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CORPORATE FINANCIAL REPORTING PRACTICES OF LISTED COMPANIES OF SRI LANKA: AN INVESTIGATION

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1. Introduction

By the end of 1995 there were 226 companies listed for share trading on the Colombo Stock Exchange (CSE)[1]. Only the listed companies are permitted to do share trading on the CSE. Decisions of investors to buy and sell shares are guided to a greater extent by the information contained in the financial reports of companies. Therefore, financial reporting plays a major role by directing the investors to invest in profitable enterprises through the process of buying and selling shares on the stock exchange. In view of these considerations, a financial reporting system catering to the needs of various interested parties is a must for proper industrial development of a country. Such a system provides the investors with information necessary for finding profitable investment opportunities.

In making investment decisions, investors have to make them on a comparative basis in order to select profitable investments. Therefore, it is vital that various enterprises adopt consistent accounting policies to enable the decision makers to make effective decisions. A major objective of Sri Lanka accounting standards is also to promote consistency and hence comparability of accounting practices.

The present investigation is carried out with the objectives of identifying and analysing financial reporting practices adopted by the companies under study, examining whether the financial reporting practices are applied on a consistent basis among the companies and making suggestions for the improvement of the current reporting practices of Sri Lankan companies.

To the knowledge of the researcher, there is only one study (Wickramarachchi,1978) which has investigated corporate financial reporting practices of Sri Lankan companies. The said study has covered mainly the practices relating to the presentation of assets and liabilities in the balance sheets of selected companies. However, the present study carries out a more comprehensive analysis by examining many aspects relating to financial reporting pracices of 45 quoted companies on the Colombo Stok Exchange.

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In addition, the Companies Act of Sri Lanka and other regulations relating to financial reporting do not contain any specific formats of presentation eventhough they specify the contents therein. Therefore, there could be various formats and methods of presenting the same information among various companies. A study like this will help identify such practices and make improvements thereto.

2. Corporate Financial Reporting

Generally the term "financial reporting" means communication of published financial statments and related information from an enterprise to third parties including shareholders, creditors, customers, governmental agencies and the public.

A report prepared by Duff and Phelpos (1976, p.41) for Arther Anderson and company says:

> *Corporate financial reporting might be defined as a total communication system between the corporation and its interested constituencies of which investors are primary. There are many channels for dissemination of this information including press releases, reports required (under the law), presentation to financial analysts and other investor groups, shareholders' annual general meeting and interviews between the management representatives and professional financial analysts as intermediaries between the company and investors... the primary channel of communication with users is reports to shareholders.*

According to the above definition the main objective of financial reporting is the communication of information useful to intereted parties in making economic decisions. Usually the basic means through which this objective is acheived is the corporate report or the annual report or financial statements.

Financial statements provide the interface between the company and the interested parties. What financial statements should consist of depends on what the interested parties need from the company to make economic decisions. Therefore, the term "financial statements" can be construed to include those data that are needed by interested parties to make economic decisions about the entity. Sri Lanka accounting standard 3 (para.3) defines financial statements as follows:

> *The term financial statements covers Balance Sheets, Income Statements or Profit and loss Accounts, explanatory notes and other statements which are defined as part of financial statements.*

Objectives of Financial Reporting

In ancient times the financial statements were mainly prepared for shareholders (Lal, 1985,p.5). This practice existed for a long time since companies largely were closely held and internally financed. Therefore, there was a little need for external reporting. But today there are a lot of parties who are interested in the fortunes of an organisation because most of the organisations are financed by outsiders, and other than providing finance, outside parties have interests due to various reasons. Therefore, it is of paramount importance to have clear objectives of financial reporting.

According to the Accounting Standards Board (ASB) (1991, para.12) of the UK the objective of financial statements is to provide information about the financial position, performance and financial capability of an enterprise that is useful to a wide range of users in making economic decisions[2]. Accordingly, the overall objectives of financial reporting may be as follows;

1. Allocation of resources,
2. Reporting to society, and
3. Equilibrium in security prices.

Concept of Disclosure

According to the American Accounting Association (AAA) disclosure consists of the movement of information from the private domain into the public domain[3]. There are generally three concepts of disclosure i.e. adequate, fair and full disclosure. Information contained in financial statements should be adequate, fair and full enabling the users to make economic decisions effectively.

Adequacy of information depends on the extent to which the items of information are helpful to users in economic decision making. To be fair, financial statements should strive to satisfy the information needs of all interested parties. To be full, financial reports should disclose all the necessary information to users. However, some writers see no difference among these three concepts. Adequacy of information is a broad concept involving the following questions;

1. Who are the users of financial statements?
2. What is the purpose for which information is provided?
3. What is the quality and quantity of information needed?
4. What is the method of disclosure of information?
5. When should the financial statements be issued?

In order to serve the above purposes or objectives of financial reporting, financial reporting should contain certain characteristics.

Characteristics of Effective Financial Reporting

According to the American Association of Certified Public Accountants (AICPA), the characteristics for effective financial reporting are generalisations that require judgement in using them to evaluate and improve accounting principles[4]. These are also known as qualitative characteristics of financial statements. These characteristics help in achieving adequate disclosure in financial statements. These characteristics are as follows;[5]

1. Relevance,
2. Materiality,
3. Understandability,
4. Comparability,
5. Consistency,
6. Reliability, and
7. Freedom from bias.

While the above characteristics improve the usefulness of financial statements, there are three constraints on their full achievement,[6] i. e.

1. Conflict of objectives,
2. Environmental influences, and
3. Lack of complete understanding of the objectives.

Conceptual Framework for Financial Reporting

Both in the USA and in the UK attempts have been made to define the conceptual framework. Financial Accounting Standards Board (1967) of the USA defines it as follows;[7]

> *A conceptual framework is a constitution, a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function and limits of financial accounting and financial statements.*

According to MacVe (1981), a conceptual framework would 'provide a consistent approach for making decisions about choices of accounting practice and for setting accounting standards.' A consideration of the above two definitions makes it clear that they want to establish a parameter of accounting objectives which gives guidence for setting accounting standards. They seek to achieve general consistency and avoid conflicting rules and practices.

Alternatives to Historical Cost Accounting

Reporting the impact of price level changes on business income and capital was first mooted in the UK in 1949-50 by the theses published by the leading professional bodies such as ICAEW, ICAS, ACCA, and CIMA (Elliott and Elliott,1993,p.103). But there was little interest in such a system. In January 1949 ICAEW published 'Recommandation on Accounting Principles No.12: Rising Price Levels in Relation to Accounts'. This was supplemented in May 1952 by another statement issued by the same body titled 'Recommendation on Accounting Principles 15: Accounting for Changes in the Purchasing Power of Money'.

In the past there have been two main systems of accounting for changing prices[8]. They are;

(a) Current Purchasing Power Accounting (CPPA), and

(b) Current Cost Accounting (CCA)

Each of the above systems is briefly described in the following paragraphs.

Current Purchasing Power Acconting (CPPA)

This system was first standardised in the UK by the promulgamation of SSAP 7: Acconting for changes in the Purchasing Power of Money by the Accounting Standards Committee (ASC). The considerable growth and the high inflation which prevailed in the UK in late 1960s and early 1970s led to the promulgamation of the above standard. It mandated the following practice.

Historical Cost Accountig (HCA) should continue to be the basis of annual reports while CPPA statements should be supplementary to the HCA statements. The additional three statements adjusting HCA statements for inflation that were required to be provided were;

(1) a supplementary profit and loss account,

(2) a supplementary balance sheet; and

(3) a statement reconciling HCA profit with CPPA profit.

In assessing the price movements, the UK retail price index was required to be used as the unit of measurement. CPPA financial statements were required to identify the gains or losses on the holding of monetary items[9].

In 1975 Sandilands Committee rejected the CPPA system in favour of the CCA. CCA system was mainly based on the concept of deprival value of an asset. Deprival value refers to the value based on the loss, direct or indirect, suffered by an entity if it were to be deprived of the asset concerned. This system was standardised by the issue of SSAP 16 in March 1980. The CCA system consisted of a combination of the concepts of Replacement Cost (RC), Net Realisable Value (NRV), and Present Value (PV) with more emphasis on RC. Under CCA entities had to make four adjustments to HCA statements to reflect the impact of changing price levels. They are;[10]

(1) Cost of Sales Adjustment (COSA),
(2) Depreciation Adjustment (DA),
(3) Monetary Working Capital Adjustment (MWCA), and
(4) Gearing Adjustment (GA).

With the exception of insurance companies and non-profit-oriented organizations, all listed companies and others, subject to specified size criteria, were required to adopt the CCA system. SSAP 16 existed only two years longer than its proposed three year trial period. Its gearing adjustment came under increasing attack and as a remedy Exposure Draft (ED) 35 was proposed which had to be withdrawn soon.

The Current practice in the UK

After the withdrawal of SSAP 16 in October 1986 ASC published 'Accounting for the effects of changing prices: A Handbook' which is now the authoritative reference document which embraces more than one model of financial reporting. It does not opt for a particular accounting technique in accounting for inflation but requires consideration of the following three matters when an accounting system is selected. They are;

(1) the basis to be adopted for valuing assets,
(2) the capital maintenace concept used, and
(3) the unit of measurement to be used.

The handbook advocates two principal methods of asset valuation which are historical cost and current cost but favours current cost basis as a more relevant basis.

Two capital maintenance approaches are proposed to measure capital of a company. They are operating capital maintenance concept which views the capital in physical terms and financial capital maintenance concept which views the capital in financial terms. The operating capital maintenance concept is appropriate for manufacturing companies and the financial capital maintenance concept is appropriate for value based companies whose operations are not dependent on the replacement of the fixed assets.

According to the handbook the usefulness of financial statements would be considerably enhanced by the inclusion of financial data using current cost as the asset valuation method. Either operating or financial capital maintenance concept can be used with pound sterling as the unit of measurement.

3. New Developments in Financial Reporting

There have been several developments in the field of financial reporting in the recent past. These developments attempt to make the financial statements more informative for user so that they can make economic decisions effectively. These developments are human resource accounting (HRA), cash flow accounting, social accounting, segmental reporting, and accounting for the environment. These are briefly discussed in the following paragraphs.

Human Resource Accounting

In any organisation the human beings are the most valuable asset. The organisation's success or failure depends on the asset 'human beings'. It is they who move the organisation to success or failure. Recognising this fact some regulatory agencies have made attempts to develop methods to value human beings and some companies in other countries have made attempts to put values on human beings and report such values in corporate reports.

Woodruff (1970) defines Human Resource Accounting as follows;

> *Human Resource Accounting is an attempt to identify and report investment made in human resources of an organisation that are presently not accounted for under conventional accounting practice. Basically, it is an information system that tells the management what changes over time are occurring to the human resource of the business.*

Although there have been attempts to estimate the value of human resource as far as in 1691, it began to develop as a discipline from 1960s onwards. The authors who wrote on HRA developed various models to value the human resource (see, for example, Hermanson, 1964; Hekimian and Jones, 1967; Flamholts, 1971; Pyle, 1969; and Jaggi and Lau, 1974). The methods developed by various writers could be grouped under two main approaches which are cost of production approach, and Capitalised earnings approach[11].

In some countries human resource information is required to be disclosed by law. For example, section 217(2A) of the Indian Companies Act requires companies to disclose particulars of some employees drawing Rs.12,000 or above per month in the annual reports (Batra,1995). Some US companies have reported Human Resource Accounting information in their annual reports. A pioneering company in this area is R.G. Barry Corporation in Ohio. It reported HRA information in 1968 under the capitalisation of human resource cost method (Gupta,1988,P.9). Some other companies which have reported human resource information are Lester Write and company, A.T. and T. company , the Electronic Data System and Touche Rose and company (Canada).

Cash Flow Accounting

Accounting has to play a significant role to measure and provide necessary information to various interested parties to make economic decisions. There is a question as to whether the financial statements prepared on accrual basis play a useful role in assisting decision making. According to the studies conducted during the last decade (eg. Hicks, 1980) some hold the view that historical cost accounts which are based on the allocation concept are not useful in investment and other decisions. According to Ijiri (1978) there is a serious discrepancy between the way in which the investment decisions are made and the way in which the results of decisions are evaluated. In investment decisions, the primary factor is the cash flow but in the performance evaluation earnings are considered. These two concepts i.e. cash flow and earnings are not comparable. As far as investors are concerned they are mainly concerned with future cash flows and not with earnings which are determined on an accrual basis. Sandilands Committee (1975) was also of the view that the 'income' is subjectively determined and therefore, there is a need to develop cash flow accounting. Therefore, it is essential that attempts be made to present cash flow accounting information together with traditional financial statements prepared on an accrual basis. Further, since cash flow accounting takes care of the changes in prices it precludes distortions in financial reporting.

Cash flow acconting takes cash basis and accrual basis into its system but completely rejects 'allocation as basis'. Therefore, there is a distinction between cash flow accounting and either the 'accrual' basis of accounting or the 'allocation' basis of accounting. In addition to cash and accrual as bases, it considers the current value accounting concepts for balance sheet purposes.

In traditional accounting non-cash items are considered in arriving at the earnings. These can be called allocations (eg. depreciation). These allocations of non-cash items distort the real cash flow figure.

According to Hicks (1980, P.12) there are three reasons for the choice of cash flow basis of accounting. They are:

1. Since investors invest cash in antipation of receiving back cash flows sufficient to justify their investment, the financial measures they need are cash flow measures.

2. Since decisions are always future oriented, the financial measures must be future cash flow measures.

3. Since only data different among alternatives affect a decision, the financial measures must be future cash flows different among alternatives.

According to the above discussion, it is clear that under cash flow accounting a firm has to prepare the statement of financial position and the statement of changes in financial position only. There is no need for an income statement.

Under the cash flow accounting transactions are normally recorded when cash is received or paid and the difference between cash receipts and payments is taken as the income. Amounts spent on the acquisition of fixed assets are charged in full in the year of acquition and depreciation is abandoned. Amounts spent on acquition of materials and fuel etc. are charged in full at the point of payment.

Social accounting

According to the American Accounting Association's committee on accounting for social performance (1975), social accounting includes the following;

1. accounting for and evaluating of the impact of corporate social responsibity programs,
2. human resource accounting,
3. measurement of selected social costs,
4. measuring the full impact of an entity on society,
5. social reporting (reporting results of items 1-4 above), and
6. accounting for public (government) programs.

According to a report of the committee on Accounting for Social performance of the National Accounting Association (NAA) (1976, p.39), there are four major areas of corporate social performance which are as follows;

1. Community development,
2. Human resources,
3. Physical resources and environmental contributions, and
4. Product or service contributions.

Until the early 1970s, no methods had been developed to measure and report social accounting information. Methods adopted by companies vary from company to company. One of the first companies to adopt social responsibility accounting information in 1971 was Abt Associates in the USA. By about 1974 more and more companies started producing seperate reports of social responsibility accounting or of some segment of these activities.

In 1978 Sachar Committee in India recommended that a provision be included in the Companies Act to make it obligatory for companies to issue a social report along with the directors' Report. The central government of India requires a few companies to disclose in their directors' reports information regarding conservation of energy, technology absorption and foreign exchange. A recent study conducted by Porwal and Sharma (Porwal,1986, P.330) has revealed that while ninety six percent of the public companies made certain social disclosures, only thirty five percent of private companies made such disclosures.

Segmental Reporting

Nowadays entities engage in diverse activities and operate multinationally. As a result of growth in diversified business and expansion into foreign markets, consolidated financial statements have become heterogeneous information. Generally the management of an organisation can hide information from external reporting when consolidated financial statements are presented. Consolidated financial statements show the results of operations, financial position and changes in funds and other information as a whole for all the entities which are consolidated. In the group of companies there may be, for example, loss making companies whose results of operations and financial position and other information are not disclosed by financial statements. According to Kochanek (1974, P.258) large companies with diversified product lines/marketing regions, which may differ from each other with respect to profitability, growth potential and risk, evidently require segmental reporting for highlighting different areas. Consolidated operating results from various product lines and markets do not provide a reasonable basis for analysing the overall financial condition and making future estimates of cash flows.

Segmental information is any information that is disaggregated and reported for each segment or part of the company. A variety of different types of segments might be employed. The most common are disaggegation by geographical area and by industry (Roberts and Gray, 1995, P.390). Disaggregation by industry is known as line of business segmentation (LOB).

In the UK segmental reporting was made mandatory with effect from the 1st July 1990 by SSAP 25: Segmental Reporting. In the USA segmental reporting was first mandated by the 1971 Securities and Exachange commission (SEC) segmental reporting requirements. Thereafter in 1981 segmental reporting was standardised by the issue of the Statement of Financial Accounting Standard (SFAS) No.14: Financial Reporting for Segments of a Business Enterprise.

The USA led the UK in the area of segmental disclosure and requires rather more detailed disclosures than the UK. In 1969 the SEC required line of business (LOB) information in registration documents and in 1970 required similar disclosures in the annual form 10-K. In 1974 all the companies which had to file accounts with the SEC were also required to disclose segmental information. In December 1976 FASB isuued SFAS 14: Financial Reporting for a Segment which considerably extended the previous requirements.

Many other countries such as Australia (AASB 1005, Financial Reporting by Segments), Canada (CICA Accounting Handbook, section 1590) and Japan (Nobes and Parker, 1995) have standardised segmental reporting.

The International Accounting Standards Committee (IASC) issued a statement in October 1981 (IAS 14) on segmental reporting. This follows the American standard very closely.

Accounting for the environment

According to Gray (1993, P.6) environmental accounting covers all areas of accounting that may be affected by the business's response to environmental issues, including new areas of eco-accounting. Environmental accounting will cover;

(a) accounting for contingent liabilities/risks;
(b) accounting for asset revaluations and capital projections;
(c) costs analysis in key areas such as energy, waste and environmental protection;
(d) investment appraisal to include environmental factors;
(e) development of new accounting and information systems;
(f) assessing the costs and benefits of environmental improvement programmes;and
(g) developing accounting techniques which express assets and liabilities and costs in ecological terms.

In most of the countries in the world, there is a trend to report in corporate reports information on environmental matters. According to a survey conducted by Roberts (1991), out of the companies studied fifty two percent in France, eighty percent in Germany, sixty percent in the Netherlands, eighty percent in Sweden and sixty percent in Switzerland make environmental disclosures.

Because an organization is continually in interaction with the environment, they are liable to disclose information on environmental matters. Further, the interested parties also have a right to know information on the interaction between the organisation and the environment.

4. Corporate Financial Reporting Environment in Sri Lanka

The corporate financial reporting in Sri Lanka is mainly governed by the companies Act No. 17 of 1982, accounting standards issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), bye laws of the CSE and certain guidelines issued by the ICASL such as guidelines for the preparation of accounts by hotels and those for the preparation of accounts of banks, Finance Companies act and Banking Act.

Companies Act No. 17 of 1982

The sections 144 to 155 of the Act deal with the presentation of accounts and disclosure requirements[12]. In addition to the above requirements, schedule five and seven[13] of the said act deal with requirements with respect to accounts and matters specifically to be disclosed in the auditor's report respectively.

Sri Lanka Accounting Standards

The ICASL has issued a number of accounting standards since its inception dealing with the presentation of various items in the accounts of companies and other business entities. There were 27 accounting standards as on 30 July, 1996. The said standards are more concerned with disclosure and presentation in accounts than presentation to internal management.

In addition to the above standards ICASL has issued various guidelines dealing with disclosure and presentation of items in financial statements.

Sri Lanka auditing standards also require certain matters to be specifically disclosed in the audit reports by the auditors[14].

Regulations of Colombo Stock Exchange

Sections 3.3 and 3.3e of the Regulations deal with the disclosure requirements in the annual reports[15]. These sections specify disclosure requirements with regard to investments (quoted and unquoted) held outside the group as investments by the company, holdings in associate and subsidiary companies, a distribution of equity shares, directors' report and the chairman's report.

5. Sample and Methodology

In view of the nature of this study the descriptive method of research would be the most suitable approach. The major purpose of descriptive research is the description of the state of affairs as it exists at present and in such research the researcher has no control over the variables. Therefore,what the researcher has to do is to describe what has happened.

Jaggi (1973, p.160) defines descriptive research as applicable to accounting as follows:

> *Descriptive studies provide information regarding the present state of the art of accounting. These are usually exploratory in nature and attempt to determine the status of a particular discipline in a country. Such studies are generally based on primary information. Descriptive studies can also be based on secondary data obtained from existing sources.*

The sample for this study consists of annual reports published by listed companies. These companies were selected on the basis of random sampling using the lottery method for selection. The sample selected as above could be classified as in Table 1.

Table 1
Companies Included in the Sample

Sector	No. of Companies
Banking	5
Construction	2
Export	5
Finance	2
Hotel	4
Insurance	3
Investment	2
Leasing/property development	5
Manufacturing/ trading	10
Other	7
	45

As a basis for the analysis of data, a list of reporting practices is developed by going through each sample report in respect of each item in the annual reports under study. This process enables the investigator to find out the frequencies of practices in relation to the various items under study. The list developed in relation to a particular practice is suitably modified when new practices are encountered. The results of the application of the lists are recorded in the form of tables giving various reporting practices adopted by the companies in dealing with the like items with the number of companies adopting each practice.

The researcher was unable to collect the annual reports for all the sample companies for the same financial year due to the difficulty in obtaining them for one particular year. Therefore, the financial years of the annual reports collected fall between 1987/88 and 1991/92. The sample collected as above consisted of 3 annual reports for financial year 1987/88, 3 annual reports for the financial year 1988/89, 15 annual reports for the financial year 1989/90, 19 annual reports for the financial year 1990/91, and 5 annual reports for the financial year 1991/92. (See Appendix A for names of the sample companies).

The scope of this study is limited to the investigation of disclosures in selected annual reports other than those in audit reports, funds/cash flow statements and chairman's/chief executive's reports.

6. Analysis and Presenation of results.
General Reporting Practices
Information structure of an annual report of a Sri Lankan company

The information structure of annual reports of companies under study varies from company to company. While small companies attempt to fulfil the minimum information requirements well established big companies have shown interest in disclosing a lot of amount of voluntary information. Table 2 summarises the information structure of an annual report of a Sri Lankan Company.

Language of Reporting

Most of the Sri Lankan companies i.e. 93 percent, are found to report their financial information in English language while a very few companies report their financial information either in Tamil or Sinhala.

In some reports some parts thereof such as chief executives review have been reported in Sinhala, English and Tamil[16] languages.

Goals and objectives of the company

Out of the 45 companies under investigation, only 4 companies have disclosed their goals/objectives in the annual reports. These companies are well established big companies such as Hayleys Ltd. [17]

Business Philosophy

Disclosure of business philosophy is a voluntary disclosure found in the annual reports. This was also identified as a practice followed by well established big companies such as Hayleys[18].

Mission of the company

This is rather a long-term concept that provides overall direction to the organisation or the reason for the existence of the company. It consists of a long term vision of what it seeks to do and reasons why it exists. It is management's concept of the organisation and its contribution to the society[19]. Out of 45 companies only 6 companies have disclosed their mission in the annual reports[20].

Table 2
Information Structure of an Annual Report of a Sri Lankan Company

Mission
Goal
Company Information
Notice of meeting
History of the company
Directors' report
Chairman's (Chief executive's) review
Managers' review
Directors' review of operations
Balance Sheet
Profit and Loss account
Accounting policies
Notes to the accounts
Statement of changes in financial position
Auditors' report
Ten/Five year summary
Net assets per share and market value per share
Value added statement
Analysis of share holdings
Sectoral analysis
Financial highlights
Network directory
Contribution to state
Turnover analysis
Graphical reviews
Expenditure analysis
Historical events
Employment/Human resources
Foreign currency generation
Utilisation of turnover
Analysis and comparison of past performance
Sources and distribution of income

Accounting Policies

In the annual reports under study variations are observed in disclosing the accounting policies and in the format of presentation of the same. SLAS No. 3 requires the accounting policies to be disclosed in one place preferably as the first note to the financial statements[21]. Table 3 gives the current practices relating to disclosure of accounting policies.

Table 3

Accounting Policies Disclosed in Annual Reports

Policy Disclosed	No. of companies	Percentage
Assets and the basis of their valuation	42	93
Depreciation	3	7
Translation of foreign currency	18	40
Taxation	24	53
Deffered Taxation	4	9
Revenue recognition	8	18
Employee (Terminal) benefits	12	27
Liabilities and provisions	20	44
Consolidation	8	18
Preliminary and pre-operational costs	6	13
Finance and operating leases	6	13
Hire purchase	2	4
Accounting for investments in associates	1	1

Accounting policies differ among companies because of diversity in business operations. Therefore, a high degree of consistency cannot be expected among companies as far as accounting policies are concerned.

Two major formats have been used in disclosing the accounting policies. Twenty one companies have disclosed accounting policies under the heading "Accounting Policies" whereas 23 companies have shown accounting policies as the first note under the heading "Notes to the Accounts". One company has disclosed accounting policies under the notes to the accounts other than as the first note[22]. So, there is less consistency in the format of disclosure of accounting policies among the companies.

Post Balance Sheet Events

Post balance sheet events are those events which occur between the balance sheet date and the date on which the financial statements are authorized for issue[23]. These are normally of two types as follows;

1. Those that provide further evidence of conditions that existed at the balance sheet date, and

2. Those that are indicative of conditions that arose subsequent to the balance sheet date.

The first of the above events requires adjustments to accounts. Table 4 shows various practices of companies under study with respect to post balance sheet events.

Table 4

Practices Relating to Post Balance Sheet Events

Practice	No. of Companies	Percentage
Post balance sheet events were specifically disclosed	2	4
Post balance sheet events adjusted in accounts but not disclosed	2	4
The fact that there are no post balance sheet events is disclosed	18	40
No statement about post balance sheet events	23	52
	45	100

The post balance sheet events have been disclosed in various locations in the annual reports. One company has reported such events in the directors' report only, two companies have disclosed such events in both the directors' report and notes to the accounts and the other company has disclosed such events only in the notes to the accounts. Out of the 18 companies which disclose the fact that there were no post balance sheet events, 12 companies disclose this fact in the directors' report while 6 companies disclose this fact in the notes to the accounts.

Contingencies

In the annual reports under study. The disclosure practices relating to contingencies vary significantly. Table 5 shows the various practices relating to contingencies[24].

Table 5

Practices Relating to Contingencies

Practices	No. of Companies	Percentage
An estimate of contingent loss is given	19	42
Nothing is stated about contingencies	21	47
A note stating that the contingent liability is not material is given	1	2
The fact that there are no contingencies is stated	3	7
A note revealing the existence of a contingent liability is given	1	2
	45	100

Directors' Report

In terms of section 152(1) of the companies Act No. 17 of 1982, every company shall attach a directors' report to the balance sheet. This shall contain information regarding the state of the company's affairs, the amount, if any, which the directors recommend as dividends, amount which they propose to transfer to reserves, directors' interest in contracts with the company, and if so, nature and whether it was declared by him at a meeting of the directors as required under section 203 of the Companies Act. In addition, section 3.3 of the rules of the CSE requires certain information to be specifically disclosed in the directors' reports.

Directors' reports examined contained a number of disclosures other than those required by the companies Act and the regulations of the CSE[25]. Such disclosures are shown in Table 6 below. According to Table 6, there is consistency among companies in disclosure of only two items in the directors' report. i.e. reappointment of auditors and retirement and reappointment of directors. Other disclosures vary significantly among the companies due to the variety of the transactions they enter into.

Table 6
Voluntary Disclosures in the Directors' Reports

Disclosure	No. of Companies	Percentage
Reappointment of auditors	45	100
Employment of the company	9	20
Turnover	10	22
Contingent liabilities	1	2
Writing off of preliminary expenses	1	2
Taxation	2	4
Future Developments	7	16
Substantial shareholdings	3	7
Retirement and reappointment of directors	30	67
Loans	2	4
Market Value of Shares	2	4
Share Capital	3	7
Litigation	1	2
Resolutions	1	2

Comparative Figures

Comparative figures are necessary in order to have an idea as to profit or loss for the year when compared to those of previous years. The fifth schedule of the Companies Act also requires comparative figures to be disclosed in respect of balance sheet figures and profit and loss account figures except in the case of the first balance sheet and the first profit and loss account[26]. However, it does not specify any format for the presentation of comparative figures due to which reason variations in presentations could be observed[27]. Table 7 shows various practices adopted by the companies under study in respect of comparative figures.

Table 7

Practices adopted by Companies in Presenting Comparative Figures

Practices	No. of Companies	Percentage
Shown on the opposite side of current year's figures in the profit and loss account but along side current year's figures in the balance sheet	1	2
Shown on the opposite side of current year's figures both in the profit and loss account and balance sheet.	2	4
Shown alongside current year's figures both in the profit and loss account and the balance sheet.	42	94
	45	100

According to Table 7, there is a high degree of consistency among the companies in presenting the comparative figures.

Supplementary (voluntary) Financial Data

It has been a good practice in recent years to disclose supplementary financial information other than that required by statute and accounting standards. These disclosures could be considered a good development of corporate financial reporting in Sri Lankan companies. Companies tend to make such disclosures because they think that they would help the interested parties in making economic decisions. A wide variety of voluntary disclosure practices were found in the annual reports under study as shown in Table 8. Each of these practices will be discussed in the paragraphs that follow.

Table 8
Supplementary (Voluntary) Financial Data Disclosed in Annual Reports

Data Disclosed	No. of Companies	Percentage
Historical summaries (10 years/5 years)	15	33
Value added statement	12	27
Contribution to Government	3	7
Human Resources	7	16
Pictorial presentation of Products/Services	8	18
Financial charts/Graphs	20	44
Financial Highlights	13	29

Historical Summaries

Fifteen out of forty five companies under study have presented historical summaries[28] of financial results and financial position of the respective companies. The time period covered by these summaries ranges from 5 to 10 years. These summaries assist the reader to get an idea at a glance as to how a particular company has grown or otherwise over the years. The summaries show information relating to the profit and loss account and balance sheets and sometimes financial ratios. The weakness of such summaries is that they have not been adjusted to reflect the changes in price levels. This makes the comparisons somewhat difficult.

Value Added (VA) Statement

The value added is the surplus value that arises after the costs of purchasing goods and services are deducted from revenues. VA is the excess turnover over the cost of goods and services . This statement is very important from the point of view of investor to get an idea as to how the company distributes its value added. Out of the 45 companies under study 12 companies have presented this statement in the annual reports. This statement has been prepared yearwise.

The VA statements have been supplemented by graphs as well[29]. This practice could be cited as a good practice of financial reporting which would enhance the understandability of annual reports. This is an important feature on the simple grounds that information must be understood if it is to be useful[30].

Contribution to Government

Out of the 45 companies, 3 companies have disclosed information about their contribution to government graphically while presenting the relevant numerical information. Contribution by a business enterprise to government mainly consists of taxes such as customs duty, income tax, turnover tax, defense levy, excise duty and withholding tax. Government creates an environment for the business enterprises by providing infrastructural facilities, promulgating laws and regulations etc.. Therefore, the business enterprises are socially obliged towards the government. This is discharged by paying taxes, etc. at the correct time, at the correct amount and in the prescribed manner. This type of disclosure shows how an organisation fulfils its social obligations towards government.

Human Resources

A major factor contributing to an organisation's success and growth is its human resources. An organisation should select right people for the right job and they should be made partners of the organisation's success giving them proper benefits. Out of the 45 companies under study only 7 companies have presented information relating to human resources[31]. The methods of presentation vary significantly among the companies. However, no company under investigation has accounted for human resources. Table 9 shows the various methods of presentation adopted by the companies.

Table 9

Methods of Presentation of Human Resource Information in the Annual Reports

Method	No. of Companies	Percentage
Both graphical and numerical methods	2	4
Graphical presentations only	1	2
Graphical presentations supplemented by verbal explanations	1	2
Numerical presentations only	1	2
Numerical tables with pictorial background of human resource factor	1	2
Numerical tables and verbal explanations with pictorial background of human resources	1	2
No information about human resource factor	38	84
	45	100

Under human resources various types of information are disclosed as follows;(Number of companies is given within brackets), sex of the employees (4), age of employees (2), designations (3)l professional backgrounds (1), functional analysis (1), value added per employee (2), number of employees (7), average monthly service charge (1), assets per employee (1), sales value per employee (1) and wage base per employee (1) [32].

Financial Highlights

Financial highlights have been presented in 13 out of 45 annual reports under study. The frequently adopted format of presentation is to present corresponding information for the previous year with that for the current year highlighting the changes. This information has been presented numerically, graphically and as a combination of both. Some companies have shown corresponding information for 4 or 5 years. When this practice is adopted changes from year to year are not highlighted. Various pieces of information are presented under financial highlights which relate both to profit and loss account and balance sheet. In addition to the above information various financial ratios are presented. Items presented frequently under financial highlights are turnover, profit before tax, profit after tax, gross dividends, revenue to government, fixed assets, shareholders' funds, working capital (net current assets), earnings per share, net assets per share, market value per share, value added, return on equity, foreign exchange earnings, tax, retained profits, long term debts and total assets. Other than the above, items which are specific to particular companies have been disclosed[33].

In all the reports the financial highlights have been placed before the profit and loss account and the balance sheet. This practice enables a reader to get an idea about the results of operation and financial position before reading the profit and loss account and balance sheet.

In addition to the above matters disclosed voluntarily in the annual reports various other types of information have been presented by way of graphs, charts and diagrams. Even a layman is being made able to understand how a company has performed in the current year in comparison to other years, how value added has increased or decreased in comparision to other years, how EPS has increased or decreased over the years etc.. These enhance the understandability and attractiveness of the annual reports. Most of the companies present these charts, graphs and diagrams after the profit and loss account and balance sheet. Out of the 45 companies under study, 20 companies have presented information by way of graphs, charts and diagrams.

Profit and Loss Account and Balance Sheet

Profit and Loss Account

Location, format and title

Out of the 45 companies under investigation, 36 companies have located the profit and loss account before the balance sheet whereas the remaining 9 companies have located their profit and loss account after their balance sheets. All the companies have used the vertical format in presenting the profit and loss accounts in the annual reports.

As far as the title of the profit and loss account is concerned, 43 companies have used the title "profit and loss account"[34], one company has used the title "statement of income"[35] and one company has used the title "statement of profit and loss."[36]

Turnover

It is a recognised accounting practice to show turnover in the profit and loss account after charging:

a. Turnover tax,

b. Trade discounts, and

c. Other taxes based upon turnover.

When there are substantially different classes of business the following should be shown:

a. attributable turnover, and

b. result before tax.

Turnover attributable to each substantially different geographical markets should be disclosed.

In 14 annual reports the turnover has been shown and a reference to the composition of turnover has been made where there is a group of companies under one company, where turnover consists of export turnover and local turnover or where diverse products are sold by the company.[37]

Turnover Tax

The recognised accounting practice is to deduct the turnover tax from turnover and show the net turnover. But it is observed that various practices have been followed by the companies under study,[38] as shown by the table 10 below.

Table 10

Various Methods Used to Disclose Turnover Tax

Method	No. of Companies	Percentage
Showing turnover tax in Notes	21	47
Showing turnover tax in profit and loss account	11	24
Not showing turnover tax	13	29
	45	100

Depreciation

Accounts should show the total charge for depreciation and diminution in value of fixed assets distinguishing between the following:

a. The charge for systematic depreciation on tangible and intangible fixed assets.

b. If there has been during the year.

   i. A routine reassessment of economic useful lives; or

   ii. a change in the method of depreciation, and

   iii. a revaluation.

The effect on the charge for depreciation, if material should be disclosed[39].

Depending on the format of profit and loss account adopted, the amounts for depreciation can either be separately disclosed on the face of profit and loss account or a total can be shown in the profit and loss account and an analysis given in the notes.

In the annual reports under study two main practices were observed with respect to disclosure of depreciation[40]. Table 11 shows various practices adopted in respect of depreciation charge.

Table 11

Disclosure of Depreciation Charge in Accounts

Practice	No. of Companies	Percentage
Shown as an aggregate figure in the profit and loss account, the details being shown in notes	12	27
Depreciation charge is not disclosed in the profit and loss account but the details relating to depreciation are shown in notes	32	71
Depreciation charge is not disclosed	1	2
	45	100

Interest payable/paid

Accoording to schedule five of the Companies Act[41] and recognised best accounting practice, interest payable and similar charges should be split in the accounts between payable to group companies and the rest and show separately by way of note:

a. Interest on bank loans and overdrafts and other loans from non-group entities which are either;

  i. Not repayable by instalments, and are due within five years; or

  ii. Repayable by instalments wholly due within five years, and

b. Interest on any other loans from non-group entities.

In the annual reports under study, 26 companies have disclosed interest payable/paid as a separate figure in the profit and loss account while 13 companies have disclosed interest payable/paid in notes and 6 companies have not disclosed interest payable/paid in the annual reports[42].

Retained Earnings

Normally it is an accepted practice that the retained earnings statement be presented separately following the profit and loss account showing any prior year adjustments. Sometimes this is shown within the profit and loss account[43]. In some reports this is shown as a seperate statement[44].

Table 12 shows various practices used by companies in respect of retained earnings.

Table 12

Disclosure of Retained Earnings in the Profit and Loss Account

Practice	No. of Companies	Percentage
Retained earnings shown within the profit and loss account	41	91
Retained earnings not shown in the profit and loss account	1	2
Retained earnings shown separately as a statement	3	7
	45	100

According to Table 12, showing retained earnings within the profit and loss account has the highest consistency score, i.e. 91%.

Profit/Loss Brought Forward

It was observed that the companies follow three practices[45] in presenting the profit/loss brought forward. Table 13 shows the various practices adopted by the companies under study.

According to Table 13, the most consistently adopted practice among the companies is adding the profit/loss brought forward before appropriations. This practice has a consistency score of 82.28.

Table 13
Various Practices of Disclosing Profit/Loss Brought Forward

Practice	No. of Companies	Percentage
Balance brought forward added to profit after appropriation	3	7
Balance brought forward added to profit after writing off preliminary expenses but before dividends	2	4
Balance brought forward added to profits before appropriations	37	82
Shown in the statement of retained earnings	3	7
	45	100

Audit Fees

According to schedule five of the Companies Act[46] and the recognised best accounting practice where the amount of remuneration and expenses is not known, an estimated amount should be disclosed and any adjustment if material in relation to the estimate previously disclosed shown in the next accounts. Where a fee includes fees for other work it should be split. Fees for other work do not form part of auditor's remuneration and need not be disclosed.

Recognised best accounting practice requires that whenever possible, the provision in the balance sheet, and thereby the disclosure of the charge to the profit and loss account, should reflect the actual fees expected to be charged.

In the annual reports under study two main[47] practices were observed to have been followed in disclosing the auditor's remuneration as shown by table 14 below.

Table 14
Disclosure of Auditor's Remuneration

Method of disclosure	No. of Companies	Percentage
Shown in profit and loss account	11	24
Shown only in the notes	34	76
	45	100

Directors' Fees

The section 200 of the Companies Act[48] requires the fees to the directors to be disclosed in the published accounts. According to this section the following information relating to the directors' fees shall be disclosed.

a. The aggregate amount of directors' emoluments;

b. The aggregate amount of directors' or past directors' pensions.

c. The aggregate amount of any compensation to directors or past directors in respect of loss of office; and

d. The number of directors who have waived the rights to receive emoluments which, but for the waiver, would have fallen to be included in the amount shown in those included in the amount shown in those accounts under the provision of paragraph (a) and aggregate amount of the said emoluments.

In the reports under study mainly two methods were found to have been used in disclosing the directors' emoluments[49] as shown by Table 15 below.

Table 15
Disclosure of Directors' Emoluments

Practice	No. of Companies	Percentage
Disclosed in profit and loss account	10	22
Disclosed in notes	32	71
Not disclosed	3	7
	45	100

According to Table 15 it is clear that most of the companies adopt the second practice i.e. to disclose the directors' emoluments in notes.

Profit and Loss Account Presentation

Most of the companies under investigation have adopted an abridged version of the profit and loss account showing a minimum amount of information. It is observed that there is a preference among the companies to present information showing only the most required information in the profit and loss account and giving details in the notes following the profit and loss account. Table 16 below shows information about companies adopting each practice.

Table 16

Practices of Presenting Profit and Loss Accounts

Practice	No. of Companies	Percentage
Abridged version	31	69
Detailed version	14	31
	45	100

Table 16 shows that most of the companies, i.e. 69% prefer to use abridged version[50] of the profit and loss account whereas the remaining 31% use detailed version[51].

Balance Sheet
Format and Presentation

All the companies under survey have adopted vertical format. In presenting the information in the balance sheets these companies have adopted two modes of presentation i.e. to present information in a concise manner[52] and to present the same in a detailed manner[53]. Table 17 shows information on these practices.

Table 17

Mode of Presentation of Information in the Balance Sheet

Mode of Presentation	No. of Companies	Percentage
Abridged format	16	36
Detailed format	29	64
	45	100

Table 17 shows that most of the companies prefer to use detailed format to abridged format with a higher degree of consistency.

In the above formats, the order of presentation of various assets and liabilities differ among the companies as shown by the Table 18 below.

Table 18

Order of Presentation of Assets and Liabilities

Order	No. of Companies	Percentage
Current Assets, Fixed Assets, Liabilities, Shareholders' funds	11	24
Fixed Assets, Working capital, Share capital, Reserves and Long term liabilities	13	29
Share capital, Reserves, Long term Liabilities, Fixed assets, Working capital	21	47
	45	100

According to Table 18, no practice out of the three shows a high consistency among the companies. But practice 3 is somewhat consistent among the companies with a percentage of 46.7.

The practice of presenting the current assets as the first item in the vertical balance sheet was mainly observed among the banking companies.

Long Term Liabilities

In presenting the long term liabilities mainly two practices[54,55] have been adopted by the companies under study. Table 19 depicts the number of companies adopting each practice.

Table 19

Presentation of Long term Liabilities in the Balance Sheet

Practice	No. of Companies	Percentage
Shown on the liability side	24	71
Deducted from net assets	10	29
	34	100

Table 19 shows that showing the long term liabilities on the liability side of the balance sheet is the more consistent practice with a percentage of 71.

Current Liabilities

In presenting the current liabilities in the balance sheets, the companies under investigation have adopted four practices. Out of these practices presenting each current liability seperately in the balance sheet (not an aggregate of all liabilities) is the most popular practice. Fifty three percent of the companies present current liabilities by way of this method. Table 20 shows various practices used to present current liabilities.

Table 20

Presentation of Current Liabilities in the Balance Sheets

Practice	No. of Companies	Percentage
Shown as a single figure composition being shown in notes[56]	12	27
No distinction has been made.between Current and long term liabilities[57]	6	13
Each current liability is shown in the balance sheet without showing an aggregate[58]	24	53
Only net current assets/liabilities[59] are shown details being shown in notes	3	7
	45	100

Working Capital

In terming the working capital some companies have used the term "working capital"[60] and some companies have used the term "net current assets/liabilities"[61], whereas some companies have not shown working capital at all. Table 21 shows various practices used in respect of working capital.

Table 21

Presentation of Working Capital in the Annual Reports

Practice	No. of Companies	Percentage
Working capital termed as net current assets	20	45
Working capital termed as such	15	33
Working capital not shown	9	20
Working capital shown but not titled	1	2
	45	100

Current Assets

Current Assets are any assets not intended for use on a continuing basis in the company's activities or assets that are realised within one accounting period. In presenting current assets in the balance sheet companies under study have adopted several practices[62] as shown by Table 22.

Table 22

Presentation of Current Assets in the Balance Sheets

Practice	No. of Companies	Percentage
A total of amount of current assets shown in the Balance Sheet details being shown in the notes	8	18
Individual Current Assets shown in the Balance Sheets	32	71
Only net current assets/liabilities shown in the balance sheets	3	7
Not specifically shown in the Balance Sheet	2	4
	45	100

According to Table 22, the most popular practice is to show current assets individually with a percentage of 71.

7. Conclusions and Suggestions

Conclusions

General Reporting Practices

It is observed that well established, profit making companies with comparatively higher amount of capital employed disclose most of the items enumerated in Table 2 whereas small companies disclose a few of the items of information in the said table. This is due to the reason that when a company becomes well established and capital employed therein grows over time, they perceive the need for more voluntary disclosures.

About 93 percent of the companies under investigation present their annual reports in English medium while 2 percent of companies present the same in English and Tamil media and 5 percent present the same in English, Tamil and Sinhala media. This is due to the fact that most of the companies in Sri Lanka keep their records in English medium, are situated in Colombo and have multinational transactions.

Goals, objectives and mission of the company have been disclosed only by large companies such as Hayleys, DFCC and Singer. This can be identified as a good practice as the readers of the annual reports get an idea about these aspects of the company.

As far as the accounting policies are concerned, it is observed that they differ significantly among the companies except for policy "assets and the basis of their valuation." This is due to the diversity of business activities requiring diverse accounting policies. The accounting policies are disclosed mainly in two locations in the annual reports i.e. as the first note to the accounts and in the notes other than the first note. However there is no consistency in the format of disclosure.

Inconsistencies in disclosure are observed in the areas of rounding off of figures, post balance sheet events and contingencies. As far as the disclosure of comparative figures in the accounts is concerned there exists a high degree of consistency among the companies.

Disclosures in the directors' reports differ significantly among the companies with well established big companies disclosing a lot of amount of voluntary disclosures other than those required by the Companies Act and the regulations of the CSE. In the case of small companies disclosures are more or less confined to those required by the Companies Act and the regulations of the CSE. Only two items of disclosure are consistent among the companies as far as the directors' report is concerned i.e. disclosure of reappointment of auditors and that of retirement and reappointment of directors. In the case of other items in the directors' report a high degree of inconsistency exists.

Another trend observed in the annual reports under study is the disclosure of certain information voluntarily. Such disclosures include historical summaries (10 year/5year), value added statement, contribution to government, human resources, pictorial presentation of products/services, financial charts/graphs and financial highlights. Such disclosures provide more information about the company to the interested parties helpful in making economic decisions. In the case of voluntary disclosures consistency cannot be expected among the companies since what is to be disclosed is entirely at discretion of the companies concerned. Hence, voluntary disclosures significantly differ among the companies with big companies disclosing more voluntary information.

Profit and Loss Account and the Balance Sheet
Profit and Loss Account

In presenting the items in the profit and loss accounts consistent practices have been adopted in respect of most of the disclosures. Such consistency improves the comparability of income statements among the companies which is a good feature of financial reporting and hence improves decision making.

Balance Sheet

It is observed that the practices adopted in presenting the items in the balance sheets are less consistent among the companies. Such a situation affects comparability adversely and hence decision making by interested parties on a comparative basis.

The above conclusions indicate overall there exists inconsistencies in presenting information in annual reports even though some consistencies exist among companies in some respects such as in the case of profit and loss accounts.

Suggestions

According to the observations made in the course of investigation, several instances of inconsistency are observed. These inconsistencies affect the comparability of financial statements among the companies which in turn has a bearing on the economic decision making by the interested parties. These inconsistencies of reporting can be removed by prescribing certain guidelines and formats for presenting the items which are inconsistent in respect of which there is no accounting standard or guideline at present. By the Companies Act of Sri Lanka no specific formats are specified for presenting the financial statements although it prescribes certain items to be disclosed in the financial statements. Areas where voluntary disclosures are found should be identified and guidelines and formats can be formulated to present such information. In this respect research can be undertaken by the Institute of Chartered Accountants of Sri Lanka and Universities and studies conducted by other countries in this area will be helpful. In addition, the areas other than voluntary disclosures where diverse accounting practices are prevalent can be harmonised. This task can be fulfilled by the Institute of Chartered Accountants of Sri Lanka.

It is an observed trend in current financial reporting in some other countries to present inflation adjusted financial statements. These statements show how profit and capital are affected by inflationary conditions. But no company in Sri Lanka under study has presented accounts reflecting the changes in price levels. Presentation of financial statements adjusted for price changes improves the usefulness in economic decision making. At present, the ICASL has issued no accounting standard dealing with accounting for inflation and the Companies Act does not contain any provision in this respect. Therefore, in this case, the role of the government and that of the ICASL are vital. The government can get involved in this matter by appointing a committee comprising experts in the field of accounting and other related fields for making recommendations and formulating guidelines for presenting inflation adjusted financial statements. The ICASL can play a vital role by formulating an accounting standard in this respect. Another alternative is to adopt the methods which are presently followed by the other countries such as current cost accounting (CCA) and current purchasing power accounting (CPPA).

Another trend in current financial reporting is the accounting for human resources employed in annual reports to present some information relating to human resources such as categories of employees, age wise analysis etc.. No company under study has made an attempt to account for human resources. Accounting for human resources will help management make better decisions about investment in human resources, helps the persons interested in organisation to know whether the human resources are giving a return equivalent to their worth or not, help in knowing whether the human resources have been properly utilised and allocated and inform the organisation and the society about the worth of human resources of an organisation. Therefore, it is suggested that human resources be accounted for in the annual reports so that the above benefits can be achieved.

In accounting for human resources, cost of production approach and capitalised earnings approach can be adopted. This will enhance the usefulness of annual reports. The ICASL should play a vital role in this respect by formulating guidelines for accounting for human resources.

At present, there has emerged a trend in many countries to present social accounting information. Every business entity is in continuous interaction with the society. Sometimes the activities of the organisation may be harmful to the society. Therefore, every organisation is responsible to the society for its activities. By presenting such accounts an idea as to the contribution of the organisation to the society can be obtained. The ICASL has to play a vital role in this area by prescribing formats and formulating guidelines etc. for presenting human resource information.

A current trend of financial reporting observed in other countries is that of the disclosure of significant financial ratios in the annual reports. Such ratios are helpful in making comparisons among entities in decision making in addition to a measure of efficiency. A few companies under study have disclosed some of the important such ratios. By disclosing more of such ratios the usefulness of the annual reports to the interested parties can be enhanced.

It is evident from the investigation carried out that companies in Sri Lanka so far have not taken any keen interest in the area of corporate social responsibilities towards control of air and water pollution. In countries like the USA there is legislation to control pollution of air and water. Under the 'Clean Air Act' companies have to file reports on discharge of pollutants into the air. In the UK and Canada there has been a growing trend for increased disclosure in annual reports on pollution control. In Sri Lanka also a beginning has to be made and at least the board of directors should be required to report on steps taken for control of pollution of air and water.

Usefulness of financial statements can be enhanced by incorporating financial forecasts in the annual reports because users of financial statements are interested in the future of the company rather than in the past. These may include internal budgets and forecasts, projected cash statements and projected balance sheet.

The directors' reports of the most of the companies have a great opportunity for improvement. It should be more analytical and informative as it affects the credibility of the annual report to a greater extent. It should highlight significant events, their causes, results and implications for the future.

A statement of mission, objectives and strategies of the company is important as it helps external users in making forcasts of future earnings power. Mission statement gives the readers a sense of direction of the company. Objectives help investors to know the business and management and to build better understanding.

In the case of diversified companies, it is preferable that segmental information be provided to help investors make better evaluations of earnings potential and financial position of the company as a whole.

In making investment decisions cash flow data are of great importance to investors and other external parties to ascertain the liqidity and real financial position of the company. Most external users are interested in timing, amount and certainty or uncertainty of cash flows in making investment decisions. Therefore, it is suggested that cash flow data be provided along with conventional financial statements.

As far as financial reporting is concerned, a company should always take into account the changing objectives and informational needs of its interested parties in deciding what items of information are to be disclosed in the annual reports. Therefore, a company should always strive to keep abreast of the rising public expectations throgh effective financial reporting. In this light, it should not be thought that the above suggestions are exhastive.

NOTES:

1. Colombo Stock Exchange, Annual Report, 1995, p.10.
2. See, for a discussion of these objectives, Jawahar, Lal, Corporate Annual Reports: Theory and Practice, (New Delhi: Sterling Publishers (pvt) Ltd.,1985), pp.6-14.
3. American Accounting Association (AAA), Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements,(June,1977), p.19.
4. Accounting Principles Board, Statement No.4, Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises, AICPA, October, 1970, p.36.
5. See, for a detaled discussion of these characteristics, Jawahar Lal, ibid,pp.53-63.
6. Accounting Principles Board, op.cit.,p.42.
7. FASB, Scope and Implications of the Conceptual Framework Project, 1967.
8. See, for a discussion of these methods, Elliott and Elliott, Financial Accounting and Reporting,(London:Prentice Hall International (UK) Ltd.1993),pp.104-107.
9. Monetary item is one, the amount of which is fixed by statute or contract and is, therefore, not affected by a change in the price-level.
10. See, for an excellent discussion of these adjustments, Gee, Paul, Spicer and Pegler's Book-keeping and Accounts, 2lst edition, (London:Butterworths,1985),pp.532-542.
11. Cost of production approach measures the cost of human resources using well-known cost concepts such as historic cost, replacement cost, standard cost, and opportunity cost. On the other hand, capitalised earnings approach determines the value of human resources as a group using techniques such as the capitalisation of salary method, economic value method, net benefit method, and certainty equivalent method.
12. Companies Act No.17 of 1982,pp.97-100.
13. Ibid.,Schedule Five,pp.350-352,Schedule Seven,pp.367-368.
14. Institute of Chartered Accountants of Sri Lanka, Sri Lanka Auditing Standards,p.3.
15. Colombo Stock Exchange,Rules and Regulations, 1991,pp.31 32.
16. See,for example,Regnis (Lanka) Ltd.,Annual Report, 1989,pp.3-8;and Nestle (Lanka) Ltd. Annual Report,1991,pp.4-7.
17. See,for example, Hayleys Ltd.,Annual Report,1990/91,p.5.
18. See,for example, Hayleys, op.cit.,p.5.
19. Prasad,L.M.,Principles and Practice of Management, 4th edition, (New Delhi:S.Chand & Sons Ltd.,1989),p.135.
20. See, for example, Singer (Sri Lanka) Ltd.,Annual Report, 1990, p.1.
21. Institute of Chartered Accountants of Sri Lanka, Sri Lanka Accounting Standards No.3,para. 23.
22. See, for example, East West Properties Ltd.,Annual Report,1990/91,p.7,and Taj Lanka Hotels Ltd.,Annual Report, 1990/91,p.14.
23. Institute of Chartered Accountants of Sri Lanka, Sri Lanka Accounting Standards, No.12,para.3.
24. See, for example, Merchant Bank of Sri Lanka Ltd.,Annual Report,1991,p.25.,and Ahungalla Hotels Ltd.,Annual Report,1991, p.18.
25. See,for example, Mercantile Credit Ltd.,Annual Report,1990,pp.18-19.
26. Companies Act No.17 of 1982, Schedule Five, para.11 and 13 (5).
27. See, for example, Acme Aluminium Company Ltd.,Annual Report, 1989/90,p.9.,and Kelani Cables Ltd.,Annual Reportt1991, p.21.
28. See, for example, Merchant Bank of Sri Lanka Ltd. op.cit.,p.30.
29. See, for example, Singer (Sri Lanka) Ltd.,op.cit.,p.35.

30. Edwards, Hermanson et.al.,Financial Accounting:A Programmed Text, (Homewood:Illinoise,Richard D.Irwin Inc., 1978),pp.6-15.
31. See, for example, Singer(Sri Lanka) Ltd.,op.cit.lp.36.
32. See, for example, Lanka Milk foods (CWE) Ltd., Annual Report, 1987/88,p.36.
33. See, for example, Central Securities Ltd.,Annual Report,1990/91,pp.6-7.
34. See, for example, East West Properties Ltd., op. cit; p.5
35. See, for example, Sampath Bank Ltd., Annual Report, 1991,p.26.
36. See, for example, Merchant Bank of Sri Lanka Ltd., op.cit.,p.16
37. See, for example, Shaw Wallace and Hedges Ltd., Annual Report ,1990/91,p.8;and Singer (Sri Lanka) Ltd.,op.cit.,p.25.
38. See, for example, Keells Developments Ltd.,Annual Report, 1990/91,p.11.,Kelani Cables Ltd.,op.cit.,p.22.and Mercantile Credit Ltd., op.cit.,p.22.
39. Companies Act, op.cit.p.356.
40. See, for example, Lankem Developments Ltd.,Annual Report,1989/90,p.7, and Korea Ceylon Footwear Manufacturing Company Ltd.,Annual Report,1990/91,p.19.
41. Companies Act, op.cit.,p.355.
42. See,for example, Galadari Hotels Ltd.,Annual Report,l990,p.4, and Regnis Ltd.,op.cit.,p.14.
43. Sees for example, Union Assurance Ltd.,Annual Report and Accounts,l990,p.19.
44. See, for example, Lanka Milk Foods, op.cit.,p.20.
45. See, for example, Nestle Lanka Ltd.,op.cit.,p.12.,and Associated Property Development Ltd.,Annual Report and Accounts, 1990/91.p.9.
46. Companies Act, op.cit.,p.356.
47. See, forexample, Mercantile Leasing Ltd.,Annual Report and Accounts, 1989/90 p.9.,and Asian Cotton Mills Ltd.,Annual Report, 1990/91,p.7.
48. Companies Act,op.cit.,p.147.
49. See, for example, The Colombo Fort and Land Building Company Ltd.,Annual Report,1988/89,p.5.,and Ceylon Oxygen Ltd., Annual Report and Accounts for the 9 months ended 31st December,1991.
50. See, for example, Lanka Carbons Ltd.,Annual Report,l990,p.10
51. See, for example, The Colombo Fort and Land Building Co.Ltd., op.cit., p.5.
52. See, for example, Pegasus Hotels of Ceylon Ltd.,Annual Report,1989/90,p.6.
53. See,for example, East West Properties Ltd.,op.cit.,p.6.
54. See, for example, Equity Properties Ltd.,Annual Report,1990/91,p.6.
55. See, for example, Parquet (Ceylon) Ltd.. Annual Report, 1991, p.9.
56. See, for example, Asian Cotton Mills Ltd., op.cit. ,1990/91, p.8.
57. See, for example, Commercial Bank Ltd.,Annual Report,p.l9.
58. See, for example, Ceylon Oxygen Ltd., op.cit,p.11.
59. See, for example, Kelani Cables Ltd., op.cit., p.l0.
60. See, for example, Hayleys Photoprint Ltd., Annual Report, 1991/92, p.15.
61. See, for example, Taj Lanka Hotels Ltd., op.cit., p.12.
62. See, examples given under presentation of current assets/liabilities and working capital.

APPENDIX A

List of Companies Included in the Investigation

Name of the Company:		Financial Year
1.	Acme Aluminium Company Ltd.,	1989/90
2.	Ahungalla Hotels Ltd.	1990/91
3.	Aitken Spence and Company Ltd.	1988/89
4.	Alliance Finance Company Ltd.	1990/91
5.	Asian Cotton Mills Ltd.	1990/91
6.	Asiri Hospitals Ltd.	1987/88
7.	Associated Electrical Corporation Ltd.	1989/90
8.	Associated Property Development Ltd.	1990/91
9.	Central Securities Ltd.	1990/91
10.	Ceylinco Housing and Real Estates Ltd.	1990/91
11.	Ceylinco Insurance Company Ltd.	1991
12.	Ceylon Oxygen Ltd.	1991
13.	Ceylon Tobacco Company Ltd.	1990
14.	The Colombo Fort and Land and Building Company Ltd.	1988/89
15.	Commercial Bank Ltd.	1990
16.	CTC Eagle Insurance Co. Ltd.	1990
17.	Development Finance Corporation of Ceylon Ltd.	1991/92
18.	East West Properties Ltd.	1990/92
19.	Equity properties Ltd.	1990/91
20.	Galadari Hotels (Lanka) Ltd.	1990
21.	Haycarb Ltd.	1990/91
22.	Hayleys Ltd.	1990/91
23.	Hayleys Exports Ltd.	1991/92
24.	Hayleys Photoprint Ltd.	1991/92
25.	John Keells Ltd.	1989/90
26.	Keells Developments Ltd.	1990/91
27.	Kelani Cables Ltd.	1991

28.	Korea Ceylon Footwear Manufacturing Company Ltd.	1990/91
29.	Lanka Carbons Ltd.	1990
30.	Lanka Milk Foods (CWE) Ltd.	1987/88
31.	Lanka Tiles Ltd.	1987/88
32.	Lankem Developments Ltd.	1989/90
33.	Mercantile Credit Ltd.	1990
34.	Mercantile Leasing Ltd.	1989/90
35.	Merchant Bank of Sri Lanka Ltd.	1991
36.	Nestle Lanka Ltd.	1991
37.	Parquet (Ceylon) Ltd.	1991
38.	Pegasus Hotels of Ceylon Ltd.	1989/90
39.	Regnis (Sri Lanka) Ltd.	1989
40.	Sampath Bank Ltd.	1991
41.	Seylan Bank Ltd.	1990
42.	Show Wallace and Hedges Ltd.	1991/92
43.	Singer (Sri Lanka) Ltd.	1990
44.	Taj Lanka Hotels Ltd.	1990/91
45.	Union Assurance Ltd.	1990

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