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FINANCIAL REPORTING PRACTICES IN COMMERCIAL BANKS IN INDIA

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Abstract
Today banks are not merely economic establishments as a substitute their role has changed significantly with the passage of time. The modern-day economic system is now depending on banks and their services if you want to grow. In India, the banking zone has gone through a chain of modifications after independence from being a lending organization to being the fulcrum of our financial system. They have surplus sources from all the sectors and that they channel them into the deficit sectors. Thus, there comes a want to disclose their operational statistics to satisfy the information desires of the users. This research paper will try and spotlight the cutting-edge scenario of disclosure practices in the banking sector and additionally do a comparative take look at of the disclosure practices of public and personal area banks.

Keywords: Disclosure, Transparency, Corporate Governance, Stewardship Information, Financial Reporting

INTRODUCTION

Every financial system is dependent on an accurate and green facts system. Banks are the backbone of anyfinancial system. So, there's a special importance ofdisclosure practices of business banks in India.Modern accounting is not merely worried aboutfile-preserving however with quite severalactivities concerning planning, management, decision-making,problem-fixing, performance measurement andevolution, directing, coordinating, auditing, taxcontrol and planning, value and managementaccounting. The concept of Financial Reporting hasreceived an awful lot of significance because of growth in the companythe shape of the agency increased opposition andincrease in the statistics desires of the customers.Financial Reporting means the conversation offinancial statements and related data through thebusiness enterprise to the concerned parties (internalas well as outside customers). Financial soundness andprofitability of a commercial enterprise company can be examinedand analysed with the monetary position as disclosedin its annual debts. Annual

ISSN- 2394-5125 VOL 06, ISSUE 07, 2019

Reports are the mostthe complete approach of verbal exchange through theenterprise employer to its diverse stakeholders.Investors will favor to put money into a business enterprise thatmakes a complete disclosure. In India, the regulation of the monetary machine is done via the Reserve Bank of Indiawhich implements various guidelines and policies toregulate the running of banks.

The financial reporting in an organization includes financial statements as well as any other relevant financial reports. According to Muinde (2013) financial statements are an important part of financial reporting but financial reporting is broader as it includes other financial and non-financial information such as financial highlights, back log data, production data and narrative analyses. Across the world, cases of inaccurate financial statement reporting have been witnessed with a view of hiding the financial loss the company is making and maintaining share prices in the stock exchange (Muinde, 2013). The most highly published case of the financial statement manipulation involved the Enron Company in the United States (Roman, 2010). The Enron Corporation formed in 1985 through the merger of Houston Natural Gas and Intermonth. While the company’s core business was in the supply of gas and maintenance of gas pipeline network, the company diversified into other areas in order to leverage on its experience and take advantage of the changing regulation framework in the energy sector (Sugut, 2014). The diversification strategy enabled the company to deal with the unregulated energy trading markets where it worked to guarantee agreed future prices for the commodities in the energy sector for future delivery. The strategy worked for a while enabling Enron to report 138.7 billion United States dollars in revenue in three quarter trading year results for 2001 hence being ranked among the sixth position in the fortune global 500 (Mutai, 2014). However, the diversification strategy started having challenges as the company had moved from its core business into areas that it could not competitively position itself in a sustainable manner (Mwaniki, 2013). To enhance its creditworthiness and reputation in the energy futures market, Enron senior management manipulated the accounting records to make it look like they made a lot more money than they did. The financial statements hid the borrowings made to sustain the energy futures business that was making less money than it was consuming (Barako, Hancock, &Izan, 2013). The company further hid a total of 600 million United States Dollars debt that it had accrued upon its partnership with the Chewco and Joint Energy Development Investments from its consolidated financial statements. Among the strategies adopted by the company to hide the debts from its balance sheets was to offer futures transactions equivalent to the debt amounts and later buying them within the year by paying a small percentage of interest (Shuttleworth, 2014). The financial inaccuracies were necessary for the company to maintain its credit rating with the credit agencies and to stabilize its share price in the stock exchange. The financial reporting inaccuracies were noted during the merger talks with Dynegy Company (Matsumura, 2014). A major credit rating agency lowered the credit rating of the company forcing a need for immediate payment of the hidden debts. Since the company was not in a financial position to pay off the debts, it was forced to declare bankruptcy (Roman, 2010).

LITERATURE REVIEW

Copeland and Fredericks (1968) examined the relation between materiality and disclosure with aggregate data from 200 companies and found a positive correlation between materiality and disclosure. Singhvi and Desai (1971) undertook an empirical analysis of the quality of

ISSN- 2394-5125 VOL 06, ISSUE 07, 2019

corporate financial disclosures in annual reports of 100 listed and 55 unlisted American corporations for the year 1965-66 and concluded the quality of disclosure was one of the variables affecting the price of a security. Baker and Haslem (1973) examined the information needs of individual investors in common stock. They further concluded that investors made investment decisions based on expectations of future economic outlook of the company and industry, earnings and sales forecast and the quality of management. The study also revealed that individual investors had information needs different from the professional analysts. They considered stock brokers followed by advisory services and newspapers as important source of corporate information, while attaching minor importance to financial statements in annual reports.

Generally accepted accounting principles are a "general" law or rule that has been adopted or considered as a guide to action; a fixed ground or basis for conduct or practice. Accounting principles define accounting principles as "a fact or a fundamental proposition on which many others rely; an initial fact that understands or forms the basis for various secondary facts." A generally accepted principle or procedure is one with considerable formal support (Wareham, 1963). General Acceptance of Accounting Principles (GAAP) became more important as the institutional structure of the organization grew. Under the forms of organization and partnership in the organization, each company can choose the method of reporting that best meets their needs. Since all owners had close contact with the company, there was little risk of misleading them through the reporting practices. However, the growth of absentee ownership under the institutional form of regulation created a need for greater uniformity in the accounting principles used to report the activities of the company to its owners. In an evolutionary process to meet this need, old accounting procedures were rejected and new procedures were accepted into place. As discussed later, GAAP principles and procedures should continue to be improved if the needs of shareholders are fully met (Wareham, 1963). According to (Amberly, 2013) There are basic differences between the conceptual concept of the order of the order of the two concepts. Based on the International Financial Reporting Standard, it is a reliable way of thinking, and the concepts that apply in the usual manner or in its particular sense apply to a business or event or other condition. However, in accordance with the United States accounting principles generally accepted, the opinions expressed in the Financial Accounting Standards Board (FASB)

OBJECTIVES OF THE STUDY

This study examines the understanding of financial reporting practice on commercial banks In particularly, the study seeks to find out the role of international financial reporting standards on commercial banks in Mogadishu, evaluate the role of generally accepted accounting principles on commercial bank in Mogadishu and investigate the role other accounting standard on commercial bank. The aim is to promote awareness of the importance financial reporting in the commercial bank.

RESEARCH METHODOLOGY

Sample selection Sampling Unit in the study has been any scheduled commercial bank registered in India and among top banks based on market capitalization. There were 15 public sector banks operating in India.

ISSN- 2394-5125 VOL 06, ISSUE 07, 2019

IMPORTANCE OF STUDY

Financial disclosure is an effective communication of accounting information to its users for decision making. The users of financial statements should be able to evaluate and assess the company's earnings performance and financial position, so that, they are able to make intelligent investment decisions necessary for the efficient allocation of scarce resources. The aim of financial disclosure is to portray the economic performance of an enterprise. Financial information can be disclosed by using various modes, but annual reports occupy a very significant position among them. Today there is general acceptance of the value of fair reporting in the business community. Fair reporting brings with it motivation, increased competitiveness, comparability, and credence.

STUDY PURPOSE

At the time of this research, texts on company information reporting have been scattered. The reason for this paper is to check the literature so one can, boom expertise in corporate reporting concept and the emergence of nonfinancial facts reporting. It is primarily based on an in-depth search for literature which includes seeking journals, books, and unique websites. The observation summarizes the key troubles of each study below the preferred studies themes. It is thought, however, that such an intuitive clustering could function as a vital step in helping the researchers capture the essence of the literature. The aim of this paper is to discover a theoretical frameworkthat could comprehensively examine the corporate reporting practice. Learning about company reporting isessential to understanding the practice of corporate statistics disclosures.

Importance of financial reporting

Financial reporting is a critical practice that is important because it:

Monitors income and expenses

Tracking income and expenses is another important process that financial reporting supports. Monitoring financial documentation is necessary for effective debt management and budget allocation and provides insight into key areas of spending. Monitoring income and expenses ensures companies track debts regularly to remain transparent in competitive markets. Therefore, financial reporting gives you documentation methods to track current liabilities and assets. Accurate financial documentation is also necessary to measure important metrics, including debt-to-asset ratios, which investors use to evaluate how effectively companies pay down debt and generate revenue.

Ensures compliance

Financial reporting encompasses specific processes that companies follow to comply with mandatory accounting regulations. Each document you use to evaluate financial activities comes under the review of several financial regulatory institutions. This makes accurate documentation crucial to ensure all financial reports comply with tax regulations and financial reporting criteria. Accurate financial reporting also simplifies tax, valuation and auditing processes, reducing the time to complete necessary financial obligations and further validating financial compliance.

Communicates essential data

Key shareholders, executives, investors, and professionals all rely on current financial data to make decisions, plan budgets and monitor performance. The importance of open

ISSN- 2394-5125 VOL 06, ISSUE 07, 2019

communication and transparency is necessary to support funding, investment opportunities and financial review. Many investors and creditors rely on the information companies communicate in financial documentation to assess profitability, risk, and future returns.

Supports financial analysis and decision-making

Financial reporting is crucial for performing analysis to support business decisions. Using financial statements improves accountability and supports the analysis of critical financial data. Documents like the income statement and balance sheet provide real-time information that you can use to track historical performance, identify key areas of spending, and create forecasts more accurately. With better-developed data models and detailed financial analysis, reporting helps businesses evaluate current activities and make decisions for future growth.

Make Better Financial Decisions

Analysing and understanding financial statements is key when a business needs to make an important decision. Financial reports allow management to identify trends, potential roadblocks, and actively track their financial performance in real-time. Staying on top of your financial statements will give you the foundation you need to make quick and sound economic decisions when the time comes.

Manage Debt

Financial statements provide business owners and management direct insight into their company’s current assets and liabilities. Also, on how they should effectively manage their company’s outstanding debt moving forward.

Simplify Your Taxes

Financial reports are required by law for tax purposes and the Internal Revenue Service (IRS) uses these reports to evaluate a company’s tax income. Accurate financial reporting mitigates the risk for error and saves an immense amount of time. It relieves the overall burden that comes along with filing your company’s taxes each year.

Compliance

It is no secret that accurate financial reporting can improve your company’s financial performance but it also guarantees that your business is compliant with the law and regulations required by government agencies such as the IRS and SEC.

Financial Transparency

External stakeholders must research a company’s financial position before they decide to officially invest. Financial reporting is a great way to showcase a company’s financial integrity and build trust with potential investors and creditors.

DATA ANALYSIS AND DISCUSSION

Descriptive and Correlation Analysis

Descriptive statistics was used to examine the range of possible values, means and standard deviation of the variables in this study. The respondents surveyed score above the overall mean, the score was International financial standard (IFS)

(Mean=2.04, SD=1.05) they agreed very good (IFS) measurement, second was Generally accepted accounting principles (GAAP) (Mean=2.09, SD=1.02); third scored was Other Accounting Standards mean value of 2.23, stander deviation of 1.19and commercial banks the scored Mean=1.90; SD=1.12. Bivariate correlation was conducted to examine the interrelationships between Financial Reporting and commercial banks. As shown in table

ISSN- 2394-5125 VOL 06, ISSUE 07, 2019

(below), the dependent variable in this study (Financial reporting practice) is significantly and positively correlated with three independent variables, Financial Reporting namely (International financial standard (IFS), Generally accepted accounting principles and Other Accounting Standards) (r=.518, p=.000).

The main objective of the study was to examine the relationship between Financial Reporting and commercial banks in Mogadishu Somali; data was collected from 52 respondents from the main Banks in Mogadishu in January 2018, the study developed descriptive Analysis and correlation to examine role of Financial Reporting dimensions on commercial banks. As shown in table 2 above the findings from Financial Reporting dimensions (IFS, GAAP and other standards) and commercial banks. findings specifically address the research objectives regarding the research questions; the table further illustrated positive and significance relationship with three dimensions of Financial Reporting (IV) and commercial banks. The study showed the role of international financial reporting standards on commercial banks in Mogadishu, and they agree that the effect is high. This study shows that the scored(M=2.04) and standard deviation (SD=1.05) indicates that use of the international financial reporting standards in Mogadishu banks has influence on the commercial banks, this result indicates that the international financial reporting standards in the selected banks has an influence.

CONCLUSION

In India, all the public quarter and personal region banks have their very own websites. However,the contents of each vary. Disclosure score has performed the role of perfect discriminator amongpublic area and personal zone banks. Private Sector Banks' disclosure rating is higher than that ofthe general public area banks. Because the websites of personal area banks are better in phrases ofpresentation and content material sensible. The analysis depicts that in the case of public banks maximum of the gadgetssuch as standard records, economic reporting, buyers' relation associated and human useful resourcerelated gadgets have high-quality relationships with each other categories. The correlation coefficient issizeable with advertising-associated and financial reporting-associated gadgets. In the case of personal zonebanks correlation coefficient is advantageous among the objects however it is not well-sized.

The study concludes that Financial Reporting meaningfully influences Commercial banks. Meanwhile this study was incomplete lone to examining the relationship between Financial Reporting and Commercial banks users as case study. The study recommended that a study be done on the understanding financial reporting practices on organizational performance with focus on to banks in order to depict real situation across the sectors. And the study recommends future researchers carry out study on Relationship between IFRS and GAAP and role of financial reporting practice in the investment. This study also suggests that, Auditors and advisors of banks should be aware of the effect of accounting standard on financial reporting and trend analysis. So, this study suggests that the management of banking firms and their financial statements preparers should be careful in examining these impacts.

ISSN- 2394-5125 VOL 06, ISSUE 07, 2019

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