited review report.

The company shall disclose any qualification or other reservation expressed by auditor and impact of the same on the profit or loss, while publishing or submitting such results. 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. All items of income and expenditure arising out of transactions of exceptional nature, extraordinary items, changes in accounting policies, if any shall be disclosed in accordance with Accounting Standard.

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 material events, transactions or changes having material effect on financial results of the company, which occurred during, before or after the quarter.

The company shall disclose the dividends paid or recommended for the year, including interim dividends: 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. In nutshell listed company should disclose the material events, transactions and changes in name, nature of business if any, which will affect financial results of the company.

Also, company has to report seasonality of business, transactions of exceptional and extraordinary nature, and changes in accounting policies, if any.

### **Formats**

As per clause 41 of SEBI listing Agreement listed companies should follow following formats for quarterly financial reporting purpose:

Annexure I	Format for submission of Unaudited/Audited financial results by companies other than banks.
Annexure II	Format for submitting the quarterly financial results by banks
Annexure III	Format for submitting the quarterly financial results by companies eligible for alternative format

Annexure IV	Format for Segment Reporting along with the quarterly results, applicable for banks as well as companies other than banks
Annexure V	Format for the Limited Review Report for companies other than banks
Annexure VI	Format for the Limited Review Report for Banks
Annexure VII	When an Unqualified Opinion is Expressed on the Quarterly Consolidated/Quarterly Financial Results for companies other than banks
Annexure VIII	When an Unqualified Opinion is Expressed on the Quarterly Consolidated/ Quarterly Financial Results for Banks
Annexure IX	Standalone / Consolidated Statement of Assets and Liabilities

#### **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 in daily newspaper of English and regional language, a copy of the financial results which were submitted to the stock exchange. If the company has opted to submit limited reviewed 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.

#### **Conclusions**

In present study, the Interim Financial Reporting and SEBI regulatory framework for stock market with reference to Interim Financial Reporting have been discussed. According to IAS 34 it is not mandatory to perform audit

of Interim Financial Statements also standard never specify the nature of companies to whom it is applicable but if any company publish interim financial report, then it should follow the IAS 34 to have uniformity in reporting.

Specifically, publicly traded entities are encouraged to provide interim financial reports at least as of the end of the first half of their financial year; and such company should publish interim financial results within 60 days from date of reporting. With regard to preparation of statement of profit and loss, IAS 34, allow option either to follow single statement approach or to follow two statement approaches.

On the other hand Ind AS 34: Interim Financial Reporting issued by ICAI allows only single statement approach, Ind AS also does not mandate which entities should be required to publish interim financial reports, at what interval, or how soon after the end of an interim period. As there are many users of financial statements, Interim Financial Report considered second important document after annual report for making financial decisions. It is the only way to know financial results and financial position of a company between two consecutive annual accounts.

It also works as management performance indicator as frequency of reporting is more than one time within a year. In India, SEBI is the governing body of capital market. It controls and regulates the stock market. SEBI regulate financial reporting by regulation 33 of LODR (Listing Obligation and Disclosure Requirements) Regulation, 2015.

It also inserted clause 41 in Equity Listing Agreement to provide framework for preparation, authentication and submission of financial results by listed companies. So, every listed company must comply with regulation 33 and submit Interim Financial Report within 45 days from date of end of each quarter. Financial result should be submitted along with limited review report. Also, Interim Financial Result should be published in English and regional language newspaper.

Interim Financial Report should be submitted in format prescribed in Annexures to clause 41 of SEBI Listing Agreement. So, the Indian stock market which is barometer of economy is under strict regulations and control of SEBI. At the end, this study is valuable for domain of financial accounting, especially for practices of financial reporting. The researcher hopes that this study would pave way for more future researchers of Interim Financial Reporting. It is also hoped that this study will encourage and create more avenues for in depth research on Interim Financial Reporting.

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