# THE EXTENT OF VOLUNTARY FINANCIAL DISCLOSURE BY QUOTED COMPANIES IN KENYA.

BY

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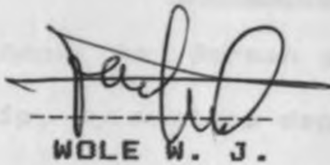
This project is my original work and
has not been presented for a
degreee in any other University.



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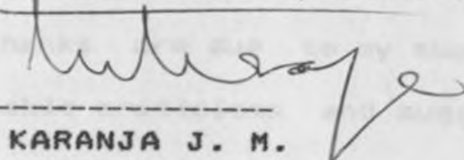

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# ABSTRACT.

This project reports on the extent of voluntary disclosure by listed companies of Nairobi Stock Exchange. The study analyses voluntary disclosure in terms of popular information items as being those items that are reported by most of the companies and rare or unpopular items as those that are reported by relatively fewer companies.

Secondly the voluntary disclosure was also evaluated in terms of those companies that report more information that others. The project found a varying degree of voluntary disclosure in the terms of the number of companies reporting each information item and the amount of information disclosed by the quoted companies, hence giving us a further insight into the nature and level of reporting by quoted companies in Kenya.

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# CHAPTER ONE

# INTRODUCTION

## 1.1 BACKGROUND.

Corporate financial disclosure is a deliberate release of financial information, whether numerical or qualitative, required or voluntary through formal or informal channels, in order to furnish investment decision makers with financial information about the reporting company [Glautier,1986].

The provision of this financial information has implicit welfare effects, not only to the manner in which the welfare of those receiving and using accounting information is susceptible of improvement, but implies some judgment aspects as regards the balance of influence which different groups exert on the enterprise in obtaining advantages for themselves. What therefore, has engaged the attention of accounting practioners and academics is related to what to report, how to report, how financial information statements should be made more informative and to what extent user needs can be met.

The legal compulsion apart, corporate reporting has undergone significant changes both in terms of information content and articulation towards user satisfaction. The complexities of modern business due to fast changing technology, the changing political

factors, the wide spread shareholding and evolution of modern management have added new pressures for greater accountability by corporate managers. Hence, it is widely accepted that the purpose of corporate disclosure is to provide useful financial information to users about the reporting entities. As a result, the question of how much information should be disclosed by companies has been a major issue in the development of corporate financial reporting.

Traditionally, corporate disclosure has been associated with the stewardship function of management. This rested on its ability to provide entity owners with information about the activities and transactions undertaken by management on their behalf. Shareholders, as owners of the firm, have an interest to know what management has done with the resources entrusted to it.

Further, it is argued that, the need for reporting stems from the need of a capitalist economy to mobilize savings for profitable investments. This requires that investors be provided with reliable and sufficient information for decision making.

Invariably in the past, whenever there was a demand for better information, the traditional response had been an increased disclosure of items in the financial statements. Given that managers were allowed to choose

what to report and how to report to shareholders, it was felt that too much damage would be inflicted on investors unless reporting was regulated - giving rise to the promulgation of companies' Acts and other statutory requirements for reporting.

Corporate reporting in Kenya, like in other countries, operates in a regulated environment. Prior to the establishment of the Institute of Certified Public Accountants of Kenya (ICPAK), corporate financial reporting in Kenya was regulated by the Companies' Act (Cap 486) and the rules established by the Nairobi Stock Exchange (NSE). The Act, which remains in its original form [1962], prescribes the minimum legal disclosure requirements intended to give a true and fair view of the annual financial statements of the reporting companies. Both quoted and unquoted public companies are required to lay before their shareholders, in an annual general meeting , a profit and loss account and a balance sheet. The same annual reports are also supposed to be submitted to the registrar of companies.

These legal requirements conform with the stewardship function of management. Auditors are expected to qualify whether the accounts presented comply with the legal requirements of the Companies Act.

Companies quoted on the Nairobi Stock Exchange are compelled to comply with the listing requirements of the

stock exchange. In addition to the audited balance sheet and income statement, they are also supposed to provide a statement of changes in financial position. These requirements together form a package of financial reports which are supposed to be widely available for public consumption.

When ICPAK was formed, it was mandated to promote standards of professional competence and practices among members of the institute. As of June,1992 there are 17 accounting standards and one exposure draft in Kenya. Members of the institute and company directors are expected to ensure that the accounting standards are complied with.

Compared to the U.S. and U.K. situation, the scope of reporting regulation in Kenya is limited. There is no legal regulation pronouncements as those of the Securities and Exchange Commission in the U.S. Thus, firms in Kenya seem to have much more flexibility in disclosure practices, reflecting responses to market forces. In this situation, corporate disclosure may play a bigger role as an information media to the various stakeholders-in the absence of adequate regulatory frame work.

However, with the institution of the Capital Markets Authority (CMA), we are likely to see more regulation of corporate reporting in Kenya in the near

future.

Developments in the theory of the firm have added a new dimension to the role of corporate disclosure. In legal terms, a company is a separate entity able to act in its own right as an individual. But in the property rights principle [Zimmerman,1986], a firm has no separate existence but consists of individuals who have contracted with the entity for some property rights. This group, consisting of share holders, creditors and managers, is viewed as a team of self-interested individuals who recognize that their welfare can only be sustained if they operated in harmony and in competition with other firms. But because of fear that others in the group would act in self-interest, they enter into contractual agreements whose terms are monitored through reporting.

The agency theory is also closely associated with the property rights principle. An agency relationship is a contract under which one or more principals [shareholders] engage another person, the agent [manager] to perform some service on their behalf, and involves delegation of some decision making authority to the agent. But because the agent has superior information about the entity yet the principals cannot observe his actions, it is assumed that the agent will use his superior information position to maximize self interest at the expense of the

principals. That this conflict of interest is caused by information asymmetry [Beaver,(1981)] demands that managers undertake reporting in order to remove this information asymmetry and facilitate the monitoring of their performance.

In recent times, therefore, corporate reporting has shifted from the economic income measurement function to an informational approach. Under the information perspective, corporate disclosure performs an information function in the economy. Management is therefore presumed to report financial information to be used by those interested in the distribution of wealth of the entity. These groups consist of investors, creditors, employees, government and the general public. Each group is expected to use the information for evaluating the risk associated with the entity in order to predetermine the riskness of their claims in form of cash flows. Increased information, would thus, improve their assessment of the future probabilities of the cash flows. This may explain the significance attached to pronouncements of corporate directors, and the need for information intermediaries in form of financial analysts in a developed economy.

Aware of the interests of the various claimants to the entity, managers have the incentive to use information reporting as stated earlier for monitoring their performance. This informational role of financial disclosure is significant for stewardship and agency

role of managers and explains the need for financial reporting by managers beyond the regulatory reporting requirements.

In a competitive environment, professional managers are more concerned, not only with the value of their firms, but also with their own reputation as agents of various stakeholders. By virtue of their positions, they are expected to act in the best interest of the shareholders, by ensuring higher returns from projects undertaken as well as the securities of the firm. In fulfilling shareholders' needs, managers have also to ensure that the other stakeholders like creditors and employees are satisfied. Hence, the pronouncements of companies' directors should be evaluated in this context.

Though several studies have attempted to examine the quality of corporate financial disclosure in annual reports, there is little literature on financial disclosure in Kenya. The few studies include, Abanga,(1977) and Amwayi, (1978). These studies were carried out before the setablishment of ICPAK

In his study, Abanga,(1977) carried out a survey among shareholders and managers to determine the extent to which financial statements satisfied user needs and whether an inclusion of a funds flow statement would enhance user needs. His findings indicated that financial statements in Kenya did not satisfy investors' needs and

that it was necessary to introduce a funds flow statement.

In addition, a study by Amwayi (1978) on the financial practices in the Kenyan public companies, he analyzed the extent to which annual reports complied with the requirements of the Companies' Act, and the variation in the reporting styles, use of terminology in the annual reports , and the contents and format of the directors and auditors reports. A wide variation was found in the measurement methods, use of terminology and format of reporting among the firms. It was also found that a large number of companies did not fully comply with many of the disclosure provisions of the companies Act. Some companies also disclosed information above the legal requirements. In their efforts to evaluate the quality of information disclosed in the annual reports, researchers have used disclosure indexes to explain the variation in financial reporting by companies.

In such studies, financial analysts, bank loan officers, and stock brokers are asked to assign weights to items that are reported or are expected to be reported in the financial statements, for their importance in investment decisions. The average ratings of each item will depict its relative importance {Chandra.(1974), Buzby, (1974), Chanhall, (1977)}. These studies generally showed that financial analysts are more interested in

information on operational results {income statement} than balance sheet information. However when compared with the firms under study, it was found that few companies reported Income Statement information. A similar study done in Nigeria also reflected the same trend (Wallace,1988).

Recent studies on the extent to which financial disclosure varies among companies suggests that this differences are influenced by several firm characteristics. These studies are based on the stewardship function of management and the role of financial disclosure in accomplishing this role. The degree of disclosure was found to vary according to firm size, listing status, number of share holders and size of the auditfirm[SinghviandDesai,(1971),and Buzby,(1975)].

Singhvi and Desai,(1971) developed an index of disclosure consisting of 34 items of information which were used as the basis for a composite measure of the extent of the disclosure of these items in annual reports. Weights were assigned to these items to reflect their relative importance as indicated by security analysts. The extent of disclosure was then operationalized by adding the weights assigned to the items in each firms' annual report. They were then able to identify firms which inadequately disclosed information. They found that those firms that had low index of disclosure were:

(i) small in size as measured by the number of total assets,

(ii) small in size as measured by the number of stockholders,

(iii) Audited by small CPA firms.

When the data was subjected to regression analysis, they found that 43.4% of the variation could be explained by the firm characteristics under study.

In a similar study, Buzby,(1975) studied the relationship between the extent to which selected items of information are presented in corporate annual reports and two company characteristics _the size of the company and its listing status. The extent of disclosure of the items in annual reports was measured by disclosure index similar to that used by Singhvi and Desai,(1971). The results of Buzby's study indicated that the extent of disclosure in the annual reports is positively associated with the size of a company's assets and not affected by listing Status.

Some of the more recent studies on corporate financial disclosure have used the agency theory and informational role of financial disclosure to explain differences among firms in their extend of disclosure. These studies are based on the fact that directors of corporations, from an agency perspective, have entered into a contractual arrangement with all the stakeholders

of the firm. For example, when a bank lends money to a company, thereis usually a contractual provision requiring the company to maintain a certain interest coverage ratio, above certain level. Thus, generally,it requires disclosure of earnings to determine whether interest coverage has been met. On the other hand, management has to disclose the extent to which it has been able to perform its functions to the share holders and other interested parties, hence generating further disclosure.

Using the agency theory, it is asserted that, managers have the incentive to use reporting [Watts and Zimmerman,(1986)] as a means of inducing shareholders to monitor his performance and the terms of the contract. Studies which have used the arguments include: Salamon and Dhaliwal,(1980),Leftwich,Watts and Zimmerman, (1981), and Chow and Wong -Boren,(1987).

In their study, Salamon and Dhaliwal,(1980) Correlated firm size and voluntary disclosure or nondisclosure of segment reports by multi-product firms in the U.S. Their findings showed that diversified firms which voluntarily disclosed segment sales and earnings were significantly larger than firms which did not voluntarily disclose such data.

Further, a study by Leftwich, Watts and Zimmerman,(1981) correlated the rate of interim reporting with a firms fixed assets, financial leverage ratio and

use of outside directors.Their findings were not significant. But they recommended among others, that a further and reliable test could be done using an evaluation of the importance of the items disclosed in the interim reports. This index would then be used for testing the relationship.

In addition,a study by Chow and Wong-boren,(1987) investigated the extent to which corporations in Mexico voluntarily disclosed information above the legal, stock exchange and accounting standards" requirements. They used similar methodology as well as some of the information items used by Singhvi and Desai,(1971). Their findings indicate that the extent of disclosure is significantly and positively related to a firm's total equity, and not financial leverage and fixed assets.

## 1.2 STATEMENT OF THE PROBLEM

Corporate financial disclosure has undergone tremendous change since the first joint stock companies were formed in the Mid-Ninetieth Century. The increased disclosure oftently reflect the changing reporting environment. Increases in complexities of the environment are usually associated with increases in the need for greater disclosure.

Generally corporate disclosure is intended to provide useful economic information to the users. Whereas

it is agreed that the range of users of corporate reports has expanded, the dominant users remain the investors and creditors. Managers on their part have access to internal information and need not use the corporate reports. Corporate disclosure is to a large extent influenced by the regulatory environment which consists of the laws, standards and stock exchange rules. However, companies will usually disclose more information than the mandatory requirements.

Although research in this area is incomplete, a determination of the extent to which companies voluntarily disclose more information than the mandatory requirements would be useful in guiding the standard setters on areas requiring regulation and also help finance market participants predict the future state of disclosure. The extent of voluntary disclosure is unknown and its determination would contribute immensely on the reporting status in this part of the world.

## 1.3 OBJECTIVES OF THE STUDY

The study will endeavour to empirically establish the extent to which the quoted companies in Kenya voluntarily disclose more information than the mandatory requirements.

## 1.4 IMPORTANCE OF THE STUDY

The study will be of importance to:

(1) **Stock brokers and security analysts.**

Since they provide advisory services to investors, this study may be an invaluable source of information for investment decisions.

(11) **Nairobi Stock Exchange and Capital Markets Authority.**

The Study may provide an extra insight into the extent of corporate reporting by quoted companies, and the possible areas that would require regulation.

111) **Academics and students**

This group would increase their knowledge on corporate disclosure in developing countries.

## 1.6 OVERVIEW

The project report is divided into four chapters including the present one. The rest of the project report proceeds as follows. Chapter two, the literature review relates to discussions on some empirical studies on corporate reporting, the need for disclosure regulation, the conceptual framework and the contents of corporate reports. In chapter three, the research methodology including research design, data analysis and the findings are discussed. Chapter four, deals with summary of the findings, conclusions, limitations of the study and some recommendations for further research and study.

## CHAPTER TWO

## LITERATURE REVIEW

### 2.1 EMPIRICAL STUDIES.

In the last two decades, several authors have attempted to examine the adequacy of corporate financial disclosure in annual reports from several perspectives. Based on their findings, each of them has made suggestions on how to improve the quality of financial disclosure contained in annual corporate reports. The justification for the above studies are on the assertion that improved disclosure is vital if it adds to user needs.

When evidence was first reported in the literature about variables associated with the differences across firms in their disclosure, there were no articulated theories of firm disclosure decisions. Researchers based their analysis on the heuristic variables. Anton, (1954) reports that one in every large companies in the US presents statements to stock holders compared to one in twenty for small companies.

Some researchers have used disclosure indexes to explain the nature of financial disclosure by firms under study. In such studies, respondents are asked to assign weights to information items reported or are expected to be reported in financial statements. The extent of a company's disclosure is measured by the

sum of the weights assigned to the items included in its annual reports.

Buzby (1974) carried a questionnaire survey among financial analysts who were asked to assign weights to information as an indication of their importance for investment decision making. His results showed that analysts considered segment reporting of income and sales reporting relatively important. However, when compared to firms under study it was found that relatively few companies were found to report these in their annual reports. 69.7% of the companies did not report sales information while 92.4% did not provide segment income data.

Other researchers have used studies on content of disclosure of individual firms in order to support the arguments about the inadequacies of existing disclosure practices. Similar studies have also been used to illustrate the proposition that managers use the financial reporting system to present themselves in the most favourable light. Briloft (1972) used single company analysis while others used selected companies (Chambers(1973), Dev(1974), Gray (1978). They all concluded that since shareholders are entitled to adequate information, many of the public quoted companies investigated failed in their disclosure for full, fair and prompt accountability.

A frequent use of the disclosure of financial information by firms is to make inferences about disclosure adequacy. A heuristic framework of "more disclosure is better" guides many of the these research

work. Cerf(1961), for example developed a system of points of 31 individual items and computed index scores for some companies in the US. Superior disclosure was then operationalized as a high index score.

In their study, Baker and Haslem (1973) conducted a questionnaire survey of individual investors in order to determine their information needs and the sources of their corporate information. It was found that 62.4% of the respondents considered fellow stockholders and advisory services of financial analysts as their main sources of information. A similar study by Chenhall and Juchau (1977) conducted in Australia analyzed the information needs of investors of different professions and income levels. It was found that investors in Australia relied heavily on information sources outside the corporate report.

Similar study by Chandra(1975) used 58 information items of the balance sheet and forecasts. His study indicated that: firstly, financial analysts are more interested in information items about income statement and amount of income earned by Corporations and on balance sheet information. Secondly security analysts are moderately interested in the disclosure of budgetary projections and forecasts. Thirdly, that price level adjusted annual reports are not appealing to analysts. He recommended the preparation of single set financial statements with varying degrees of detail or multipurpose financial statements.

Anderson(1981) investigated the usefulness of accounting and other information disclosed in corporate reports to investors in Australia. He found that investors widely read the balance sheet, income statement and the chairman's report. It was also found that they ranked the profit and loss account, the balance sheet and Notes to the accounts as the most important. Statistical summary, chairman's report and projections were considered of moderate importance.

## 2.2. THE NEED FOR DISCLOSURE REGULATION.

The legal importance attached to financial reporting stems from the need of a capitalist society to mobilize savings for profitable investments. Therefore investors must be provided with reliable and sufficient information for decision making. However, the disclosure of financial information has been restricted by the influence of managers who, in the past, have been patrons of the accounting profession (Tomskin 1978).

In the developed economies, financial reporting operates in a regulated environment. After the stock market crash of 1929, it was widely held that the cause was due to inadequate disclosure by companies quoted on New York Stock Exchange. Congress set out the Securities Acts of 1933 and 1934 which gave the Securities and Exchange Commission (SEC) statutory powers to ensure full and fair disclosure by companies

issuing securities.

In the early days, as stated earlier, financial reporting was associated with the stewardship function of managers who have to report to shareholders the activities and transactions undertaken on their behalf. Financial reporting, therefore, became a means of evaluating management performance. It is logical to argue that under the stewardship function, management would select an accounting technique which would present financial information in a more favorable light.

For example, given two accounting techniques, like LIFO and FIFO, management would select that technique which would show a higher net income. Given that managers were allowed to choose what to report and how to report to shareholders, it was felt that too much damage may be inflicted on investors and hence the need for regulation of corporate reporting.

Another argument in favour of regulation rests on the peculiarities of information as a commodity. Since the availability of information to one group does not hinder its availability to others, this may reduce the demand for information. On the supply side, there may be greater gains to managers through less disclosure than greater disclosure. Management reluctance to release information is attributed to the need to safeguard their competitive position through

protection of trade secrets. Some managers it is argued also fear that releasing some of the information would have an unfavourable impact on labour relations. Hence there may be market inefficiency unless regulation is imposed to correct market imperfections.

The need for regulation is also associated with the principal agent setting. The agent is assumed to have access to superior information and since the principal cannot observe the agents actions, the latter may use this superior information position to maximize self-interest at the expense of the principal. This moral hazard problem (Beaver 1981) exists due to information asymmetry. Regulation of financial reporting would, therefore, remove the superior information position of managers.

A further argument in favor of reporting standards is based on the need for comparability of financial information published by companies. It is argued that the value of corporate reports is enhanced if they can be compared with reports of other companies. In the absence of standards, there would be no rewards to encourage managers to conform to any reporting model for the sake of comparability. Since financial statements provide a means through which Managers are evaluated in their principal_agent relations, they will be willing to conform to reporting standards which, after all, have to be verified by an external auditor.

Financial information may also affect the distribution of wealth among investors. Without regulation of financial reporting, those with superior financial information can increase their wealth at the expense of the less informed. In the US, the Securities Act made it unlawful to make false or misleading statements or to omit any material information in connection with the purchase or sale of securities. These reporting standards reduced the problems associated with investor information asymmetry.

In summary, the logic of financial reporting and accounting standard setting is based on the necessity of harmonizing and narrowing the areas of differences among firms in the disclosure, measurement, and methods of presentation of financial information in financial statements from year to year so that users of financial statements can understand and make proper use of the statements for decision making. This would give credibility to the use of financial statements. Michael Lafferty (1979) made this point succinctly that,

> " How do you explain to an intelligent public that it is possible for two companies in the same industry to follow entirely different accounting principles and both get a true and fair view audit report? The public might want to know how many true and fair views ....and whether there is any common standards against which to measure them all."

Taken together, these arguments add up to a case for requiring those who prepare financial statements and those who use them, to sacrifice some preferred

modes of behavior in order to gain from similar sacrifices made by others. The FASB uses an analogy of driving behaviour to reinforce this point.(Gosh.1990)

> **"Like motorists who observe traffic laws in the interest of their own and general traffic safety, so long as others do the same, in general, those who have to subordinate their individual preferences to observe accounting standards will, in the long run, gain more than they loose."**

## 2.2 THE CONCEPTUAL FRAMEWORK FOR CORPORATE REPORTING.

Accounting,like other social sciences and human activities, is largely a product of its environment. Thisenvironmentconsists of socio_economic_political_legal conditions, restraints and influences (Shelfield,1987) that vary from time to time. As a result, accounting objectives and practices are not the same as they were in the past, because accounting theory has evolved and drastically changed to meet changing demands and influences. Tricker(1977) asserts that,

> **Accounting is dependent on the ideology and mores of society. It isnotvaluefree. Itis a child of its own culture. Any claimto reportobjective facts has to be set in the context of the beliefs of that particular culture".**

Therefore, many of the theories developed in accounting may not be aimed at explaining known facts but mere rationalizations. They are produced to buttress preconceived notions(Watts et al,1978). The

regulation of reporting and standard setting is therefore more of a political process than scientific exactitude(Mwarania,1983).

To facilitate corporate reporting, the professional accounting bodies have attempted to develop a conceptual framework. This framework operates like a constitution; it is a coherent system of interrelated objectives and fundamentals that leads to consistent reporting standards and prescribes the nature, function and the limits of financial accounting and financial statements(FASB,1976).

A conceptual framework performs an invaluable role in corporate reporting in several ways:

(1) To be useful, reporting regulation and standard_setting should build on and relate to an established body of concepts and objectives. This enables a standard setting body to issue more useful and consistent standards in the future.

(11) New and emerging practical problems would be more quickly solved through reference to an existing framework of basic theory. This enables practioners to dismiss certain reporting alternatives if they fall outside the conceptual framework and to focus upon logical and acceptable treatment.

(111) A conceptual framework will increase

financial report users' understanding of and confidence in financial reporting as it would enhance comparability among companies' annual reports.

A number of attempts have been made to develop a conceptual framework for corporate reporting. The first attempt was a study commissioned by AICPA in the early 1960s. Two interrelated monographs are worth mentioning. One by Moonitz (1961) and another by Sprouse and Moonitz (1962). These reports were aimed at developing basic accounting postulates and broad principles of accounting as a way of developing general accounting principles by AICPA.

The second study was the Trueblood Committee charged by AICPA with the development of a set of financial statement objectives. These are intended to facilitate the establishment of guidelines for reporting and criteria for improving financial reporting. The third effort was commissioned in the U.K. by the Accounting Standard Committee(1975) [here after,ASC] which came up with a paper the **Corporate Report** that eventually became a discussion paper in the U.K.

The fourth and most extensive study is one by the FASB, which attempted to operationalize the Trueblood Report. The fifth study was written by an academic, Edward Stamp, on behalf of the Canadian

Institute of Chartered Accountants in 1980 (Peasnell, 1990). Among the latest conceptual framework project reports include "Making Corporate Reports Valuable (McMonnies,1988), published by ICAS, and the Solomons Report (Solomons,1989), commissioned by IASC. Insofar as disclosure is concerned, it implies disclosure of all material matters which are material to economic decisions and evaluation. These studies set out some of the current objectives of financial reporting, the users of the reports, the needs of the users and how the reporting should be done.

Although there are important differences of detail, all these studies are broadly agreed on the following:

(a) That financial reports are intended to serve users and that equity investors and lenders form important components of the users of company reports.

(b) That the balance sheet and income statement, supplemented by statement of changes in financial position, are fundamentalfinancial statements.

(c) That users are concerned with economic evaluation and decision making, implying that the measurement should strive to reflect actual economic opportunities soasto steer users towards current valuation and estimation of future prospects.

While the ICAS study (McMonnies,1988) stresses the identification of economic reality, the Salomons Study adopts the concept of representational approach of economic relevance. This is consistent with the informational perspective of financial reporting

### 2.3.1 THE OBJECTIVES OF CORPORATE REPORTING

The first part of the conceptual framework study is concerned with the objectives of financial reporting. To be useful, the objectives should answer the following questions: Why are financial statements needed? Who needs them? What are the backgrounds of the people who need the financial reports? what information do they need and how should it be reported so that they can understand it?.

Based on the prevailing situation in the economy and in order to provide answers to the above questions, financial reporting should provide information:

(a) that is useful to present and potential investors and creditors in making rational investment, credit,and similar decisions. The information should be comprehensible enough to those who have a reasonable understanding of business and economic activities and are willing to study the information with diligence.

(b) to help present and potential investors and creditors and other users in assessing the amounts, timing,and uncertainty of prospective cashflows from dividends or interest and proceeds from the sale, redemption, or maturity of securities or loans.

(c) about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events and circumstances that change its claims to those resources.

### 2.3.2. USERS OF FINANCIAL INFORMATION AND THEIR NEEDS

The purpose of accounting is to provide information which is potentially useful for making economic decisions which if provided, will enhance social welfare (AAA, 1975) The adequacy of a given disclosure can only be determined within the context of user information identification. The identification of the target users highlights the purposes for which the information is used [(Buzby,1974). Knowledge about the information requirements of the various groups helps in determining whether general purpose information sets are adequate. If the information needs of the various user groups are highly similar, then provision of general purpose information is logically sound.

However, if the needs are distinctly different, then it may be necessary to issue different information sets. The Trueblood committee identifies the target users of financial information as being those who have limited authority, ability, or resource to obtain information (Glautier 1986).

An extensive list of corporate report users is given by Harrison (1976) who identifies the users as being management, equity investors, creditors, employees, financial analysts, government, business contact group and the public. A brief review of their information needs would indicate the nature of financial information required.

2.3.2 (a) MANAGEMENT.

A company's management is a major user of corporate reports. However, since they have access to financial information within the firm, they are neither limited by nor do they have to wait for published reports. Nevertheless, management knows that published financial reports will provide information about their performance (Hendriksen1982). They will therefore keep an eye on the potential reaction of other user groups to the published reports.

2.3.2 (B) INVESTORS.

Made up of current and potential share holders, this group is interested in the past, present and

future earnings prospects facing companies; the riskness of investments; liquidity of the entities; the quality of management and the economic prospects of the industry in which the companies are located(Horgren, 1957) .

2.3.2. (C) CREDITORS

A company's long-term debt holders consist of debenture holders and banks that provide long-term loans. These are mainly interested in ensuring that they will get the interest payments due to them and that these payments will be received on time. They are also concerned with the security of their capital. Therefore creditors will make use of the published reports with emphasis on balance sheet, profit and loss account and the funds flow statements (Buzby, 1974).

2.3.2. (D) EMPLOYEES.

This group includes both individual employees and unions. All employees are interested in their future employment and income prospects. Pressure to provide employees with more useful reports has helped evolve the concept of employee report which provide them with financial information about the performance of it firm and its future prospects. The objective of employee report is to improve communication and employees' understanding of the manner in which the firm is being managed in the interest of all (Glautier,

1988). Another aim of reporting to employees isto improve public relations which may be used for collective bargaining (Hendriksen,1982)

### 2.3.2. (E) THE GOVERNMENT

The government departments require corporate reports for assessing and attesting compliance with taxation regulations, company law, contractual and legal obligations and other requirements.(Hendriksen, 1982). The reports also provide the economic variables required for National planning

### 2.3.2.(F) THE PUBLIC

The public are a relatively new addition to the list of users of corporate reports. People, especially those affected by an organization's operation in their local area, want to know how the firm is likely to perform in the future. The public is also concerned with many environmental aspects of organizations and their social responsibility (Glautier,1986).

### 2.3.2 QUALITATIVE CHARACTERISTICS OF CORPORATE REPORTS.

The second part of the conceptual framework study is concerned with examining the characteristics that make accounting information useful. It relates to choosing an acceptable method, amount and types of information to be disclosed, and the format in which information should be presented _hence determining the

alternatives that provide the most useful information for decision making purposes.

The FASB in concepts Statement No 2 has identified the qualitative characteristics of accounting information that distinguish better information from inferior information for decision making purposes as:

**(1) Relevance.**

This is a characteristic which embodies the fundamentalnotion that corporate reports should seek to satisfy, as far as possible, user information needs. This is measured by the capacity of an information to make a difference in a decision by helping to form predictions about the out comes of past, present and future events or to confirm or correct prior expectations.

**11) Understandability**

Decision makers vary widely in the types of decisions they make, the methods of decision making employed, and their ability to process the information.Hence, corporate report preparers should ensure there is a balance between adequate inclusion of all material matters and the need to avoid confusing users by the provision of too much detail. Thus, although theinformation presented may be relevant and reliable, it is useless to users who do not understand it.

**(111)Reliability**

The information should be reliable to enable users assess the degree of confidence reposed to it. Therefore, reliability is a quality that gives assurance that the information is reasonably free of error and bias and is a faithful representation of the facts about the entity.

(IV)Verifiability

It relates to the enhancement of credibility of corporate reports through external auditors

performance. This also implies the objectivity of the data. It is demonstrated when a high degree of consensus can be secured among independent measurers using the same measurement methods. Reliability of information is important for those individuals who have neither the time nor the expertise to evaluate the factual content of the information.

VI) Timeliness-

The information used by annual report users should be current at the time of making the predictions and decisions which is a further notion of relevance

(VII)**Neutrality**

It means the information has to be objective and unbiased so that it can meet all the user needs. Therefore, the information should not be selected to favour one set of interested parties over another

VII) **Comparability**

Corporate reports should be expressed in terms which enables users to compare the entities' results over time and with other similar entities.

The enumerated characteristics are indicative of the nature and type of disclosure necessary to make financial statements sufficiently informative.

Generally, these characteristics have delineated the nature of corporate disclosure and how it can be evaluated. There is concurrence on the need to identify the users of the information, the purpose, mode, amount and timing of the disclosure. Users assume that accountants have an understanding of their information requirements and do attempt to provide the desired information in the corporate annual reports. The inability to attain the required level of adequate disclosure may be attributed, in part, to the failure of accountants to comprehend the various decision models of the various users.

Variation in user perception of accounting message resulting from the use of alternative measurement systems may also hinder the ability to meet user needs. Therefore, the complexity of corporate disclosure requires specific orientation to the needs of users. It implies that financial reports should focus on those user groups and purposes that exhibit

the greatest use of accounting information and the user group, capable of utilizing accounting information.

## 2. 4. THE CONTENTS OF CORPORATE REPORTS

Though corporate disclosure involves the entire process of financial reporting, several different methods of disclosure are available for financial reporting. The selection of the method for disclosure depends on the nature of information to be disclosed and its relative importance. It involves reporting relevant information both in quantitative and non quantitative data.

A study by Arnold and Moizer(1984) on the importance of sources of investment information for financial analysts found that analysts in Britain ranked profit and loss account as the first, balance sheet as second, chairman's report the sixth, and statistical data the eleventh. Therefore, companies that disclosed more profit and loss account and balance sheet information had more useful and hence relevant information.

### 2.4.1. Financial statements

These consist of the income statement, balance sheet, and funds and cash flow statements. The most important and relevant financial information is usually shown in these statements. The items shown here include; assets, liabilities, net income, and stock holders equity.

Users of financial statements can determine the profitability and solvency of a firm by studying the relationships between the significant assets and liability groupings on the balance sheet as well as the relationship between the revenue and expense groupings on the income statement.

Though the form and contents of financial statements evolve over time in response to changing business practices, a review of the contents and objectives of these statements would highlight the contents of financial information contained in the statements.

**(a) Balance Sheet**

**(1) Assets**

An informative balance sheet classifies resources and commitments of the firm into appropriate categories so as to present interpretable summaries of accounting information. Assets are grouped into current assets, investments, plant and equipment and intangibles. This facilitates understanding and analysis by information users. Grouping of the items is necessary to permit users of financial statements to;

(1) Make meaningful comparison with past periods and with other firms;

(ii) Obtain a reasonable understanding of the financial position and operations of the firm;

(iii) Make predictions regarding future cash flows.

The summarization and classification gives users a choice regarding what is important and what is not important and what should be emphasized. Though this limits the range of choices, relevant relationships can be disclosed by rearranging the basic classification. For example, current liabilities are frequently subtracted from current assets to show working capital.

Alternatively, monetary assets may be shown separately from non monetary assets. This latter classification is particularly important when reporting in an environment of changes in price levels.

**ii) Liabilities and Sources of capital**

Since the basic objective of disclosure is to provide investors, creditors and other stakeholders about the efficiency and stewardship of management to their prospective stakeholders, the balance sheet would specify the current liabilities, long-term liabilities, and owners equity.

**b. Income Statement**

Income reporting is based on rules and procedures that are legal and internally consistent. Since accounting income is based on revenue realization and matching of expenses with revenue, it is assumed that the major activities of the firm can be measured and reported.

The measurement of the periodic profits should ensure that the monetary value of the shareholders equity is maintained intact. Hence, managers must operate at a profit that will increase the shareholders equity- measured between the beginning and the end of the financial year.

The income statement also depicts the earning potential of the firm's assets. This is expressed in terms of the present value of all cash generated in the future. This concept of economic income is stated as the change in the earning power of the enterprise during the accounting period plus any distributed surplus to the share holders( Hendriksen, 1982)

(c) **Statement of Changes in Financial Position**

The objective of the statement of changes in financial position (or funds flow statement) is to show the significant inflows and out flows of liquid resources during the year.

The statement can be used to highlight the financing and investing activities not affecting liquid resources in the same year. It has the advantage of illuminating the short-term borrowing and repayment of cash without affecting the basic availability of cash for other uses. Funds statements provide information regarding the solvency and financial flexibility as well as information about the financing and investing operations of the firm.

It follows that the statement provides a

reconciliation between the opening and closing balance sheets for a given accounting period through an explanation of the changes which have occurred. This explanation is given in form of an analysis of the sources of additional funds available to the firm during the accounting period as well as an analysis of the manner in which they have been utilized.

Consequently, this statement covers both the funds internally generated and additional external funds obtained during the accounting period. Therefore the statement deals with the changes which have occurred in the size of the business, as well as changes in the structure of the assets, liabilities and invested capital.

**(2.4.2) Footnotes And Supplementary Information**

Footnotes are useful in financial reporting because they provide fuller disclosure of events and relevant data. The main objective is to disclose information that cannot be presented adequately in the body of a statement. They are used for: presenting nonquantitative information; disclosing qualifications and restrictions to items in the statement; reporting greater amount of detail than can be presented in the statement; and for presenting quantitative and descriptive material of secondary importance.

The common types of footnotes used are:

(i) Explanations on techniques or changes in method and

accounting policy,

(ii) Explanations of rights of creditors to specific assets or priorities of regular nature,

(iii) Disclosure of contingent assets or liabilities,

(v) Descriptive transactions affecting capital stock and rights to equity holders and,

(vi) Descriptions of excutionary contracts.

However, notes to the accounts should not be used to correct the wrong treatment of items in the main financial statements.

2.4.3 THE AUDITORS' REPORT.

The audit certificate is not the place to disclose significant financial information about the firm, but it performs disclosure functions for the following types of information.

(a) Material effects of using accounting methods different from those generallyaccepted.

(b) Material effects of changing from one generally accepted accounting principle to another.

(c) Differences of opinion between the auditor and the company regarding the acceptability of accounting methods used in the reports.

This disclosure function by the auditor is done so that users are not misled regarding the comparability of the reports with those of other firms or the consistency with other periods.

### 2.4.4. DIRECTORS' REPORTS

Apart from the above financial reports which may be prepared by the accountant, management can also prepare reports which may be valuable to corporate report users. The additional information disclosed in this report include:-

(i) Unusual events and changes during the year that affected the operations of the firm.

(ii) Expectations regarding the future of the industry and the economy and the role of the firm in these expectations.

(iii) Plans for growth and changes in operations in the following periods.

(iv) The amount and expected effect of current anticipated capital expenditure and research effort.

The non financial events and changes should indicate the strength, opportunities, threats and weaknesses of the firm. These changes would include the shift in top management and policies and technological improvement. Management tendency of presenting only optimistic expectations has tended to weaken the significance and relevance of their report meaningless. However, if appropriately handled, they could present the most useful information to users because it has a decision making information.

## CHAPTER THREE

## 3:0 RESEARCH METHODOLOGY AND DATA ANALYSIS

This Chapter details out the research design and data Analysis in order to achieve the objective of the study set out in chapter one.

### 3.1 RESEARCH METHODOLOGY

#### 3.1.1 Research Design.

The study was exploratory in nature, and thus no hypothesis could be tested.

#### 3.1.2 Population

The population consisted of all the companies listed on the Nairobi stock Exchange during the period 1986 -1992 (See appendix 3). However, companies in the finance and investment sector were excluded from the population under study. This restriction was done in order to ensure uniformity of reporting. Financial institutions and insurance companies have to comply with the Banking and Insurance Acts, a requirement which does not apply to the companies in the population.

publicly quoted companies were preferred to unlisted companies due to availability of their annual reports. These companies are required by the Nairobi Stock Exchange regulations to avail their annual reports to the secretariat of the Stock Exchange. The companies' Act also compels these companies to make annual submission of their published accounts to the

registrar of companies. The population was made up of 41 companies.

Private and publicly unquoted companion where excluded in the survey because they normally do not publish their financial reports, making it difficult to obtain their annual accounts.

A five year period was also chosen for the study because these companies are legally required to keep their annual published accounts for only five years. This would therefore ensure availability of data. 1986 and 1992 was chosen to ensure availability of annual reports for the period of study 1987 - 1992.

### 3.1.3. SAMPLE

The rules of sampling, used in this study were as follows:

1. A company must have been quoted continuously from 1986 to 1992. This ensured availability of annual reports for all companies in the Sample.
2. There should be at least three and not more than six companies in each industrial grouping. This criteria was adopted so as to attain a representation of all the industrial groupings in the sample. A sample of 32 companies representing 78% of the population was used.

Given the time limit, the sample was considered adequate enough to draw inferences on the level of voluntary

disclosure in Kenya. A list of the companies included in the sample is given in appendix 4

### 3.1.4 DATA COLLECTION

The study relied entirely on secondary data obtained from the annual reports of the sample companies for a period of five years. The corporate reports were obtained either from the registrar of companies or the secretariat of Nairobi Stock Exchange. Each annual report was reviewed so as to select quantitative as well as non quantitative information items that are voluntarily disclosed therein.

## 3.2 DATA ANALYSIS

### 3.2.1. Identification of Voluntary Disclosure Information Items

Through reference to a check list of the requirements of the companies' Act, Appendix (1), Kenya Accounting Standards, Appendix (2) regulations of Nairobi Stock Exchange and prior studies, including [(Bradish (1965), Singhvi and Desai (1971), Gyan Chandra (1975), Buzby (1975), Barret (1976), Firth (1979), Eng and Hasseline, (1982), Chow and Wong-Boren (1987) and Wallace (1988)], a list of voluntary disclosure items was generated. Appendix (4).

The preliminary list consisted of 50 information items that Kenyan quoted companies voluntarily disclosed in their annual reports. The raw data for the information items is a summary for each industrial sector.

This list was reviewed by a practicing auditor(from BellHouse) to confirm that they are not part of the mandatory

requirements. A final list of 40 information items was then used for constructing the voluntary disclosure index. This list is given in appendix 3.

### 3.2.2. Extent of Voluntary Disclosure.

The extent of voluntary disclosure was analysed in two stages. First, the number of companies disclosing each information item was used to determine the popular and rare items of disclosure. Secondly, the number of information items disclosed in each annual report was then used to calculate a disclosure index depicting the quality and level of disclosure in each annual report. A disclosure index is given as the number of information items disclosed voluntarily by a firm.

### 3.2.2. (a) Popular and Rare Items of disclosure.

The number of companies disclosing each information item as shown in Appendix 4 was used to analyse and determine the popular and rare items of disclosure.

Table 1 below shows the number of companies disclosing each information item in 1991. This period was chosen because it reflects the most recent level of reporting and also because it has the highest number of firms disclosing financial information as well as the highest disclosure index.

TABLE 1

**NUMBER OF COMPANIES DISCLOSING INF MATION ITEMS IN 1991**

| Information Item | No:of Cos: Disclosing the information | percentage % |
|---|---|---|
| 1 Projections of business prospects | 32 | 100 |
| 2 Statistics of assets (3-5years) | 31 | 97 |
| 3 Five years statistic on financial ratios | 30 | 94 |
| 4 Statistics on dividends | 29 | 91 |
| 5 Charts depicting performance | 27 | 84 |
| 6 Statistics on profits (5 years) | 26 | 81 |
| 7 Statistics on volume of production | 24 | 75 |
| 8 Details of terms, currency, and sources of loans (5_years) | 23 | 72 |
| 9 Human resource development | 22 | 67 |
| 10 Historical summaries on Financial leases | 21 | 66 |
| 11 competitive position of product | 20 | 63 |
| 12 Forecasts of demand, production and profit | 19 | 59 |
| 13 Information on cost control | 18 | 56 |
| 14 Details of debtors in foreign currency, local currency | 16 | 50 |
| 15 Statistics on product prices | 15 | 47 |
| 16 Information on research & development | 15 | 47 |
| 17 chairman's Report in Kiswahili | 13 | 41 |
| 18 Contribution to government Revenue | 12 | 38 |
| 19 information on marketing activities | 11 | 34 |
| 20 Foreign currency earned & received. | 10 | 31 |
| 21 segment reports | 10 | 31 |

| | | |
|---|---|---|
| 22. Break down of other sources of income | 09 | 28 |
| 23 Expenditure of employee welfare | 09 | 28 |
| 24 Cost of goods sold | 09 | 28 |
| 25 Management policy and goals | 08 | 25 |
| 26 Office Expenditure | 08 | 25 |
| 27 Employee safety measures & No.of accidents | 08 | 25 |
| 28 Information on technology transfer | 07 | 22 |
| 29 Three years details of capital expenditure | 07 | 22 |
| 30 Ten year details of working capital | 06 | 19 |
| 31 Quality control measures | 06 | 19 |
| 32 Five year statistics on tax and vat | 05 | 16 |
| 32 Social responsibility contribution | 04 | 13 |
| 34 Details of operation expenses | 03 | 9 |
| 35 Bad and doubtful debts (three Years) | 03 | 9 |
| 36 Qualifications and experience of directors. | 03 | 9 |
| 37 Expenditure on salaries and wages | 02 | 6 |
| 38 Types of assets and shares paid. | 02 | 6 |
| 39 Expenditure on insurance | 01 | 3 |
| 40 Valuation of fixed assets for 3- 5 years. shares, earnings | 01 | 3 |

From the above table, the number of firms disclosing each item ranges from 1 to 32, with a mean of 17. The most popular information items disclosed are:

1) Information on economic and Business prospects.

2) 3 -5 years Summary or statistics of company assets.

3) 5- years statistics on financial ratios

4) Five years' statistics on dividends.

5) Charts depicting performance.

6) Statistics on profits.

7) Statistics on volume of production.

8) Details of terms, currency and sources of loams for 5 years

These eight items are disclosed by at least seventy five percent of the companies. At the extreme end, the items that were not popular include:

(a) Details of valuation of fixed assets for 5 years.

(b) Expenditure on insurance..

(c) Expenditure on salaries and wages.

(d) Qualifications and experience of directors.

(e) Provision for bad and doubtful debts for three years.

(f) Cost of operations.

The number of firms reporting each information item were analysed for the five years so as to establish the trend in corporate disclosure in the last five years as shown below:

TABLE 2

LIST OF INFORMATION ITEMS.

| Information Item | No:of Cos:disclosing the information | | | | |
|---|---|---|---|---|---|
| | 1991 | 1990 | 1989 | 1988 | 1987 |
| 1 Projections of business prospects | 32 | 32 | 32 | 32 | 32 |
| 2 Statistics of assets (3-5years) | 31 | 30 | 29 | 30 | 30 |
| 3 Five years statistic on financial ratios | 30 | 29 | 29 | 27 | 28 |
| 4 Statistics on dividends | 29 | 30 | 29 | 28 | 26 |
| 5 Charts depicting performance | 27 | 27 | 26 | 26 | 25 |
| 6 Statistics on profits (5 years) | 26 | 25 | 27 | 23 | 23 |
| 7 Statistics on volume of production | 24 | 24 | 24 | 23 | 24 |
| 8 Details of terms, currency, and sources of loans (5_years) | 23 | 22 | 23 | 21 | 20 |
| 9 Human resource development | 22 | 22 | 20 | 20 | 20 |
| 10 Historical summaries on Financial leases | 21 | 24 | 23 | 23 | 21 |
| 11 competitive position of product | 20 | 19 | 19 | 19 | 19 |
| 12 Forecasts of demand, production and profit | 19 | 18 | 17 | 16 | 17 |
| 13 Information on cost control | 19 | 18 | 17 | 18 | 15 |
| 14 Details of debtors in foreign currency, local and government | 16 | 17 | 16 | 16 | 15 |
| 15 Statistics on product prices | 15 | 17 | 15 | 14 | 13 |
| 16 Information on research & development | 15 | 15 | 15 | 14 | 14 |
| 17 Chairmans Report in Kiswahili | 13 | 13 | 14 | 12 | 12 |
| 18 Contribution to government Revenue | 12 | 13 | 10 | 12 | 12 |
| 19 information on marketing activities | 11 | 13 | 12 | 10 | 09 |
| 20 Foreign currency earned & received. | 10 | 11 | 10 | 10 | 07 |
| 21 segment reports | 10 | 10 | 08 | 09 | 08 |

| | | | | | |
|---|---|---|---|---|---|
| 22 break down of other sources of income | 09 | 10 | 09 | 07 | 08 |
| 23 Expenditure of employee welfare | 09 | 09 | 09 | 08 | 07 |
| 24 Cost of goods sold | 09 | 08 | 08 | - | - |
| 25 Management policy and goals | 08 | 07 | 07 | 08 | 08 |
| 26 Office Expenditure | 08 | 06 | 07 | 07 | 06 |
| 27 Employee safety measure & No. of accidents | 08 | 09 | 06 | 06 | 07 |
| 28 Information on technology transfer | 07 | 07 | 06 | 03 | 04 |
| 29 Three years details of capital expenditure | 07 | 05 | 05 | 06 | 05 |
| 30 Ten year details of working capital | 06 | 06 | 07 | 05 | 04 |
| 31 Quality control measures | 06 | 05 | 06 | 06 | 03 |
| 32 Five year statistics on tax and vat | 05 | 05 | - | - | - |
| 32 Social responsibility contribution | 04 | 03 | - | - | - |
| 34 DEtails of operation expenses | 03 | 02 | 01 | - | - |
| 35 Bad and doubtful debts (three Years) | 03 | 01 | - | - | - |
| 36 Qualification and experience of directors. | 03 | - | - | - | - |
| 37 Expenditure on salaries and wages | 02 | 02 | - | - | - |
| 38 Types of assets and shares paid. | 02 | 01 | - | - | - |
| 39 Expenditure on insurance | 01 | 01 | 01 | 01 | - |
| 40 Valuation of fixed assets for 3- 5 years. | 02 | 01 | - | - | - |

From the table above, it can be seen that sixty percent of these information items had an increase in the number of firms in which the information was reported without any change in the number of firms in which the information was reported since 1987. However thirty percent of these items did not have a clear pattern in the trend of the number of firms in which they

are reported. In general, therefore, it may stated that there was an increase in the number of companies reporting the the financial information.

In addition to variation in the number of firms reporting each information item, a classification of the items was made into:

**(1) Balance sheet data.**

This is information that concern the financial position of the firm. The information reported should relate to the assets, liabilities and owners equity in a manner that is extensively explained more than the legal mandatory requirements.
This reflects the ability of company directors to manage the resources of the company in the best interest of their share holders and hence guarantee them re-election since shareholder will have had a good reputation in the agency setting.

**(11) forecasts.**

In this study forecasted data refers to information pertaining to projections of some future events the occurrence of which will affect the performance of the firm and hence its stakeholders. It included: estimated cash flow; projected production, sales and expected dividends for the coming year.

(111) **Income statement Data.**

This refers to information items that concern the income statement and information which affects the amount of income earned by a company.

**(1v) Statistical data.**

This is information that provides a general picture of the performance of the firm. For example a statistical analysis of the trend in increase or decrease in the value of assets for three or more years have been considered

as statistical data. This information is intended to provide at a glance, a clear picture of the state of affairs of the firm, to the annual report users.

(v) **Historical Summary**

This information is provided in form of past performance data, and it takes the form of information on specific performance data for the last several years. It is intended to provide information on the ability of the firm to achieve certain performance objectives.

**(V1) Social Data.**

The objective of this quantitative and nonquantitative information is to show how the company has been able to deal with its internal and external problems. Some of the information that may be voluntarily disclosed include:

(a) Social responsibility information.

(b) performance of employees including labour relations

(c) Management policy and goals.

(d) Qualifications and experience of directors.

**(v11) Other Statements**

Any information that do not belong to the above six categories falls under this classification. These include information on research and development, expenditure on marketing activities; and quality control measures.

The table below shows the number of companies which voluntarily disclosed each category of information according to the above classifications.

TABLE 3

DISTRIBUTION OF NUMBER OF COMPANIES

REPORTING EACH TYPE OF INFORMATION

| information Types | Number of companies | percentage |
|---|---|---|
| Statistical Data | 27 | 81.35 |
| income statements | 19 | 56.25 |
| Balance Sheet Data | 17 | 53.13 |
| Historical data | 15 | 46.88 |
| Other statement | 10 | 31.25 |
| Social data | 07 | 21.88 |
| Forecasts | 06 | 18.25 |

Table 3 above shows that 27 companies, reflecting 81.25% of sample the companies companies disclosed statistical data, followed by income statement data with 19 companies. The least disclosed data was that of forecasts (6 companies). The social data (seven companies).

This implies that most of these companies voluntarily disclosed information in form of statistical data. Hence, the most popular data disclosed was the statistical data followed by income statement and historical summary data. The income statement data consists of wages, cost of goods sold, foreign currency earned and spent and segment reports. The unpopular or rare information was forecasts and social data.

The data was also categorized into the number of items disclosed in each of the seven information groupings as shown below in table four below.

Table 4

**DISTRIBUTION OF INFORMATION ITEMS**
**1991**

| Information | Number of Items | Percentage. |
|---|---|---|
| 1. Statistical Data | 10 | 25 |
| 2. Income Statement | 8 | 20 |
| 3. Historical Summary | 8 | 20 |
| 4. Other statements | 6 | 15.5 |
| 5. Balance Sheet | 3 | 7.5 |
| 6. Social Data | 3 | 7.5 |
| 7. Forecasts | 2 | 5 |
| | 40 | 100 |

From the above table, it can be seen that statistical data contains the greatest number of information items (10 items), representing 25 percent of the information items disclosed by the sample companies. On the other hand, forecast data had two information items representing only five percent of the information items. Balance sheet and social data both had 3 items each representing 7.5 percent of the items disclosed.

The data has once again informed the findings in figure 3 that these quoted companies reported more statistical data.

**3.2.2. (b) Quality of Disclosure**

Although there appears to be a variation in the number of companies disclosing each item and category of information, considerable divergence also exists among the sample firms' extent of voluntary disclosure. This disclosure index as a quality of corporate financial disclosure, is shown by the number of information items disclosed by each firm. Therefore, the

disclosure index of firm is given by the number of information items voluntarily disclosed by the firm in its annual accounts. The higher the number of information items, the higher the quality of reporting.

Table 5 below shows the disclosure index for the sample companies in 1991.

**TABLE 5**

**Spatial disclosure in annual reports in 1991.**

| Name of Company | Disclosure index | Percentage % |
|---|---|---|
| B.A.T. Kenya | 39 | 97.5 |
| E.A. Bag and Cordage | 35 | 87.5 |
| Dunlop Kenya Ltd | 33 | 82.5 |
| C.M.C. Holdings Ltd | 33 | 82.5 |
| Brooke Bond Liebeg Kenya Ltd | 32 | 80.0 |
| Kenya National Mills | 32 | 80.0 |
| Hutchings Biemer | 31 | 77.5 |
| Carbacid Investments Ltd | 31 | 77.5 |
| Marshalls E.A. Ltd | 30 | 75.0 |
| Bamburi Portland Cement Co. Ltd | 30 | 75.0 |
| Kenya Orchids Ltd | 28 | 70.0 |
| E.A. Portland Cement Ltd | 27 | 67.5 |
| Kenya Breweries | 27 | 67.5 |
| Kenya Hotels Ltd | 26 | 65.0 |
| E.A. Cables Ltd | 26 | 65.0 |
| Sasini Tea and Coffee Ltd | 26 | 65.0 |
| Pearl Drycleaners | 25 | 62.5 |
| Kapchorua Tea Company Ltd | 25 | 62.5 |

| | | |
|---|---|---|
| Baumann and Company Ltd | 25 | 62.5 |
| Africa Tours & Hotels Ltd | 25 | 62.5 |
| Nation Printers | 25 | 62.5 |
| Express Kenya Ltd | 24 | 60.0 |
| George Williamson Ltd | 24 | 60.0 |
| East African Oxygen | 23 | 57.5 |
| Ol Pajeta Ranching Company Ltd | 23 | 57.5 |
| Consolidated Holdings Ltd | 22 | 55.0 |
| Tim Sales | 21 | 52.5 |
| East African Road Services Ltd | 21 | 52.5 |
| Limuru Tea Company Ltd | 20 | 50.0 |
| Kenya Oil Co Ltd | 17 | 42.5 |
| Car & General Kenya Ltd | 16 | 40.0 |
| E.A. Packaging Ltd | 15 | 37.5 |

The quality of disclosure ranged from disclosure index of 15 representing 37.5 % ,to 39 representing 97.5 %, with a mean of 25.5 and range of 24. Ninety percent of the companies had a disclosure index of more than 20 which was equivalent to 50 percent of the overall disclosure index of the sample companies. Only three companies had a disclosure index less than 20.It means that there is generally a higher quality of disclosure for the sample.

The overall disclosure index was desegregated according to the the eight industrial groupings. As shown in table 6. The lowest and highest disclosure index were 19.6 and 36, representing 90% and 49% of the total disclosure index respectively. The other six industrial sectors had their indexes ranging between 22.6 and 27, also representing a percentage range between 56.4% and 67% respectively.

Table 6 also shown that the manufacturing sector had the best quality of corporate voluntary financial disclosure and the printing sector had the lowest.

TABLE 6

DISTRIBUTION OF DISCLOSURE INDEX BY INDUSTRIAL SECTORS.

| Industry. | Disclosure index | | | | | Average growth rate |
|---|---|---|---|---|---|---|
| | 1987 | 1988 | 1989 | 1990 | 1991 | |
| 1. Manufacturing | 31.3 | 33.3 | 32 | 34.3 | 36 | 3.5 |
| 2. Hotels, Foods and beverages | 23 | 22.4 | 23.8 | 25.6 | 27.6 | 5.8 |
| 3. Trading | 20.3 | 19.7 | 23.3 | 23.3 | 27 | 8.25 |
| 4. Construction | 24 | 25.3 | 23.6 | 25.7 | 26 | 2.1 |
| 5. Plantations | 21.8 | 22.3 | 23 | 24.8 | 25 | 3.67 |
| 6 Energy & gas | 18.8 | 20 | 22 | 22.8 | 24.5 | 2.1 |
| 7. Motor & Transport | 22.4 | 21.6 | 22.8 | 22.2 | 22.6 | 6.9 |
| 8 Printing,Publishing and paper | 16.3 | 15.7 | 17.3 | 18.3 | 20.7 | 6.7 |

On the overall, as shown in the table six below, the trading sector had a marked increase of 17 information items in the level of disclosure over the five years period. This is reflected in its relatively high average growth rate of 8.25% of voluntary disclosure in the period of study.
Conversely, the printing, publishing and paper sector increased by 3 information items. Three of the industrial sectors revealed a gradual increase in the level of disclosure while there appears to be no consistent pattern in the disclosure index of the energy and motor industrial other sectors over the five

year period. The energy and construction sectors had the lowest growth of voluntary disclosure. This was followed by the manufacturing sector with an average growth rate of 3.5.

Hence, despite its high level of disclosure, the manufacture sector did not have a very high growth rate of reporting.

The average index for 1991 and their their associated standard deviation for each of the eight industrial classifications are given in table 7 below.

TABLE 7

AVERAGE DISCLOSURE INDEX FOR 1991 AND THE ASSOCIATED STANDARD DEVIATION FOR EACH INDUSTRY

| Industry | Average Index | std: Deviation | Covariance |
|---|---|---|---|
| 1. Manufacturing | 35.67 | 2.42 | 0.07 |
| 2. Hotels, food and beverages | 27.6 | 2.7 | 0.1 |
| 3. Trading | 27 | 3.48 | 0.13 |
| 4. Construction Material | 26.00 | 4.00 | 0.15 |
| 5. Plantations | 25 | 4.00 | 0.16 |
| 6. Energy & gas | 24.25 | 5.06 | 0.21 |
| 6. Motor and transport | 24.8 | 6.83 | 0.29 |
| 7. Printing Publishing and paper | 20.67 | 2.7 | 0.25 |

The results shown in table 7 above show that companies falling under the manufacturing sector had the highest average disclosure index during the 1991 financial year. It was followed by those companies in the hotels, foods and beverages sector. The coefficient of variation (Cov) computed in the third column of table 7 has shown that the same manufacturing sector had the lowest covariance of 0.01.

This implies that companies in this manufacturing sector had relatively clustered reporting and hence almost having similar disclosure index. The next chapter provides the summary of the findings, the conclusion, limitations to the study and directions for further research.

## CHAPTER FOUR.

### 4.1 SUMMARY and CONCLUSIONS

This study has attempted to investigate and present the extent of voluntary financial disclosure in 32 quoted companies in Kenya. The purpose of this fourth and final chapter is to present a brief summary of the main findings of the project and to draw some possible conclusions from the findings. The chapter also presents the limitations of the study and some directions for further research and study. To be able to draw appropriate conclusions from the findings of the study, it is necessary to analyse how the objective of the study was attained in chapter one and two of the project.

It is generally accepted that the purpose of financial statements is to furnish investment decision-makers with information about the company issuing the statements. Since the inception of joint stock companies, Financial disclosure has undergone exceptional innovation due to the changing business, political factors, wide shareholding and evolution of management.

Hence, the primary purpose of publishing corporate reports has been the presentation of financial information to proprietors, showing how their funds have been utilised and profits have been derived from such resources. Todate, the question of how much information should be disclosed, and the extent to which user needs can be identified and satisfied has occupied the attention of the accounting profession.

In a market economy, there is demand for greater disclosure by companies due to:-

1) The need for quoted companies to provide adequate information for decision making by those interested in the distribution of wealth of these companies.

2) The need to remove the inferior information position of shareholders through corporate so that there would be no information asymmetry between managers and shareholders in a principal agent relationship.

3) The ability to enhance comparability of information time and between firms and industrial sectors.

Corporate annual reports may contribute to meeting the information needs of investors and creditors who are the principal annual report users. These groups use the information for:-

a) Assessing the effectiveness of the entity in achieving corporate objectives including compliance with stewardship obligation.

b) Evaluating managerial performance and efficiency in investment plans.

c) Ascertaining the experience and background of the company directors and its officials.

d) Assessing the economic stability, vulnerability and capacity of the reporting entity to make future reallocation of its resources.

In order to disclose useful information, accountants have developed a conceptual framework for reporting. The conceptual

framework is like a contitution on the basis of which new standards can be formulated and prescribes the objectives, nature, functions and limits of corporate financial disclosure.

To be useful, corporate reports should provide financial information that is relevant, understandable, reliable, verifiable and timely to those who use these reports for decision making.

The project has established 40 information items which are voluntarily disclosed by the quoted companies in Kenya. On close examination and ranking of items, it is found that at least 70% of the companies disclose eight of these items. It implies that these items are either of importance to user needs or have been easy to disclose.

These information items are:-

(i) Projections of business prospects

(ii) Statistics on voluation of assets for the last three years.

(iii) Five years statistics on financial ratios

(iv) Statistics on dividends

(v) Charts depicting performance

(vi) Five years statistics on performance

(vii) Statistics on volume of production

(viii) Details of terms, currency and sources of loans

These are mainly disclosed as supplementary information or notes to the accounts. On the other hand, seven of these information items were disclosed by not more than 10% of the companies.

The items disclosed inlcude:-

(i) Details of operation expenses

(ii) Provision for bad and doubtful debts for 3-5 years

(iii) Qualification and experience of directors

(iv) Expenditure on salaries and wages

(v) Types of assets and shares acquired during the year

(vi) Expenditure on insurance

(vii) Comparative fixed asset valuation for a period of 3 years

The above findings appear to indicate that managers are more willing to disclose voluntarily, information that depicts their stewardship role as custodians of the companies resources. This is shown by the high ranking of the statistical data.

The findings also indicate that relatively very few companies are willing to release information that would reflect a managers ability to generate earnings. This is shown by the fact that information related to accounting earnings was disclosed by very few companies.

An analysis of the different classification of the information items show that the statistical data is not only disclosed by many companies, but that a wide range of financial information is disclosed as well. Out of the 40 information items 10 of them may be classified as statistical data.

Apart from the statistical data mentioned above, some of the additional information include statistics of past profits on:-

a) Last 3 - 5 years

b) Product prices

c) Statistical analysis of a number of subsidiaries acquired in terms of assets and shares paid.

d) A statistical presentation of working capital.

The next category of financial information disclosed reflected income statement data which also consisted of 8 information items, representing 20% of the overall information voluntarily disclosed. The income statement data consisted of:-

i) Foreign currency earnings and expenses

ii) Segment reports

iii) Information on cost control

iv) Details of operation expenses

v) Expenses on insurance, salaries and cost of production

vi) Performance of branches

vii) Breakdown of other sources of income

When analysed on the basis of industrial classification, it was found that the manufacturing sector had the best quality of corporate disclosure, indicating that this sector responds more to market demands for better information than the rest of the industrial sectors. However, on analysing the trends of growth in the level of reporting, it was found that there was a higher rate of growth of 6.7% in the printing and publishing sector since 1987 though its overall disclosure index has been the lowest.

It can therefore be concluded in general that, there has been an upward trend in the growth of voluntary disclosure by quoted companies in Kenya since 1987.

## 4.2 LIMITATIONS OF THE STUDY

The project had a number of limitation which should be borne in mind when analysing the significance of the project.

1. The population under study was 41 companies which was too small when compared to the number of companies in Kenya, including multinational companies although the sample of 32 companies represent 78% of the population it may be difficult to generalise the results of the study for all companies in Kenya.
2. The companies studied where homgeneous since the study excluded financial institutions and insurance companies. In a similar manner, it may not be easy to generalise the results for the excluded companies.
3. The selection of the information items depended on judgement of the researcher and may result into errors. Hence a large number of information items may have been left out.
4. The time spent on the study was three months which was too small for a research of this nature.

## 4.3 DIRECTIONS FOR FURTHER RESEARCH

This study is concerned with the analysis of financial disclosure through use of disclosure index. Inorder to complete the research into the extent of voluntary in Kenya, the researcher recommends a number of studies as possible directions of future research.

1. There is need to analyse the factors that influence the extent of corporate disclosure including; number of share

holders, profit margin, company size and listing status.

2. It is also important that studies be carried out to determine the extent to which Auditors influence the level of reporting.
3. It is also suggested that an opinion survey be carried out to determine an index of disclosure from the information users' perspective in order to assess the extent to which corporate reports satisfy users needs.

# Accounting & Reporting Requirements

## A Directors' Report

## B Balance Sheet

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7. Contingent Liabilities
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## A. Directors' report

| | Companies Act Reference |
|---|---|
| 1. State of company's affairs | S. 157 (1) |
| 2. Recommended dividend | S. 157 (1) |
| 3. Proposed allocation to reserves | S. 157 (1) |
| 4. Any material change during the financial year in: | S. 157 (2) |
| a. The nature of company's business. | |
| b. In company's subsidiaries. | |
| c. The classes of business in which the company has an interest. | |

Except in each case (a), (b) and (c), where it might be, in the opinion of the directors, harmful to the business of the company or of any of its subsidiaries.

| | Companies Act Reference |
|---|---|
| meetings in that year and not more than fifteen months shall elapse between the date of one annual general meeting of a company and that of the next. | |
| **9.** At least 21 days notice in writing shall be given for a general meeting of the company (other than an adjourned meeting). | S. 133 |
| **10.** The minimum number of members for a public company is seven with no maximum and for a private company is two, but with a maximum, excluding employees and past employees, of fifty. | S. 4 |
| **11.** A director who is required by the articles of the company to hold a specified share qualification shall obtain his qualification within two months after his appointment. | S. 183 |
| **12.** No person shall be capable of being appointed a director of a company either if he has not attained the age of twenty one or if he has attained the age of seventy unless appointed at a general meeting of which special notice is given. (This section does not apply to a private company which is not a subsidiary of a public company). | S. 186, 17 |
| **13.** Special provisions of companies incorporated outside Kenya should be complied with where applicable. | Ss. 365 - 381 |

## E. Auditors

| | |
|---|---|
| **1.** Every company shall at each annual general meeting appoint auditors to hold office till the next general meeting. Notwithstanding the above a retiring auditor, however appointed, shall be deemed to be re-appointed, without any resolution being passed subject to certain provisions. | S. 159 |
| **2. a.** A person or firm shall not be qualified for appointment as auditor of a company unless he or, in the case of a firm, every partner in the firm, is the holder of a practising certificate issued pursuant to Section 21 of the Accountants Act. | S. 161 |
| **b.** None of the following persons shall be qualified for appointment as auditor of a company:<br>I. an officer or servant of the company;<br>II. a person who is a partner of or in the employment of an officer or servant of the company;<br>III. a body corporate.<br>Provided that sub-paragraphs (ii) shall not apply in the case of a private company. | |
| **c.** A person shall also not be qualified for appointment as auditor of a company if he is, by virtue of (b) above, disqualified for appointment as auditor of any other body corporate which is that company's subsidiary or holding company or would be so disqualified if the body corporate were a company. | |
| **3.** Special notice is required for a resolution at an annual general meeting for removal of auditors (28 days notice). | S. 160 |
| **4.** Remuneration of auditors shall be fixed by either:<br>**a.** The directors or the registrar whoever appointing, or<br>**b.** the company in general meeting or in the manner determined by the general meeting. | S. 159 (7) |

| | Companies Act Reference |
|---|---|
| **A. Books of Account** | |
| 1. Every company shall cause to be kept proper books of account in the English language with respect to:<br>a. all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;<br>b. all sales and purchases of goods by the company;<br>c. the assets and liabilities of the company. | S. 147 |
| **B. Statutory books and records** | |
| **Register of directors and secretaries** | |
| 1. Every company shall keep at its registered office a register of its directors and secretaries. | S. 201 (1) to (3) |
| 2. The company shall deliver to the registrar for registration a return of appointment or change of directors and secretary in the prescribed form within fourteen days of the appointment of the first directors and secretary of the company or change of the directors and secretary. | S. 201 (4) and (5) |
| 3. The register of directors and secretaries shall be open for inspection by members and the general public. | S. 201 (6) to (8) |
| 4. Every company shall in all trade catalogues, trade circulars, showcards and business letters on or in which the company's name appears and which are issued or sent by the company shall, subject to exceptions, state certain particulars in respect of every director. | S. 202 (1) |
| **Register of members** | |
| 5. Every company shall keep a register of members and index at its registered office or at such place as may be notified to the Registrar of Companies and enter therein the required particulars. | S. 112, 113 |
| **Register of charges, mortgages and debentures** | |
| 6. Every company shall keep at the registered office of the company a copy of every instrument creating any charge requiring registration with the registrar and shall keep at such office a register of charges and enter therein the required particulars.<br>Every charge must be registered with the Registrar of Companies within 42 days after its creation or it shall be void. | S. 96 to 106 |
| **Minute books** | |
| 7. Every company shall cause minutes of all proceedings of general meetings and of meetings of its directors to be entered in books kept for that purpose. | S. 145 |
| 8. Minute books of General Meetings shall be kept at the registered office of the company and shall be open to the inspection of any member. | S. 146 |
| **Register of directors' holdings** | |
| 9. Every company shall keep at its registered office a register of directors' share holdings in or debentures of the company or its | S. 196 |

## :. Profit and loss account

| | Companies Act Reference |
|---|---|
| **. General** | |
| .1 Profit and loss account to give a true and fair view of the profit r loss of the company for the financial year. | S. 149 (1) |
| **. Depreciation** | |
| .1 Amount charged to revenue by way of provision for depreciation, enewals or diminution in value of fixed assets. | 6 Sch. 12 (1) (a) |
| .2 Method of depreciation used or the fact that no provision is nade, where depreciation or replacement of fixed assets is either: | 6 Sch. 14 (2) |
| . not provided for, or | |
| . provided for by some method other than a depreciation charge r provision for renewals. | |
| **. Director's emoluments** | |
| Emoluments for acting as director of the company and, if pplicable, any subsidiaries (whether paid by the company, ubsidiaries or any other person). | 197 (2) (b)<br>197 (2) (a) |
| Emoluments for managerial services to the company and, if pplicable, any subsidiaries (whether paid by the company, ıbsidiaries or any other person) | 197 (2) (a)<br>197 (5) (a) |
| Total of the above | 197 (1) (a) |
| ote: Emoluments include expense allowances (so far as they e taxed as income of the director); contributions to any pension heme; estimated money value of other benefits other than in cash. | 197 (2) |
| **1 Directors' or past directors' pensions** | |
| Pensions in respect of acting as director of the company and, if plicable, any subsidiary (whether paid by the company, bsidiaries or any other person) | 197 (3) (b)<br>197 (5) (a) |
| Pension in respect of managerial services to the company and, applicable, any subsidiary (whether paid up by the company, ubsidiaries or any other person) | 197 (3) (b)<br>197 (5) (a) |
| Total of above | 197 (1) (b) |
| otes: 1 Pensions, paid to persons out of a pension scheme hich is adequately maintained by periodic contributions, are not be included. | 197 (3) (a) |
| . Pensions include any superannuation allowance, gratuity or milar payment | 197 (3) |
| **2 Compensation to directors or past directors for ıss of office.** | |
| Compensation for the loss of office of director of the company ıd, if applicable, any subsidiaries (distinguishing between nounts paid by the company, subsidiaries or any other person) | 197 (4) (b)<br>197 (5) (b) |
| Compensation for the loss of office in connection with the anagement of the company and, if applicable, any subsidiaries istinguishing between amounts paid by the company, subsidiaries any other person). | 197 (4) (a)<br>197 (5) (b) |
| Total of above | 197 (1) (c) |
| ote: If any compensation is required to be refunded by the | |

| | Companies Act Reference |
|---|---|

## B. Balance Sheet

### 1. Share Capital

| | |
|---|---|
| 1.1 Summary of authorised and issued share capital. | 6 Sch. 2 |
| 1.2 Amount of redeemable preference shares and the earliest date on which the company has power to redeem these shares. | 6 Sch. 2 (a) |
| 1.3 Any share capital on which interest has been paid out of capital during the financial year and the rate of interest so far as not disclosed in the profit and loss account. | 6 Sch. 2 (b) |
| 1.4 The number, description and amount of any shares which any person has an option to subscribe for, the option price and period during which it is exercisable. | 6 Sch. 11 (2) |
| 1.5 For arrears of fixed cumulative dividends, the period and gross amount in arrears for each class of shares. | 6 Sch. 11 (3) |
| 1.6 The number, description and amount of company's shares held beneficially by its subsidiaries of their nominees. | 6 Sch. 15 (3) |

### 2. Reserves

| | |
|---|---|
| 2.1 Aggregate amount of reserves, distinguishing where material between capital and revenue reserves. | 6 Sch. 4 (1); 6 |
| 2.2 Source or application of any material increase or decrease in reserves of each class if material and not shown in the profit and loss account or report annexed thereto. | 6 Sch. 7 |
| 2.3 Capital redemption reserve fund. | S. 60 (1) |
| 2.4 The amount of share premium account. | 6 Sch. 2 (c) |

### 3. Provisions

| | |
|---|---|
| 3.1 The following, if material, to be shown (other than for depreciation, renewals or diminution in value of assets). | |
| a. Aggregate amount of provisions. | 6 Sch. 4 (1); 6 |
| b. Source or application of any material increase or decrease. | 6 Sch. 7 |
| c. Any provision in excess of that which is considered reasonable by the directors shall be treated as a reserve. | 6 Sch. 25 (2) |

### 4. Loans and Debentures

| | |
|---|---|
| 4.1 Particulars of any redeemed debentures which the company can re-issue. | 6 Sch. 2 (d) |
| 4.2 The nominal amount and book value of the company's debentures held by a nominee of or trustee for the company. | 6 Sch. 10 |
| 4.3 The number, description and amount of the company's debentures held beneficially by its subsidiaries or their nominees. | 6 Sch. 15 (3) |

### 5. Taxation

| | |
|---|---|
| 5.1 Basis and amount set aside for income tax. | 6 Sch. 11 (10) |

### 6. Liabilities

| | |
|---|---|
| 6.1 Amounts classified under headings appropriate to the company's business. | |
| 6.2 Disclose as "secured" any liability of the company which is secured, other than by operation of the law, on any assets of the company. | 6 Sch. 9 |

| | Companies Act Reference |
|---|---|
| **6.3** Net aggregate recommended dividend (after deduction of Income Tax). | 6 Sch. 8 (1) (e) |
| **6.4** Aggregate amount of bank loans and overdrafts. | 6 Sch. 8 (1) (d) |
| **6.5** Amounts due to the company's subsidiaries, including loans. | 6 Sch. 15 (2) |
| **6.6** Amounts due to group companies (holding company and fellow subsidiary companies) distinguishing between debentures and other indebtedness. | 6 Sch. 16 (1) |

## 7. Contingent Liabilities

| | |
|---|---|
| **7.1** Particulars, including amounts, of any charge on the assets of the company to secure the liabilites of any other person. | 6 Sch. 11 (4) |
| **7.2** Nature and amount (where practicable) of other material contingent liabilities, if not provided. | 6 Sch. 11 (5) |
| **7.3** The aggregate or estimated amount, if material, of contracts for capital expenditure, so far as not provided. | 6 Sch. 11 (6) |

## 8. Fixed Assets

| | |
|---|---|
| **8.1** The method used to arrive at the amount of fixed assets classified under headings appropriate to the company's business. | 6 Sch. 4 (3) |
| **8.2** For each class of asset the aggregate cost or valuation and the accumulated depreciation since the date of acquisition or valuation. | 6 Sch. 5 (1) |
| This requirement does not apply to: | 6 Sch. 5 (2) |
| **a.** Assets for which the cost of replacement is written off to revenue or to a specially created provision (basis of providing for replacement and amount of unused provision must be stated). | 6 Sch. 5 (2); 5 (4) |
| **b.** Investments for which either market value or directors' valuation is shown. | 6 Sch. 5 (2) |
| **c.** Goodwill, patents or trade marks. | 6 Sch. 5 (2) |

## 9. Intangible Assets

| | |
|---|---|
| **9.1** Aggregate written down value of goodwill, patents and trade-marks. | 6 Sch. 8 (1) (b)<br>6 Sch. 8 (2) |
| **9.2** Expenditure not written off to be shown separately: | 6 Sch. 3 |
| **a.** Preliminary expenses. | |
| **b.** Expenses of issue of shares or debentures. | |
| **c.** Commission incurred on issue of shares or debentures. | |
| **d.** Discount allowed on issue of shares. | |
| **e.** Discount allowed on issue of debentures. | |

## 10. Investments in Subsidiaries

| | |
|---|---|
| **10.1** Aggregate amount of investment in subsidiaries distinguishing shares (basis of valuation to be shown) from indebtedness (which includes loans). | 6 Sch. 15 (2) |
| **10.2** Where the financial year of any of the subsidiaries does not coincide with the company's: | 6 Sch. 15 (6)<br>6 Sch. 22 |
| **a.** The dates on which the subsidiaries' financial years ended or the earliest and latest of these dates. The latest date is the last date before the company's year end. | |
| **b.** The reasons why the company's directors consider that the subsidiaries financial years should not end with that of the company. | |

| | Companies Act Reference |
|---|---|
| **10.3** Where group accounts are not submitted: | 6 Sch. 15 (4) |
| a. Reasons why subsidiaries are not dealt with. | |
| b. Net aggregate amounts attributable to the holding company of profits less losses of such subsidiaries both:<br>I. dealt with and<br>II. not dealt with<br>In the company's accounts for<br>I. the respective financial years of the subsidiaries ending with or during the financial year of the company and<br>II. the previous financial years since acquisition. | |
| c. Any qualificiation in the subsidiaries' auditors' report, and information relating thereto included in the notes to the accounts, where this qualification and information is material from the point of view of the members of the holding company. | |
| d. If (a), (b) or (c) are not available a statement to that effect. | |

## 11. Investments

| | |
|---|---|
| **11.1** Aggregate amounts of<br>a. Trade investments.<br>b. Quoted investments (other than trade investments).<br>c. Unquoted investments (other than trade investments). | 6 Sch. 8 (1) (a) |
| **11.2** Subdivision of those quoted investments which have and those which have not been granted a quotation or permission to deal on a stock exchange of repute. | 6 Sch. 8 (3) |
| **11.3** The aggregate market value of quoted investments (other than trade investments) and the stock exchange value if lower. | 6 Sch. 11 (8) |
| **11.4** Directors or market valuation of the unquoted investments or, if not stated, the cost less aggregate amounts written off (unless held as a current asset). | 6 Sch. 5 (2) (c)<br>6 Sch. 5 (3) |

## 12. Current Assets

| | |
|---|---|
| **12.1** Amounts classified under headings appropriate to the company's business. | 6 Sch. 4 (1) |
| **12.2** State if, in the opinion of the directors, the realisable value of any of the current assets in the ordinary course of business is less than their balance sheet values. | 6 Sch. 11 (7) |
| **12.3** Basis of valuation of stock and work-in-progress must be consistent or any variations disclosed. | 6 Sch. 14 (6) |
| **12.4** Aggregate amounts of loans made under the provisions of S. 56 of the Act. | 6 Sch. 8 (1) (c) |
| **12.5** The amounts of loans, including loans made and repaid during the year made by the company or by a subsidiary, or by a third party on the security or guarantee of the company or of a subsidiary, to directors or officers of the company (Except loans made in the ordinary course of business or a loan made to an employee of the company or its subsidiary if it does not exceed Shs. 40,000). | S. 198 (1)<br>S. 198 (2) |
| **Note:** It is the duty of the auditors to give the required particulars if the above is not disclosed. | S. 198 (3) |

| | Companies Act Reference |
|---|---|
| director under circumstances set out in Section 194, such amount is not to be included. | 197 (5) (a) |
| **3.3 In which years' accounts should the above amounts be disclosed?** | |
| **a.** The amounts to be disclosed for any financial year are:- | |
| **1.** Sums which are identifiable as being receivable in respect of that financial year, regardless of when paid. | 197 (6) |
| **2.** Sums paid in that financial year which are not identifyable with any particular period | 197 (6) |
| **b.** In certain instances the amounts to be disclosed may not be determinable until a later period in which case the amounts shall be separately disclosed in the first accounts in which it is practicable to do so. | 197 (6) (a)<br>197 (6) (b) |
| **4. Taxation** | |
| **4.1** Amount of the charge for income tax and any other taxation on profits to date. | 6 Sch. 12 (1) (c) |
| **4.2** Basis of computation of taxation. | 6 Sch. 14 (3) |
| **5. Provisions and Reserves** | |
| **5.1** The amounts provided for redemption of:<br>**a.** Share Capital<br>**b.** Loans | 6 Sch. 12 (1) (d) |
| **5.2** The amounts, if material: | 6 Sch. 12 (1) (e) |
| **a.** Set aside to, or proposed to be set aside to, or withdrawn from, reserves. | |
| **b.** Set aside to provisions (other than provisions for depreciation, renewals and diminution in value of assets) and the amounts withdrawn from such provisions if not applied for the purpose thereof. | 6 Sch. 12 (1) (f) |
| **6. Dividends** | |
| **6.1** Aggregate amount of the dividends paid and proposed and whether or not they are subject to deduction of income tax. | 6 Sch. 12 (1) (h)<br>6 Sch. 14 (4) |
| **7. Exceptional Items** | |
| **7.1** Items that are materially affected by: | 6 Sch. 14 (6) |
| **a.** transactions of a sort not usually undertaken by the company or otherwise by circumstances of an exceptional or non recurrent nature. | |
| **b.** any changes in the basis of accounting. | |
| **8. Miscellaneous** | |
| **8.1** Interest paid on debentures and fixed loans. | 6 Sch. 12 (1) (b) |
| **8.2** Income from investments, distinguishing between trade investments and other investments. | 6 Sch. 12 (g) |
| **8.3.** Auditors' remuneration (including expenses) if not fixed in a general meeting. | 6 Sch. 13 |
| **9. Comparatives** | |
| **9.1** Comparative figures for the immediate preceeding financial year. | 6 Sch. 14 (5) |

| | Companies Act Reference |
|---|---|
| 6.3 Net aggregate recommended dividend (after deduction of Income Tax). | 6 Sch. 8 (1) (e) |
| 6.4 Aggregate amount of bank loans and overdrafts. | 6 Sch. 8 (1) (d) |
| 6.5 Amounts due to the company's subsidiaries, including loans. | 6 Sch. 15 (2) |
| 6.6 Amounts due to group companies (holding company and fellow subsidiary companies) distinguishing between debentures and other indebtedness. | 6 Sch. 16 (1) |

## 7. Contingent Liabilities

| | |
|---|---|
| 7.1 Particulars, including amounts, of any charge on the assets of the company to secure the liabilites of any other person. | 6 Sch. 11 (4) |
| 7.2 Nature and amount (where practicable) of other material contingent liabilities, if not provided. | 6 Sch. 11 (5) |
| 7.3 The aggregate or estimated amount, if material, of contracts for capital expenditure, so far as not provided. | 6 Sch. 11 (6) |

## 8. Fixed Assets

| | |
|---|---|
| 8.1 The method used to arrive at the amount of fixed assets classified under headings appropriate to the company's business. | 6 Sch. 4 (3) |
| 8.2 For each class of asset the aggregate cost or valuation and the accumulated depreciation since the date of acquisition or valuation. | 6 Sch. 5 (1) |
| This requirement does not apply to: | 6 Sch. 5 (2) |
| a. Assets for which the cost of replacement is written off to revenue or to a specially created provision (basis of providing for replacement and amount of unused provision must be stated). | 6 Sch. 5 (2); 5 (4) |
| b. Investments for which either market value or directors' valuation is shown. | 6 Sch. 5 (2) |
| c. Goodwill, patents or trade marks. | 6 Sch. 5 (2) |

## 9. Intangible Assets

| | |
|---|---|
| 9.1 Aggregate written down value of goodwill, patents and trade-marks. | 6 Sch. 8 (1) (b)<br>6 Sch. 8 (2) |
| 9.2 Expenditure not written off to be shown separately: | 6 Sch. 3 |
| a. Preliminary expenses. | |
| b. Expenses of issue of shares or debentures. | |
| c. Commission incurred on issue of shares or debentures. | |
| d. Discount allowed on issue of shares. | |
| e. Discount allowed on issue of debentures. | |

## 10. Investments in Subsidiaries

| | |
|---|---|
| 10.1 Aggregate amount of investment in subsidiaries distinguishing shares (basis of valuation to be shown) from indebtedness (which includes loans). | 6 Sch. 15 (2) |
| 10.2 Where the financial year of any of the subsidiaries does not coincide with the company's: | 6 Sch. 15 (6)<br>6 Sch. 22 |
| a. The dates on which the subsidiaries' financial years ended or the earliest and latest of these dates. The latest date is the last date before the company's year end. | |
| b. The reasons why the company's directors consider that the subsidiaries financial years should not end with that of the company. | |

| | Companies Act Reference |
|---|---|
| **13. General** | |
| **13.1** Balance sheet to give a true and fair view of the state of affairs of the company as at the end of its financial year. | S. 149 (1) |
| **13.2** Basis of conversion of material foreign currency assets or liabilities into East African currencies. | 6 Sch. 11 (9) |
| **13.3** Amounts due from group companies (holding company and fellow subsidiary companies) distinguishing between debentures and other indebtedness. | 6 Sch. 16 (1) |
| **13.4** The corresponding amounts at the end of the immediately preceding financial year. | 6 Sch. 11 (11) |

| | Companies Act Reference |
|---|---|
| holding or subsidiary company, or a subsidiary of the company's holding company. | |
| **Register of directors' holdings** | |
| 10. Every company shall keep a register of debenture holders at its registered office or at such place as may be notified to the Registrar of Companies. | S. 88 |

## C. Annual returns

| | |
|---|---|
| Every company shall, once at least in every calender year, make a return up to the fourteenth day after the date of the annual general meeting and file it with the Registrar of Companies within the prescribed time limit (A certified true copy of the balance sheet, directors' report and auditors' report must be annexed to the return of a public company, or a private company which has a Kenya public company as a shareholder). | Ss. 125 to 129 |

## D. Other statutory requirements

| | |
|---|---|
| 1. Every company (other than a private company) registered after 1st January, 1962 shall have at least two directors. Every company registered before 1st January, 1962, and every private company shall have at least one director. | S. 177 |
| 2. Every company shall have a secretary. | S. 178, 179 |
| 3. The Directors, subject to certain exemptions, shall lay before the Company in general meeting, not later than eighteen months after incorporation and subsequently once at least in each calendar year, a balance sheet and profit and loss account made up to a date not earlier than the date of the meeting by more than nine months, or in the case of a company carrying on business or having interest abroad, by more than twelve months. | S. 148 |
| 4. Every balance sheet of a company, subject to certain provisos, shall be signed on behalf of the board by two directors or if there is only one director, by that director. | S. 155 |
| 5. The profit and loss account, and, so far as not incorporated in the balance sheet or profit and loss account, any group accounts laid before the company in general meeting shall be annexed to the balance sheet and the auditors' report shall be attached. | S. 156 |
| 6. A directors' report shall be attached to every balance sheet laid before a company in general meeting. | S. 157 |
| 7. A balance sheet, including every document required by law to be annexed thereto, which is to be laid before a company in general meeting, together with the auditors' report shall be circulated not less than twenty one clear days before the date of the meeting to every member, every debenture holder and any other person who is entitled to receive notice of general meetings of the company. | S. 158 |
| 8. Every company shall in each calender year hold a general meeting as its annual general meeting in addition to any other | S. 131 |

| . Consolidated accounts | Companies Act Reference |
|---|---|
| 1 Group accounts, in the form of consolidated accounts shall .bject to certain exceptions, comprise a consolidated balance ieet and consolidated profit and loss account dealing with the ate of affairs and profit or loss of the company and all subsidiaries be dealt with in group accounts. | S. 151 (1)<br>S. 151 (3)<br>S. 151 (3) |
| 2 Group accounts shall give a true and fair view of the state of 'fairs and the profit and loss of the holding company and the ubsidiaries, so far as concerns members of the holding company. | S. 152 (1) |
| .3 Group accounts are required where the company has a ubsidiary company at the end of its financial year (or period) and ; not itself a wholly-owned subsidiary of another company icorporated in Kenya. | S. 150 (1)<br>S. 150 (2) (a) |
| .4 A subsidiary may be omitted from the group accounts if the ompany's directors are of the opinion that: | S. 150 (2) (b) |
| . It is impracticable or would be of no real value to members, in iew of the insignificant amounts involved, or would involve xpense or delay out of proportion to the value to members of the ompany; or | |
| ). results would be misleading or harmful to the business of the company or any of its subsidiaries; or | |
| :. business of the company and subsidiaries are so different that hey cannot reasonably be treated as a single undertaking. | |
| The registrar's approval must be obtained for (b) and (c). | |
| 1.5 Where group accounts are not submitted, the following information is to be given (if information is unobtainable state this fact): | |
| a. If subsidiary companies are not co-terminous directors' reasons and the dates at which the last preceding accounts were closed. | 6 Sch. 15 (6) |
| b. Reasons why subsidiaries are not dealt with in group accounts. | 6 Sch. 15 (4) (a) |
| c. Particulars of company's proportion of profits or losses. | 6 Sch. 15 (4) (b), (c)<br>6 Sch. 15 (5) |
| d. Qualifications in auditors report on accounts of subsidiaries, or notes on accounts which, if not made, would have been referred to in such a qualification, if they affect the holding company, are not covered by its accounts and are material. | 6 Sch. 15 (4) (d) |
| **Notes:** | |
| i. The information required under (b), (c) and (d) above may be omitted if the registrar's permission is obtained. | 6 Sch. 15 (4) |
| ii. These particulars must, as the law stands at present, be shown on the accounts of a wholly owned subsidiary which, itself a holding company, does not produce group accounts. | 6 Sch. 15 (1) |
| iii. The information required under (a), (b), (c) and (d) above may be shown in the directors' report. | S. 163 |
| 1.6 Consolidated accounts are to comply so far as practicable with the requirements outlined for companies as if they were the accounts of a company except for the requirements in respect of amounts received by directors, loans to directors and officers, senior employees' emoluments which will in these cases disclose the holding company position only. | S. 151<br>S. 152 (3)<br>6 Sch. 17 to 19 |
| 1.7 A holding company need not submit a profit and loss account if it submits a consolidated profit and loss account in accordance with the requirements outlined, and discloses what portion of the consolidated profit (or loss) has been dealt with in its accounts. | S. 149 (5) |

| | Companies Act Reference |
|---|---|

## E. Auditors' Report

### Matters to be expressly stated in the Auditors' report.

| | |
|---|---|
| **1.** Whether they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit. | 7 Sch. (1) |
| **2.** Whether in their opinion, proper books of account have been kept by the company, so far as appears from their examination of those books, and proper returns adequate for the purpose of their audit have been received from branches not visited by them. | 7 Sch. (2) |
| **3.** **(I)** Whether the company's balance sheet and (unless it is framed as consolidated profit and loss account) profit and loss account dealt with by the report or in a statement annexed thereto are in agreement with the books of accounts and returns. | 7 Sch. (3) |

**(II)** Whether, in their opinion and to the best of their information and according to the explanations given to them, the said accounts give the information required by the Companies Act in the manner so required and give a true and fair view:

**a.** in the case of the balance sheet of the state of the company's affairs as at the end of its financial year; and

**b.** in the case of the profit and loss account of the profit or loss for its financial year.

or, as the case may be, give a true and fair view thereof subject to the non-disclosure of any matters (to be indicated in the report) which by virtue of Part III of the Sixth Schedule to this Act are not required to be disclosed.

| | |
|---|---|
| **4.** In the case of a holding company submitting group accounts whether, in their opinion, the group accounts have been properly prepared in accordance with the provisions of this Act so as to give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries dealt with thereby, so far as concerns members of the company, or, as the case may be so as to give a true and fair view thereof subject to the non-disclosure of any matters (to be indicated in the report) which by virtue of Part III of the Sixth Schedule to this Act are not required to be disclosed. | 7 Sch. (4) |

## APPENDIX 2

### KENYA ACCOUNTING STANDARDS.

| | | EFFECTIVE DATE |
|---|---|---|
| DISCLOSURE OF ACCOUNTING POLICIES | KAS 1 | 1983 |
| EXTRAORDINARY AND PRIOR PERIOD ITEMS. | KAS 2 | 1985 |
| ACCOUNTING FOR CONTINGENCIES | KAS 3 | 1984 |
| ACCOUNTING FOR POST BALANCE SHEET EVENTS | KAS4 | 1984 |
| DEPRECIATION ACCOUNTING | KAS 5 | 1985 |
| VALUATION AND PRESENTATION OF INVENTORIES IN THE CONTEXT OT HISTORICAL COST SYSTEM | KAS 6 | 1986 |
| STATEMENT OF CHANGES IN FINANCIAL POSUITION | KAS 7 | 1986 |
| ACCOUNTING FOR LEASES | KAS 8 | 1987 |
| ACCOUNTING FOR EFFECTS OF CHANGED IN EXCHANGE RATE | KAS 9 | 1989 |
| ACCOUNTING FOR INCOME TAX | KAS10 | 1989 |
| ACCOUNTING FOR SUBSIDIARY COMPANIES | KAS11 | 1989 |
| ACCOUNTING FOR ASSOCIATED COMPANIES | KAS 12 | 1988 |
| ACCOUNTING FOR GOODWILL | KAS 13 | 1989 |
| ACCOUNTING FOR INVESTMENTS | KAS 14 | 1989 |
| RELATED PARTY TRANSACTIONS | KAS 15 | 1990 |
| REVENUE RECOGNITION. | KAS 16 | 1990 |
| ACCOUNTING FOR PROPERTY. PLANT EQUIPMENT. | KAS17 | 1990 |

EXPOSURE DRAFT.

| | |
|---|---|
| REVALUATION OF ASSTS | ED 18 |

## APPENDIX 3

LIST OF SAMPLE OF COMPANIES

1. Brook Bond Liebeg Kenya Ltd
2. George William Kenya Ltd.
3. Kapchorua Tea Company Ltd.
4. Limuru Tea Company Ltd.
5. Ol Pejeta Ranching Ltd.
6. Sasim Tea and Coffee Ltd.
7. Cor & General Kenya Ltd.
8. C.M.C. Holding Ltd.
9. East Africa Road Services Ltd.
10 Express Kenya Ltd.
11 Marshall E.A. Ltd.
12 Consolidated Holdings Ltd.
13 E.S. Packaging Ltd
14 Natim Printers and Publishers
15 Carbacid, Investement Ltd.
16 Coast Africa Cables Ltd.
17 East Africa Oxygen
18 Kenya Oil Company
19 African Tours & Hotel Ltd.
20 Kenya Brewerise
21 Kenya Hotels Ltd
22 Kenya National Mills
23 Kenya Orchaids Ltd
24 Bamburi Portland Cement Company Ltd.

25 E.A Portland Cement Company Ltd.

26 Tim Sales

27 B.A.T. Kenya Ltd

28 E.A Bag and Cordage Ltd

29 Dunlop Kenya Ltd

30 A.Bauman & Company Ltd

31 Hutchings Bier Ltd

32 Pearl Dry Cleaners.

APPENDIX 4

VOLUNTARY CORPORATE DISCLOSURE BY QUOTED COMPANIES IN KENYA

SUMMARY OF INFORMATION DISCKLOSED (RAW DATA)

1. PLANTATIONS

1. Expecten Future Economic Prospects
2. Statistics of selling prices for the last three years
3. Projection of future prices
4. Competitive position of product in Foreign market
5. Foreign currency earned and spent
6. Information on trade agreements
7. Research and development actitivities for three years
8. Expenditure on employee welfare
9. Involvement on community actitivities
10. Information and amount spent on technology transfer
11. Experience of Board of Directors
12. Five year statistics of production
13. Five year statistics on raw material purchased
14. Capacity of production
15. Loans received or given together with repayment terms and interest rates
16. Future capital expenditure
17. Five year comparative statistics on
    a) Production capacity
    b) Sales volume
    c) Average prices
    d) Profit
    e) Fixed assets
    f) Investments and long term debts

g) Current assets

h) Reserves and earnings

18. Breakdown of Revenue according to branches and subsidiaries

19. Breakdown of cost of production into wages and other cost of production.

20. Estimated production for the next 9 months

2. <u>MANUFACTURING SECTOR</u>

1. Names of subsidiaries and associate companies and percentage of shares owned

2. A summary of key factors and information on

   a) Gross turnover

   b) Value added tax

   c) Dividend cover

   d) Dividend per share

   e) Earnings per share

   f) Capital expenditure

   g) Contribution on Government revenue

3. Information on sales in terms of performance

4. Effort in cost reduction

5. Competition position on Foreign Market

6. Expenditure on technology transfer

7. Quality control measures

8. Participation on social responsibility

9. Kiswahili version of chairman and directors reports

10. Review of performance of each subsidiary

11. Amount of foreign exchange received

12. Competitive position in home market and market share

13. Contribution to human resource development

14. Contribution to research and development

15. Factors affecting raw material sources

16. Expenditure on foreign exchange on raw material

17. Employee safety measures

18. Employee morale and total quality control

19. Employee welfare activities

20. Pariticipation and expenditure on:

    a) Donation to Harambee

    b) Publicity and Public Relations

    c) Exhibitions

21. Current and next years capital committments

22. Five years statistics on:

    a) Turnover

    b) Value Added Tax

    c) Net turnover

    d) Profit before taxation

    e) Profit to shareholders

    f) Dividend declared

    g) Fixed assets

    h) Stocks

    i) Current assets

    j) Liabilities

    k) Ordinary shares held

    l) Minority interest

    m) Return on shareholders fund

n) Shares on issue

o) No. of shareholders

p) Earnings per share

q) Dividend per share

- Capital expenditure

- Contribution of government revenue

- Foreign exchange earned

- Foreign exchange spent

23. Names of audit committee members

24. Advocates of the company

25. Five year graphical (statistics) representation of:

a) Turnover

b) Contribution to government revenue

c) Shareholder's fund

d) Profit attributable to shareholders fund

e) Return on shareholders fund

f) Earnings per share

g) Dividend per share

h) Inflationary effect

i) Breakdown of value added (selling price)

3. <u>CONTRUCTION AND MATERIALS SECTOR</u>

1. Discussion of Business climate

2. Performance of sales

3. Operational costs

4. Information on sources and quality of raw materials

5. Projections of future investment prospects

6. Discussion of pricing trends and effects

7. Evaluation of marketing campaigns

8. Evaluation of sales products

9. Breakdown of capital expenditure

10. Fixed assets valuations for the last three years

11. Names of associated companies and their principal activities.

12. Amounts loaned to groups and the terms of repayments and interest rates.

13. Amounts advanced for employee shareholding schemes

14. Five year statistics on:-

    a- Operating profit

    b-Share of profit in associated companies

    c-Taxation

    d-Minority interests

    e-Ordinary divident

    f-Retained profit

    g-Fixed assets

    h-Share capital

    i-Reserves

    j-Financial lease

    k-Loans receivable

    l-Current assets

    m-Ratios in terms of

    o-profit and minority interests to

    (a)Turnover

    (b)Capital employed

4. HOTELS SECTOR

1. Discussion of the role of Hotel industry to the Kenyan Economy.

2. Information on effort of management in the reduction of losses

3. Marketing activities and market share of Hotels in Kenya

4. Competitive position of branches (on regional basis)

5. Information on human resources development

6. Policy on staff recruitment

7. Bad debts and provision of bad debts

8. List of branches and their performance

9. Global factors that affect performance and management efforts

   -Insurance

   -Licence and subscriptions

   -Advertising

   -Shows, competitions and safari rally

   -Legal and professional fees

   -Computer equipment rentals

   -Repairs and maintenance

   -Doubtful debts

   -Directors travelling expenses

   -Leave expenses

   -Donations

   -Training levy and courses

   -Work permits

   -Security charges

   -Research and development

## 5. PRINTING, PUBLISHING AND PAPER SECTOR

1. Discussion of performance for the last four years and projections for next year.
2 Prices of raw materials.
3. Cost of production.
4. Information on technology transfer and improvement
5. Discussion on safety measures and number of accidents
6. Expenditure on research and development and discussion on the various activities undertaken
7. Future prospects for the company
8. Ten year statistical information on:-
   - -Net book values per shares
   - -Working capital
   - -Net earnings
   - -Dividends per common shares
   - -Kiswahili version of chairman and directors report
   - -Breakdown of capital commitments into:-
     - (a)Authorised
     - (b)Unauthorised
     - (c)Contracted
     - (d)Uncontracted
9. Quality control measures
10. Quality competitiveness of the product

## 6. ENERGY, GAS AND ALLIED SECTOR

1. Information on raw material prices

2. Information on factors affecting performance

3. Discussion on marketing performance in terms of:-

   (a) Sales promotion

   (b) Distribution channels

   (c) Education seminars

   (d) Negotiations and consultations with government

7. <u>MOTOR & TRANSPORT SECTOR</u>

1. External factors on performance

2. Effects of donor community e.g. Paris Club on company performance

3. Cost reduction measures undertaken

4. Forecasts of next years' profits

5. Expenditure on research and development

6. Breakdown of product performance by subsidiaries branches and exports.

7. Breakdown of profits by:-

   -Parent

   -Management

   -Products

   -Country

8. Provision for bad and doubtful debts

9. Five year statistical review on:-

   -Fixed assets

   -Interest on Associated companies

   -Share capital

   -Share premium

-Reserves

-Share holders fund

-Net current assets

(a)Stocks

(b)Debtors

(c)Creditors

(d)Proposed dividends

(e)Bank overdraft

-Number of shares

-Group net assets per shares

-Net assets in Kenya per share

-Turnover

-Profit

-Profit after taxation

-Extraordinary items

-Minority interest

-Dividends

-Profits retained

-Group profit to shareholders

-Group earnings per shares

10. Disclosure on information on expenditure on the following:-

-Sales

-Cost of sales

-Trading income

-Rental income

-Sundry income

-Salaries, wages and NSSF

-Printing and Stationery

-Travel and entertainment

-Demonstration

-General expense in this regard

11. Capital expenditure in terms of Authorised, Contracted and Uncontrolled capital

12. Management efforts in cost reduction

8. <u>TRADING SECTOR</u>

1. Comparative performance statistics of production for the last three years

2. Discussion of pricing policy by government

3. Projections or forecasts of demand

4. Information on the status of government shares in the companies.

5. Company activities or measures taken to reduce pollution

6. Comparative information on taxation and effect on comapny profit

7. Breakdown of sales in the local and foreign markets

8. Discussion of factors that affect performance

9. Information on employee morale

10. Expenditure on plant and equipment

11. Breakdown of capital commitment into authorised, unauthorized, contracted and uncontracted.

12. Information on sources, currency terms and interest rates on loans

13. Debtors in foreign currency

14. Breakdown of debtors into:-

 -Trade debtors

 -Export compensation

 -Associate companies

 -Others

15. Five year statistics on:-

 -Ordinary capital

 -Reserves

 -Deferred tax

 -Debentures and loans

 -Fixed assets

 -Interest on subsidiaries

 -Investments

 -Profit before tax

 -Ordinary dividend

 -Dividend per share

 -Earnings per share

 -Graphical representation of five year statistics

16. Statistics on the following since 1954:-

 -Sales in local markets and exports

 -Local demand for cement

 -International demand for cement

APPENDIX 4

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