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A Study of Disclosure Practices in Co-Operative Banks

INTRODUCTION

In India the history of banking system is very old. Banking system was in existences from a very long time. Manu, Kautilya have also discussed about the banking. In India the modern banking started with the agency firm of Calcutta and the development of banking industry started very fast. RBI was set in 1935. Then the time of nationalization of bank started. In July 1969, 14 big banks were nationalized and in 1980 another 6 banks were nationalized. The co-operative banks are a part of whole banking system. Primarily co-operation introduce in India to save people from the evils of money lender and there male practices. Lord Curzun appointed a special committee to work out under laws of registration of co-operative society and as a result the Act of co-operative credit society came into existence on 29th April, 1904. Not only in India but in Asia the pride of set up the first people co-operative bank is in the account of Gujarat. In 1889, at main center of old Vadodara one small credit society was set and with that co-operative banking originated in the whole Asia. The co-operative banks have a great important in the development of Indian economy and special in contacts to Gujarat. Urban co-operative bank have increase the importance and market share by performing the best activity in providing funds and services essentially to the middle and lower middle classes of the society. In 1966 when the Banking Regulation Act was made applicable to UCBs. In 2006 the market share of UCBs was 4.8%. There are great possibility for the development of co-operative bank in Gujarat as by December 2006, there were about 25,00,000 members and 53,00,000 depositors. Some banks are getting ready for Silver, Golden, Diamond and Platinum jubilee celebration. If state wise numbers of UCBs are compared on 31st March 2006 Gujarat is at 3rd position with 296 UCBs from total 1853 UCBs at the same time it should be paid attention that the UCBs are facing some certain problems like increase in NPS, financial frauds, lack of skilled professional etc.

Table 1: Growth of Urban Co-operative Banks (UCBs) as on 31st March

Year	Number	Deposits Rs. Crores	Growth (in %)	Advances Rs. Crores	Growth (in %)
1996	1501	24161		17927	
1998	1502	40692	68.4	27807	55.1
2001	1618	80840	98.7	54389	95.6
2002	1854	93069	15.1	62060	14.1
2003	1941	101546	9.1	64880	4.5
2004	1926	110256	8.6	67930	4.7
2005	1872	105021	-4.7	66874	-1.6
2006	1853	112237	6.9	70379	5.2

SOURCE: Article on Urban Co-Operative banks, www.woccu.org

CONCEPTUAL FRAMEWORK OF FINANCIAL REPORTING

Financial reporting is the reporting of accounting information of an entity to a user or a group of user. Financial reporting is the communication of published financial statement and others related information from a business enterprise to external users. It is a total communication system which

involves the company as the issuer and external parties as users. Financial reporting includes not only financial statements but also other means of communicating that relates, directly or indirectly to the information provided by the accounting system and the organization that is, information about an enterprise's resources, obligations, earnings, etc.

An evaluation of company financial reporting requires some agreement on its objectives. Financial reporting is not an end in itself but is a means to certain objectives. The objectives of financial reporting and financial statements have been discussed for a long time. While there is no final statement on objectives, to which all parties (of financial reporting) have agreed. At present, the following may be described as the primary objectives of financial reporting: Investment Decision-Making and Management Accountability. The subject of financial reporting objectives has been generally recognized as very important in accounting area since a long time. Many accounting bodies and professional institutes all over the world have made attempts to define the objectives of financial reporting which are vital to the development of financial accounting theory and practice. The Accounting Principle Board Statement No.4 – USA, True blood Report- America, The Corporate Report- England, FASB (USA) Concept No.1, Canadian Institute of Chartered Accountant's Stamp Report, The Companies Act 1956 of India, The Institute of Chartered Accountant's of India, SEBI, Indian Accounting Standards etc have been discussed for their contribution in developing the objectives of financial reporting and reporting practices to be followed while publishing the annual reports. The qualitative characteristic of financial reporting information like understandability, relevance, materiality, reliability, faithful representation, completeness, neutrality, comparability etc have been discussed with the modes of reporting.

RESEARCH METHODOLOGY

The subject of the present study is "A Study of Disclosure Practices in Co-operative Banks". This study is purely based on secondary data collected from the annual published reports of the selected banks. At present, there are 13 Co-operative banks working in Rajkot city. This study covers 4 co-operative banks which are following Co-operative Act for banking reporting practices. The brief history of selected units is as under:

(1) Jivan Commercial Co-operative Bank(JCC): Jivan commercial Co-operative Bank Ltd was established in 1972 with Registration No. 6106 on 18th April 1972. It has successfully completed 36 years in Co-operative banking services. The share capital of the bank was only Rs. 78,200/- on 7th August 1972, when it started. But it has been increasing with the progress of the bank and reached upto Rs.3,60, 21,350/- till 31st March 2007.

(2) Gondal Nagrik Sahakari Bank(GNS): Gondal Nagrik Sahakari Bank Ltd was established in 1955 with Registration No. 1267 on 3rd May 1955. Its RBI license No. is UBD/AH.UJ.0018-P. It has successfully completed 52 years in sahakari banking services. The authorized share capital of the bank is Rs.4, 00, 00,000/- and paid up share capital is Rs. 2, 21, 23,000/- on 31st March 2007.

(3)Rajkot Co-operative Commercial Bank(RCC): Rajkot Co-operative Commercial Bank was established in 1966 with Registration No. 6090 on 1st December 1966. Its RBI license No. is ACD.GJ.225P. It has successfully completed 41 years in sahakari banking services. The authorized share capital of the bank is Rs.3, 50, 00,000/- and paid up share capital is Rs.26359000 on 31st March 2007.

(4)Citizen Co-operative Bank(CC): Citizen Co-operative Bank Ltd was established in 1974 It has successfully completed 33 years in sahakari banking services. The authorized share capital of the bank is Rs.3, 25, 00,000/- and paid up share capital is Rs. 3,20,72,825/- on 31st March 2007.

The following 2 banks have the practices of reporting according to corporate reporting practices:

OBJECTIVES OF THE STUDY:

The main objective of the present study is to evaluate and compare the reporting practices with the help of scaling technique with own developed working model. The overall objective of the study is to analyze the financial reporting practices in co-operative banks in Rajkot city working under Co-operative Act. The main objectives of the present study are as following:

- To know whether corporate profile is provided with full and at most information.
- To know whether financial statements reported in common way.
- To know the trends in reporting of directors speech, auditor's reports and agenda.
- To make suggestions for improving reporting practices.

SURVEY OF EXISTING LITERATURE

Relevant existing studies in literatures have been discussed as below

Biphupati B. Pradhan in *Financial Reporting and Disclosure Practices* edited by Mohan Rao, Presented and article under title '**Financial Reporting : Replace Compliance with Competition**'. This research articles studies about the limitations of present system of financial reporting. This articles finding suggests that the annual accounts should disclose the most significant information. The changing of voluntary disclosure would certainly give corporate management the freedom and flexibility to tell the accounting report users what has been accomplished and what is expected to be accomplished with available assets and existing obligation. The disclosure system over a period of time able to convince the disclosing firm to stand on their honesty, creditability and reliability in the society better will the voluntary disclosure the firm's investors can know the time of the firm value.

V. K. Vasal in '*Financial Reporting and Disclosure Practices*' edited by Mohan Rao, Presented and article under title 'Interim Financial Reporting:' In this article the researcher has taken a sample data of 226 interim financial reports spanning July, 1995 to June 1996 and response from 33 securely analysts and sample companies were analysed with reference to each major provision of clause 41 in the listing agreement in India. The findings of this analysis revealed that, generally, companies do make efforts to meet the aforesaid time limit and seven companies were have take more than 2 months in approving the IFRS.

S.Venkatesh in '*Financial Reporting and Disclosure Practices*' edited by Mohan Rao, Presented an article under title 'Financial Disclosure: Mandatory or voluntary?' In this article, the arguments on regulation of corporate disclosure have been justified with suitable reasons and arguments. The results of finding of the article show that the disclosure practice of competitors is amongst the chief incentives. The third party attaché a positive value of voluntary disclosure of relevant information by the corporate sector. The companies that provide better information on their product to their customers are likely to command a better price in the market. Companies, therefore, must craft strategies for disclosure which look beyond mere compliance with mandatory requirements.

Reporting parameters under two titles

(1) Accounting Information like; Balance Sheet, Profit & Loss A/c, Schedules & Notes to Financial Statements, Current Cost Accounting., Human Resources Accounting, Value Added Statements, Financial Performance of Business & Ratio and

(2) Non-Accounting information like; Director's Report, Chairman's Report, Accounting Policies, Corporate Profile have been used. Information have been decided and according to those parameters scores as total 100 allotted for each included item/matters.

DATA ANALYSIS:

To analyze the reporting practices on the bases of given data in annual reports of the selected banks in stratum 1 that are following Co-operative Banking Act, following two divisions have been analyzed to determine the parameters for scoring to give the scores.

A) Accounting information based parameters: Under these parameters sub parameters have been made like; A1-Reporting of Balance sheet (Liabilities, Assets), A2- Reporting of Profit and Loss account (Income, Expenditure), A3- Notes on account with Additional Disclosure, A4- Financial Parameters, A5-Financial Position as on the ending date of accounting year, A6- Schedules of Grouping of Accounts of Financial Statements.

B) Non Accounting information based parameters: Under these parameters the following sub parameters have been made like; B1-Chairman's Report, B2-Auditors Report, B3 Agenda, B4-Main Page, B5- Branches Information, B6- Board of Directors, B7- Significant Accounting Policies, B8-

Progress Report, B9- Other Information, B10- Financial Statement Signatory,

Separate criterion tables have been prepared for the separate stratum i.e., for two types of co-operative banks under study. According to the scores to the parameters of accounting information based parameters (As shown in Table-1), the JCC Bank has got total 410 scores, GNS Bank has got 241 scores, CC Bank has 265 scores and RCC Bank 448 scores. And the average scores in percentage are calculated with the following formula:

Average Scores in % =

$(\text{TOTAL SCORES RECEIVED}/\text{TOTAL SCORES}) * 100$

For JCC Bank Average Score in % = $(410/600) * 100 = 68.33\%$

For GNS Bank Average Score in % = $(241/600) * 100 = 40.17\%$

For CC Bank Average Score in % = $(265/600) * 100 = 44.17\%$

For RCC Bank Average Score in % = $(448/600) * 100 = 74.67\%$

Overall average = $\frac{68.33 + 40.17 + 44.17 + 74.67}{4} = 56.84\%$

On the basis of the total score average in % on these parameters, all the four selected banks can be evaluated on a five point scale as following

Table 2: Grading on Five –Point scale

SCORING PARAMETER		ACTUAL SCORE		
Score Range	Rank	Bank	Average score in %	Given Rank
86-100	Excellent	JCC	68.33	Good
71-85	Very Good	GNS	40.17	Poor
56-70	Good	CC	44.17	Average
41-55	Average	RCC	74.67	Very good
Below 41	Poor			

The results show that JCC Bank has performed good, GNS Bank has shown poor performance and CC Bank has shown average performance and RCC Bank has shown very good reporting practices in the matter of accounting information in annual reports. It also reveals that the reporting practices represented by these four co-operative banks have an overall score of 56.84. This shows a good performance in reporting accounting information.

According to the scores to the parameters for Non Accounting information based parameters, the JCC Bank has got total 671 scores, GNS Bank has got 665 scores, CC Bank has 574 scores and RCC Bank 460 scores.

Average Scores in % = $(\text{TOTAL SCORES RECEIVED}/\text{TOTAL SCORES}) * 100$

For JCC Bank Average Score in % = $(671/1000) * 100 = 67.1\%$

For GNS Bank Average Score in % = $(665/1000) * 100 = 66.50\%$

For CC Bank Average Score in % = $(574/1000) * 100 = 57.40\%$

For RCC Bank Average Score in % = $(460/1000) * 100 = 46\%$

Overall average = $\frac{67.1 + 66.50 + 57.40 + 46.00}{4} = 59.25\%$

On the basis of the total score average in % on thesis parameters, all the four selected banks can be evaluated on a five point scale as following:

Table 3: Grading on Five –Point scale

SCORING PARAMETER		ACTUAL SCORE		
Score Range	Rank	Bank	Average score in %	Given Rank
86-100	Excellent	JCC	67.10	Good
71-85	Very Good	GNS	66.50	Good
56-70	Good	CC	57.40	Good

41-55	Average	RCC	46.00	Average
Below 41	Poor			

The results show that JCC Bank, GNS Bank and CC Bank has shown Good performance and RCC Bank has shown Average reporting practices in the matter of non accounting information in Annual reports. It also reveals that the reporting practices represented by these for co-operative bank has an overall score of 59.25. This shows a good performance in reporting.

Evaluation criterion parameters for accounting and non accounting information for both types of selected banks have been made. Five scale rating ranks have been decided to assign the rank for reporting practices by the selected bank.

FINDINGS

Accounting Information: In the matter of accounting information reporting practices in first group, the JCC bank received 410 scores, GNS bank received 241 scores, CC bank received 265 scores and the RCC received 448 scores from total 600 scores. On five scales rating the JCC bank got good remark, the GNC bank got poor remark, the CC bank got average remark while RCC bank received very good as remark. This shows that no banks have excellent accounting information reporting practices. The overall average is 56.84%. It means that these representative banks have overall good performance in reporting of accounting information.

Non Accounting Information: In the matter of non accounting information reporting practices in first group, JCC bank received 671 scores, GNS bank received 665 scores, CC bank received 574 scores and RCC received 460 scores from total 1100 scores. On five scale rating, JCC bank, GNC bank and CC bank got good remark while RCC bank received average as remark. This shows that no banks have very good or excellent non accounting information reporting practices. The overall average is 59.25%. It means that these representative banks have overall good performance in reporting of non accounting information.

CONCLUSIONS:

No banks in first group have excellent reporting practices in the matter of accounting information. GNS bank has shown poor performance in this matter as it has not reported the schedule forming the parts of financial statement and notes on account. No bank other than JCC, have shown the schedule of financial statement.

SUGGESTIONS:

From the above micro analysis and study of the annual reports of selected banks, it appears that there is ample scope for improvement in the level of reporting practices. In this perspective, the following suggestions are made for improvement in the important areas in which the selected banks should take appropriate actions:

- They should be schedules of grouping of accounts on financial statement.
- JCC Bank & GNS Bank should disclose contingent liabilities in their balance sheet.
- JCC Bank, CC Bank and RCC Bank should disclose profit of the branches in their P & L A/c.
- GNS Bank should disclose additional disclosures in its annual report.
- JCC Bank, GNS Bank and CC Bank should disclose the information about Financial Parameters.
- CC Bank should disclose Figures of Financial Position on the ending date of annual report.

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