CHAPTER 8

CONCLUSION, FINDINGS AND SUGGESTIONS

This chapter concluded the whole research work. The contents of this chapter depend on all the previous chapters and consider them to give the new format of corporate financial reporting practices in emerging capital markets by considering the new trends.

8.1 Findings and Conclusion

A sound corporate financial reporting practices are the cornerstone of a well-functioning market economy and the bedrock of a healthy financial system. Corporate Reporting is the process of communicating information (both financial and non-financial) about the resources and performance of the reporting entity. It is the process of communicating both financial & non-financial information relating to the resources & performance of a company because reporting of both type of information is play an important role of stakeholder’s decision making as well as in company’s performance.

Financial reporting is performed by every organization as well as business in order to evaluate its financial performance. It also indicates that how well or poor a company has performed during a particular financial year. It consists of preparing of financial reports or financial statements and then analyzing the performance of a company on an overall basis. It involves balance sheet, income statement and cash flow statement. These financial statements provide a summarized form of a firm's short-term and long-term effectiveness in the market.

“Balance Sheet is one of the most important financial statement containing the assets, liabilities and net equity of a company at a given point of time. Income Statement is also known as Profit or loss statement. This financial statement reports company's results of operations over a period of time. Cash Flow Statement reports company's cash flow activities, including its operating, investing and financing activities.” (www.abacusoutsourcing.com, 2012)

The system of financial reporting is a function of the economic, legal and political institutions in a country. The changes taking place in the commercial world due to globalization have resulted in accountancy profession critically reviewing its role and relevance of its curriculum. In early times accounting was merely concerned with ascertainment of results of business enterprises. But, financial reporting has a new orientation these days owing to the increased needs of users of accounting information. New accounting
principles are constantly evolving and are influenced by changes in social, legal and economic environment and professional bodies like ICAI, the AICPA, IASB and the needs of user’s financial information.

“The primary focus of financial reporting is information about earnings & its components. Information about enterprise earning based on accrual accounting generally provides a better indication of an enterprise’s present & continuing ability to generate favourable cash flows than information limited to the financial effects of cash receipts & payments. It is expected to provide information about an enterprise’s financial performance during a period & about how management of an enterprise has discharged its stewardship responsibility to owners.

Financial reporting is not an end in itself but is intended to provide information that is useful in making business & economic decisions.” (Financial Accounting Standards Board. Statements of Financial Accounting Concepts as Amended 2004-2005 Edition, 1e, 2004) An evaluation of company financial reporting requires some agreement on its objectives. Its basic objective consists of providing information which may prove useful to the investors, creditors and even other users in the process of making sound decisions related to investment. While the other objective deals with providing information on management accountability for judging management’s effectiveness in utilizing the resources & running the enterprise. Thus, accomplishment of these financial reporting objectives influence capital formation & flow of funds & perform a vital role in the successful functioning of a company as well as economy. There is a wide literature available on corporate financial reporting practices.

The literature is collected randomly. But the most reliable literature is considered in the study and then divided into quantitative and qualitative studies. Here, it is found that all the selected studies affect the quality of financial reporting directly or indirectly while some of the studies are selected for quantitative analysis. In all, it can be concluded that all the previous researches are not important but, selected studies are helpful in this research to explore the new findings. The work is related to, but in important ways differs from and adds to, the available literature.

At the core of the corporate reporting model is the financial reporting model, consisting of financial statements and accompanying notes that comply with GAAP. An enterprise’s financial information, when communicated to the external world comes under the scope of Financial reporting. Currently, the legal framework within which companies operate
is governed extensively by financial reporting standards or accounting standards. The overview of the legal and regulatory requirements for corporate financial reporting considers laws and accounting standards.

Legal financial reporting process is recognized by those rules and regulations which includes accounting standards and corporate laws. The legal and regulatory framework for corporate financial reporting practices in six selected countries of Asia-Pacific region, namely Australia, China, Hong Kong, India, Japan and Korea are premeditated with the consideration of related company law, securities exchange law and accounting standards.

“The quality of the financial reporting is to meet the external users’ varying needs. Users of financial reports in general and particularly, require useful information for their decision-making. Over the time, changes in the needs impel changes in the types of information required and the dissemination of such information, i.e. financial reporting. It seems that recent changes in the users' needs are too fast for financial reporting to cope, which may result in the users' dissatisfaction. Therefore, the users may seek other sources of information. Investors need real time information but financial statements are provided information, a few times to users. This delay may not be accepted as global decision-making and requires real time and on-line information. As a result, financial reporting process may be affected by new players in the market (e.g., financial analysts and advances in information technology) that may have not been considered in the traditional (legal) financial reporting model.” (http://www.eurojournals.com/mefe_3_07.pdf, 2012)

The companies responded to the new economic realities and raise the quality of financial reporting by adding more information to its annual reports. Certain new dimensions of financial reporting, which were hitherto ignored by the accountants and the managements, have been added to its domain and considered in the present research to measure the quality of corporate financial reporting. Such new dimensions of financial reporting include Net profit, return on average net worth, issued capital, market capitalization, monthly returns, contents, timeliness, economic value added, corporate social responsibility, corporate governance report, consolidated financial statement, human resource accounting, environmental disclosures, related party disclosures, segment reporting, risk management report and employee stock option scheme. The basic quality of financial reporting is assessed through regular checks of these variables in company’s annual reports. It is expected to be updated regularly.
The quality of corporate financial reporting is demonstrated in Asia Pacific region with the consideration of eight stock exchanges of six countries by applying dichotomous or dummy approach. All the variables concerned with the quality of annual reports are described and coded as 0 or 1. The basic statistics and correlation are applied to study the nature of variables. Reliability of variables have been explored by applying Cronbach Alpha. And finally Logit model is applied to know the actual variations in the reporting quality and found that four stock exchanges (ASE, BSE, NSE and HKSE) of three countries (Australia, India and Hongkong) perform the better quality of reporting as the companies listed in these stock exchanges shows most of the selected parameters in their annual reports.

In the present era of globalisation, the basic contours of reporting business performance have been changing at a fast pace. The dramatic changes in the world economy have been influencing the different aspects of the corporate sector. True success of a business entity is in the truthful expression of the performance when it is measured. The financial reporting practices have put a lot of effort for improvement since the last decade which is considered a general assumption; However, the scope for further improvement in the quality of corporate financial reporting requires some significantly strengthened enforcement mechanisms. The fast pace of globalisation resulted in local accounting standards and common accounting standards are in line with international practices. But countries in Asia-Pacific region, are still far away from global accounting standards as they are in the process of their involvement.

Further the study is compared IFRS or IAS with local GAAP for countries. “It touches in part convergence by the FASB and IASB in bringing IFRS and GAAP to become one international set of standards. Countries adopt IFRS in response to this global convergence. Asian countries have started compliance with these standards as early as June 2003 when first time adoption was issued by London International Accounting Standards Board (IASB). The compliance of selected Asian countries such as Australia, China, Hong Kong, India, Japan and Korea with the IFRS is presented.” (www.questia.com, 2014)

The IFRS / IAS are compared with local GAAP of selected counties on the basis of some principal technical implementation issues. These issues are in relation to (1) Components of financial statements; (2) Comparative information; (3) Reporting Period; (4) Format of Balance sheet; (5) Statement of Comprehensive Income; (6) Extraordinary items (events that don’t occur on a regular basis); (7) Bank overdrafts; (8) Deferred taxation; (9) Depreciation on Property, Plant and Equipment; (10) Accounting Basis; (11) Changes in
Accounting Policies; (12) Consolidated Financial Statements; (13) Recognition of Government Grants; (14) Functional currency; (15) Exchange Differences; (16) Recognition of Borrowing Cost; (17) Financial Reporting in Hyperinflationary Economies; (18) Presentation of Earning Per Share (EPS) in Financial Statements; (19) Interim Financial Reporting; (20) Disclosure of Contingent Assets; (21) Measurement of Intangible Assets; (22) Disclosure of discontinued operations; (23) Segment Reporting; (24) Types of business combinations; (25) Cost of Inventories (Usage of LIFO Method); (26) Scope of Agriculture; (27a) Types of Hedging Relationship; (28) Presentation of Interests Received and Paid; (29) Presentation of Dividend Received and Paid; and (30) Non-controlling Interests.

Examining the effects of IFRS, the evidence is consistent with the argument that IFRS compliance improves firm information environment. This finding adds to the literature, which suggests a muted capital market benefit to mandatory IFRS adoption in countries with weak standard enforcement structure. Rather than a muted effect, IFRS adoption can improve the information environment of firms in low enforcement countries, provided firms have the economic incentive to achieve higher levels of compliance.

It is found that to raise the quality of financial reporting, mere adoption of superior accounting and disclosure standards cannot be considered sufficient because many of the companies already follow the IAS/IFRS as they are so identical US GAAP and the businesses go internationally. After that, it is suggested that with the global economic changes rapidly, more and more companies need to march towards attaining global standards instead of local standards.

Now the financial reporting vehicle move on towards the XBRL and divert from the IAS or IFRS because every country prepared a new set of IFRS which is the merger of IFRS and local GAAP. This is gaining momentum as the XBRL digital financial reporting format is being adopted by many different financial reporting channels around the world in Europe, India, China, Japan, Australia, South America, Canada, and many other locations around the world. Financial statements in XBRL would not be stored as a PDF file or a scanned document, it would be stored as metadata which can be exchanged, stored and retrieved easily. The major benefit with XBRL for regulators and analysts is the saving of time on routine tasks like entering and validation of data. Further the potential of XBRL lies in the world of data analytics. Data analytics would not be restricted to only regulators. XBRL would permit data to be used widely for further analysis. It is software which runs digitally. It has its own format, so no one can manipulate the figures. In fact, XBRL is speedily being
adopted across the world as a financial and business reporting standard. “XBRL facilitates convergence of accounting standards by the ability to align financial concepts among public taxonomies.” (www.aicpa.org, 2009). At present internationally, stock exchanges, supervisory and regulatory bodies are looking ahead for its adoption. There are some important factors that motivate adoption of XBRL.

As adoption of XBRL is at early stage, so the perceptions and knowledge of a sample of corporate stakeholders regarding XBRL play a vital role to understand it. Therefore a theoretical model of XBRL is developed and its adoption behaviour of its users in terms of benefits obtained and facing challenges and to develop and validate the adoption behaviour. It is proved the internal consistency and validity of the behaviour measures the positive impact of XBRL adoption on corporate financial reporting and provide a good model fit for both benefits and challenges. XBRL as a reporting language is becoming popular across the world and it is essential for us to be a part of this reporting revolution in India. Finally, with the numerous languages that exist in India and the numerous ones which exist in the automated world, the recent addition of the XBRL seeks to help make our financial reporting world easier.

Next step is to provide an initial insight to the expectations of the different groups of shareholders on corporate financial reporting practices by considering 24 fundamental factors regarding current reporting practices. Addressing this, it is helpful to understand the attitude of different stakeholders on the idea of financial reporting and its disclosure within the annual report and new upcoming techniques. This includes primary (investors) as well as the secondary (public at large) stakeholders' perceptions. The perceptions of stakeholders are focused on their expectations from the corporates and show their interest for upcoming trends because they are not satisfied with the existing pattern of corporate financial reporting disclosure practices. Besides that, this study can guide the preparers of annual reports to improve on the quantity and quality of the corporate financial reporting practices. The regulators also can revalue the current practices of corporate financial reporting in India as well as in world and make it mandatory for companies to disclose the relevant reporting issues.

Based on our research findings, it is concluded that investors of Asia Pacific region, particularly in India, focus on emergence of XBRL based on global standards (IAS / IFRS) and tend to be a more reliable information, instead of using published financial data in PDF or other formats. “ICAI has developed and issued set of accounting standards to ensure
improvement in the quality of financial reporting. This was necessarily the outcome of opening up of Indian economy and increased capital market orientation. However, it seems that adopting and implementing the accounting standards would not increase the value relevance of financial statements without an effective capital market infrastructure to enforce full compliance. It may therefore be suggested that strict compliance of accounting standards coupled with XBRL may bring” (www.eurojournals.com, 2010) a drastic improvement in the world of financial reporting.

8.2 Suggestions for Future Research

Finally, there are some unexpected findings reported in this study. The researcher does a good job providing some alternative explanations, but it is suspected that these findings should be further investigated. The limitations to the study justify the need to develop new research, to correct the limitations now announced. It is necessary to undertake a new study covering the period in which the new guidelines are of mandatory application. Another area of research is to investigate the measures of quality of corporate financial corporate, which previously not considered. This new source of information will enable a more detailed research on the corporate financial reporting subject.