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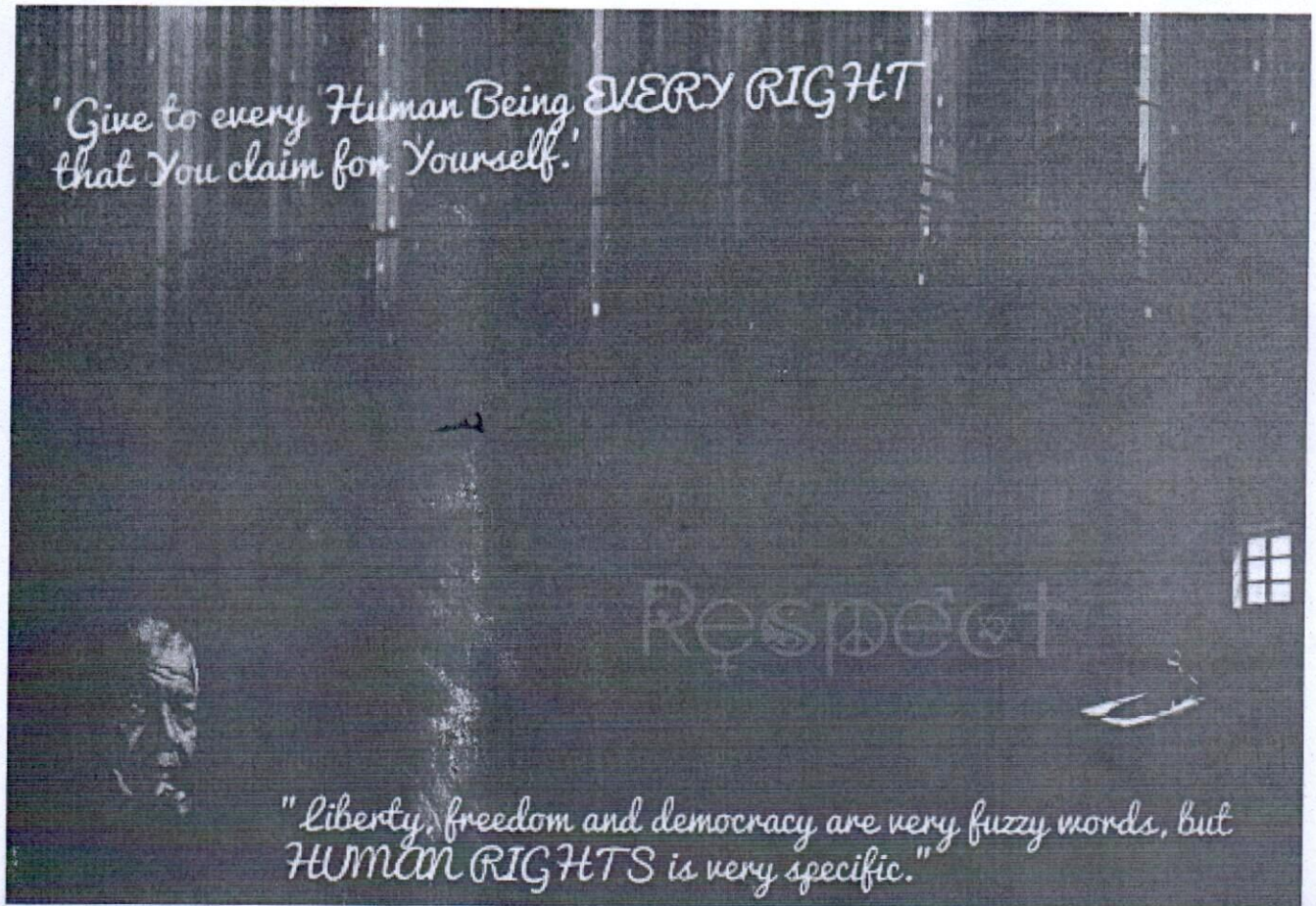


Volume 11, (I) 2024

ISSN: 2394-0298

NIU International Journal of Human Rights

A UGC CARE Listed Journal



NOIDA INTERNATIONAL UNIVERSITY

www.niu.edu.in

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ISSN – 2394 - 0298

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A STUDY OF FACTORS AFFECTING THE PROCESS OF FINANCIAL REPORTING IN INDIA

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Abstract

The performance of the business can be evaluated with the help of financial reporting. The financial reports should meet the compliance as per certain requirements or in accordance with the generally Accepted Accounting Principles which related to concepts and conventions. As the countries are advancing and various developments took place which on the other hand leads to financial reporting reliability. So, it's the alarming time to become alert and conscious and required to take relevant steps towards the factors those contribute more financial reporting activities. .

In this paper, the author presented an empirical investigation based on the factors contributing in following the procedure of financial reporting in India. The primary data was collected through a questionnaire which contains the questions based on factors contributing in following the procedure of financial reporting in India were considered. The simple random sampling design was used to collect the data. The sampling unit for the study was the employees of the listed companies in Indian Stock Market. The total number of respondents was 300 out of that only 284 were found suitable for the study. Statistical methods for the study were: mean standard deviation, percentage, frequency and EFA that was used to reduce the number of variables. An effective standard of reporting is must for the reliability and trust of the stakeholders. Therefore, it can be concluded that while following the procedure of financial reporting these above stated factors are required for good and worth reporting.

Keywords: financial reporting, personal factor, government regulations, audit committee effectiveness and internal control system

Introduction

The dimension of the Indian financial market has increased in the recent time period. Though the functioning of Indian stock market and financial auditing have developed the structure around the financial reporting. The data provided by the companies are however being relayed by the stock exchanges; hence certain operations being performed based on such information. Within this context the principal component of financial reporting is related to the features of the financial profile of the business (Armstrong, C.S., 2011).

In order to understand the factors influencing the financial reporting, it is important to know the records of accounting done for the business. The records generated based on the accounting to compile financial reports are also called accounting reports. They can comprehensive or brief as needed by the business. Reports can be for a specific purpose, such as profitability of a particular product or service or it can be generalized such as profit and loss account for the financial year ending.

The information generated through the accounts should be compatible and comparable to the other business of the same-alignment. These reports can be horizontal and vertical in nature, especially one which are in the company's line segment or in the industry. The financial reports should meet the compliance as per certain requirements or in accordance with the GAAP which related to concepts and conventions of accounting, procedures followed to prepare the statements and reports. The most vital

components or items which are essential for financial reporting are:

- External financial statements
- Public documentations regarding earning and retained earnings
- Periodic reports
- Financial information displayed on the company's website
- Financial reports to government agencies
- Annual reports to Exchange Commission
- Documentation relating to the distribution of general stock securities

With the help of these reports and documents a business can be evaluated and a better understanding can be generated. The purpose of financial reporting is to provide the information of the business to its stakeholders about the operations, financial position and cash & fund flows. There can be several purposes of the financial reporting; such as (1) credit decision making activity used by the lenders to determine the extent of credit can be given to the enterprise. (2) Investment decisions by the investors to decide whether they have to make the investment in the business or not. This information can also be utilized to ripen a potential selling price of the enterprise. (3) The taxation decision by the government and taxation authorities for ascertaining the taxable value based on the assets and revenue value and the amount which can be asked by the concerned authority to the business. (4) Union bargaining decision used by the union to get into a bargaining position based on the company's ability to pay.

Review of Literature:

Chouaibi, Y. et al. (2022) examined the effect of integrated reporting quality on the cost of equity along with the financial performance of Islamic banks in the African region. The study focused on the Middle East and northern part of the continent. The study conducted for a period of six years and over 67 Islamic banks were examined in that time period. The study reveals that the quality of integrated reporting found a negative effect on the cost of equity capital. Furthermore, IRQ has a positive role in the financial performance of IBs.

Karim, Md. Rezaul and Hossain, M. A. (2021) measured the susceptible to fraud in the banking sector of Bangladesh. The study collected the data of 13 years from the period of 2006-2018. The study focused on the listed banks of the country. The collected data suggested the Standards of Auditing, i.e. ISA 240 as a fraud indicator which is also the independent variable of the study. Whereas, multilayer perceptron network, the artificial neural network model was used as the dependent variable. The result of the study revealed that the policy has positive implications for auditors and regulators of money markets in Bangladesh.

Tontiset, Nattawut and kaiwinit, Srilak (2018) examined the factors affecting financial reporting reliability. The study is based on the public listed companies in Thailand. The variables for the study were accounting information system, accountant's professional ethics, audit committee effectiveness and quality of the audit firm. The result revealed that firms should improve professional ethics of accountants, accounting information system, effectiveness of audit committee and quality of audit firm in direction to bring more reliability in the firm financial reporting.

Robu, IoanBogdan and Istrate Costel (2015) analyzed the components of financial reporting related to Romania based Listed companies. The sample based on the Romanian companies listed in BSE. The outcomes of the study stated that there is a significant relationship between IFRS and Financial indicators, such as profitability ratio, gearing ratio and PE ratio.

Gilaninia, Shahram et al. (2013) studied the prominence of financial reporting and factors affecting it. The main goal of the study is to ascertain the financial reporting and the relationship between company

and investor's. The findings of the showed that information asymmetries between company and investor and hence reducing the financial costs, monitoring costs to the business. Furthermore, the study showed that investment performance may increase with the improvement in financial reporting.

Samadi Lorgani (2011) studied the level of transparency while preparing the financial reports. In this process the tax reporting was also considered along with the transparency component. The findings of the study showed that there is a good relationship between reporting of tax and transparency of reports. It also established that while preparing the tax reports the financial reporting and its transparency contributed a significant role. Furthermore, by and large the reporting structure is having an association with transparency and clear reporting style.

Rasaeiyan and Hosini (2008) determined the link between quality of accruals and cost of capital in Iran. The dependent variable of the study was the quality of accruals and the independent variable of the study were cost of capital. The outcome of the study showed that capital cost has been differentiated on the grounds of quality of accruals. The lower accruals also suggested that company won't able to get good appropriations.

Patacharia et al. (2003) determined the relationship between Capital costs with financial reporting quality. The study was conducted on the data of the 34 countries and studied the cost of capital. The study displayed that there is a substantial relationship with 3 criteria of financial reporting quality, such as profit smoothing, loss avoidance and conservatism. Financial reporting is however more concerned towards profit smoothing, than loss avoidance followed by conservatism.

Research Gap:

Many studies in India and abroad reveal that now marketers, consumers, government and other agency become more aware and anxious about the financial reporting and audit reporting structure environment. As the countries are advancing and various developments took place which on the other hand leads to financial reporting reliability. So, it's the alarming time to become alert and conscious and required to take relevant steps towards the factors those contribute more financial reporting activities. However, very few studies were there concerning towards the factors contributing in following the procedure of financial reporting in India.

Objective of the Study

- To identify the factors contributing in following the procedure of financial reporting in India.

Hypothesis

H0: There are no factors contributing in following the procedure of financial reporting in India.

Research Methodology

To study and investigate the research objectives, hypothesis was tested and analyzed. The primary data was collected through a questionnaire which contains the questions based on factors contributing in following the procedure of financial reporting in India were considered. The simple random sampling design was used to collect the data. The sampling unit for the study was the employees of the listed companies in Indian Stock Market. The total number of respondents was 300 out of which only 284 were found suitable for the study (shown in table 1). Statistical methods used for the study were descriptive and inferential statistics; these were arithmetic mean, standard deviation, percentage, frequency, cronbach's alpha and exploratory factor analysis. In which EFA was used to reduce the number of variables.

Data Analysis and Interpretation

The survey data were analyzed using SPSS version 24. All the questionnaire items were numerically coded to facilitate the analysis of the data collected.

		N	%
Cases	Valid	284	94.7
	Excluded ^a	16	5.3
	Total	300	100.0
N = Number of cases % = percentage of cases			

Source: SPSS Calculation

Total number of case processing was 300 out of which 284 were found valid and 16 were excluded for the purpose of data analysis. Therefore, the valid percent of cases were 94.7 and excluded percent of cases were 5.7.

Statements and their Coding Values

Under this heading, the researcher showed the statements those were used in the questionnaire for the purpose of primary data collection from respondents regarding factors contributing in following the procedure of financial reporting in India. Furthermore, those statements used for the study were coded and given the coding value for the analytical purpose.

S. No	Statements	Coding values
1.	Adaptability towards working requirements	PF1
2.	Analytical thinking	PF2
3.	Policy oriented	PF3
4.	Flexibility with the nature of work	PF4
5.	Government regulations are properly followed	GR1
6.	Follow the requirement	PF5
7.	Performance management	PF6
8.	Integrity to the reporting system	PF7
9.	The audit committee oversees the financial reporting process	ACE1
10.	The audit committee has experienced and qualified members	ACE2
11.	Government regulations, develop the feasibility of financial reporting	GR2
12.	Government regulations are focused on the stakeholder interest	GR3
13.	Audit committee's composition is sufficient	ACE3
14.	Members of Audit committee are free to take their decisions	ACE4
15.	Audit committee conducts meeting at regular interval of time	ACE5
16.	The internal control system follows up the policies and procedure	ICS1
17.	Reconciliation of financial books is done at regular interval of time	ICS2
18.	Transactions and monetary activities are reviewed frequently	ICS3
19.	Standardised documentations of financial books are done	ICS4

Source: Primary Data

The above table stated the statements and their coding values of factors influencing the following the procedure of financial reporting in India. The variables having coding value PF, GR, ACE and ICS for Personal factor, Government regulations, Audit committee effectiveness and Internal control system

respectively.

Reliability Analysis

The core concern for the researcher is that whether the data set which was used in the study having its reliability of the study or not. In this study, the Cronbach's scale was used to measure the reliability; moreover the internal consistency was also checked with the help of Cronbach's scale.

Table 3: Reliability Test

Table 3: Reliability Test	
Cronbach's Alpha	No. of Items
.866	19

Source: SPSS Calculations

The above table showed the reliability test of the given cases. For this Cronbach's was used in the study. Cronbach's alpha value of nineteen items arrives at 0.866 (greater than 0.7) which was accepted.

Exploratory factor analysis of Identified influencing factors

The exploratory factor analysis is used to reduce a massive range of variation in fewer numbers of factors. This technique removes the maximum collective variance from all variables and puts them right into a commonplace rating.

Table 4: KMO and Bartlett's Test

Table 4: KMO and Bartlett's Test		
KMO		.872
Bartlett's Test of Sphericity	Approx. Chi-Square	2488.695
	Df	171
	Sig.	.000

Source: SPSS Calculation

The above table showed the result of KMO, i.e. 0.872 that indicated that the sample taken was appropriate to proceed with a factor analysis or principle component analysis procedure. The next step in the application of factor analysis was extraction of factors, i.e. reducing the various numbers of factors into the smallest number of factors that high exhibits the interrelation among the data set. BTS check the null hypothesis that the correlation matrix is an identity matrix. The above table showed the significant (.000) value less than 0.05. Therefore, the sample considered for the study is statistically significant.

Table 5: Communalities

	Initial	Extraction
PF1	1.000	.720
PF2	1.000	.642
PF3	1.000	.513
PF4	1.000	.700
GR1	1.000	.501
PF5	1.000	.525
PF6	1.000	.556
PF7	1.000	.645
ACE1	1.000	.568
ACE2	1.000	.580
GR2	1.000	.653

GR3	1.000	.546
ACE3	1.000	.626
ACE4	1.000	.714
ACE5	1.000	.669
ICS1	1.000	.665
ICS2	1.000	.714
ICS3	1.000	.664
ICS4	1.000	.531
Extraction Method: Principal Component Analysis		

Source: SPSS Calculation

For the principal component matrix it is always equal to one (1) for correlation analysis. The extracted value ranged from .501 to .720. Moreover, it can be said that all the values were more than .50 and hence, the proportion of each variable's variance explained by the assumed factors.

Table 6: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.724	35.387	35.387	6.724	35.387	35.387
2	1.840	9.683	45.070	1.840	9.683	45.070
3	1.474	7.758	52.827	1.474	7.758	52.827
4	1.391	7.322	60.150	1.391	7.322	60.150
5	1.114	5.864	66.013			
6	.942	4.959	70.972			
7	.725	3.816	74.788			
8	.695	3.660	78.448			
9	.628	3.307	81.755			
10	.560	2.947	84.702			
11	.478	2.518	87.220			
12	.436	2.296	89.516			
13	.370	1.948	91.464			
14	.357	1.881	93.345			
15	.324	1.704	95.049			
16	.299	1.575	96.624			
17	.247	1.298	97.922			
18	.213	1.121	99.043			
19	.182	.957	100.000			

Source: SPSS Calculations

The above table showed the total variance explained with the help of extraction sums of squared loadings. A total of 4 components come out to be true and satisfied the total variance explained. The extraction sums of squared loadings in cumulative percent of these 4 components were 60.150. Therefore, the final four components were extracted for the study was Personal factor, Government regulations, Audit committee effectiveness and internal control system respectively.

Table 7: Rotated Component Matrix^a

	Component			
	1	2	3	4
PF1	.806			
PF2	.752			

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PF3	.612			
PF4	.775			
GR1				.502
PF5	.679			
PF6	.595			
PF7	.637			
ACE1			.618	
ACE2			.616	
GR2				.792
GR3				.736
ACE3			.676	
ACE4			.688	
ACE5			.705	
ICS1		.756		
ICS2		.786		
ICS3		.756		
ICS4		.687		

Source: SPSS Calculation

The above stated table showed the rotated component matrix through principal component analysis using the Varimax rotation method. The result showed that the 4 components and the variables loaded with those components. Moreover, the variable having the values below .50 were released.

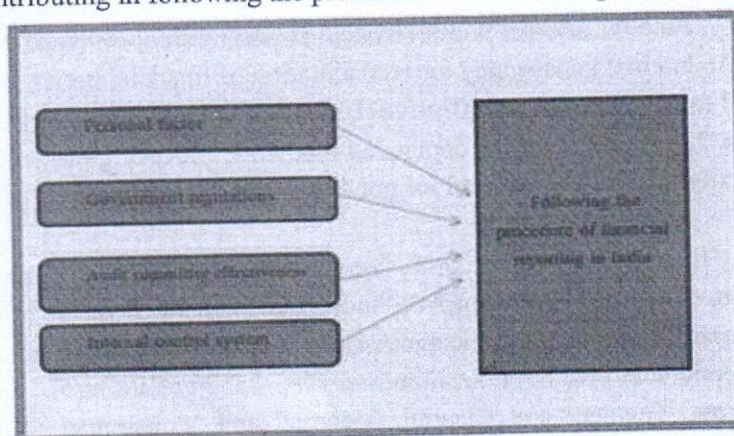
Table 8: Component Transformation Matrix

Component	PF	GR	ACE	ICS
PF	.680	.523	.513	.009
GR	-.648	.750	.093	.092
ACE	-.152	-.290	.483	.812
ICS	.306	.282	-.703	.576

Source: SPSS Calculation

The component transformation matrix showed the value of the correlation for the concerned factors such as Personal factor, Government regulations, Audit committee effectiveness and Internal control system respectively. In this matrix the values are shown prior and after rotation of 4 components, i.e. PF, GR, ACE and ICS.

Figure 1: Factors contributing in following the procedure of financial reporting in India



Source: Author

The first factor is related to Personal factor. In this component the statements were adaptability towards working requirements, analytical thinking, policy oriented, flexibility with the nature of work, follow the requirement, performance management and integrity with the reporting system.

The second factor relates to Government regulations. In this component the statements were Government regulations are properly followed, Government regulations, develops the feasibility of financial reporting and Government regulations focuses on the stakeholder interest.

The third factor is related to Audit committee effectiveness. In this component, the statements were audited committee oversees the financial reporting process, audit committee have experienced and qualified members, the audit committee's composition is sufficient, members of the audit committee are free to take their decisions and audit committee conducts meeting at regular interval of time.

The fourth factor is related to an internal control system. In this component, the statements were internal control system follow up the policies and procedure, reconciliation of financial books are done at regular interval of time, transactions and monetary activities are reviewed frequently and standardised documentations of financial books are done.

Conclusion

In this paper, the author presented an empirical investigation based on the factors contributing in following the procedure of financial reporting in India. The financial reporting is positive for the management and for accounting as well (Whiteman, 2016; Wynne & Yamada, 2007; Yang & Krishnan, 2005). The collected data had good reliability. The KMO and BTS also showed that the sample taken was adequate and significant, respectively for conducting the study. The factors explored with the help factor analysis (EFA) are significantly related to the procedure of financial reporting undertaken in the listed companies in different stock exchanges of India.

The execution of the factors showed the relationship, financial reporting with several factors such as Personal factor, Government regulations, Audit committee effectiveness and Internal control system respectively. Analysis of factors also helps in understanding the international standards by developing countries (Zaghal & Mhadhbi, 2006). It showed that while preparing the financial report, various attributes needed to be considered that required the personal skills such as adaptability, analytical thinking, and policy oriented, flexible, follow up on the requirement, performance management and integrity with the reporting system. Secondly, the government regulations are also prompting for better understanding, feasibility and sake of stakeholders are required. Thirdly, audit committee effectiveness is also required to be considered, since the right composition of the committee is the custodian for the proper audit process. Experienced and qualified members are the assets to the companies, so that they can take their decision freely. Finally, internal control system is among the prominent requirement of any industry or company. The internal consistency for reconciliation of financial books is needed. Monetary transactions are required to be reviewed. An effective standard of reporting is must for the reliability and trust of the stakeholders. Therefore, it can be concluded that while following the procedure of financial reporting these above stated factors are required for good and worth reporting.

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