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EDITORIAL

The current issue contains six articles in different areas of management, accounting and finance. Philip H. Siegel, Khondkar Karim and Alan Reinstein in their article, Monitoring as a Process for Adjusting to Increasing Business Globalization, suggest a conceptual model of the effects of organizational context on peer. They also provide an agenda for further research and some implications for practice. In Narrative Disclosures in Company Accounts, A. K. Basu explains the nature, form and content of the narrative disclosures contained in published company accounts. In the next article, Onkar Nath Dutta gives an 'in-depth look' at accounting in the context of organizational actors who play a dominant role in organizational actions. Cash Flow Reporting in Bangladesh by Ataur Rahman Belal gives the results of a survey of recent annual reports of 52 companies in Bangladesh. This is followed by a survey on Inventory Control Techniques in Scooter Manufacturing Companies by Arvind Jain and Nisha Jain, and Private Sector Banks in the State of Rajasthan by Sugan Chand Jain and M. Prasad Rao, respectively.

The issue also contains international conference news and IAA and Branch news.

I take this opportunity of expressing my gratefulness to Prof. Bhagwati Prasad, President of the Indian Accounting Association, Prof. K. R. Sharma, immediate past President, Prof. Prabhakara Rao, General Secretary, Dr. Sugan Chand Jain, Treasurer, and Sri A. K. Basu, Associate Editor, for their co-operation in bringing out this issue. I also thank members of the editorial board, office-bearers of the Indian Accounting Association and those of the Local Branches and members of the IAA for their kind support during my tenure. In particular, the co-operation received from Dr. J. B. Sarker, Secretary of the Calcutta Branch, needs to be acknowledged with thanks.

I wish all members of the Indian Accounting Association a Happy and Prosperous 1998.

B. Banerjee

Chief Editor

January 7, 1998
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Mentoring as a Process for Adjusting to Increasing Business Globalization
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Narrative Disclosures in Company Accounts
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Accounting and Organisational Actors
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International Conference News

IAA and Branch News
INDIAN JOURNAL OF ACCOUNTING
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MENTORING AS A PROCESS FOR ADJUSTING TO
INCREASING BUSINESS GLOBALIZATION

Philip H. Siegel *
Khondkar E. Karim +
Alan Reinstein #

There are a number of peer relationships that can support a professional
development and adjustment at different career stages. Based upon
the interviews of 32 accounting professionals following a merger of two
firms, the authors suggest a conceptual model of the effects of
organisational context on peer. They also provide an agenda for further
research and some implications for practice.

Introduction

The recent interest in examining the effects of context upon working
relationships in the accounting profession has primarily focused on the
role of mentoring and how individuals cope with change (Scandura and
Siegel, 1995; Siegel et al., 1995; Viator and Scandura. 1991; Scandura
and Viator, 1994; and Siegel and Omer, 1995). The extant literature has
established that the mentoring relationship provides the potential to
enhance the development of individuals throughout the early and middle
stages (Siegel et al., 1994; Kram and Brager, 1991; Dreher and Ash,
1990; Fagenson, 1989; Kram 1988, 1985, 1983; Dalton and Thomson,
1986; Dalton et al., 1977). However, the accounting literature has not
considered other work relationships that can contribute to professional
and career growth and adoption. The purpose of this paper is to analyze
how other relationships in professional and work setting-relationships with
peers can provide unique opportunities for both personal and professional
growth and adjustments during periods of stress brought due to firm
merger and restructure. The remainder of the paper is as follows: a review
of recent mentoring research during organizational change; secondly, a
discussion of the importance of investigating other developmental
relationships in CPA firms and presentations of the research methods
and conclusions.

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Mentoring Relationship During Mergers and Uncertainty

The benefits of mentoring are well established in the extant literature. Mentoring is a valuable resource for enabling individuals to cope with rapid and major organizational change (Kram and Hall, 1995). During mergers, corporate reengineering, rapid technological change and reduced resources, organizations are interested in finding methods to accomplish the same or in some cases more especially in the adaptability of employees during these periods of changes. The mentoring literature has found that effective adjustment to such changes requires a different learning process which can be provided by mentoring (Kram and Hall, 1989).

Kram and Hall (1989) reported that effective mentoring provides an antidote to stress created during times of corporate trauma such as mergers or restructuring. Corporate mergers and acquisitions have been part of the changing business environment for many years, but researchers have only recently began to study the impact of these phenomenon on employees (Ashkanasy and Holmes, 1994; Scandura and Siegel, 1995; Siegel and Omer, 1995: Schweiger and DeNisi, 1991) and have found that problems arise from the uncertainty regarding organizational and personnel changes that always follow mergers and restructuring. Ashkanasy and Holmes (1994) reported that employees experienced stress when coping with the environment brought about by CPA firm mergers. Mentoring can play a significant role in providing learning processes before, during and after a merger thereby reducing the stress associated with a CPA firm merger.

There exists a considerable professional literature on the effects of mergers upon employees (cf. Buono and Bowditch, 1989). During and after mergers, employees experience high degrees of stress due to uncertainty regarding the nature of how their work will change the future direction of organization and the fear of employment loss. Ashkanasy and Holmes (1994) classify the initial or early stage of the merger process as shock and retreat. They point out that employees are often demoralized and that their professional standing can be compromised just prior and after a merger or restructuring. Recent research has indicated that it may be helpful to provide realistic and helpful communications to reduce or avoid dysfunctional behaviour resulting from stress during mergers or restructuring (Schweiger and DeNisi, 1991).

Mentoring Simulations

Mentoring assists employees in career growth by facilitating exposure and visibility which assist personnel in establishing a role in an organization and preparing for advancement (Scandura, 1992). Mentoring also provides a psychosocial sphere in which the mentor offers role modeling counseling and friendship (Siegel et al., 1995). However, changes in organizational
circumstances or in the proteges’ needs may cause the relationships either to terminate or to shift to a new phase (Kram, 1983). Organizational changes like mergers, transfers, restructuring, promotions have been found to alter the context of the mentoring relationship (Scandura and Siegel, 1995).

The outcome of mentoring change could generate feelings of loss or anxiety as individuals enter the separation phase of a mentoring relationship (Philips, 1983). As a mentoring relationship enters into the termination or redemption phase, the relationship fails to provide the central functions that previously gave the mentoring such importance (Kram, 1983).

The limitations of the mentoring relationships indicate the importance of investigating a wider range of developmental relationships. The many aspects of the worldwide economic structure such as rapid technological changes, social upheavals in the societal authority, structure, mass education have created an increasingly diverse society. Our information based environment has brought about the formation of a new flatter, networked, team-based organization. This new environment demands a different type of mentoring to deal with the team-based egalitarian structures (Clawson, 1996).

In a context of a rapid technological change and shifting organizations with unclear personal anchor points, there is ample room to consider that people of similar age or experience could engage in mentoring or peer activities. This is especially valuable as the bureaucratic pyramid is replaced with the team work approach in the process oriented organization (Pinchot and Pinchot, 1994).

As organizations flatten and bureaucratic pyramids transform into ovals and circles, personnel are looking toward their peers more for guidance. Many senior personnel may not understand, identify or even want to encourage new forms. This developing situation encourages the development of the peer mentoring trend.

**Peer Relationships**

The paper assumes that a wider range of developmental relationships should be studied. The premise is that numerous relationships are important to career and adult development is well documented (Kram, 1985; Neugarten, 1975; Levinson et al., 1978; Storr, 1963). Social psychologists have indicated that an individual’s personality develops within a social nexus of relationships which has at its centre a core group from which new behaviours are learnt and a positive sense of self is gained (Ziller, 1963).
Levinson et. al. (1978) developed a concept of life structure which describes the individual's relationships with various parts of the world. This study indicated that people selectively use and in turn as used by their environment via evolving relationships. The research emphasized the importance of different types of relationships in influencing individual development and growth throughout life and career stages (Kram and Isabella, 1985).

The extant literature has clearly shown the general importance of developmental relationships. The research, however, is limited concerning relationships other than mentoring that constitute directly and support progress in both life and career. There are numerous relationships that impact on developmental needs in the contemporary professional and work setting (Levinson et al., 1978).

Kram (1985) indicated that relationships with subordinates and peers could provide alternatives to the mentoring relationships. Previous studies of other developmental relationships found a significant potential for peer relationships. Kram (1980) made an intensive interview study of pairs of junior and senior managers who were involved in mentoring relationships. She found that many of the participants indicated the importance of peer relationships when mentoring relationships were ending, changing or were failing to meet critical developmental needs.

Scandura and Siegel (1995) reported that peer relationships appeared to have similar functions as mentoring during corporate mergers. The study reported that in a rapidly developing hierarchical corporate culture resulting from a merger that individuals are likely to have more peer relationships than mentors. The absence of a hierarchical dimension is peer relationships, expedited communications, mutual support and collaboration.

The primary purpose of this research was to understand the nature of peer relationships among accounting professionals in one organizational setting. The research design was guided by three primary questions: (1) What purposes do individuals form and mean peer relationships in the public accounting profession during a merger or a restructure? (2) Can unique type of peer relationships be identified during CPA firm merger? (3) What are the functions of peer relationships at different career stages during CPA firm merger?

Research Design

This exploratory study was designed to examine the nature of significant peer relationships at different career stages. The research was conducted at two large southwestern international CPA firms which had gone through a firm merger. The managing partner and members of the human resource staff facilitated the researchers' introduction into the firm.
The staff provided an initial list of potential research participants based on four criteria established in advance by researchers.

Participants

The first criteria for participant selection was age. The literature indicates that individuals work on varying developmental tasks at different ages and career stages in the context of their relationships (Booth, 1996; Tepper, 1995; Kram, 1983; and Levinson et al., 1978). Therefore, it is important to allow age differences to be manifested. These age groups were identified as most likely to represent individually in early, middle, and later career stages. Career stage and adult life are not always correlated as in the case of an individual launching a new or different career at midlife. Our sample, however, consisted of professional accountants whose life stage and career stage were highly correlated.

The second criterion of the study was the gender of the participant. Our research focus was to expand our knowledge of adult relationships in the workplace. Therefore, it was important to have a gender balance reflecting the demographics of the organization (Ragins and Scandura, 1994).

The final criterion was tenure in the organization. We attempted to select individuals who had a minimum tenure in the organization for at least three years. We felt that this period was sufficient to enable an opportunity for peer relationships to develop.

Individuals were randomly selected from each category. These individuals were requested to participate in the study by the managing partners of the CPA firm. Each of the individuals were contacted by phone to arrange an apartment for interviews. The sample consisted of 32 individuals.

Concept Development and Data Analysis

This study employed an inductive process in which possible concepts concerning mentoring and peer relationships were suggested and revised as interviews were conducted. Themes and categories surfaced as the numbers of relationships in the sample increased, illuminating recurring patterns in the data. The interview process continued until saturation was reached (i.e., no new themes emerged). These themes and categories provided the foundation for core variables in a conceptual model of the peer relationships during CPA firm mergers.

Figure 1 shows the grounded theory approach developed by Strauss and Corbin (1990). The research followed this process for the development of concepts and the conceptual model. A research question was stated to identify the phenomena to be studied. More specifically, the research question provides focus and clarity processes under study.
Figure 1
Ground Theory Model (Strauss and Corbin, 1990)

<table>
<thead>
<tr>
<th>Interviews</th>
<th>Field Notes</th>
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Data Generation

↓

Data Analysis

↓

Concept Formation
Level I Substantive Codes
Level II Categorization
Level III Basic Social-Psychological Process Method

↓

Concept Development
Reduction Sampling
Selective Review of Literature
Selective Sampling of the Data

↓

Core Variable

↓

Grounded Theory

According to Strauss and Corbin (1990:7):
We need a research question or questions that will give us the flexibility and freedom to explore a phenomenon in depth. Also underlying this approach to qualitative research is the assumption that all of the concepts pertaining to a given phenomenon have not been identified, at least not in this population or place. Or if so, then the relationships between the concepts are poorly understood or conceptually developed.
The research question for the present study was to examine the role of peer relationships as providing organizational learning during and after a CPA firm merger. This question, while broad, adds focus to the study by identifying the phenomena to be studied (Hutchinson, 1986). As data collection proceeds, however, the research question may be refined through the research process and collection of data.

**Interviews**

As shown in Figure 1, data were generated to address the research question. We studied 16 developmental relationships in two international public accounting firms which had recently merged. Sixteen pairs of audit professionals involved in significant peer relationships were interviewed. Interviews were conducted by the authors.

**Interview Method**

The interview process followed the methodology used by Scandura and Siegel (1995) and Kram and Isabella (1985). The first section of the interview questionnaire contained demographic questions, and the second section listed questions dealing with the respondents' career history and mentoring relationships. The final section contained a pivotal question that led to other questions concerning the nature of these developmental relationships. Interviewers explored issues that emerged during the interviews. Preliminary discussions alerted each interviewer to his or her own potential bias in collecting data. Exchange among the interviewers during the data collection process provided the researchers with the opportunity to identify and deal with issues that developed during the course of interviews. Data were examined line by line and processes were identified and coded (Scandura and Siegel, 1995; Hutchinson, 1986).

Focal group professionals were interviewed for two 45 minute sessions. During the first, the principal task was to review the professional's career history and to explore their peer relationships. The second interview explored relationships with these peers. This was accomplished by reconstructing significant events in the unfolding relationship and by following the thoughts and feelings that the focal professionals expressed in the interviews.

The pivotal question at the end of the first interview, (who took a personal interest in your career development ?), established the core of enquiry for the second interview. In the pivotal question, professionals selected the individual they wanted to talk about in the second interview. The senior professionals identified by the junior managers in the first interview were then contacted and invited to participate. Significant other professionals were identified by the focal professionals in the first interview and were then contacted to participate. The significant other professionals
were introduced to the study by reviewing how they had been identified as those who had assisted the focal group in their career development. The interview with significant other professionals was similar to the second interview with focal group professional. The history of the relationship was discussed and the significant other professional was encouraged to describe his or her experiences in the relationship as significant circumstances were identified. The follow-up session with the significant other first sought to explore their career history. However, the overall objective of this segment was to clarify how the relationship with the focal group developed.

This research methodology has intervention possibilities since researchers asked additional questions when necessary. Efforts were made to minimize negative consequences by debriefing at the conclusion of each interview. Careful connecting of interviews from the focal group to the significant other professionals was also made in order to insure confidentiality (peers were only told that they had been identified as a mentor but no information regarding the content of the initial interview was shared). A feedback report was provided and participants were asked to contact the researchers if they had questions.

**Development of Core Variables**

Grounded theory specifies no particular data-gathering instrument or a set of analytical procedures in advance of the data collection process. The research orientation, therefore, emerges from the analysis of the data (Scandura and Siegel, 1995; Blank et al., 1991). The interview method used in this study was developed from prior studies using the grounded theory methodology (Siegel et al., 1994; Blank et al., 1991; Kram and Isabella, 1985; Kram, 1983). The grounded theory approach employs content analysis of interview data. Due to the voluminous amount of information, the method requires relatively small sample size (Scandura and Siegel, 1995; Siegel et al., 1994; Blank et al., 1991). Although two regional firms in a major U.S. city might not represent all such firms throughout the country, the diverse makeup of the firm's professionals reflects a population composition similar to that found in other studies (Siegel et al., 1994; Spiceland et al., 1992; Blank et al., 1991; Rasch and Harrell, 1990; Wright, 1988; Siegel and Rigsby, 1988).

Delineating concepts involves use of illustrative quotations from the data set, intuitively sorting the data base, identifying the organizing concepts, and then clarifying the connection between concepts and data. An informal test of the usefulness and accuracy of the development of the analysis emerged early in the interviewing phase. Data that could not be used effectively to illustrate a concept were deemed inadequate or inappropriate for the analysis. The more an account of professionals could
stand along in illustrating the emergent analysis, the more credible it was considered (Scandura and Siegel, 1995; Blank et al., 1991; Glaser and Strauss, 1967). This is because the researcher undertakes the quest for the central element that will illustrate what is occurring in the data. The core variable serves as the foundational concept for theory generation. The discovery of core concepts is essential for the integration and density of the theory.

A core variable has six essential characteristics. It recurs frequently in the data; links the data together; is central and explains much of the variation; has implications for a more general theory. As it becomes more detailed, the theory moves forward providing maximum variation and analysis (Strauss, 1987:36). In our data, the merger is the context within which the situation unfolded. This situation created learning requirements, which we identified as a core variable. For organizational learning to occur, employees needed to be able to adapt, be flexible and cope with uncertainty. Examples of learning requirements are indicated in the following quotes from respondents:

1. We have lost people in our division. My frustration is that we do not have dynamic partner leadership to replace those lost due to the merger. My peer has helped me to cope with the frustration, even though he himself doesn't always know what to do—he tells me what to watch for, what not to do.

2. This year we had this merger and people were talking about how bad everyone else was, ranking them to determine who was going to get removed. People were really concerned about their ranking—they were uncertain about who was going to be left. I called my peer and he wrote he was a friend of mine—he intervened by calling one of the partners to find out what was going on.

3. This year is going to be difficult. We've had a merger going on and this has disrupted training. This year I don't know—things continually come in the mail. My peer has been like a counselor to me. He shoots straight from the hip—he gave me an idea of the global picture of the firm and what people to contact for technical information after the merger.

4. Since the merger, things are less structured than I thought they were going to be. The atmosphere has also become more competitive. I wonder how I'm doing compared to everybody else. Fifteen people have left and some of them were my best friends. Morale is low. I'm now having problems with technical aspects of my job. Things aren't really clear—before you could just walk into a partner's office to discuss things, now you don't know when to go in. My peer is a real party line.

5. If I feel there's something wrong, I go to him (my peer). The merger is constraining some of his time, but I can still go to him with small and large problems.

6. I am unable to serve my clients. Since the "big shock" came, we have to live with new rules, written and unwritten, and we don't know what they are. I have less control over my time and life since the merger—I have so many different bosses to respond to who give me different projects and it's difficult to work with new partners and deal with new clients. My peer has helped to at least sort some of these things out for me.

7. We're really trying to feel our way through the process. Over time, the merger will take its effect, but it will be a long time before we realize the full effect. They're trying to tell you that you're not going to be put out of a job, but I don't know. I needed meaningful feedback on where I stand and how to act—the merger forced me to find a different
type of relationships. These comments indicate that peer relationships were an important aspect of individuals' ability to cope with the uncertainty due to the merger and meet the learning requirements of adaptability, flexibility and coping. Peer relationships emerged through the analysis of the data, as indicated by the following quotations from respondents.

8. Peers help in so many ways to cope with stress and frustration created by the merger. One way is to listen to their thoughts and their experiences. Watching peers on a day-to-day basis handle other people, clients or staff is real beneficial. Just having a discussion on how to approach a problem or how to proceed with a certain type of analysis.

9. The merger has brought about more uncertainty and formality. The peer and I work closely and I learnt about organizing myself and how to stay on the critical path: (1) The informal peer relationship is more confidential. (2) The system uncertainty due to the merger provides fewer personal contacts. (3) Peer relationships are necessary at the early stages of an individual's career, but are less helpful afterwards. (4) The formal system does not provide for choice of mentors. (5) At lower professional levels, informal meeting helps a great deal in building self confidence. However, at higher professional levels, both the quality and quantity of advice is not as high. (6) It is difficult to designate or assign a formal peer. A true peer relationship occurs informally when two people feel comfortable with each other. (7) The informal counseling is worth 20 times what you get from any formal training.

As indicated by the responses, peer requirements within the merger context were for informal peer/mentoring systems and more psycho-social support relative to career or vocational support. We saw that peers in this context (informal and psycho-social) were related to reduction of stress and frustration and lower thoughts of being absent or leaving the organization (turnover). In general, peers improved adjustment to the merger for the respondents in the study.

Level I Coding

The data were examined line-by-line and key processes and underlying patterns were identified. Level I requires that the researchers identify process, and as the data are received, a system of open coding is applied. In this study, separate coding sheets were created from the transcripts of the interviews. In Level I coding, the researchers attempted to identify as many themes and categories as possible. Next, these were compared with new indicators to uncover characteristics and relationships. Early codes are discarded if few people mentioned them (they were deemed to lack foundation in the data). New codes were added, as they gained foundation in the data.

Level II Coding

Level II coding, or categorizing, requires the use of a constant comparative method in the treatment of the data. Data that were coded were compared with other data and assigned to clusters or categories according to their obvious fit. Categories are coded data that seemed to cluster together. For example, in the present study, mentoring clustered
into the categories of formal/informal and psycho-social/career mentoring. Deciding upon specific categories is facilitated by questioning what each Level I code might indicate and then making a comparison all Level I codes to all others. This process allows the research to decide which particular category is appropriate for the clustering of similar Level codes. Next, each of these clusters are compared to ensure that they are mutually exclusive.

**Level III Coding**

Level III codes describe the basic social psychological processes (BSPs), a particular type of core variable that illustrate social processes (Glaser, 1978). BSPs are the levels given to the central themes that emerge from the data. For example, what processes are helping the participants cope with the merger? The objective in Level III coding is to focus on how the participants cope with the problem. In summary, Level III describes the basic social psychological processes that are taking place. In the present study, there was a great degree of stress occurring, individuals sought peer relationships as an antidote to reduce uncertainty and learn the new culture. In particular, they sought informal peers and psycho-social support—career enhancement became less salient during and after the merger. No one mentioned career development as an issue—the predominant concerns were coping with the merger.

**Concept Development**

First, data reduction is conducted which is comparing categories to see where overlap exists and then combining them into categories of broader scope. The result is a final category of broader scope. For example, there was no consistent differences in the BSPs identified across educational background, experience, organizational level, non-CPA experience for the present study. Hence, these concepts were collapsed into the broader category of CPAs in this study. Another example was that career enhancement by peers was not a concern and collapsed into the broader category of psycho-social mentoring and peer relationships.

The next step in concept development is selective sampling of the literature. We found our results to be consistent with the findings of Scandura and Siegel, 1995; Siegel and Omer, 1995; and Kram and Hall (1989) for organizational turbulence and mentoring when a downsizing occurred. As indicated earlier under context effects, the broader literature on downsizing, restructuring suggests that similar results may be found in other times of corporate turbulence. Although many studies have supported the efficacy of career support by mentors and peers (Scandura, 1992; Dreher and Ash, 1990), this was not found to be salient during this merger. However, psycho-social support was found to be the important peer function during the merger.
The third step in concept development is selective sampling of the data. As main concepts become apparent, additional data are processed for developing hypotheses and identifying the properties of categories. This was purpose of the second interviews. During the second interviews, the categories become saturated through selective interviewing (Scandura and Siegel, 1995; Stern, Allen and Moxley, 1982).

**Characteristics of Peer Relations**

The data indicate that peer relationships offer an alternative to mentoring for personal and professional growth at various career stages. Through the grounded theory analysis of the 16 relationship pairs, we found a range of career enhancing functions similar to those identified by in mentoring relationships (Veale and Wachtel, 1996; Siegel and Omer, 1995; Scandura, 1992). The analysis found that peer relationships suggested that these relationships fit along a continuum with some peer relationships providing one career enhancing functions while others providing a wider range of career enhancing and psychosocial functions. Table 1 defines the continuum relationships that highlights the different types of peer relationships. Interviews with the professionals at the different career stages indicated that there are different categories of peer relationships which may be modified and influenced by the age career levels of individuals.

<table>
<thead>
<tr>
<th>Mentoring Relationships</th>
<th>Peer Relationships</th>
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<td><strong>Career-enhancing functions</strong></td>
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<td><strong>Psychosocial functions</strong></td>
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<tr>
<td>acceptance and confirmation</td>
<td>confirmation</td>
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<tr>
<td>counseling</td>
<td>emotional support</td>
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<tr>
<td>role modeling</td>
<td>personal feedback</td>
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<td>friendship</td>
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<tr>
<td><strong>Special attribute</strong></td>
<td><strong>Special attribute</strong></td>
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<tr>
<td>complementarity</td>
<td>complementarity</td>
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</table>
Developmental Function

Peer relationships can function so as to provide a number of developmental benefits. Many of these benefits are similar to those observed in conventional mentoring relationships (Siegel et al., 1995; Scandura and Siegel, 1995; Scandura, 1992; Kram, 1985). Table 1 shows the comparison of peer developmental functions derived from the analysis of the interview data with parallel functions found in mentoring.

In providing psychosocial functions peer relationships can support an individual's notion of competence and confidence in their professional career. Moreover, psychosocial functions are more commonly observed in peer relationships that are of longer duration, more intimate, and characterized by trust and high self-disclosure:

Our relationship has grown. I feel it will continue to grow as long as I work with her. She respects me and whatever I say she tends to listen to. If I say something can not be done she gives me feedback. Our careers are similar. We are the same age and we often go to the same social events.

Within the context of these relationships peers are often able to provide confirmation to one another through sharing mutual benefits, perceptions and value to their careers and lives. Peer relations can also provide emotional support by counseling one another during periods of rapid transition and stress.

Peers can offer each other a personal level of feedback that is a valuable aid to learning about the management style; learning how to influence other individuals in the organization; and finding out how they are managing their work. Peer relationships differ from mentoring in that they afford a degree of mutuality that enables professional to experience being both the receivers as well as the giver of these functions. This mutuality appears to be actual in assisting individuals during their careers to develop a continuing sense of competence and identity of professionals.

The Continuum of Peer Relationship

From the research sample of 16 relationships we found three types of peer relationships. Each of these types was characterized by a unique set of developmental functions, a particular level of self disclosure and a unique context in which the relationships evolved.

We can describe the primary functions and context of the peer relationships that were observed along the continuum.

Information Peer

In this category individuals benefit most from the exchange of information concerning their work and the organization. This relationship
is characterized by low levels of trust. Individuals receive only occasional conformation or emotional support due to the focus or information exchange and infrequent interaction. An information peer might give or receive a modest amount of professional feedback. There is usually very little trust or commitment to enable personal feedback:

He gives me some knowledge about the job. He comes in and out of the project. You do not have time to get down to detail. You are looking for just the highlights. He does not help me understand the rapidly changing processes.

This type of relationship offers a very limited social function in providing some degree of familiarity or friendship. It provides almost no career or psychosocial support.

**Collegial Peer**

This peer relationship is characterized by moderate amount of trust and self-disclosure. This level involved increasing complex individual rates. In this category information sharing is coupled with increased amounts of emotional support, feedback and confirmation. Professionals are likely to participate in increasingly more intimate conversations about work and personal concerns. There is greater opportunity for confirmation and validation of self worth:

Marilyn and I have our offices next to one another. I see her often. When one of us is placing a tough discussion or is having a difficult problem we drift over to one another offices and commiserate.

There is a lot of interaction on both a professional and social basis. We seem to be advancing and experiencing things at the same time. We share experiences and reinforce each other.

The primary rates of the collegial peer relationships are career strategies, feedback and collegiality. There is also some emotional support and confirmation. The participants in the study indicated that they have a limited number of such relationships during their career experience. These relationships are generally with other professional who at one time worked within the same area and where ongoing professional contact encouraged the formation of peer relationships.

**Special Peer**

This category of peer relationships involves a special form of intimacy characterized by great self-expression and self-disclosure. Their relationships involved widest the range of both career-enhancing and psychosocial support. Professionals found confirmation and essential emotional corrections that enabled involved profound work on significant developmental tasks:
I can discuss most things with David and he will be supportive and understanding. I am able to work out frustration and anger engendered by the merger in a more constructive fashion by taking to with him. We share each others successes and try to assist one another with major decisions and problems.

Special peers indicated a sense of bonding with one another which is an important source of security and comfort badly needed during the stressful periods of merger and restructuring. In addition, the special peer relationships can also provide honest personal feedback career strategizing and continuous confirmation of one another's competence and potential.

Peer Relationships at Different Career Stages

An individual in the early or establishment phase of the career is usually concerned about both competence and professional identity (Scandura and Victor, 1994; Kram 1983; Schein 1978; Dalton et al., 1977). During and after the merger two themes emerged for the professional in the early career stages in the sample: (1) a need to feel more self confident and competent as they learnt how to adjust to the rapid change in organizational life created by the merger and (2) concern for their professional identity role. The information peer relationship enables the novice to learn how to do the work in this uncertain environment.

The collegial peer relationship is characterized by the assistance to adjust to evolving professional roles and performance. The special peer relationship provided intimate discussion about adjusting and committing to the new professional environment. The special peer also provided a mechanism for managing the stresses brought by the increased uncertainty of the merger and the resultant anxieties about professional competence.

Dominant Theory in Advancement Stage

In the advancement stage as professional become established and internalized their feelings of work competence these individuals desire to work through the developing conflicts between increasing work pressures and family commitments. The information peer enables these individuals to create opportunities to advance their information of the rapidly changing organization structure. The collegial peer can assist in providing feedback on the individuals performance and their attempts to gain recognition. The special peers assist individuals to more effectively dealing with work family conflicts as well as with concerns on adjusting to the demand of the working organization.
Dominant Themes in Middle Career

In this category individuals appeared to be concerned with reshaping old essay and learning new ways to approach the rapidly changing and uncertain situation they now face in their career and life. Midcareer is a time when individuals increasingly depend on others to help them accomplishing organizational tasks (Burke, 1996; Siegel and Omer. 1995).

These developmental tasks influence the dominant themes for the peer relationships in this career stage. In our study the special peer relationships provided several psychosocial functions, thus affecting a method for the professional to manage peers of obsolescence as well as processes of reassessment and redirection that usually occur at this period (Levinson et al., 1978).

Dominant Themes in Late Career

At this career stage, peer relationships take on a sequence rate assisting the professional into retirement. The information peer enables the individual to stay connected with the firm and to continue to work effectively. The collegial and special peer relationships have become mechanistic enabling the mature professional to assume a more consultative role and to pass on the new firms responsibilities.

Discussion

This study provides an agenda for further research and some implications for practice. It was found that individuals favour the psycho-social aspect of peer relationships during and after the merger. It appears that peer relationships may offer an antidote to stress, providing a scope of support to all levels of professionals. Developmental relationships appear to become more salient during stressful periods (Scandura and Siegel, 1995; Kram and Hall, 1989). Employees under stress may be more inclined to seek peer alliances than during periods of certainty. The relationship between psycho-social peers and rapid organizational change is consistent with the psychological perspectives on the role of interpersonal relationships in reducing anxiety and stress (Kram and Hall, 1989). Relationships between peers provide mentoring functions and offer the type of support that increases employees' abilities to cope and to maintain self-esteem under stressful conditions (Kram and Isabella, 1985). The extent to which peer is important during stressful periods may be influenced by the nature of the organizational context.

Based upon the interviews of the 32 accounting professionals following a merger of two firms, a conceptual model of the effects of organizational context on peer was developed, and is depicted in Figure 2. As indicated
in the figure, context factors bound the efficacy of the formal peer relationship process. Peers are posited to be very effective following a merger. Second, it is proposed that psycho-social dimension of peers will be more important to employees than vocational peers following a merger. Finally, the relevant outcomes of peer relationships following a corporate trauma include reduced stress, frustration, absenteeism, thoughts of quitting and improved adjustment to the new organizational culture.

This study delineated peer relationship along a continuum and outlined the developmental functions provided by these relationships. The study also suggested the manner whereby these relationships may fulfill different professional needs at different career stages.

The study indicates that there are a number of peer relationships that can support a professional development and adjustment at different career stages. Each type of relationship offers a range of opportunities for growth and operation through its unique function it provides.

Figure 2
Conceptual Mode of Context Effects on Peer Relationship

<table>
<thead>
<tr>
<th>Context Effect</th>
<th>Learning Requirements</th>
<th>Peer Relationships Requirements</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downsizing</td>
<td>Adaptable</td>
<td>Informal System</td>
<td>Reduced Stress</td>
</tr>
<tr>
<td>Restructuring</td>
<td>Flexibility</td>
<td>Psycho-social Support</td>
<td>Reduced Frustration</td>
</tr>
<tr>
<td>Mergers</td>
<td>Coping with Uncertainty</td>
<td></td>
<td>Lower Absenteeism</td>
</tr>
<tr>
<td>Acquisitions</td>
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<td></td>
<td>Lower Turnover</td>
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</tbody>
</table>

Researching this model would be fairly straightforward, since measures of peer functions exist (Dreher and Ash, 1990; Noe, 1988; Scandura, 1992), as well as communications (Schwieger and DeNisi, 1991) and stress outcomes (cf., Cook, Hepworth, Wall and Warr, 1981). Researchers must be alert to the opportunity to study an organization that has just undergone a corporate merger. These events are increasing in their frequency and their effects on work relationships and employee stress is an important direction for future research.
Implications for Practice

Efforts to formalize peers in CPA firms can be more effective if the psycho-social aspect of the process is emphasized. Hence, the benefits of reduced anxiety and stress may be attained. Those individuals seeking peers as well as those in a position to encourage the peer/mentoring process should expand their target groups to include individuals at all career stages. A critical question about peers that remains to be explored concerns whether individuals perceive junior or senior colleagues as potential support or threat during stressful periods.

Peer relationships can provide adaptive responses to stress induced by restructuring as well. CPA firms need to explore whether peers relationships serve as an antidote to career plateauing for those in mid-career that is sometimes associated with corporate restructuring. In addition, there are a number of creative strategies that are available to enhance unexplored mentoring activities. For example, altering jobs so that they are structured to require collaboration between individuals at complementary career stages and changing organizational culture so that relationship building is a priority. Encouragement of formalized peer relationships might be dove-tailed with the implementation of work teams to facilitate organizational learning in team environments.

This study of mentoring during a CPA firm merger suggests that there is a need for ways to communicate merger processes and emerging expectations (i.e., organizational culture aspects) during times of organizational trauma. There is also a need to provide a mechanism or method to communicate and assist personnel in adjusting to changes resulting from a merger. Peer relationships could play a role in teaching individuals the new techniques, work papers, reporting structure and reporting methods. For example, concerns voiced by interviewees were: Needs to know how to fill out expense reports, how to bill out hours, how administration was to be handled, how people would be evaluated and by whom after the merger. Accounting firms should consider the peer process as inherent in the merger, restructuring and post-merger process as employees will naturally seek out information from superiors during times of change. Peer relationships can thus be used to assist the firm in helping employees adapt to rapidly changing conditions and to assist them in how to supervise younger personnel.

Managers may use peer relationships as a source of feedback to obtain information on adjustment problems and client development progress. Also, peers might be used to address the problem of plateauing for mid-career professionals, especially during periods of rapid corporate change. Being a peer to a junior person may rejuvenate the career of a mid-level manager (Ragins and Scandura, 1994). Recognizing peers as
an organizational learning system may also enable interfirm relationships by encouraging peers between departments and non-professional staff.

It is hoped that this study of peer during a CPA firm merger leads to further research and theory in the context effects of mentoring in organisations. Our findings suggest that it is important to examine aspects of the context of the work environment when conducting studies of mentoring, such as how formalized the mentoring system is, whether the organization is undergoing a major change (for example, downsizing, mergers, and/or restructuring) and the organization’s culture. Such investigations may broaden conceptualizations of mentoring at work and shed new light on interpretations of previous research.

The study also suggests a number of research question for further exploration. In conducting the research into the peer relationships, it becomes apparent that shifts took place in some relationships and little took place in others. A clearer group of the psychological and organization factors which encourage or peer relationship needs to be developed. Such provide industries and firms with better insights of peer relationships. This might enable organizations to create conditions fostering the formation of supportive or formal peer relationships.

Since this research studies relationships in only one organization setting we would need to examine it in organized setting and how it affects the nature of peer relationships. Systematic research across organizations with different cultures work group maturity, reward, systems, availability of timing program and task design are needed to determine the extent to which relationships are affected by such characteristics of an organization.

References


——, Blank, M., and Rigsby, J., "Socialization of the accounting professional: Evidence of the effect of educational structure on subsequent auditor


The National Conference of the Indian Accounting Association Research Foundation, scheduled to be held on February 21 and 22, 1998, has been called off due to Lok Sabha Election. Inconvenience is regretted.

B. Banerjee
Hony. Secretary
IAA Research Foundation
NARRATIVE DISCLOSURES IN COMPANY ACCOUNTS

A. K. Basu*

The author explains the nature, form and content of the narrative disclosures contained in published company accounts. He also discusses the advantages and disadvantages of narrative disclosures in the context of external financial reporting. The author finally offers some suggestions as to how the quality of narrative disclosures can be improved.

INTRODUCTION

Recent years have witnessed a tremendous expansion in the volume of narrative disclosures contained in published accounting reports of companies. Most companies now devote a sizeable number of the pages of their published accounts to disclosing various kinds of narrative data. In many cases, narratives occupy more pages than are allotted to the statutory financial statements and their accompanying schedules. This expansion in narrative disclosures has not taken place without any reason. It has been brought about mainly in response to the growing demand for making financial reporting user-friendly. The statutory financial statements have many limitations or shortcomings. They are essentially backward-looking and, as such, they cannot go much beyond the transactions-based verifiable data. Such data can be quite relevant in the context of stewardship reporting, but users cannot gain much from them. Users of financial reports need information which should be useful to them in making rational economic decisions. But information which is backward-looking in nature cannot be very useful for decision-making purposes. Decision-making requires forward-looking information and forward-looking information is bound to be somewhat judgmental and interpretative in nature. The format of the statutory financial statements has been modified from time to time in order to give them a decision-making focus but things have not improved materially as a result of this. The historical character of the financial statements still continues to persist. This is why there has arisen a need to choose an alternative path of enhancing the usefulness of financial reporting by disclosing decision-oriented information on a supplementary basis outside the basic financial statements. The disclosures that are made by companies outside

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the basic financial statements assume, in most cases, a narrative form. The narratives are aimed at enhancing the usefulness of the data contained in the basic financial statements.

Narrative disclosures have several merits. They have their limitations as well. The messages that the preparers of financial reports seek to convey through narrative disclosures often remain incomprehensible to users. Since managements have a great deal of freedom in drafting the format and language of narrative disclosures, they are at times tempted to adopt "creative" devices in order to manipulate financial disclosures in support of their strategies and goals.

This paper is aimed at giving an overview of certain key aspects of narrative disclosures in the context of corporate financial reporting. The remaining part of the article is divided into four sections. The first section focuses on the nature, form and content of narrative disclosures. The second section explores the benefits that can be derived from the narrative data contained in published company accounts. In the section that follows this, an endeavour is made to discuss the pitfalls of narrative disclosures. The last section presents the concluding observations.

NATURE, FORM AND CONTENT OF NARRATIVE DISCLOSURES

Narrative disclosures in the context of corporate financial reporting refer to the disclosures which are designed to narrate or describe the events and phenomena that have affected or will affect the financial status and performance of the reporting entity. The narrative disclosures that are contained in published company accounts embrace both qualitative and quantitative data. In most cases accounting narratives are presented in textual form wherein more emphasis is laid on words than on numbers. Although most of the accounting narratives disclosed in published company accounts relate to the items of the basic financial statements, there are certain narrative disclosures which focus on things that are not directly related to the financial statement items. Narrative disclosures embrace several themes. These include:

- Sales characteristics such as product mix, market shares of major products, entry into new markets, and launching of new products
- Expense characteristics such as variability of expenses, unusual charges and patterns of interest costs
- Business strategies
- Recognition and amortisation of intangibles
- Impact of inflation on various aspects of operations of the company
- Debt characteristics and debt covenants
- Competitive environment
- Off balance sheet assets and liabilities
Unusual risks and uncertainties such as heavy dependence on small number of projects, decline in market value of investments, and significant dependence on a few suppliers for raw materials

Transactions with related parties
Movements in provisions and reserves
Foreign currency translations
Warranties and contingencies
Segmental operations
Major expansion programmes
Liquidity and solvency

These are only a few randomly chosen items in respect of which narrative disclosures are found in published company accounts. Narrative data are provided in different sections of the annual report of a company. Most of the narratives are, however, found in the sections that deal with management's reviews and statement of accounting policies. The section titled "notes to the accounts" contain in many cases sizeable volume of narrative data. The audit report also contains some narratives concerning the financial position and performance of the company.

Management's Review and Analysis

The section that deals with the management's review and analysis of the reported financial information is a very important section of the published accounting report of a company. Managers are intimately connected with the affairs of their company. So they know more about the areas of strengths and weaknesses of their company than anybody else. It is through their report to the shareholders that they endeavour to communicate their perceptions concerning the company's present position and future prospects. The importance of managerial review and analysis of the reported financial information has been recognised by the USA's Financial Accounting Standards Board (FASB, 1978) thus:

Management knows more about the enterprise and its affairs than investors, creditors or other "outsiders" and can often increase the usefulness of financial information by identifying certain transactions, other events, and circumstances that affect the enterprise and explaining their financial impact on it ... Moreover, financial reporting often provides information that depends on, or is affected by, management's estimates and judgement. Investors, creditors and others are aided in evaluating estimates and judgmental information by explanations of assumptions or methods used, including disclosure of significant uncertainties about principal underlying assumptions and estimates.
In India managerial interpretation and analysis of the information disclosed in the statutory financial statements of companies are contained mostly in the directors’ report. The report is essentially descriptive and it contains many valuable pieces of information concerning the liquidity, profitability and growth prospects of the business. The Companies act has made it obligatory for directors to include in their report certain information relating to some specific items. For example, the amended section 217 of the Act requires the report of the directors to provide information relating to conservation of energy, technology absorption, and foreign exchange earnings and outgo. In addition to providing the statutory information, the directors also incorporate into their report various kinds of accounting narratives purely on a voluntary basis. It is observed from a random scanning of some published annual reports that they focus on a variety of themes such as operating results, progress in sales, product groups, market position of existing brands, launching of new brands, research and development activities, new investments and acquisitions, human resource development, and dividends.

There are some companies in India which include in their annual reports a review form the chairman. This review also contains narrative data having a bearing on the accounting numbers contained in the basic financial statements. But chairman’s review is somewhat general in nature and it does not offer any specific details concerning the operations of the company. Its main focus is on the various aspects of the environment in which the company operates.

In the USA listed companies are required under the Securities and Exchange Commission (SEC) rules to incorporate into their financial reports management discussion and analysis (MD&A) relating to liquidity, capital resources, results of operations, and future impact of known trends, demands, commitments or events or uncertainties that may affect operations. The requirements of MD&A were first adopted by the SEC in 1968. These requirements have been modified from time to time in order to make them responsive to the growing information needs of investors, creditors and other users of financial reports. According to the 1989 SEC interpretative release, the MD&A must address any material deficiency in either short-term or long-term liquidity and capital resources and disclose any proposed remedy. The liquidity analysis should be based on the data generated by the cash flow statement. The release further requires the MD&A to incorporate discussion of the impact of discontinued operations and extraordinary gains and losses that had a material effect.

1. The Company Bill 1997 proposes to bring about drastic changes in the contents of the director's report. Included in the proposed list of additional disclosures are review of operations, market conditions and segmental data, and material departure, if any, from applicable accounting standards.
or are reasonably likely to have a material effect on financial condition and results of operations. Another important requirement of the interpretative release relates to the need for providing an analysis of segment information if any segment contributes in a materially disproportionate way to revenues, profitability and cash needs.

The MD & A is aimed at giving financial statement users an opportunity to look at the company through the eyes of management. The SEC has not prescribed any specific format for presenting the MD&A. Management enjoys a great deal of freedom in drafting its discussion and analysis. The SEC, however, requires management to set a tone at the time of drafting the document that says: "If I were an investor, what would I want to know about this company's liquidity, capital resources and results of operations that the financial statements don't spell out clearly?" (Dieter, Sandefur, 1994, p.162). Although the MD&A covers many things, its principal concern lies with depicting both a historical and forward-looking view of the company's liquidity and solvency. This liquidity and solvency focus has arisen from the SEC's recognition of the fact that investors, who are the principal users of financial reports, are basically concerned with the ability of the company to generate adequate amounts of cash to meet its short-term and long term cash commitments (Baker, et al, 1989).

According to the UK Companies Act 1985 (as amended), it is obligatory for a company operating in the UK to include the director's report in its published annual accounts. The report is to provide a narrative supplement to the published financial information. It is maintained in the Act that the directors should in their report give a fair review of the development of the company and its business during the period and the position of the company at the end of the period. Details of the important occurrence affecting the company during the period and the likely future developments have also to be incorporated into the report. The directors' report of a listed company is to provide certain additional pieces of information. For example, if the actual trading results differ materially from the prior forecast results, the directors' report is to provide an explanation for the difference.

The Cadbury Report ² has substantially expanded the information base of the directors' report. According to the Cadbury Code of Best Practice, the report should provide a coherent narrative, supported by

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² Being perturbed by the unexpected failure of some major companies, the Financial Reporting Council, the London Stock Exchange and the accountancy profession set up in 1991 a committee under the chairmanship of Sir Adiran Cadbury to address the financial aspects of corporate governance. The report of the committee, which was submitted in 1992, has come to be known as the Cadbury Report. It has suggested several measures for enhancing the effectiveness of corporate governance.
necessary figures, of the company's performance and prospects. Some of the themes on which discussion is required are as follows:

- Turnover and profits from ordinary activities
- Exceptional items and factors that have contributed to any significant changes
- Borrowing and proposals for financing capital expenditure during the coming period
- Liquid funds and liquidity ratios

More recently, the Accounting Standards Board (ASB) in the UK has recognised the importance of narrative discussion and analysis of business performance contained in the directors' report. Its *Statement on Operating and Financial Review* (ASB, 1993), which is possibly the first document of the standard-setting body that goes beyond the financial statements to consider other financial reporting matters, recommends the inclusion of the directors' discussion and interpretation of the financial statements in published accounting reports. According to the document, the directors should place emphasis on discussing change in the business and the environment in which the entity operates. It also wants the directors to comment on the company's investments in the future. Other things on which discussion is desired include activities that are intended to enhance future earnings, links between operating profits and returns applicable to shareholders, capital structure, treasury operations, and liquidity.

The requirement to incorporate management discussion and analysis of the published financial information into corporate accounting reports also exists in many other countries of the world. But practices vary from one country to another in the matter of disclosure of key information.

**Accounting Policies**

Accounting policies often contain a large volume of narratives that have a significant bearing on the financial health and performance of the company. The term "accounting policy" refers to "the body of accounting standards, opinions, interpretations, rules and regulations used by companies in their financial reporting (Hendriksen and Breda, 1992, p.235). The Accounting Principles Board (APB) of the USA in its Opinion No. 22 (AICPA, 1972) states that the accounting policies of a specific company include "the methods of applying those principles that are judged by the management of the entity to be the most appropriate in the circumstances to present fairly financial position, and results of operations in accordance with those principles."

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3. For detailed recommendations contained in the Code of Best Practice, see Pendlebury and Groves (1994, pp. 88-93)
with generally accepted accounting principles and that accordingly have been adopted for preparing the financial statements ".

Accounting policies are important because they can materially influence the financial results of a company. The accounting policies chosen by a company have a substantial bearing on its recognition of revenues, expensing of costs, valuation of stocks, treatment of unusual and extraordinary items, and translation of foreign currencies. Two companies with identical operations can produce significantly different financial results simply by applying two different sets of accounting principles. A company which has incurred huge losses may convert such losses into sizeable profits by suitably modifying its accounting policies.

It is obligatory for companies in many countries to disclose in their published accounting reports all the significant accounting policies they have adopted in computing the numbers contained in the basic financial statements. For example, in India Accounting Standard (AS) 1 requires companies to disclose all the significant accounting policies they have adopted in the preparation and presentation of their financial reports. The accounting policies that are disclosed by companies form part of their financial statements. According to the standard, it is necessary for companies to disclose in their financial reports any changes in accounting policies that have materially affected the results of the current period or are likely to affect the results of future periods. AS 1 provides some examples of the areas in respect of which accounting policy differences may occur among companies. These include methods of computing depreciation, depletion and amortisation, treatment of intangibles, valuation of stocks, investments and fixed assets, recognition of revenues, treatment of contingent liabilities, recognition of profits and losses on long-term construction contracts, treatment of contingent liabilities, and translation of foreign currency items.

AS 1 is a mandatory accounting standard. So companies have to comply with it. It is observed from a survey of some recently published company accounts that most of the companies are disclosing their significant accounting policies in the manner prescribed in standard. There are, however, differences among companies as to the narrative details of their disclosures. In some cases descriptions of accounting policies are found to be very brief and uninformative. The tersely worded paragraphs contained in the statements of accounting policies of these companies tend to give the impression that the letters of the law have been followed and not the spirit of it. Such a practice is not conducive to fuller understanding of the financial statements.

If the description of accounting policies is full and fair, it can significantly enhance the ability of financial report users to fully
comprehend the facts behind the figures contained in the basic financial statements. Furthermore, if accounting policies are described properly, it enables investors, creditors and other users of financial reports to make meaningful comparisons among companies.

Footnotes

Footnotes are an integral or inseparable part of the financial report. These are covered by the statutory financial audit. There are companies that include descriptions of major accounting policies in the "footnotes" section of their published accounts. Some of the disclosures made in footnotes are, truly speaking, extensions of the items of the basic financial statements. The shifting is done mainly in order to prevent the basic financial statements from being clumsy. There is another type of footnotes which provide additional information that cannot be incorporated into the basic financial statements. Narrative disclosures which are somewhat general in nature (e.g., macroeconomic condition affecting the operations of the entity, future business outlook, and human resource development) are, however, not included in footnotes. The additional disclosures that are provided by footnotes include disclosures on maturity and other terms and conditions of debt securities, leases and lease rentals, major acquisitions and divestitures that have occurred during the period, pending legal proceedings, contingencies and commitments, employee retirement and pension plans, employee share option plans, and income taxes.

Footnotes are necessary in order to make disclosures in company accounts full and fair. The manner in which footnote disclosures are made depends greatly on management's preference and judgement. In most cases disclosure items are arranged in order of importance as perceived by management. One of the frequently raised criticisms against footnote disclosures is that they are not easily comprehensible.

Audit Report

The audit of company accounts is a statutory requirement. The annual accounts that a company presents to its shareholders must be accompanied by a report of the statutory auditor. Audits by the independent auditor adds credibility to the financial statements prepared by management. Two principal causes of misleading financial statements are guarded against by audits. These are genuine mistakes and deliberate dishonesty. The usual audit report is very brief and is based on standard format and wording. Such a report does not provide users with any additional information. But the audit report is often accompanied by an explanatory statement comprising some narrative details concerning one or more aspects of management's presentations. These narratives may be of great use in enhancing users' comprehension of published financial information.
Explanatory comments are included in the report of the auditor when there are major uncertainties that cannot be estimated in any reasonable manner and, as such, are excluded from the purview of financial reporting. Explanatory comments are also provided when the company has changed its accounting policies or when there is a doubt about the company's ability to maintain its existence as a going concern. Such comments are relevant to users' understanding of the published financial information.

The audit report is sometimes qualified by the auditor. In such a situation the auditor is to provide explanations as to why he does not agree with the management representations. The auditor qualifies his audit report if there is an uncertainty which prevents him from forming an opinion or if the opinion that he forms is in conflict with what management represents. Qualified audit reports may contain many valuable pieces of information for investors, creditors and other financial statement users.

**BENEFITS OF NARRATIVE DISCLOSURES**

It has already been mentioned at the outset that the demand for narrative disclosures in published company accounts has arisen mainly in order to overcome the limitations of the basic financial statements. Although corporate financial reporting is still keyed to the basic financial statements, they have lost much of their relevance as a vehicle for communication of decision-oriented information. These statements now perform some kind of a ritualistic role in financial reporting by confining themselves mostly to the objective and verifiable data without much concern for their relevance. Much of what constitutes decision-oriented information now actually comes from those segments of the financial report that are outside the basic financial statements. It is because of this that accounting standard-setting agencies are now considering it necessary to be concerned with the totality of financial reporting. For example, the FASB in its SFAC 1 (FASB, 1978) indicates its intention to step beyond the financial statements by saying that:

Although financial reporting and financial statements have essentially the same objective, some useful information is better provided by financial statements and some is better provided, or can only be provided, by means of financial reporting other than financial statements.

The aims and objectives of corporate financial reporting have changed with the passage of time. The stewardship objective, which has been dominating thinking in the field of financial reporting for a long time, is now gradually yielding its place to the decision usefulness objective. There is now a growing realisation that the principal objective of corporate financial reporting should be to provide information useful for making economic decisions. This shift in emphasis from the stewardship approach
to the decision-usefulness approach has brought in its wake the need to revamp the form and content of the financial report. The urge to give corporate financial reporting a decision orientation has come not only from the academic side but also from the professional side. The decision-usefulness approach has received widespread support in the official pronouncements of the leading accounting standard setters of the world.4

Financial reports are used by a large variety of user groups. These groups include investors, creditors, financiers, professional security analysts, regulatory agencies, trade unions and the general public. Since it is not possible for general-purpose financial reports to serve effectively the diverse information needs of these user groups, a focus is needed. In a market economy where companies procure their long-term finance mainly by selling securities in the market, such a focus comes to be laid on the investors and the capital market. Investors need information in order to facilitate their decision-making process which involves buying, holding and selling of securities. The information that investors need in order to make buy-hold-sell decisions relates to the future cash flows of the entity and the uncertainties that are associated with such cash flows. Financial reporting can be useful to investors if it provides them with information that has the potential of enhancing their ability of predicting accurately the amounts, timing and uncertainties of future cash flows of the entity. Future cash flows can be predicted by analysing past trends, but such trends have to be duly adjusted for all predictable changes both within and outside the entity.

In order to be able to estimate the future cash flows of an entity and the uncertainties associated with these cash flows, the investors need to know more about the entity and its environment than are available in its basic financial statements. Additional disclosures made in published company accounts are capable of satisfying much of the additional information need of investors.

Investors interested to estimate the future cash flows of an entity and their attendant uncertainties have to seek answers to some crucial questions. These questions include:

- What are the underlying trends in business operations?
- What are the major factors responsible for changes in sales revenues?
- What are the basic profit-making strategy of the business?
- Which product lines are more profitable than others?

NARRATIVE DISCLOSURES IN COMPANY ACCOUNTS

- How and why do expenses vary?
- Is there any unusual factors affecting business operations?
- Is the ability of the entity to continue as a going concern threatened?
- Are there any major expansion programmes?
- What are the major commitments and contingencies?
- Does there exist any restriction on the procurement of debts?
- Is there any liquidity problem?

Answers to many of these questions can be obtained by carefully analysing the information contained in the narrative data.

The allocational efficiency of the capital market depends greatly on the quality of the decisions made by investors. If investors' decision-making is based on fair estimation of the economic reality that is going on within the entity, it will facilitate the direction of capital into productive channels. Since narrative disclosures contributes to an improvement in the quality of information presented in financial reports, they can significantly enhance the ability of investors to distinguish efficient companies from inefficient companies. This, in turn, enhances the effectiveness of the capital market in achieving optimal allocation of investment capital.

The efficiency and effectiveness of the capital market in setting prices which reflect the real worth of the corporate debt and equity securities traded in the market is often adversely affected by insider trading. The term "insider trading" refers to the "use by corporate insiders and their associates of confidential price sensitive information that they have obtained by virtue of their position to make a profit or avoid a loss by dealing in the securities of the relevant company" (Rider and Ffrench, 1979, p.xiii). It is true that insider trading cannot be eradicated altogether, but it can be controlled to a great extent by bringing price-sensitive information from the private domain to the public domain. Inside information can be made public with the aid of supplementary narrative disclosures. The additional costs that may have to be incurred in doing this are likely to be very small.

Narrative disclosures can also be very useful in an international context. Such disclosures can highly be useful those who are interested to compare financial reports produced in different countries. Since there are variations in accounting rules among countries, investors who are involved in cross-border security trading often find it difficult to make meaningful comparisons of the financial reports produced by companies operating in different countries. Narrative disclosures, particularly those contained in the statement of significant accounting policies, can greatly assist the international investors in comparing investment opportunities available in different countries of the world.
PITFALLS OF NARRATIVE DISCLOSURES

Narrative disclosures have been evolved with the principal objective of making financial presentation in the annual report full and fair. The basic financial statements suffer from a number of deficiencies. They are concerned more with legal form of transactions than with their economic substance. They concentrate on what has happened in the past more than what is going to happen in the future. Narrative disclosures are aimed at overcoming the limitations of the basic financial statements which prevent them from portraying the economic reality. But these disclosures have also their own limitations. Disclosure of an information can take place only upon its identification and development. A particular piece of information may be highly relevant in the context of investment decision-making, but if management, because of its inability, is unable to develop this information then it cannot disclose the same in its financial report. The environment in which a business operates has now become so complex that it often makes it difficult for management to assess properly the economic reality that is going on within it. The information that is generated based on an imperfect knowledge of what is really happening may not only be inadequate but also misleading.

Companies may at time possess information which they are not willing to disclose to the public for fear of losing competitive advantages. This is one of the important factors that are responsible for creating disclosure deficiency in published company accounts. Furthermore, companies have a general reluctance to divulge voluntarily any such bad news which they believe will create a negative impression about their future prospects. Since companies enjoy a great deal of flexibility and latitude in deciding what accounting narratives they will incorporate into their published reports, there often arises a tendency on their part to glorify those events and phenomena which they believe will prop up their share prices and to conceal those that are believed to have an opposite effect. There exists a large volume of literature which focuses on how creative devices of various kinds are used by companies in order to brush up the disclosures contained in their published accounts.5

If companies are compelled under any regulatory requirements to disclose in their published reports data which have a negative bearing on investment decisions, they use tricky devices to make the disclosure difficult to understand. It is believed by many that corporate reporting is basically a management-oriented reporting. According to Standish (1970)6:

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5. For a detailed analysis of how creative accounting devices are used by companies to manipulate their financial reports, see Griffiths (1986 and 1995), Naser (1993), and Jameson (1988).

Corporate reporting is a variable, to be adjusted or manipulated by management in support of its strategies and goals, subject to whatever statutory disclosure constraints exist. The operational objective in regard to reporting is, presumably, to influence or manipulate investor reactions, sustain a satisfactory share price and raise capital on the cheapest and most advantageous terms.

Management's manipulation of narrative data is facilitated by the fact that most of the accounting narratives that are provided in published accounts, particularly those in the management's review section, are outside the scope of statutory audit. In the absence of there being any compulsion to face audit queries, management feels free to make their presentation of narrative data as brighter as possible. As a result, the purpose for which such data are developed often gets defeated.

It has been pointed out earlier that a large variety of narrative data are provided by companies in footnotes. But most footnotes are poorly written and, as such, they are not easily comprehensible. As to the incomprehensible nature of footnotes, Tracy (1994, p.93) has made the following remarks:

Frequently the sentence structure of footnotes seems intentionally legalistic and awkward. Terminology is very technical. Poor writing seems more prevalent in footnotes on sensitive matters, such as law suits lost or still in progress or ventures the business has abandoned with heavy losses. A lack of candor in many footnotes is obvious.

Narrative disclosures have some interpretation problems as well. There are several well-tested techniques by means of which financial report users can interpret the accounting numbers contained in the basic financial statements. But no such techniques are available for interpreting the narrative data. This often creates problems for the less sophisticated users in assessing the underlying message of such data.

The rapid expansion in the volume of narrative disclosures in published company accounts has brought in its wake the problems of "information overload". When the user of a financial report is provided with much more information than can be reasonably comprehended by him, it may be difficult for him to distinguish between what is relevant and what is not relevant to him. Overloaded information may, therefore, adversely affect the quality of economic decisions that he makes based on such information.

CONCLUDING COMMENTS

The importance of narrative disclosures as a means of communication of decision-oriented information has increased significantly in recent years. Many new techniques of generation and presentation of narrative data
in published accounts have been innovated and further experiments in this area are going on. The emergence of narrative disclosures has to a great extent revolutionised corporate financial reporting. Narrative disclosures have liberated financial reporting from the drudgery of having to be confined to the transactions-based backward-looking information. Managements are now taking much more liberty in presenting in published reports their own views concerning business operations. They are now incorporating into their financial reports more judgemental and forward-looking information for enabling investors and other financial report users to better understand the present character and future prospects of the businesses. According to Mark Clatworthy and Mike Jones of Cardiff Business School (1997, p.46), “accounting narratives are well poised to challenge traditional financial statements as the reporting medium of the next century”. They have arrived at this conclusion after reviewing the findings of two recent reports from Big Six accounting firms. The Arthur Andersen’s (1996) report, which focuses solely on the operating and financial review, observes that the pages containing accounting narratives exceed or equal the number in the statutory financial statements in a great majority of survey companies’ annual reports. The preparers of the report appear to be very much enthusiastic about the future prospects of narrative disclosures. They have strongly argued in favour of promulgating rules requiring companies to be more forward-looking in presenting their narrative data.

In the report published by Deloitte & Touche (1996), much emphasis has been laid on the desirability of development of an international accounting standard for encouraging companies to include in their annual reports discussion and interpretation of the business, the main factors, features and uncertainties that underlie it and the structure of its financing. It wants the IASC to take up immediately the job of development of such an international accounting standard. According to the report, the standard should be applicable to all listed companies throughout the world.

Narrative data can serve their purposes well if they are developed and presented in an unbiased manner. They should not be heavily coloured by accounting cosmetics. The reliability of narrative disclosures contained in published company accounts can enhance significantly if the key elements of such disclosures can be brought within the ambit of statutory financial audit. Rules may be framed requiring managements to accept the responsibility of whatever they disclose in published financial reports. This will refrain them from making any material misstatements in their reports. But these rules should in no way be a deterrent to those who are willing to make experiments with new methods of identification measurement and communication of financial information.
References


Accounting in the modern world holds a very significant position, but it has been observed that accounts does not really depict the organisational linkages of the cause and effect relationship properly. In this article an in-depth look has been given at accounting in the context of organisational actors who play a dominant role in organisational actions.

Introduction

Today in India mergers & acquisitions has already emerged as a major game amongst business entrepreneurs and we may say that the stage is set for many more games to start with. With the incoming of foreign capital, the position is further worth-watching. Mergers & acquisitions are situational decisions based on financial parameters viewed from strategic angles and Indian entrepreneurs have learnt the new languages like "Core Competence", "Market Share", "Global Competitiveness", "Consolidation", etc. The question is, can we include all these terms within the ambit of Accounting? Activities, techniques, practices or such events are inconsistently labelled as accounting or non-accounting in different situations.

Accounting and non-accounting activities

Activities defined in some places as Accounting are not called Accounting on other occasions or elsewhere. This causes problems to readers of accounts. Chua & Degeling (1993) described Macro Budgetary Process of Government as accounting, whereas others argue that Macro Budgetary Process is studied less by accountants and more by economists because such budgeting is nothing but resource allocation. In reality such allocations, whether at organisational level or at governmental level, are the central concern for accounting people.

Oakes and Govalesky (1994) used the term Profit in the language of accounting, but we all know that the bottom line is not the monopoly of accounting—it is the result of many variables like Economics, Industrial Relations, Culture, Strategic Advantage, etc., all taken together.
So the question always remains: does accounting have the capability of explaining the results of the organisations or it is necessarily dependent on other aspects within which accounting is to be viewed. We always get the author's representation of accounts with no inkling about the organisational characters, whose aspirations and actions are reflected in the accounts. So for proper decision making the relationship of accounting and actions of the actors are to be studied. In this context two very distinct viewpoints have emerged those are:

- Accounting's inherent capability to reflect result
- Accounting's contextual capability to reflect result

These distinctions have been described as "power of" accounting and "power with" accounting in Accounting literature (Mc Sweeney : 1996), Mary Parker Follett (in Boland : 1979) named these as "power over" and "power with" accounting.

Power of Accounting

"Power of accounting" explains two very important inherent capabilities of accounting on which depend the organisational actions. Those are:

- Determinism and
- Correspondence

Determinism

In Mc Sweeney's (1996) language "Accounting may be treated as a deterministic force: an exogenous, unidirectional alternativeless cause". In the behavioural parlance, it may be considered as "independent" as it is free from any stimulus-response type action. This leads to the most important attribute of accounting — "quantification". Accounting displays the interactions caused by "market", "competition", "capital" and other determinants (Otley & Berry : 1980). Organisational actors intrude minimally in these explanations. Deterministic theory usually tries to work at the environmental cause beneath the surface level of action. Accounting does the relay function of the anterior causes which usually have been generated elsewhere.

Actions taken by the organisational actors are treated as behavioural conformity with pre-existing determinants (Keat and Urry : 1975). The deterministic concept presumes that the decision maker would be able to find out the relation between the determinants and the actions by developing the models beforehand. The endeavour will be to reduce the error between actual and the value calculated by identifying the proper variables and the parameters.
Correspondence

One of the attributes of the accounts is that readers of the accounts will read the picture of the reality of the organisation the way it has been corresponded through the accounts. The information will correspond to the reader only one set of meaning provided he knows the language and has sufficient expertise to read between the lines. In this concept, the organisational actors are just tools for value addition. Accounting is said to provide the "underlying economic reality" (Lee : 1984).

Power with Accounting

As against the "power of" theory the "power with" concept suggests that it is up to the reader to go beyond the accounts and in a consistent way will give explanations to the accounts. Each such explanation may be treated as the partial explanation of accounting and action. These interpretations may differ from reader to reader because of three basic reasons.

- Epochal Analysis
- Intra-organisational Stratification and
- Ethnocentric Stratification.

Epochal Analysis

As per Structuration theory (Boland 1993, Macintosh 1994), there is always some rationality with which the structure of accounts have been constructed. The meaning of accounts largely depends on this structure. Every organisation has some uniqueness which is based on three important characters:

- Historically specific
- Universal and
- Dictatorial.

This means that when we try to understand the epochal i.e. interpretation of accounts over short span of time, it is to be understood through above three characteristics.

Historically specific

Every event in the organisation has a discrete character, but over a longer period of time these events usually project characteristics. There will be deviations from time to time, but the present event can very well be included with the past. If due to any reason the continuity is lost, the epochal analysis is not possible. The discrete event should be studied in depth.
Universal

Every recipient of accounts in the contemporary world reads accounts in a specific way. This is the technology dimension of accounts. International Accounting Harmonisation (Basu : 1995) in the context of India and Accounting Standard and the Standard setting Process in India (Banerjee et al : 1997) have made endeavours, such that the reading of accounts bring forth one meaning to different users globally and the Indian accounting system would be compatible with that of industrialized countries.

Dictatorial

This means that how accounts can be made intelligible and authoritative by processing the data supplied in the accounts. We derive lots of information about the organisational health by processing the accounting data. The analysis may be temporal or otherwise derived from different intelligent ratios.

Epochal Literature

The epochal literature sometimes are interpreted as "power of" accounting because of its "universal" component. But the "universal" component is a must to compare the results. So for "power with" accounting system also "universal" component cannot be ignored.

The epochal literature tells us that the continuity or change in organisational actions are the results of everyday thinking and attitudes of the organisational participants. The thinking and talking usually change with localised events. By identifying the reasons of these changes and interpreting the changes in economic teleological explanations, we may strengthen our arguments regarding the change of organisational actions.

Intra-organisational stratifications

The "Intra-organisational stratifications" are just opposite the "universal" concept mentioned in epochal theory. This concept suggests that accounting results assume predetermined homogeneous intra-organisational categories having similar values and attitudes towards organisational actions. It may be assumed that there exists a categorically consistent response also. Let us take the case of one category — say "labour". It has been defined in accounting literature as "male shop floor workers as economic bread winners with a tough, masculine, practical and independent sense of reality" (Knights and Collison : 1987). Similarly there would be other categories also. These categories of organisational actors have their conflicting as well as common goals. How these
organisational categories relate one with other will actually explain the organisational actions.

**Ethnocentric stratifications**

Apart from the "Intra-organisational Stratification" there may be another categorisation, e.g. "Ethnocentric Stratification". This may be regional classification like "Eastern", "Western" etc. or may be national like "American", "European", "Asian" etc. This stratification suggests that there exists in many cases potentially identifiable ethnic or geographical cultures which must be considered while reading the accounts. Thus against the ideas of context-free universality of interpretations of accounts, it leads towards the diverse ethnocentric influence on accounts. The decision maker should be sensitive to these extra-organisational influence which affects the organisational results. Ezzamel et al (1990) explained that two regions "US/UK" and "Japan" have distinct historically backed cultures whose effects on the use of accounts are distinguishable. The "power with" literature enlarges our horizon of thinking. Instead of taking accounts as neutral transmitter of context-free information, it suggests that the decision maker must be aware of the root cause of "localised events" and the nature and character of the organisational participants — then only the accounts will give some meaning.

Two case studies have been given below to elaborate these concepts. They have been taken from the stories published in the *Strategist Quarterly* (Majumdar : 1996).

**Case Study**

Two cases have been cited here—one is the story of a merger and the other is the story of an acquisition. In both the cases the financial results were encouraging, but in the light of "power with" analysis, organisational pictures depict two entirely different stories.

**The story of a merger**

It is accepted that to quicken the growth, mergers and acquisitions are one of the shortest routes, and probably keeping that in mind in September 1988, Warner Hindustan merged with Parke Davis to form a new company Parke Davis India. So far parentage is concerned both the companies are offshoots of Warner Lambert Company, USA. The reporting authority of both the companies were the Regional President of Warner Lambert.

Portfolio of brands of both the companies were mostly complementing each other. The strong brands of Parke Davis were Benadryl, Chloromycetin, Neko medicinal soaps and Abdeo vitamin drops. Similarly
the strong brands of Warner Hindustan were Gelucil, Waterbury's tonic etc.

The strategic alliance also might be due to the fact that during that period as a result of Drug Price Control Order (DPCO), the profit margin was reduced. So Warner Lambert was trying to build the more profitable consumer business like Chicklets, chewingum, Halls cough tablet, Listerine mouth wash etc. Warner Hindustan had these brands, but was not very serious about their brand powers.

The financial performance of the new company was encouraging — a steady growth at an average of ten per cent. The consumer and confectionery business which was less than 5 crores taking both the companies together rose to Rs. 180 crores in 1993 after the formation of the new company.

Obviously, looking at the bottom line it may be said that a formidable job had been done, but there were manifestation of conflict in the form of work stoppages on shop-floor, sagging productivity among field representatives and the departments were not effective. Since merger, about 30 top level executives left the company. In most discussions often the words like "Theirs" and "Ours" were heard. These non-accounting indicators were revealing the opposite pictures as depicted by the accounting indicators. The contextual dimensions indicated an impending disaster.

The epochal analysis suggested that the discrete 5 years' period (1988-1993) was not a continuity of the past. Over the past decades both Warner Hindustan and Parke Davis had developed their own organisational culture and work system which had become their identity. The accounts thus were not "Historically specific". The "Universal" interpretation of accounts and the conventional "Dictatorial" processing of data did not project the proper organisational health.

The "Ethnocentric" analysis revealed that Parke Davis was a conservative, people-driven company, participative and democratic in their approach (sometimes at the cost of performance and productivity). There was lot of trust and respect in the interpersonal relationship. This cohesive culture might have been developed because both their plant and office were located in Bombay for more than 100 years.

Warner Hindustan, on the other hand, carried a different philosophy. It was a task oriented company having a flat organisational structure. The focus of the company was more on cost and profit parameters and not so much on growth. The work culture was very formal, control oriented and documented. This might have been developed due to the fact that their plant was in Hyderabad and their office was in Bombay.
So, the merger demanded adequate attention for forging the cultural differences, whereas the management's focus was on bigger issues like rationalisation of facilities and resources, restructuring of different departments, allocation of designations and so on. After taking decision on these issues, the heads of the departments went back and worked with their own styles of management.

The "Intra-organisational Stratification" revealed that people at one level looked at other level with suspicion. In absence of reassurance from the top they concluded that they were going to be ignored. As a result they were defensive and they cling to one another for support. These were evidenced by several incidences. In one marketing department headed by ex-Warner Hindustan manager, while launching a new product in the market, arranged a written test for medical representative as per their old practice to test their knowledge of the new product. But the ex-Parke Davis employees who had never undergone this process did not turn up. Similarly if a report coming from Warner Hindustan plant in Hyderabad was not acceptable on genuine reasons by Parke Davis boss, the disagreement continues although the difference might be very minor.

The sequel study revealed that the company could realise their mistakes later on and addressed them at two levels. First, at divisional and departmental level where managers were directed to take collective decision objectively based on the merit of the issue. The second was at top management level. Around 1992, the top management decided to come up with new vision and mission of the company with the idea of developing the new goals which would be common to both the companies.

The story of an acquisition

This is the story of Godrej Soap's acquisition of Transelektra Domestic Products in August 1994. When a large group like Godrej would go for acquisition of a small company like Transelekatra, there were obvious anxiety amongst the employees of the small company whether they would be able to retain identity or not. In fact, entirely a different story emerged.

Both the accounting and non-accounting performance were revealing. The market share of Good Knight, the most important brand of Transelektra, grew from 42% in August 1994 to 51% by March 1996. The non-financial result was that the acquisition boosted the morale of Transelektra employees.

This admirable performance resulted from the fact that Godrej could realise that the cultural identity of this small and dynamic company must be retained. They didn't disturb the "Ethnocentric" and "Categorial" characteristics of Transelektra. Transelektra Domestic Product was allowed to continue with an independent board as a subsidiary company.
of Godrej. So, the epochal analysis was possible as there was no jerk at the entry of Transelektra in the Godrej family. Transelektra with its total focus on growth was not able to build professionalism, where Godrej gave them the support. They put Transelektra in a learning mode. Number of middle level Transelektra executives were sent to Godrej sites for training. After coming back they were told to implement at Transelektra whatever good they had seen at Godrej. This brought two fold results. First, Transelektra executives accepted that there were not many good things at Godrej which might be implemented at Transelektra and secondly, at the lower level, when the same boss wanted to implement better alternative, the implementations were smooth. They said publicly "We have gained. We feel doubly sure of our actions with the Godrej experience to support us".

Conclusion

Accounts do not "speak" of the totality of the organisation. Readers of accounts make it to "speak" by using "power with" dimension of accounting. This dimension is the consequential interaction between accounts as texts and the contextual observation of the readers. These observations should be centred around the organisational actors whose personal and organisational ambitions and aspirations are reflected as actions in the organisation.

References


Condolence

Professor G. D. Roy died on 28th September, 1997, leaving behind his wife and two sons.

Professor Roy was an accounting scholar of international repute, a successful research-mentor and a gentleman par excellance. His "Theory of Claims to Services" published in "A Survey of Accounting Ideas" in 1963 earned him a worldwide reputation. His endeavour to promote research in accounting also earned Calcutta University a distinguished position among the Indian universities. The Calcutta Branch of the Indian Accounting Association honoured Professor Roy in 1989 for his seminal contribution to accounting theory. Professor Roy was also adjudged an "eminent teacher" by the University of Calcutta in 1995.

A founder member of both the Indian Accounting Association and the Indian Accounting Association Research Foundation, Professor Roy was one of the past Presidents of the Accounting Association and, till death, a member of the Executive Committee of the Research Foundation. His demise is an irreparable loss to accounting academics and professionals in India and abroad in general and to the Indian Accounting Association and the Indian Accounting Association Research Foundation in particular.

The members of the Indian Accounting Association do not find appropriate words in expressing their heartfelf sympathy to the members of the bereaved family.

Let the departed soul rest in peace in heavenly abode.
CASH FLOW REPORTING IN BANGLADESH

Ataur Rahman Belal *

In the backdrop of company failures due to cash flow problem in the decade of 1980s, standard setters of many countries made the preparation of CFS compulsory as an integral part of primary financial statements. Revised IAS 7 requires that CFS should report cash flows during the period classified by operating, investing and financing activities either by direct method or by indirect method with clear preference for direct method. This study reports the results of a survey of recent annual reports of 52 Bangladeshi companies and shows that a big majority of companies are now preparing CFS under indirect method. It is observed that most of them is not covered by the audit report although it is statutorily required to do so. It is further observed that preparers of CFS are facing problems in cash flow classification.

1. Cash flow statement—presentation and disclosures

Cash flow refers to the movement of cash and cash equivalents during the period—cash coming in and going out. Cash flow statement (CFS) reports cash receipts and cash disbursements during a period. It explains the causes of increase or decrease in cash balance between the two balance sheet dates. IAS 7 which is heavily influenced by the US standard requires the preparation of CFS as an integral part of financial statements for each period for which financial statements are prepared (IASC, 1992).

IAS 7 requires that CFS should report cash flows during the period classified by operating, investing and financing activities (Para 10). Operating activities are those activities which are related to the transactions that make up net income. Investing activities are related to long term asset accounts. Financing activities are related to the long term liability accounts and the owners equity accounts (Horngren et al, 1996).

IAS 7 prescribes two formats for reporting cash flows from operating activities—the direct/gross method and the indirect/net method. The former method discloses gross cash receipts and payments resulting from each major class of operating activities. The latter method begins with net income and adjusted with non-cash items to reconcile to cash flows from operating activities. IAS 7 expresses a clear preference for direct method. But in practice, indirect method gained popularity. In the USA, in a survey

* Cardiff Business School, University of Wales, U.K.
of 600 firms carried out in 1993 it was found that 97.5% firms used indirect method although FASB Statement No. 95 had a clear preference for direct method (AICPA, 1993). However, whatever method is followed, it affects only the operating activities of the CFS, there will be no difference in the investing activities and financing activities sections.

IAS 7 requires that non-cash transactions should be excluded from the CFS. Such transactions may be disclosed elsewhere in the financial statements (Para 43). An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its CFS with the equivalent items reported in the balance sheet (Para 45). According to IAS 7, cash refers to cash in hand and demand deposits and cash equivalents are those short term, highly liquid investments (having a maturity period of three months or less) which can be easily converted to cash.

For illustration purpose, Table 1 shows an outline of CFS in compliance with IAS 7.

<table>
<thead>
<tr>
<th>Table 1: General outline of CFS</th>
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<tr>
<td>Cash flows from operating activities XXX</td>
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<tr>
<td>Cash flows from investing activities XXX</td>
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<tr>
<td>Cash flows from financing activities XXX</td>
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<tr>
<td>Net increase/(decrease) in cash and cash equivalents XXX</td>
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<tr>
<td>Cash &amp; cash equivalents at beginning of period XXX</td>
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<tr>
<td>Cash &amp; cash equivalents at end of period XXX</td>
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At this stage, it might be interesting to compare the above format with the format prescribed by other standards. This format is very much similar to the US standard (FAS 95), Australian standard (AASB 1026) and New Zealand standard (FRS 10) subject to certain exceptions regarding the supplemental disclosures to CFS. But the UK standard (FRS 1) on the subject appears to be somewhat distinct and different and it makes difficult the international comparison. FRS 1 issued in 1991 has been revised in 1996 and the revised standards must be used for March 97 year-ends onwards. Previous UK standards classified cash flows under five headings, such as operating activities, return on investment and servicing of finance, taxation, investing activities and financing activities, as compared to three headings in other standards referred to above. The revised FRS 1 requires eight headings, viz., operating activities, return on investments and servicing of finance,
taxation, capital investments and financial investments, acquisitions and disposals, equity dividends paid, management of liquid resources, and financing activities. Revised FRS 1 also made the definition of 'cash' stricter (cash and demand deposits less overdrafts) and discarded the concept of cash equivalents. The main headings of CFS under UK standard vis-a-vis other standards are shown in Table 2 below:

**Table 2: Main headings of CFS under UK standard vis-a-vis other standards**

<table>
<thead>
<tr>
<th>IAS 7</th>
<th>USA (FAS 95) New Zealand (FRS 10)</th>
<th>FRS 1 (Old)</th>
<th>FRS 1 (Revised)</th>
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<tbody>
<tr>
<td>Operating activities (includes taxation, dividends received, interest received and paid)</td>
<td>Operating activities (includes taxation, dividends received, interest received and paid)</td>
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<td></td>
<td>Return on investment and servicing of finance</td>
<td>Return on investment and servicing of finance</td>
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<td>Taxation</td>
<td>Taxation</td>
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<td>Investing activities</td>
<td>Investing activities</td>
<td>Investing activities</td>
<td>Capital &amp; financial investments</td>
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<td>Acquisitions &amp; disposals</td>
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<td>Equity dividends paid</td>
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<td></td>
<td>Management of liquid resources</td>
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<tr>
<td>Financing activities (includes dividends paid)</td>
<td>Financing activities (includes dividends paid)</td>
<td>Financing activities</td>
<td>Financing activities</td>
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</tbody>
</table>

*Source: Adapted from Blake, J. (1995) and Martin, R. (1996)*

The decade of 80s showed that the bottom line figure — net income alone was not sufficient to assess a company's performance. The failures of a number of otherwise profitable companies in the 1980s have pointed to the need for cash flow information. Now investors and creditors have started focusing on cash flow in addition to accrual based earnings figures. Accordingly, standard setters came up and replaced funds flow statement by CFS. CFS helps assessment of liquidity and solvency of a company.
It assists in the prediction of future cash flows. It also helps investors and creditors in determining the company's ability to pay dividends to investors and interest and principals to creditors.

Since the introduction of CFS, researchers such as Giacomino and Mielke (1993) developed a set of new cash flow ratios which can help evaluate company's financial performance in terms of both strength and profitability. Cash flow data can also be helpful in predicting bankruptcy and financial distress. Giacomino and Mielke (1993) suggested two sets of cash flow ratios—sufficiency ratios and efficiency ratios. While sufficiency ratios evaluate the adequacy of cash flows for meeting a company's needs, efficiency ratios indicate how well the company generates cash flow relative to other years and other companies.

2. **Cash flow reporting in Bangladesh**

Inclusion of CFS in the financial statements of Bangladeshi companies is a new phenomenon. The practice started in the nineties. A few progressive and enlightened companies, particularly the multinationals, started the practice followed by the local companies. The practice is gaining increasing popularity although in Bangladesh it is not statutorily required to prepare CFS as a primary financial statement.

Companies Act, 1994 was made operational with effect from January 1, 1995. Section 185 of the Act requires that every company shall prepare a balance sheet and a profit and loss account for each financial year in accordance with the requirement of Schedule XI, Part I & II respectively. Balance sheet of the Company shall be prepared in the form set out in part I of Schedule XI. Section 185 also requires that "in preparing the balance sheet due regard shall be made, as far as may be, to the general instructions for preparation of balance sheet under the heading 'notes' at the end of the Part (I, of Schedule XI)". General instruction (g) states that "a statement of changes in financial position shall be included as an integral part of the financial statements and shall be presented for each period for which the profit and loss account is prepared". Section 185 (6) reads as follows : "......... any reference to balance sheet or profit loss account shall include any notes hereon or documents annexed thereto, giving information required by this Act. ..........". Section 213 (3) states "The auditor shall make a report to be presented in the annual general meeting of the company on the accounts examined by him and on every balance sheet and profit and loss account and on every other documents declared by this Act to be part of or annexed to the balance sheet or profit and loss accounts.........."

From the above it is clear that every company registered under the Act shall have to prepare a statement of changes in financial position as a primary financial statement in addition to balance sheet and profit and loss account. The statement of changes in financial position is required
to be covered by the auditor’s report under section 213 (3). But there is no statutory compulsion in favour of Cash Flow Statement.

Cash flow reporting in Bangladesh gained a momentum from the mid nineties. Several reasons may be attributed for this phenomenon. Firstly, at the international level, revised IAS 7 was issued in 1992 superseding the old IAS 7 and thus requiring companies to prepare CFS instead of funds statement. Secondly, many subsidiaries in Bangladesh are influenced by the reporting requirements of their parent companies. In the meantime, countries like the USA, Canada, Australia, New Zealand and many other European countries issued standards requiring their companies to prepare CFS. This influenced local subsidiaries here to prepare CFS which in turn influenced other local companies in this regard. Thirdly, 1990 saw an unprecedented boost in the capital market of Bangladesh. Foreign investors were coming up with large investments. These investors because of their experience of company failures in their countries due to cash flow problem started focusing on cash flow figures in addition to net income figure which encouraged or in other words, forced the companies here to come up with the CFS instead of traditional funds flow statement. Preparation of CFS serves two purposes. Firstly, it meets the requirements of the Companies Act, 1994. Secondly, it helps compliance with ICAB’s standard on CFS. Moreover, now-a-days it is regarded as a best practice and is required to meet the information requirements of the investors and creditors. As a result, many companies in Bangladesh started the practice of preparing CFS as an integral part of the financial statements.

3. Research methods

The principal objective of this study is to undertake a survey of cash flow reporting in Bangladesh and to observe the trends and techniques in the preparation of CFS. So far, no study has been undertaken in this area of financial reporting.

In order to achieve the above objective, the following research questions have been put forward:

a) How many companies are preparing the CFS or funds flow statement and how many does prepare neither of these statements?

b) Do the companies preparing the CFS comply with the requirements of revised IAS 7 as adopted by ICAB or do they apply some other basis?

c) What method is followed by them in the preparation of CFS — direct or indirect method?

d) Do the CFS is covered by the audit report?
What are the drawbacks/deficiencies of the CFS prepared by the companies in Bangladesh?

A total of 52 companies have been included in this survey. The selection is constrained by the availability of accounts. Data have been collected by personal visit to the company sources and telephone request followed by sending messengers. In some cases, data are collected from indirect sources such as ICAB, Stock exchanges etc. The survey procedures include an initial scrutiny of the financial statements of all the surveyed companies. Then, the financial statements of companies preparing the CFS were closely scrutinized to find out the trends and techniques underlying the preparation of CFS in Bangladesh and thereby to seek answers to the research questions raised above. The companies surveyed are shown in Table 3.

Table 3: Surveyed Companies

<table>
<thead>
<tr>
<th>Company Classifications</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Institutions (excluding banks &amp; Insurance companies)</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Multinationals</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Quoted Companies</td>
<td>40</td>
<td>75</td>
</tr>
<tr>
<td>State Owned Enterprises (SOEs)</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

The companies included in the financial institutions are leasing companies. These are categorized as such by the Dhaka Stock Exchange. It does not include any banking and insurance companies. Multinationals included in the survey are subsidiaries of their foreign parent companies. Quoted companies are those listed with Dhaka Stock Exchange (DSE). All companies belonging to financial institutions and multinationals category are also listed with DSE. Therefore, in total 48 listed companies have been included in the survey which represent 25% of the total companies (194) listed with DSE on 30 June 1997. Thus, the survey is heavily influenced by the listed companies which represent 92% of the sample. SOEs category includes two units under a sector corporation. Others category represents two non-profit companies registered under the Companies Act.
The study has got two limitations. Firstly, the result of this study is based on CFS prepared by the companies in Bangladesh and, therefore, may not be valid for companies in other countries. Secondly, while making generalization it is to be noted that the survey does not include banking and insurance companies. The survey includes the accounts issued between the period 1 January 1995 to 30 June, 1997. This is justified because the Companies Act, 1994 was made effective from 1 January 1995 making a compulsory provision for the preparation of statement of changes in financial position and companies in Bangladesh were found to prefer the preparation of CFS to comply with the legal requirements. Moreover in 1996, ICAB formally adopted the revised IAS 7. Thus, preparation of CFS helps both compliance with Companies Act, 1994 and ICAB's requirements. That's why increasing number of companies prepared CFS from the year 1995. However, it is also observed that a very handful of progressive companies, particularly the multinationals, started the practice even before that.

4. Survey results

Extent of cash flow reporting

The initial scrutiny of the financial statements of all the companies (52) included in the survey shows that 69% companies prepared CFS while 25% prepared funds flow statement. Although it is statutorily required to prepare either CFS or funds flow, 6% companies prepared neither funds flow nor CFS. It is found that all of them got clean audit report although they didn't comply with the requirements of the Companies Act, 1994. For company management, this is punishable with imprisonment upto six months with a fine upto Tk. 5,000 or with both [Sec. 185(7)]. The auditor is also punishable with a maximum fine of Tk. 1000 u/s 219.

94% companies prepared either CFS or funds flow which is a very significant improvement as compared to the figure of 42% in the survey of Alam (1989) and 8% in the survey of Parry & Khan (1984). Another important finding is that all companies included in the survey under financial institutions of multinational category prepared CFS which again proves the superiority of multinational companies in this matter.

Compliance with IAS 7

Out of a total of 36 companies which prepared CFS, 83% companies complied with the requirements of revised IAS 7 as adopted by ICAB. But in this case certain flaws are found. 17% companies did not comply with IAS 7 and prepared the CFS on some other basis. One company prepared the CFS on the basis of U.K. standard FRS 1 perhaps because
its parent company is subject to U.K. regulations. Other companies did not follow any standard procedure. Of the six companies which did not comply with IAS 7, three belong to multinational category.

**Presentation of CFS**

There are two methods available for the preparation of a CFS viz. the direct method and the indirect method. While revised IAS 7 as adopted by ICAB encourages the presentation of CFS under direct method, it allows the indirect method of presentation. "The two methods provide different types of information to the users. The direct method demonstrates more of qualities of a true cash flow statement because it provides more information about the source and uses of cash. This information is not available elsewhere and it helps in the estimation of future cash flows. The indirect method, on the other hand, is to apply changes in working capital to net income" (Elliott and Elliott, 1996). In spite of the clear preference of the standard setters and users of financial statements for direct method, preparers and providers of financial statements indicate a strong bias for the indirect method although it does not provide the information which could otherwise be provided in the direct method. One reason for the biasness towards indirect method is its case of preparation from the accrual based financial statements.

The preparers and providers in Bangladesh also show a strong bias towards indirect method. Only two companies from quoted category applied direct method out of a total of 36 companies which prepared CFS. The balance 95% companies applied indirect method as compared to 97% in an American study (AICPA, 1993).

**Coverage by Audit Report**

Like many other countries of the world, in Bangladesh also CFS is statutorily required to be covered by the audit report. But in Bangladesh, most of the CFS presented is yet to be covered by the audit report. It reveals that in case of only 42% companies CFS is covered by the audit report leaving the case of 58% yet to be covered by the audit report.

**Cash flow classification problems**

The survey noted some mistakes in the classification of cash flows into operating, investing and financing activities. This is reported in Table 4. It is observed from Table 4 that out of 30 companies which complied with the IAS 7, 11 companies made mistakes in classifying cash flows in accordance with IAS 7.
Table 4: Cash Flow Classification Problems

<table>
<thead>
<tr>
<th>Nature of Mistakes</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share issue expenses shown under investing activity instead of financing activity</td>
<td>3</td>
</tr>
<tr>
<td>Dividends paid on equity shares shown under investing activities instead of financing activities</td>
<td>3</td>
</tr>
<tr>
<td>Proceeds from issue of shares and share money deposit shown under investing activities instead of financing activities</td>
<td>2</td>
</tr>
<tr>
<td>Sale proceeds of fixed assets have been shown under operating activities instead of investing activities</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
</tr>
<tr>
<td>Total companies which complied with IAS 7</td>
<td>30</td>
</tr>
</tbody>
</table>

By definition share issue expenses should be classified as financing activities. But table 4 above shows that on 3 occasions it was shown as investing activity. Para 34 of IAS 7 provides that dividends paid should be classified as financing activity because they go to the shareholders who finance the business by holding its shares. Alternatively, it can be shown as operating activities. In no way, it can be shown under investing activities. This mistake was found on three occasions. Proceeds from the issue of shares and share money deposits are financing activities as they are related to shareholder's account but mistakenly it was classified as investing activities on two occasions. Lastly, sale proceeds of fixed assets are clearly an investing activity. But mistakenly three companies reported it under operating activities. What should have been done is that sale proceeds should be shown under investing activities while loss or gain related to the sale may be included in the operating activities section by way of adjustment to net income.

5. Conclusion

In Bangladesh, preparation of CFS is not compulsory. Companies may opt for the preparation of traditional funds flow statement based on working capital concept to comply with the legal requirements. But this study shows that a big majority of companies in Bangladesh are now preparing CFS. Almost all of them complies with IAS 7 and follows indirect method for presentation of CFS. But most of the CFS is not covered by the audit report although it is statutorily required to do so. It is also observed that some of the preparers of CFS are facing problems in the classification of cash flows obviously because of their lack of understanding of the requirements of IAS 7.

This study covers only one aspect of financial reporting i.e. cash flow reporting and observes that significant improvement has been made in
this regard as compared to the earlier two studies [Alam (1989); Parry & Khan (1984)]. Although the study provides some insights into the cash flow reporting practices in Bangladesh it leaves certain areas for further research e.g. cash flow reporting in the banking and insurance sectors in Bangladesh needs to be studied to provide more information. Moreover, comparison of the results of this survey with other countries, particularly the SAFA countries, may give comparative ideas of cash flow reporting across the countries. Finally, very recently ICAB adopted the revised IAS 7 as its own standard. Its impact on the cash flow reporting practice in Bangladesh is yet to be observed.

References


INVENTORY CONTROL TECHNIQUES IN SCOOTER MANUFACTURING COMPANIES IN INDIA - A CASE STUDY

Arvind Jain*
Nisha Jain+

The authors examine the importance of inventory management in scooter manufacturing companies in India and suggest appropriate inventory management tools and techniques to overcome the present problems.

Introduction

Though an important function, inventory control cannot and should not be considered in isolation from other functions. Considerable attention is being paid to the inventory management in developed countries. However, the importance of proper inventory management has not been fully realised in India and very little attention has so far been paid to the task of inventory control.

The automobile industry ranks high in any scheme of national priorities. The importance of the industry derives from the importance of road transport as a key service that needs to be developed among other things, if the vast backward regions of the country are to be brought into the main-stream of national economic progress. The scooter manufacturing units are part and parcel of the automobile industry. The two-wheeler automobile had always been a dream of the common citizen of every country.

Inventory Management has been given only a lukewarm attention in scooter manufacturing companies. Unscientific management of stores is responsible for a substantial increase in stocks in certain cases and stockouts in many cases. Instances of unplanned acquisition of materials without proper co-ordination between rate of procurement, carrying cost, stock out costs and consumption are many and reveal the unhappy fact of stores acquisition under a thumb rule.

The object of this paper is to examine the position of inventory control techniques in scooter manufacturing companies in India and to suggest

+ Research Scholar, Department of Accountancy & Business Statistics, University of Rajasthan.
tools and techniques for overcoming the present problems in inventory management.

From the point of view of a manufacturing concern, the cost of physically maintaining the inventory represents a relatively large expenditure and involves such expenses as the store-keeper's wages, costs of storage facilities, interest on capital invested, clerical assistance and the like. A major portion of large inventory expenditure may be an out-right waste because inventories are often maintained at a level several times more than that warranted by the business. Thus, a large portion of store-room personnel's time may be spent on maintaining, guarding and inventorying superfluous material.

"An operating management viewpoint may look at the inventory system and materials flow process within the manufacturing phase alone. But when we come to examine the overall flow of materials from suppliers through manufacturing and distribution for ultimate delivery to the consumer, it requires to be seen as an integrated system." The objective in such a situation is to minimize total system costs.

In scooter manufacturing companies, the existing inventory management systems are posing many problems. There are cases where materials are purchased when they are not needed, and large quantities of materials not needed are stored and materials needed urgently are out of stock. Due to these practices the production programme is seriously affected. Therefore, there is urgent need of inventory control techniques to improve the present situation of the scooter manufacturing companies selected for the study.

Selective Inventory Control Techniques

According to K. S. Menon selective control means that "there are variations in the method of inventory control from item to item and this differentiation should be on a selective basis".

The common sense approach to solving any problem is to tackle the important aspects more rigorously. The motive behind any selective control is that an equally critical analysis of all items will be very expensive. Moreover, such a concentration on all items will have a diffused effect regardless of the priorities. Therefore, classification is resorted to so that the major portion of effective managerial time is spent on those materials which are more important. This is called 'Selective Inventory Control'.
According to K.S. Menon, Selective Control may be divided into eight types. These are described below:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A-B-C (Sometimes nicknamed always better control)</td>
<td>Annual value of consumption of the items concerned, (it has nothing to do with the unit value of the item)</td>
</tr>
<tr>
<td>2. H-M-L (High, medium, low)</td>
<td>Unit price of material. (This is the opposite of A-B-C and does not take consumption into account).</td>
</tr>
<tr>
<td>3. V-E-D (Vital, essential and desirable)</td>
<td>The critical nature of the component or material with respect to production.</td>
</tr>
<tr>
<td>4. S-D-E (Scarce, difficult to obtain, easy to obtain)</td>
<td>Purchasing problems in regard to availability.</td>
</tr>
<tr>
<td>5. GOLF (Government, ordinary, local, foreign)</td>
<td>Source from which the material is obtained.</td>
</tr>
<tr>
<td>6. F-S-N (Fast moving, slow moving and non-moving)</td>
<td>Issue from stores.</td>
</tr>
<tr>
<td>7. S-O-S (Seasonal, off-seasonal)</td>
<td>Seasonality. (This applies especially to commodities)</td>
</tr>
<tr>
<td>8. X-Y-Z</td>
<td>The inventory value of items stored.</td>
</tr>
</tbody>
</table>

In spare parts section of the scooter manufacturing companies selected for study, no control techniques are being used in any company except BAL, LML and MSL. However, even in BAL, LML and MSL, there is scope for improvement. It is suggested that the management of the companies should use ABC and VED analysis.

ABC and VED analysis techniques can be used in spare parts section. The description of these techniques is given in the following pages according to the need of the scooter manufacturing companies.

**ABC Analysis**

ABC analysis is an applied technique of inventory control based on the principle of 'management by exception' or 'selective control'. The basis of ABC approach to inventory control is to classify items in inventory in three classes—items of high value, medium value and low value.
Mechanics of ABC Classification for Spares in Scooter Manufacturing Companies

ABC classification is based on the annual consumption figures. If necessary it can be done on a quarterly or half yearly basis.

Experience has indicated that about 10 per cent of the items contribute to 70 per cent of the value of consumption; 20 per cent of the items contribute about 20 per cent value of consumption; and 70 per cent of the items contribute the remaining value of consumption. This method can be applied to BOF and BOSF items since the annual consumption value can be easily determined. But for spare parts, this method has to be modified since the consumption pattern cannot be easily determined. The methodology of ABC classification for spares is described below.

The annual consumption value of the spare parts cannot be computed easily since it depends on the breakdown pattern of machines. Therefore, the prices of the spare parts are taken to classify the spares as ABC. But there are spares with different sizes and dimensions in the same category. So, the average price of these spares in the same category is taken and then high value, medium value and low values are worked out. The high value spares are classified as ‘A’, medium value spares are classified as ‘B’ and low value spares are classified as ‘C’.

VED Classification

The spare parts are classified as vital, essential and desirable. This implies that the V-class of spares has to be stocked adequately to ensure the operation of the plant because of non-availability of spares which are of a vital nature, can cause havoc and stop production. A little risk may be taken in the case of the E-class of spares. Stocking of desirable spares can even be done away with if the lead time for their procurement is short.

Procedure adopted

Classification of spare parts into vital, essential and desirable categories should be made by the technical department or by those incharge of the maintenance of the plants of the units under review. Therefore, all departmental heads were consulted and according to the information given by them the spare parts have been classified as VED. Table 1, gives this classification for spares of a scooter manufacturing company under review.
Table 1

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Description of the Spare part</th>
<th>VED Analysis</th>
<th>ABC Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

I. **Bearings**

1. Radial ball bearings
2. Taper roller bearings
3. Cylindrical roller bearings
4. Combined needle thrust bearings
5. Ball bearings

II. **Electrical Items**

1. Capacitors
   i) Single phase
   ii) Three Phase
2. Contactors
3. Carbon brushes
4. HRC fuses
5. Limit switches

III. **Mechanical Spares**

1. Non-return valve
2. Direction control valve
3. Purolater micronic filters
4. Thread rollers
5. Piston rings
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Description of the Spare part</th>
<th>VED Analysis</th>
<th>ABC Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

### IV. Machine Shop Spares

1. Taper shank drills  
2. Side and face cutters  
3. Centre drills  
4. Widia inserts  
5. Ball bearing centres

### V. Welding Shop

1. Electrodes  
2. Chipping hammers  
3. Welding flux  
4. Welding torch  
5. Spot welding tips

Note: There were 85 items of spare parts which were classified using ABC and VED Analysis. Examples of 5 items under each category are, however, given for constraint of space.

Moreover, ABC and VED analysis can be combined to advantage in order to control the stocking of spare parts. Therefore, the ABC and VED classification are given side-by-side to enable a company to exercise the control effectively. The control action for the classes AV, BE, CD, BV, BD, AD etc. are given below:

<table>
<thead>
<tr>
<th>Classes</th>
<th>V Items</th>
<th>E Items</th>
<th>D Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>A items</td>
<td>Constant control and regular follow up</td>
<td>Moderate Stocks</td>
<td>Nil Stocks</td>
</tr>
<tr>
<td>B items</td>
<td>Moderate Stocks</td>
<td>Moderate Stocks</td>
<td>Very low stocks</td>
</tr>
<tr>
<td>C items</td>
<td>High Stocks</td>
<td>Moderate Stocks</td>
<td>Low Stocks</td>
</tr>
</tbody>
</table>
Inventories have their justifications in terms of the extent to which they contribute to the effective overall operation and profitability of an organization. With the recognition of this fact, it is inconceivable that decisions in this area can be left to rule of thumb, chance, or guess work. A managerial approach based on quantitative and selective evaluation of inventory factors in combination with executive and staff judgment will provide the foundation for sound decision making. If the scooter manufacturing units utilize this approach for inventory and other operational problems, it is likely that such inventory control tools can be sharpened and refined to become increasingly reliable. In the long run, therefore, the continued success of the units hinges vitally on how well they can use scientific methods in the inventory function as well as in other areas that depend on proper inventories. If the units make an earnest effort to implement these techniques, present problems in inventory management can certainly be overcome. This, in turn, will help to boost their profits.

References


Annual Reports of the various Scooter Manufacturing Companies in India.
PRIVATE SECTOR BANKS IN THE STATE OF RAJASTHAN

Sugan C. Jain*
M. Prasad Rao+

The authors examine the performance of all banks in general and that of private sector banks in particular in the State of Rajasthan.

Private Sector Banks in the State of Rajasthan

Rajasthan is one of the biggest states in India spread over 3,42,239 sq. kms., and occupied the 9th position in population, with more than 4.5 crore (4,38,80,640 as per 1991 Census). It had many princely states earlier. But at present the state comprises 32 districts.

Even after 50 years of economic planning, this state continues to exhibit backwardness in the field of Banking Industry. This is purely because of the people living in the state still believe in the “Mahajan” system. That’s why though the Govt. of India had taken steps to nationalise banks in a phased manner, it has almost made no impact on the state of Rajasthan. There is only one bank in the Private Sector i.e., the Bank of Rajasthan Ltd. which has its registered office at Udaipur. The two State Banks of princely days i.e., Bank of Jaipur (1943) and Bank of Bikaner (1944), were merged with State Bank of India on 01.01.1960 prior to the nationalisation of banks.

The Bank of Rajasthan is the only private sector scheduled commercial bank which used to cater to the needs of the people of Rajasthan till 1988. In 1979, India’s premier bank in the private sector, i.e., the Vysya Bank Ltd. opened its first branch at Malkhera (rural) in the state of Rajasthan which is the first private sector bank other than the Bank of Rajasthan Ltd. Presently, 10 private sector banks have started their business.

In Table 1, the business performance of all the banks as on 31.03.97 is shown in brief.

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* Associate Professor, Department of Accountancy & Business Statistics, University of Rajasthan, Jaipur.
+ Chief Manager, The Vysya Bank Ltd., M.I. Road, Jaipur.
Table 1
The Business Performance of all the Banks in the State of Rajasthan as on 31.03.97

<table>
<thead>
<tr>
<th>Type of Banks</th>
<th>No. of Banks</th>
<th>No. of Branches</th>
<th>Deposits (Rs. crore)</th>
<th>Advances (Rs. crore)</th>
<th>CD Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>27</td>
<td>1983</td>
<td>11683.50</td>
<td>5542.75</td>
<td>47.44</td>
</tr>
<tr>
<td>Private Sector Banks - Old</td>
<td>6</td>
<td>239</td>
<td>1756.08</td>
<td>911.00</td>
<td>51.88</td>
</tr>
<tr>
<td>New</td>
<td>4</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>14</td>
<td>1065</td>
<td>1155.34</td>
<td>462.57</td>
<td>40.04</td>
</tr>
<tr>
<td>Urban Co-op. Banks</td>
<td>30</td>
<td></td>
<td>37.89**</td>
<td>20.35**</td>
<td>53.78**</td>
</tr>
<tr>
<td>Raj. State Co-op. Banks</td>
<td>1</td>
<td>9</td>
<td>351.48</td>
<td>530.36</td>
<td>150.89</td>
</tr>
<tr>
<td>Dist. Central Co-op. Banks</td>
<td>26</td>
<td>376</td>
<td>811.22</td>
<td>379.50</td>
<td>46.78</td>
</tr>
<tr>
<td>State Land Development Banks</td>
<td>6</td>
<td></td>
<td>N.A</td>
<td>558.84</td>
<td>N.A.</td>
</tr>
<tr>
<td>Primary Land Development Banks</td>
<td>33</td>
<td>110</td>
<td>N.A</td>
<td>564.63</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

** As on 31.03.96.

Note: All deposits excluding Inter-Bank Deposits.

Source: SLBC — 66th Meeting Dt. 08.09.97, Bank of Baroda, Rajasthan Zone.

From the above table, we can find that many types of banks are extending their services to the public parallel to the scheduled commercial banks. All the public sector banks have their offices in the state of Rajasthan and operate throughout the state through as many as 1983 branches. The ten private sector banks have 245 branches. Out of these, the Bank of Rajasthan alone has 234 branches in the state of Rajasthan.

The CD Ratio of public sector banks stood at 47.44% whereas that of private sector banks stood at 50.77%. Other than these, there are many banks functioning in the state of Rajasthan. These are Regional Rural Banks, Urban Co-op. Banks, Rajasthan State Co-op. Banks, Dist. Central Co-op. Banks, State Land Development Banks, Primary Land Developments—a total of 110 banks with 1596 branches. Their CD Ratio is also as good as/better than the public sector and private sector banks.
In table 2 the business position of the private sector banks functioning in the state of Rajasthan as on 31.03.97 is summarised.

**Table 2**

**Private Sector Banks working in Rajasthan as on 31.03.97**

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>No. of Branches</th>
<th>Deposits (Rs. crores)</th>
<th>Advances (Rs. crores)</th>
<th>CD Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Madura</td>
<td>1</td>
<td>10.73</td>
<td>0.38</td>
<td>3.54</td>
</tr>
<tr>
<td>Bank of Punjab</td>
<td>3</td>
<td>38.89</td>
<td>4.77</td>
<td>—</td>
</tr>
<tr>
<td>Federal Bank</td>
<td>1</td>
<td>12.86</td>
<td>1.37</td>
<td>10.65</td>
</tr>
<tr>
<td>I.C.I.C.I Bank</td>
<td>1</td>
<td>4.15</td>
<td>3.42</td>
<td>—</td>
</tr>
<tr>
<td>J &amp; K Bank</td>
<td>1</td>
<td>7.56</td>
<td>8.09</td>
<td>107.01</td>
</tr>
<tr>
<td>Karnataka Bank</td>
<td>1</td>
<td>4.63</td>
<td>0.74</td>
<td>16.00</td>
</tr>
<tr>
<td>Bank of Raj.</td>
<td>234</td>
<td>1685.27</td>
<td>896.31</td>
<td>153.18</td>
</tr>
<tr>
<td>U.T.I. Bank</td>
<td>1</td>
<td>14.44</td>
<td>2.68</td>
<td>18.55</td>
</tr>
<tr>
<td>Vysya Bank</td>
<td>2</td>
<td>37.03</td>
<td>4.11</td>
<td>11.09</td>
</tr>
<tr>
<td>Indusind Bank</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1</strong></td>
<td><strong>1815.56</strong></td>
<td><strong>921.87</strong></td>
<td><strong>50.77</strong></td>
</tr>
</tbody>
</table>

**Note**: All Deposits excluding Inter-Bank Deposits.

**Source**: SLBC 66th Meeting Dt. 08.09.97.

It can be seen from table 2 that many of the private sector banks have only one branch located in the city of Jaipur, except the Bank of Rajasthan (234), Bank of Punjab (3) and Vysya Bank (2). The CD ratio maintained by the J & K Bank is more than 100% followed by the Bank of Rajasthan.

The CD ratio of the private sector banks as a whole stood comparatively very low. Banks like Vysya, Federal, Madura and Karnataka should gear up their credit portfolio to the maximum extent, since they have been in the field since long.

The new private sector banks just entering into the State those Bank of Punjab, UTI Bank, ICICI, Indus Ind can also improve CD Ratio. But the surprising thing is that till date none of the foreign banks has opened its branch but they are entering in the area through their franchises.
### Table 3

**Performance of the Private Sector Banks Functioning in the State of Rajasthan**

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>Year of establishment</th>
<th>Deposits (Rs. crores)</th>
<th>Advances (Rs. crores)</th>
<th>Profits (Rs. crores)</th>
<th>CD Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>95</td>
<td>96</td>
<td>95</td>
<td>96</td>
<td>95</td>
</tr>
<tr>
<td>Federal Bank</td>
<td>1945</td>
<td>3697.16</td>
<td>4603.39</td>
<td>2235.12</td>
<td>2999.40</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>1994</td>
<td>729.90</td>
<td>1347.50</td>
<td>650.75</td>
<td>798.00</td>
</tr>
<tr>
<td>IndusInd Bank</td>
<td>1994</td>
<td>12.22</td>
<td>3093.10</td>
<td>1121.19</td>
<td>1927.65</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir Bank</td>
<td>1938</td>
<td>2895.08</td>
<td>3658.14</td>
<td>1364.12</td>
<td>1693.98</td>
</tr>
<tr>
<td>Karnataka Bank</td>
<td>1924</td>
<td>1855.30</td>
<td>2510.54</td>
<td>1185.41</td>
<td>1449.69</td>
</tr>
<tr>
<td>Bank of Madura</td>
<td>1943</td>
<td>1549.24</td>
<td>1936.00</td>
<td>997.01</td>
<td>1148.18</td>
</tr>
<tr>
<td>Bank of Punjab</td>
<td>1994</td>
<td>278.29</td>
<td>831.41</td>
<td>221.29</td>
<td>364.99</td>
</tr>
<tr>
<td>Bank of Rajasthan</td>
<td>1943</td>
<td>2506.82</td>
<td>2938.93</td>
<td>1360.98</td>
<td>1498.29</td>
</tr>
<tr>
<td>UTI Bank</td>
<td>1994</td>
<td>925.66</td>
<td>1408.66</td>
<td>556.85</td>
<td>639.45</td>
</tr>
<tr>
<td>Vysya Bank</td>
<td>1930</td>
<td>4300.77</td>
<td>5069.44</td>
<td>2623.66</td>
<td>2541.80</td>
</tr>
</tbody>
</table>
INTERNATIONAL CONFERENCE NEWS

REPORT ON 8TH WORLD CONGRESS OF ACCOUNTING EDUCATORS HELD IN PARIS: OCTOBER 23-25, 1997

The 8th World Congress of Accounting Educators, sponsored jointly by the International Association for Accounting Education and Research (IAAER) and French Accounting Association (FAA), was held at Paris Business School (ESCP), Paris, from October 23-25, 1997. The theme of the Congress was "The Changing World of Accounting: Global and Regional Issues". About 700 delegates from 50 countries (including 200 from France) attended the Congress.

The Congress started with Plenary Session (14.00-16.30) on October 23 in Amphi Vital Roux Hall, ESCP. Professor Sid Gray of Warwick University chaired the session as President of the IAAER. Representatives from IAAER and FAA were also among other dignitaries. The distinguished speakers were: Michel Lebas, ESCP, Michael Sharp and Karel Van Hulle. Michael Sharp, Chairman of the International Accounting Standard Committee, elaborated the effective role played by IASC in recent years for harmonisation of accounting practices across the world. Karel Van Hulle explained the standard setting practices in Europe and compared them with the U.S. System. Michael Lebas gave a thought-provoking talk on Management Accounting and stressed the need for knowledge-based management for value creation rather than activity-based management. He suggested for continuous adoption to create value on an on-going basis.

The Plenary Session was followed by numerous parallel sessions, panel sessions, and research forum. Parallel sessions were divided into two groups: those dealing in English and those dealing in French. Altogether 108 papers were presented in English in these sessions and 45 papers were presented in French. For discussion in the Research Forum 25 papers were selected. Papers presented related to various topics of current issues such as:

- Recent Developments in Accounting Education in Europe and Asia
- Information Technology and Accounting Education
- Accounting Education Needs in Diverse Economies
- Cultural Influences on Accounting
- Financial Reporting Issues
- Environmental Accounting
- Accounting Standards
- Accounting Theory
The Congress concluded on 25th (11.30-13.00) with another Plenary Session with distinguished speakers from Scotland, Mexico, USA and France. Professor Belverd E Needles, Jr. of DePaul University, newly elected President of the IAAER, was in chair.

Four delegates from India — Sri A. K. Chakraborty of the Institute of Chartered Accountants of India, Dr. V. K. Vasal of Delhi University, Sri Hitesh Shukla of Saurashtra University and Professor Bhabatosh Banerjee of Calcutta University — attended the Congress.

The discussions made in the Congress will have their bearing on research and teaching to be undertaken by the delegates in their respective institutions. The Congress was a grand success in all respects.

**TENTH ANNUAL CONFERENCE OF ACCOUNTING ACADEMICS**

**Hong Kong : 15-16 June 1998**

The Hong Kong Society of Accountants will hold the Tenth Annual Conference of Accounting Academics on 15-16 June 1998 in Hong Kong in co-operation with the Hong Kong Academic Accounting Association and the International Accounting Section of American Accounting Association.

This conference will provide an excellent opportunity for each academic to come and hear about the latest developments, exchange views and meet other professional and academic colleagues in the Asia Pacific region.

The theme of the conference will be *Accounting in Asia Pacific: Trends and Issues*

This conference is an annual forum for exposing new trends and issues in accounting practice, research and education in the region.

**Call for Papers**

Papers from interested persons are invited for presentation at the conference. Topics of interest include but are not limited to:

- Accounting in the public sector
- Accounting practice in the People's Republic of China
- Corporate governance
- Issues in finance and financial instruments
- Environmental accounting
- Ethics in accounting
- Financial reporting
Implications of technology on accountants
Innovations in accounting education
International accounting
Issues in auditing
Management accounting
New dimensions in taxation
Trends in accounting research

Guideline for contributors

1. Each contributor should submit three copies of the paper along with an IBM PC diskette by 15 February 1998.
2. Each paper should include a separate cover page with the title, main topic, the name(s), organisation(s), telephone, fax numbers, e-mail address and postal address of the author(s) along with an abstract of no more than 100 words.
3. The first page should commence with the title (do not include the author's name) and the text should be single-spaced and of no more than 10 pages.
4. Diskettes should be in MS Word formats (please indicate which software and version used).
5. All submitted papers will be subject to a blind review process. Notification of acceptance will be made by the end of March 1998.
6. All papers and diskettes should be mailed to:

   Mr. Doug Oxley,
   10 ACAA Conference Chairman,
   Hong Kong Society of Accountants,
   13th Floor, Belgian Bank Tower,
   77-79 Gloucester Road,
   Wanchai, Hong Kong

Fax: (852) 2865 6776 / 2528 4737
Tel: (852) 2529 9271 (Miss Bo Bo Man)
E-mail address: boboman@hksa.org.hk
43RD ICSB WORLD CONFERENCE
Singapore, Suntec Center : June 8-10, 1998

The Entrepreneurship Development Centre, Nanyang Technological University, Singapore, will host the 43rd ICSB World Conference at Singapore from June 8 to 10, 1998. The theme of the Conference is: Entrepreneurship at the Threshold of the 21st Century. The Conference will focus on the latest research findings, key issues and regional and global trends in the following topical areas:

* Relationship between Small Business and New Ventures and Job Creation
* The Entrepreneurial Environment and Infrastructure
* Technology, Innovation and Entrepreneurship
* Corporate Entrepreneurship
* Entrepreneurship in the Global Economy
* Entrepreneurship and Economic Development
* Public Policy and Entrepreneurship Development
* Characteristics, Skills and Behaviours of Entrepreneurs
* Women Entrepreneurs
* Characteristics of Successful Entrepreneurship Leaders
* Determinants of New Ventures and Small Business Success
* Entrepreneurship Education and Training
* The Role of the Entrepreneur in Society
* Family Business Issues and Topics
* Effective Teaching of Entrepreneurship
* Contributions which Small Businesses and New Ventures make to Society
* Financial Issues in Entrepreneurship

Guidelines for paper submission

Author should submit three copies of abstract of each paper, single spaced and not exceeding one page. The abstract should contain a clear statement of the major points to be made in the paper and a concise summary of the conclusions. Authors are also requested to provide their biographical data on a separate page not exceeding half page per author. Deadline for submission of abstract is February 1, 1998 and the deadline
for submission of full length of the paper is April 1, 1998. Papers will be subject to a blind review. Full papers submitted in time for printing will be reproduced in Conference Proceedings upon payment of the appropriate registration fee, and attendance at the Conference.

Registration fees:

- ICSB Member: S$ 575.00 or US$ 385.00
- ICSB Non-Member: S$ 675.00 or US$ 450.00
- Graduate Students: S$ 300.00 or US$ 200.00
- Accompanying Persons: S$ 300.00 or US$ 200.00

(US$ 1 approx. = S$ 1.5)

All fees are payable in Singapore dollars or US dollars by bank draft or money order, in favour of "Nanyang Technological University".

The registration form, containing names of each author, designation, mailing address, telephone, fax and e-mail numbers, should be sent to:

Mr. Wee-Liang TAN
Director, ENDEC
Mailbox: B3-C54
Nanyang Business School
Nanyang Technological University
Nanyang Avenue
Singapore 639798

Tel: (65) 799 4839
Fax: (65) 791 4538
E-mail: asllok@ntu.edu.sg
THIRD INTERNATIONAL CONFERENCE ON MANAGEMENT OF
FINANCE AND INTERNATIONAL ACCOUNTING ISSUES

Jaipur, September 11 to 13, 1998

The Research Development Association is organising an International
Conference on Contemporary Issues in Accounting and Finance at Hotel
Clarks Amer, Jaipur, from September 11 to 13, 1998.

Conference Topics and Paper Submission:

The Conference will deliberate upon the following themes:
1. Social and Environmental Accounting
2. Investment Opportunities in Developing Countries, World Trade
   Barriers
3. Accounting Standards and Harmonisation of International Accounting
4. Management of Finance in Business and Industry
5. New Dimensions in Taxation
6. Public Sector Accounting

Papers are invited on any one of the above topics along with an
abstract not exceeding 300 words. Each paper, typed in double space,
should be submitted in duplicate latest by 31 March, 1998. Information
about the acceptance or otherwise of a paper will be sent latest by June

Delegate Fees:

Early Registration (received by 31 July, 1998) US Dollars 300 each
Late Registration (received after 31 July, 1998) US Dollars 400 each
Spot Registration US Dollars 500 each

Accompanying persons will be charged US$ 300 each. All payment
should be made through account payee bank draft in the name of "Research
Development Association, Jaipur". For Further details contact:

Dr. Sugan C. Jain
Hony. Secretary General
Research Development Association
4-Ma-22, Jawahar Nagar
Jaipur 302 004, India

Telephone: (91) (141) 652107
Fax: (91) (141) 653224
IAA & IAA BRANCH NEWS

XXI All India Conference
Indian Accounting Association

Bangalore, 31 January and 1 February, 1998

The XXI All India Conference of the Indian Accounting Association will be held at Bangalore on 31 January and 1 February, 1998 under the auspices of the Department of Commerce, Bangalore University and Karnataka Branch of the Indian Accounting Association. Eminent personalities from industry, professional bodies, Institutes, colleges and universities from all parts of India and abroad are expected to participate in the Conference.

The topics for the Conference and the respective Chairmen are given below:

<table>
<thead>
<tr>
<th>Topics</th>
<th>Chairmen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seminar</td>
<td></td>
</tr>
<tr>
<td>Innovative Financial Instruments-Accounting Implications</td>
<td>Dr. Y. Yalawar Executive Director Karnataka State Financial Corporation, Bangalore</td>
</tr>
<tr>
<td>Technical Session I</td>
<td></td>
</tr>
<tr>
<td>Accounting and Information Technology</td>
<td>Prof. N. M. Khandelwal Director, Dept. of Management Studies, M.D.S. University, Ajmer</td>
</tr>
<tr>
<td>Technical Session II</td>
<td></td>
</tr>
<tr>
<td>Accounting and Societal Concerns</td>
<td>Prof. S. B. Singh Dept. of Commerce Lucknow University Lucknow</td>
</tr>
</tbody>
</table>

The last date for submission of paper/abstract was December 31, 1997.

Registration is open only for members of the Indian Accounting Association. The registration fee is Rs. 300/- for each member. Every accompanied person will have to pay Rs. 500/-. The registration fee is payable through bank draft drawn in favour of Conference Secretary, XXI All India Accounting Conference, Bangalore.

For further details contact:

Prof. K. Eresi
Conference Secretary
Department of Commerce
Bangalore University
Central College Campus
Bangalore 560 001
Tel: 080-2213491
Fax: 080-3389295
E-mail: bang@sirnet.emet.in
(Res.): 080-3300825

Prof. K. Aswathappa
President, Karnataka Branch of IAA
Tel: Res. 080-3497022
Calcutta Branch

Indian Accounting Association—Calcutta Branch held its Annual General Meeting for 1996-97 on December 13, 1997 at the Assembly Hall of the Indian Institute of Social Welfare and Business Management, Management House, Calcutta. The meeting was preceded by a Seminar on ‘Company Accounts under the Companies Bill 1997’. The Seminar was given by Professor Bhabatosh Banerjee, one of the past Presidents of the Indian Accounting Association, and the eminent Professor of Commerce in this part of the globe. It was chaired by Professor Sukumar Bhattacharya, the Chairman of IAA—Calcutta Branch.

At the outset of the Seminar, members stood in silence for a minute as a mark of respect to the departed soul of Professor G. D. Roy. At the request of the Chairman, Professor Bhabatosh Banerjee gave a glowing tribute to Professor G.D.Roy, one of the doyens of research in Accounting and Finance in India and abroad, by stating in brief the contributions of Professor Roy.

Dr. J. B. Sarker, Secretary of the Calcutta Branch, then delivered the welcome address. Dr. Sarker explained in brief the circumstances under which the changes in the Companies Act were found necessary in India. This was followed by the talk by Professor Bhabatosh Banerjee.

Professor Banerjee started with analysis of conceptual background of regulation (i.e. what is regulation, whether regulation is desirable and if so, to what extent) and objectives of financial reporting in India. He then took up important relevant provisions contained in the Companies Bill, 1997 in the context of: (a) maintenance of books of accounts, (b) form and contents of Profit & Loss Account and Balance Sheet, (c) disclosure of accounting policies and compliance with accounting standards, (d) preparation of Consolidated Accounts, (e) Constitution of a National Advisory Committee on Accounting Standards and (f) Directors’ Report. Where appropriate, a comparative analysis with the corresponding legal provision as contained in the Companies Act, 1956 was also made. He also referred to the changes in the Companies Act in the neighbouring countries of Bangladesh and Pakistan to focus on the gaps in the Companies Bill, 1997. Finally, Professor Banerjee made a number of suggestions for improvement in the quality and type of company financial information that may be used by investors and creditors for their investment and credit decisions.

In the discussion that followed, Dr. M.N. Kaura of Administrative Staff College of India spoke how the G.D.R. issues by the bluechip companies warranted changes in the corporate legislation in the country so that the reporting practices in India follow the international standard in this regard. Others who participated in the discussion were Dr. J. B. Sarker, Professor
T.C. Saha, Sri Satyajit Dhar, Sri R. N. Saha, Prof. Saroj Sengupta, Prof. Subrata Ganguly. The discussion in the seminar was punctuated with comments from the Chairman, particularly on the ethical issues in corporate accounting and reporting.

The seminar was well attended by the members of the Association and it ended with a vote of thanks from Dr. I.K. Chatterjee, the Vice-Chairman of the Branch.
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JAIPUR-302004 (INDIA)
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THE INDIAN ACCOUNTING ASSOCIATION

The Indian Accounting Association is an organisation of persons willing to assist in the advancement of accounting education and research. The registered office of the Association is at the College of Commerce and Management Studies, M. L. Sukhadia University, Udaipur-310001, India. Membership of the Association is open to academics and professionals who are willing to assist in achieving the objectives of the Association.

The membership fees for individuals are as under:

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>Abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>Rs. 750</td>
<td>US $ 100</td>
</tr>
<tr>
<td>Annual</td>
<td>Rs. 100</td>
<td>$ 25</td>
</tr>
</tbody>
</table>

Members are entitled to participate in the activities of the Association and receive a free copy of the Indian Journal of Accounting and selected research publications.

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<table>
<thead>
<tr>
<th>Type</th>
<th>India (Rs)</th>
<th>Abroad (US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Annual</td>
<td>100</td>
<td>25</td>
</tr>
<tr>
<td>Life</td>
<td>750</td>
<td>100</td>
</tr>
<tr>
<td>Institutional Annual</td>
<td>500</td>
<td>100</td>
</tr>
<tr>
<td>Permanent</td>
<td>1,500</td>
<td>250</td>
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</table>

Other particulars of the journal are:

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Printed area : 20 cm × 11½ cm

Manuscripts (in duplicate and neatly typed in double space) for publication in the Indian Journal of Accounting should be sent to the new Chief Editor who will be appointed during the 21st Annual Conference at Bangalore. Each submission shall include a separate title page listing full particular(s) of the contributor(s). There shall not be any author(s) identification in the paper in order to facilitate blind review. Reference books and research publications for review (two copies of each title) should also be sent to the Chief Editor.
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Chief Editor's Name : Dr. Bhabatosh Banerjee
Nationality : Indian
Address : College of Business Studies
University of Calcutta
Calcutta-700 073

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Visakhapatnam-530-003

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Dr. D. Prabakara Rao
Signature of Publisher

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