

# Financial Reporting Quality of Textile Sector and Banking Sector of India under Pre and Post the Indian Accounting Standards.

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## Abstract

**Purpose** – IFRS has been demonstrated in numerous studies conducted outside of India one of the most essential criteria in increasing financial reporting quality (FRQ) which in turn boosts investor trust and attracts, motivates, and encourages them to participate in new markets. As a result, our current research looks at how Indian Accounting Standards (Ind.AS), which converged with IFRS, improved the quality of financial reporting when compared to Indian GAAP.

**Design/methodology/approach** –The study examines a sample of 47 firms that were listed on the Bombay Stock Exchange (BSE) from 2011-12 to 2019-20. Therefore, descriptive analysis, correlation analysis, regression analysis, and independent t-test were used. Also, Jones's (1991) modified model was used to estimate the value of FRQ. SPSS used to test all tests mentioned above. In doing so, this paper focuses on analyzing the annual financial reports extracted.

**Findings** – Considering the textile sector, the study found that the BSIZE, BMET, and BDEL have a positive impact on FRQ under Ind.AS. But BIND, ACSIZE, and ACDEL do not record any impact on FRQ under Indian GAAP and Ind.AS. In addition, in the banking sector, the results have recorded that BMET had a positive effect on FRQ under Indian GAAP and Ind.AS, while BIND recorded a negative impact on FRQ under Ind.AS.

**Practical implications are** — important implications for regulators and policymakers are offered. The outcomes of this study can help regulators and policymakers pay more attention to Ind.AS policy enforcement. Furthermore, the findings are useful to policymakers who are interested in enhancing CG and require evidence of the importance of high FRQ in this regard.

**Originality/value** –The findings provide insights into the role of IFRS/Ind.AS in enhancing the board's characteristics and the audit committee's characteristics to improve FRQ. Hence, they make a valuable contribution to the literature. As well as providing additional evidence that the BIND and ACSIZE mediate the effect on the FRQ.

**Keywords;** Financial Reporting quality, Indian GAAP, Ind.AS, IFRS, audit committee effectiveness, board effectiveness

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## I. Introduction

IFRS brought about a major change in the financial system and strengthened the supervisory and accounting role in the economic entities (Grabinska et al., 2014). Several countries sought to adopt IFRS for organizing financial and accounting work to ensure the reliability and non-fraud of the accuracy of the financial statements (Jermakowicz, 2004; Lont et al., 2010; Mala & Chand, 2014), also, to enhance foreign investments (Okpala, 2012). Therefore, a lot of scientific investigations are recommending the adoption of IFRS because of its positive and effective role in financial disclosure (Akman, 2011; Chen et al., 2010; Marra et al., 2011). The adoption of IFRS has enhanced the financial statements and led to an improvement in the financial efficiency of the share value (Ombati & Shukla, 2018; Gupta, 2014). The banking sector, played IFRS an important and positive role in improving the performance of financial systems, enhancing transparency and accuracy in financial reports, enabling stakeholders to make decisions, and enhancing investor confidence in the flow of capital through foreign direct investment (Sanyaolu et al., 2017; Yahaya et al., 2015). While the banking sector in India has also witnessed great financial growth (Kamath, 2007). Therefore, the banking sector has committed to implementing accounting standards in India and converting its opening balance sheets as of April, 1, 2013 (Thappa, 2013). The Indian economic and financial environment has privacy which is in line with its local conditions and the national economy. In this regard, the Indian financial environment has several difficulties,

which are represented in preparing laws and regulations that facilitate the implementation and understanding of IFRS, and the understanding of its application at the local level (Patro & Gupta, 2012; Srivastava & Bhutani, 2012). Meanwhile, the financial and accounting bodies in India are making the utmost effort to develop the appropriate environment for the implementation of IFRS (Sharma et al., 2017). As the convergence will bring more benefits to the economic development of the Indian market (Ashok, 2014; Vinayagamoorthy, 2012). In this path, many regulators in India are calling for a smooth and slow convergence to enable the entities to maintain the comparability characteristic of their financial information from Indian GAAP to Ind.AS (Aggarwal, 2016). Accordingly, the Indian Government had committed to the convergence of IND\_AS with IFRS from April 1, 2011 (Dhankar & Gupta, 2014; Sudalaimuthu & Jesintha, 2011). As a result, the FRQ of Indian textile companies and Indian commercial banks listed on the BSE under Indian GAAP and Ind.AS, which have converged with IFRS, is being evaluated in this study. According to the first phase and third phase of the roadmap, the study sample was chosen.

First Phase: Firms having a net worth of 500 Indian rupees (INR) crores that are listed or in the process of listing, unlisted companies with a net worth of 500 INR crores, listed and unlisted companies, holding, subsidiary, joint venture, or associate are all included must be a mandatory application of Ind.AS. This financial data will be compared to the fiscal year ending on or after March 31, 2016. As a result, the firm's net worth is computed for the past three fiscal years.

Third Phase3: Mandatory application of Ind.AS will begin on April 1, 2018, for Scheduled commercial banks and their holding, subsidiary, joint venture, or associate companies that hold a net worth of 500 INR crores or more, with comparatives for the periods ending March 31, 2018, or thereafter (Firoz et al., 2011), excluding regional rural banks because they are operated at a local level and are not listed on the Indian stock exchange (Bhatia & Mulenga, 2019). Thus, this study aims to a comprehensive understanding of the application of IFRS/Ind.AS. Thus, to search for answers to the following questions;

To what extent are Indian Commercial banks and Indian textile companies listed on BSE committed to applying IFRS/Ind.AS?

Is there a distinction in financial reporting quality between Indian commercial banks and Indian textile firms?

As a result, the current study compares Indian textile companies and Indian commercial banks listed on the BSE to see if there is a difference in the extent of Ind.AS adoption, by looking into whether there is any impact on board effectiveness is evaluated by (BSIZE, BIND, BMET, and BDEL), and audit committee effectiveness, as measured by (ACSIZE and ACDEL).

## **II. Literature and Research Hypotheses**

### **2.1 IFRS/Ind.AS and Financial Reporting Quality**

IFRS is an important influence on the quantitative and qualitative attributes of financial statements in many countries (Callao, and Ferrer, 2009; Daske and Gebhardt, 2006; Outa, 2011). IFRS have a tangible role in improving the quality of accounting in banks (Emeni et al., 2016) and many pieces of research have indicated that the IFRS have shown an effective and positive role in improving the performance of the financial system and many financial characteristics of the banks (Agostino et al., 2011; Hassan, 2015; Leventis et al., 2011; Palea & Scagnelli, 2017; Sanyaolu et al., 2017). IFRS are enhancing financial reporting, financial information, and some variables in the banks (Abata, 2015; Barghathi et al., 2017; Yahaya et al., 2015). While, Cameran & Perotti, (2014) indicated through their research that IFRS did not influence FRQ. Also, Firoz et al. (2011) assure that the application of the International Accounting Standards such as IFRS will have a meaningful effect on the development, financial instruments, and investments in Indian banks. in this context, the Indian banking industry will realize the benefits of adopting the IFRS, taking into consideration some of the obstacles that the banking sectors will face, such as the amendment in the current law and the qualification of a skilled workforce to be able to implement the standards appropriately. Thus, IFRSs have a role important to impact and enhance accounting quality generally (George Iatridis, 2010; Pășcan, Irina-Doina, 2015). And many studies revealed that financial reports improved their quality after adopting IFRS (Müller, Victor-Octavian, 2014; Yurisandi & Puspitasari, 2015; Peña & Franco, 2017). So we try to examine the impact of IFRS/Ind.AS in the Indian context by hypothesizing as follows:

**H<sub>01</sub>:** *The quality of the financial reporting of Indian textile companies did not differ from that of Indian commercial banks under Indian GAAP and Ind.AS.*

**H<sub>01a</sub>:** *The quality of the financial reporting of Indian textile companies did not differ from that of Indian commercial banks under Indian GAAP.*

**H<sub>01b</sub>:** *The quality of the financial reporting of Indian textile companies did not differ from that of Indian commercial banks under Ind.AS.*

## **2.2 Relationship of Board effectiveness with financial reporting quality (FRQ)**

### **2.2.1 Board Size (BSIZE)**

The number of members of the board have a positive association with the performance of the companies (Bansal & Sharma, 2016). Saggari & Singh (2017) discovered that the Board director leads to enhancing financial disclosure, BSIZE also plays a role in the voluntary disclosure of risk information (risk disclosure) in annual reports. Also, Raithatha & Bapat (2014) demonstrated that BSIZE a positively associated with financial disclosure, and a larger board has a role important in process of monitoring to enhance disclosures. In this line, Elzahar and Hussainy, (2012) confirmed that the larger councils play an important role in terms of administrative control and have a positive impact on companies' disclosures, including risk disclosure. Onuorah et al. (2016) discovered that a small BSIZE enhances continuing communication and collaboration among managers, which is likely to boost FRQ. And on the contrary, Catherine et al (2005) showed that the small boards may not have enough experience to enable them to perform the tasks, while the large boards may have the experience and skills. Xie et al. (2003), Chalaki et al. (2012), and Ahmed & Duellman. (2006) indicated that there is no relationship between BSIZE and FRQ. Therefore, we hypothesize as follows:

**H<sub>02</sub>:** *Under pre and post-Ind. AS the BSIZE has no substantial impact on FRQ.*

### **2.2.2 Board independence (BIND)**

Many papers and studies show a link between the quality of financial reporting and the BIND (Ahmed and Duellman, 2006; Koh et al., 2007; Kantudu & Samaila, 2015). While the BIND plays a good impact in improving the quality of company reports (Meibo & Lawrence, 2018). +In addition, according to Koh et al. (2007), having a larger number of independent directors improves FRQ. Furthermore, the higher BIND, the better the level of control and the lower the earnings management, according to Xie et al. (2003). In a similar vein, Saibaba & Ansari (2011) claim that increasing BIND increases company performance. BIND is inversely linked with FRQ, according to Onuorah et al. (2016). Similarly, Aifuwa & Embele (2019) indicated that BIND is not related to FRQ. Petra (2007) found that BIND is not sufficiently qualified to control the managers. In the Indian context. Sarkar et al (2008) discovered that BIND has no significant relationship with discretionary accruals (DACC). Consequently, the companies with external directors showed higher earnings management and board independence did not have an effective role in the process of monitoring the company's performance (Garg, 2007). Then, Madhani, (2015) demonstrated that companies that have more or less BIND do not show a statistically significant effect on CG and disclosure practices. Thus, based on the previous argument, we hypothesize the following.

**H<sub>03</sub>:** *Under pre and post-Ind. AS the BIND has no substantial impact on FRQ.*

### **2.2.3 Board meetings (BMET) and Board diligence (BDEL)**

The activity of an entity's board is an effective factor that helps reduce information asymmetry between board members and increases management oversight (Dominguez and Gamez, 2014). Accordingly, the number of board meetings is a helpful and important factor that enables management to reduce information asymmetry in an entity. The supervisory role is well achieved through the diligence of the board of directors represented by regular attendance at annual meetings (Chou et al., 2010). The frequency with which the members of the board meet improves the financial performance (Chou et al 2013). Liu et al (2016) emphasized that attendance is a tool to protect the rights of investors, especially when independent board members attend board meetings permanently. Board meetings, according to Banghj and Plenborg. (2008), have a beneficial impact on the volume of information disclosed. Board meetings, on the other hand, have a negative impact on the volume of information disclosed, according to Garca Sánchez et al. (2011). Sarkar et al. (2008) stated that financial information quality improves with the increase in board meeting attendance. But, Raithatha & Bapat (2014) found that outside directors and board activity did not affect the quality of disclosures of the financial statements. And In Indian companies, the diligent boards showed lower EM, (Sarkar et al, 2008). Therefore, we hypothesize as follows:

**H<sub>04</sub>:** *Under pre and post-Ind. AS the BMET has no substantial impact on FRQ.*

**H<sub>05</sub>:** *Under pre and post-Ind. AS the BDEL has no substantial impact on FRQ.*

## **2.3 Relationship of Audit Committee effectiveness with quality of financial reporting**

### **2.3.1 An audit committee size (ACSIZE)**

The larger size of AC improves the performance of internal control and strengthens financial systems for improving the quality of financial outputs (Felo et al., 2003; Be'dard et al., 2004; Yang and Krishnan, 2005; Choi et al., 2004). There is a positive relationship between ACSIZE and FRQ (Felo et al., 2003). DeZoort and Salterio, (2001) illustrated that ACSIZE may facilitate discussions of quality among the members of AC. But, Anderson et al (2003) mentioned the increase in the ACSIZE is accompanied by more spending and cost. We note that he focused on the cost factor is an important factor that many organizations are working to reduce, but

this may affect the audit process and the financial statements become misleading to the relevant public. Majiyebo et al (2018) also found that ACSIZE has a small but affirmative impact on the FRQ of listed Nigerian deposit banks. But, Mangena & Pike (2005) discovered that the ACSIZE did not affect disclosure in the financial interim reports. Therefore, we hypothesize as follows:

**H<sub>06</sub>:** *Under pre and post-Ind.AS the ACSIZE has no substantial impact on FRQ.*

### 2.3.2 An audit committee diligence (ACDEL)

Often the AC meetings do to discuss the internal controls and provisions, and through the meetings, the members follow up on their assigned duties to achieve their goals in the organization (Eyenubo et al., 2017). So, Raghunandan & Rama, (2007) stated the number of AC meetings is the alone factor quantitative which is representative of the diligence of AC members. Xie et al. (2003) discovered a link between the AC's activities and the quality of profits. In contrast, Be'dard et al. (2004) observed a weak link between the frequency of AC meetings and aggressive earnings management. Accordingly, the frequency of meetings of AC improves the efficiency of the audit process (Stewart & Munro, 2007). In Indian regard, Shankaraiah & Amiri (2017) through this study of 133 companies listed on the BSE, concluded that the frequency of AC meetings has an important positive role in improving the FRQ. AC meetings frequency did not show any effect on the financial performance of companies in India, the frequent meetings of the AC strengthen some mechanisms of CG (Bansal & Sharma, 2016). Therefore, we hypothesize as follows:

**H<sub>07</sub>:** *Under pre and post-Ind.AS the ACDEL has no substantial impact on FRQ.*

## III. Research design and measurement of variables

### 3.1 Methods of Data Analysis and Sample selection

The population of research consists of two important sectors in India are textile sector and the banking sector. The technique selected for the sample is Judgment (or Purposive) Sampling, which is subjected to conditions of the roadmap of Ind.AS according to the first stage and third stage mentioned in the introduction of the study. Therefore, all samples have been chosen from the BSE. The total sample of the current study is 47 firms distributed as follows; 22 Indian commercial banks and 25 Indian textile companies have been chosen. To assess the influence of all independent variables on the dependent variable. The descriptive analysis, correlation analysis, and multiple regression were used to diagnose and discuss the relationships between variables after ensuring that the independent variables do not have any multicollinearity concerns. This investigation is based on secondary sources as a method to collect data, through annual financial reports of firms and the ProwessIQ database, from fiscal year (FY) 2014-15 to FY 2019-20 of Indian commercial banks, and from FY 2011-12 to 2019-20 of Indian textile companies. Further, the SPSS and STATA program were employed as tools to produce results of the Jones Model Modified of both sectors, as well as to analyze statistical tests used in this research.

### 3.2 Variable measurements

#### 3.2.1 Dependent variable

Financial reporting quality (FRQ) that measured by discretionary accruals (DACC). The Modified Jones model is used to compute discretionary accruals by reducing non-discretionary accruals by total accruals (Abbadi et al., 2016; Zgarni et al., 2016; Basiruddin, R, 2011). To measure FRQ, Jones's (1991) modified model is used. The residuals' standard deviation or error terms could indicate and quantify FRQ, according to Jones's (1991) modified model. The larger the anticipated residual output, the higher the DACC and thus the lower the financial information quality. The dependent variable, FRQ, is measured by the absolute value of DACC, as shown in the equations below.

#### I) Model of Earnings management variable of the textile companies

**Step 1:** Calculate the total accruals as follow:

$$TACC_{i,t} = \Delta CA_{i,t} - \Delta CASH_{i,t} - \Delta CL_{i,t} + \Delta STD_{i,t} - DEP_{i,t} \dots \text{(Eq.1)}$$

Where;

- $\Delta CA_{i,t}$  = variation in current assets of firm i in time t,
- $\Delta CASH_{i,t}$  = variation in cash and cash equivalents of firm i in time t,
- $\Delta CL_{i,t}$  = variation in current liabilities of firm i in time t,
- $\Delta STD_{i,t}$  = variation in short-term debt included in current liabilities of firm i in time t,
- $DEPT_{i,t}$  = Depreciation and amortization expense of firm i in time t,

**Step 2:** Estimate the Modified Jones Model, which is defined below:

$$\frac{TACC_{i,t}}{TA_{i,t-1}} = \alpha_1 \frac{1}{TA_{i,t-1}} + \alpha_2 \frac{(\Delta REV_{i,t} - \Delta REC_{i,t})}{TA_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{TA_{i,t-1}} + \epsilon_{i,t} \dots \dots \text{(Eq.2)}$$

**Step 3:** Calculate non-discretionary accruals

$$NDACC_{i,t} = \alpha_1 \frac{1}{TA_{i,t-1}} + \alpha_2 \frac{(\Delta REV_{i,t} - \Delta REC_{i,t})}{TA_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{TA_{i,t-1}} \dots \dots \dots (Eq.3)$$

Step3: Calculate the discretionary accruals

$$DACC_{i,t} = TACC_{i,t} - NDACC_{i,t} \dots \dots \dots (Eq.4)$$

Where;

- NDACC<sub>i,t</sub> = Non-discretionary accruals of firm i in time t
- DACC<sub>i,t</sub> = Discretionary accruals of firm i in time t-1,
- TACC<sub>i,t</sub> = Gross accruals divided by gross assets of firm i in time t-1
- ΔREV<sub>i,t</sub> = Revenues of firm i in time t less revenues of firm i in time t-1,
- ΔREC<sub>i,t</sub> = Net receivables of firm i in time t less net receivables of firm i in time t-1,
- PPE<sub>i,t</sub> = Gross property plant, and equipment of firm i in time t,
- TA<sub>i,t-1</sub> = Total assets of firm i in period t – 1,
- α<sub>1</sub>, α<sub>2</sub>, & α<sub>3</sub> Alphas are the parameters to be estimated,
- ε<sub>i,t</sub> = Residuals of firm i time t

**II) Model of Earnings management variable of the commercial banks**

Jones’s (1991) modified model of the banking sector was used by Moses et al (2016) and Majiyebo et al (2018). The banking sector is different from the other sectors in a lot of items of financial statements. Therefore, Gross earnings and the total loans, Advances, and nonperforming loans were employed as proxies in Jones's modified model as follows;

Step 1: Calculate the total accruals as follow:

$$TACC_{i,t} = PBTE_{i,t} - CFO_{i,t} \dots \dots \dots (Eq.5)$$

Where;

- TACC<sub>i,t</sub> = Bank i's total accruals at time t
- PBTE<sub>i,t</sub> = Profit before taxes and unusual bank activity during period t
- CFO<sub>i,t</sub> = Cash flows from the operation of bank i at period t.

Step 2: Calculate the Modified Jones Model, as shown below

$$\frac{TACC_{i,t}}{TA_{i,t-1}} = \alpha_1 \frac{1}{TA_{i,t-1}} + \alpha_2 \frac{(\Delta GE_{i,t} - \Delta NL_{i,t})}{TA_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{TA_{i,t-1}} + \epsilon_{it} \dots \dots \dots (Eq.6)$$

Step 3: Calculate non-discretionary accruals

$$NDACC_{i,t} = \alpha_1 \frac{1}{TA_{i,t-1}} + \alpha_2 \frac{(\Delta GE_{i,t} - \Delta NL_{i,t})}{TA_{i,t-1}} + \alpha_3 \frac{PPE_{i,t}}{TA_{i,t-1}} \dots \dots \dots (Eq.7)$$

Step: Calculate the discretionary accruals

$$DACC_{i,t} = TACC_{i,t} - NDACC_{i,t} \dots \dots \dots (Eq.8)$$

Where;

- NDACC<sub>i,t</sub> = Bank i's non-discretionary accruals in period t
- DACC<sub>i,t</sub> = Bank i's discretionary accrual in period t,
- TACC<sub>i,t</sub> = Total accruals are calculated by deducting profit/loss before taxation, exceptional and extraordinary items, and cash flow from bank i's operations in period t.
- TA<sub>i,t-1</sub> = Bank i's total assets in period t,
- ΔGE<sub>i,t</sub> = Variation in bank i's gross earnings over time t –1
- ΔNL<sub>i,t</sub> = Total loans, Advances, and nonperforming loans of bank I in period t– 1
- PPE<sub>i,t</sub> = Gross property, plant, and equipment of bank I in period t
- α<sub>1</sub>, α<sub>2</sub> and α<sub>3</sub> = Parameters to be estimated, namely alphas,
- ε<sub>it</sub> = Residuals of bank i in time t,

$$GE_{it} = IINC_{it} + FCOM_{it} + FOREXINC_{it} + TINC_{it} + INVINC_{it} + SHINC_{it} + OINC_{it} \dots \dots \dots (Eq.9)$$

Where;

- GE<sub>it</sub> = Gross Earnings of commercial bank i in time t,
- IINC<sub>it</sub> = Interest Income of commercial bank i in time t,
- FCOM<sub>it</sub> = Fee Commissions of commercial bank i in time t,
- FOREXINC<sub>it</sub> = Foreign Exchange Income of commercial bank i in time t,
- TINC<sub>it</sub> = Trusteeship Income of commercial bank i in time t,
- INVINC<sub>it</sub> = Investments Income of commercial bank i in time t,

SHINC<sub>it</sub> = Share Income of commercial bank i in p time t,  
 OINC<sub>it</sub> = Other Income of commercial bank i in time t,

$$NL_{i,t} = TL_{i,t} - NPAs_{i,t} \dots\dots\dots (Eq.10)$$

Where;

NL<sub>it</sub> = Net Loan of bank i in time t,  
 TL<sub>it</sub> = Total Loans of bank i in time t,  
 NPAs<sub>it</sub> = Non-performing assets of bank i in time t,

**3.2.2 Corporate Governance's Independent Variables and FRQ**

As a measure of CG mechanism, the current study focuses on two kinds of independent variables: Board effectiveness and audit committee effectiveness. The variables, definitions, and measurements are shown in **Table 1**.

**Table 1:** Variable operational definitions

Variables	Acronym	Characterization
<b>1. Dependent variable</b>		
Financial Reporting Quality	FRQ	Measured by Jones (1995) modified Model. Absolute value of DACC as proxy for FRQ
<b>2. Independent variables</b>		
2.1 Board effectiveness		
Board Independence	BIND	% of total board members who are independent non-executive directors
Board Size	BSIZE	The number of directors on the board
Board Meetings	BMET	The total number of directors' meetings
Board Diligence	BDEL	Gross number of directors' meetings attended / Gross number of meetings held during fiscal year
2.2 A audit committee effectiveness		
Audit Committee Size	ACSIZE	Members of the audit committee in total
Audit Committee Diligence	ACDEL	Total number of members of the audit committee that attended meetings / total number of meetings held throughout fiscal year

**3.3 Model Specification**

**3.3.1 Regression model**

Following a study's model that looks at how independent variables affect the FRQ.

$$DACC_{it} = \alpha_0 + \alpha_1 BIND_{it} + \alpha_2 BSIZE_{it} + \alpha_3 BMET_{it} + \alpha_4 BDEL_{it} + \alpha_5 ACSIZE_{it} + \alpha_6 ACDEL_{it} + \alpha_8 Period_{it} + \epsilon_{it} \dots\dots\dots Model (1)$$

Where;

$\alpha_0$  = The constant  
 $\alpha_1 - \alpha_8$  = The slope of the independent variables  
 I = The company  
 T = The period

Where all variables are defined similarly to before: DACC is the residual value of the Jones modified (1995) model, while Period is a dummy variable of 0 for the Indian GAAP adoption period and 1 for the Ind.AS adoption period.

**IV. Results Discussion**

**4.1 Descriptive statistics**

Panel (A) is represented the textile sector and panel (B) is represented the banking sector. At the outset, we must note that the numbers of currency in Table 2, are in Indian rupee(INR) crores. Table 2 describes the financial data used in equation (2) and equation (6) of Jones's (1991) modified model. The results provide a clear picture of the financial data used in the model for each sector, both collectively and individually. Table 2 presents descriptive statistics of Jones's (1991) modified model of financial reporting quality. The results show

that total accruals have a mean of -1158.54 with a min of -84,166 and a max of 47,762 for the textile sector. While the banking sector has recorded a mean of 1123.54 with a min of -65,376.21 and a max of 88,254.33. The min value of total accruals indicates that current liabilities are exceeding current assets. Contradictory, the max value of total accrual reflects that total current assets are over current liabilities. However, about descriptive statistics based on the sample sectors, the results show that the min value of total accruals in the collective model -84,166 is recorded in the case of the textile sector then followed by the banking sector at -65,376. Then total revenues have a mean of 2049.28 with a min of -95196 and a max of 194231 and standard deviation (S.D) of 17802.54 in the textile sector. While the gross earnings of banks have recorded a mean of 3425.52 with a min of -4663.88 and a max of 54,120.83 and S.D of 6455.37. In addition, the receivables were recorded by a mean of 207.65 with a min of -9759.81 and a max of 17,296, and short-term debt of 1915.98 in the textile sector. While Net Loans of banks have recorded a mean of 21745.81 with a min of -95,051.34 and a max of 301,670.59 and a short-term debt of 48,951.48. Further, in the textile sector, plants, properties, and equipment range between a min of 367.84 and a max of 532,658 with a mean of 13,441.99, and short-term debt of 53,909.9. In the same sector, total assets show a min of 588.5 a max of 1165915 a mean of 32,261.93, and short-term debt of 130,476.64. Finally, in the banking sector, plants, properties, and equipment range between a min of 93.17 and a max of 42,918.92 with a mean of 3893.69, and short-term debt of 6122.85. In the same sector, total assets show a min of 12,962.27 a max of 3,951,393.92 an average of 437,347.4, and short-term debt of 589,913.61.

**Table 2, Descriptive statistics of equations of FRQ, (Eq.2) and (Eq.6) in general.**

<b>Panel (A), Textile sector</b>					
Items	N	Minimum	Maximum	Mean	Std. Deviation
TACC	275	-84166.00	47762.00	-1158.54	8879.71
ΔREV	275	-95196.00	194231.00	2049.28	17802.54
ΔREC	275	-9759.81	17296.00	207.65	1915.98
PPE	275	367.84	532658.00	13441.99	53909.90
TA	275	588.50	1165915.00	32261.93	130476.64
<b>Panel (B) Banking sector</b>					
TACC	176	-65376.21	88254.33	1123.15	16445.15
ΔGE	176	-4663.88	54120.83	3425.52	6455.37
ΔNL	176	-95051.34	301670.59	21745.81	48951.48
PPE	176	93.17	42918.92	3893.69	6122.85
TA	176	12962.27	3951393.92	437347.40	589913.61

Table 3 shows the number of board directors of textile companies is smallest BSIZE on the board is five, and the largest or highest BSIZE is 15, with an average of ten board of directors. The board of BSIZE has a minimum of six directors and a max of 16, with an average of 11 and S.D of 2.29. In the banking sector, the lowest BSIZE on the board is six directors, and the highest BSIZE is 16 directors, with a mean of 11 board directors. As a result, the BSIZE means in the two industries mentioned above differed dramatically. Further, the percentage of BIND on the board varies from 38% to 70% of the total number of board directors, with a mean of 54% and a standard deviation (S.D) of 6%. This indicates that at least 38% of BIND members in textile firms are independent, with an average of 54%. BIND accounts for between 27% and 82% of total board members in the banking sector, with a mean of 57% and a standard deviation of 13%. That indicates that in the banking sector, 27% of BIND members are independent, compared to 57% on average. Also, the study found that the board size distribution is relatively large (BSIZE) with a mean of 10 and then a standard deviation of 2.24. The BMET for the textile sector is at least 1.00, with a highest of 9.00 and a mean of 5, signifying that members of the board have a BMET of at least one. While the BMET of the banking sector was found to have a minor superiority of at least 4, with a max of 22 and a mean of 12.00. This suggests that board members of BMET hold fewer meetings in the banking sector than they do in the textile sector. Furthermore, the findings show that the textile sector's BDEL is at least 51%, with a max of 100% and a mean of 81%. This implies that at least 51% of board members attend meetings. Furthermore, according to BDEL, the banking sector has an attendance of at least 70%, with a highest of 100% and a mean of 88%. That means that BDEL has the attendance of at least 70% of meetings held during the fiscal year of the members of the board. In terms of Audit committee characteristics, the results suggest that ACSIZE in the textile sector has at least two members and a highest of eight members, with a mean of four members, compared to the banking sector, which has an audit committee with a minimum of three members and a highest of ten members, with an average of 6 members. The analysis

also showed that ACDEL scored a least of 48% attendance and a max of 100% with a mean of 87 % in the Indian textile sector, compared to a minimum of 61% attendance and a highest of 100% with a mean of 88 percent in the banking sector

**Table 3.** Descriptive analysis of the research’s variables

Variables	Panel (A); Textile sector				Panel (B); Banking sector			
	Min	Max	Mean	S.D	Min	Max	Mean	S.D
DACC	-0.62	0.46	-0.01	0.12	-0.25	0.27	-0.03	0.07
BSIZE	5.00	15.00	9.57	2.24	6.00	16.00	10.68	2.29
BIND	0.38	0.70	0.54	0.06	0.27	0.82	0.57	0.13
BMET	1.00	9.00	5.16	1.22	4.00	22.00	12.18	3.86
BDEL	0.51	1.00	0.82	0.12	0.70	1.00	0.88	0.07
ACSIZE	2.00	8.00	4.11	1.21	3.00	10.00	5.57	1.57
ACDEL	0.48	4.00	0.89	0.25	0.61	1.00	0.88	0.09

*Note: BSIZE: Board Size, BIND: Board Independence, BDEL: Board Diligence, and BMET: Frequency of Board Meetings, ACSIZE: Audit Committee Size, ACDEL: Audit Committee Diligence,*

#### 4.2 Bivariate Correlation matrix

Table 4, provide the strength and direction of the association between the variables using correlation analysis. For the two sectors, the correlation is given in two panels; the Indian textile sector (Panel A) and the Indian banking sector (Panel B). Firstly in the textile sector; the positive correlation coefficients reveal BMET with DACC at a level of confidence 1% and BDEL at a level of confidence 5%. But a negative correlation of BIND with DACC at a 1% level of confidence. While Panel (B) illustrates the correlation of the banking sector that there is a negative association of BSIZE with DACC at a level of significant 5%. Also, BMET recorded a negative relationship with DACC at level 10%. While BIND and ACSIZE have a positive relationship with DACC at level 10%. In this regard, overall, because the correlation between the independent variables is less than 0.70, there is no multicollinearity. As a rule of thumb, multicollinearity exists when the correlation matrix between variables is more than 0.70.

**Table 4.**The correlation matrix of both sectors.

Panel A: Textile sector								
Variables	FRQ	BIND	BSIZE	BMET	BDEL	ACSIZE	ACDEL	PERIOD
DACC	1.00							
BIND	<b>-0.22</b>	1.00						
BSIZE	0.02	-0.04	1.00					
BMET	<b>0.37</b>	0.00	0.04	1.00				
BDEL	<b>0.21</b>	-0.08	0.04	-0.21	1.00			
ACSIZE	-0.08	0.21	0.07	0.15	-0.38	1.00		
ACDEL	0.01	-0.15	-0.03	-0.06	0.35	-0.17	1.00	
PERIOD	-0.09	-0.03	-0.17	0.09	0.00	0.02	0.02	1.00

  

Panel B: Banking sector								
Variables	FRQ	BIND	BSIZE	BMET	BDEL	ACSIZE	ACDEL	PERIOD
DACC	1.00							
BIND	<b>0.16</b>	1.00						
BSIZE	<b>-0.17</b>	-0.21	1.00					
BMET	<b>-0.11</b>	-0.06	-0.06	1.00				
BDEL	-0.02	0.09	-0.22	0.09	1.00			
ACSIZE	<b>0.13</b>	-0.02	0.10	0.18	-0.03	1.00		
ACDEL	-0.02	0.21	-0.18	-0.25	0.45	-0.25	1.00	

Period	0.16	0.12	-0.17	0.22	0.03	-0.13	0.01	1.00
<b>Note: BSIZE: Board Size, BIND: Board Independence, BDEL: Board Diligence, and BMET: Frequency of Board Meetings, ACSIZE: Audit Committee Size, ACDEL: Audit Committee Diligence, Period: 1 for Ind.AS and 0 for Indian GAAP.</b>								

### 4.3 Independent-Samples T-Test

T-test of independent examines the difference in DACC between two sectors under Indian GAAP and Ind.AS. It is clear from Table 5, panel (A), that in the case of Indian GAAP; the average DACC for textile companies is 6.4% with an S.D of 5.6% which is higher than the average DACC for commercial banks which equals 3.2% with a standard deviation of 3.4%, with a probability value (0.000) less than the significance level (5%). As a result, we suggest that there are statistically significant variations seen between average DACC for textile firms and commercial banks at the confidence level (5%) under Indian GAAP in favor of the higher average textile companies so we reject  $H_01_a$ . Further, in panel (B), in the case of Ind.AS; the average DACC for the textile sector is 9% with a standard deviation of 11% which is higher than the average DACC for commercial banks which equals 4% with a standard deviation of 3%, with a probability value (0.000) less than the significance level (5%): As a basis, there is statistical significance at the confidence level (5%) between an average of DACC for textile companies and commercial banks in favor of the higher average textile companies so that we rejecting  $H_02_b$ . Therefore this change and improvement for DACC under Ind.AS is in line with Padjadjaran, U. (2015) the implementation of IFRS has proven to improve the quality of financial reporting.

**Table 5. Independent samples t-test**

Sectors		Mean	S.D	T-test	P-value
<b>Panel (A), Indian GAAP</b>					
DACC	Textile sector	0.0638	0.0558	4.805	0.000
	Banking sector	0.0319	0.0336		
<b>Panel (B), Ind.AS</b>					
DACC	Textile sector	0.094	0.109	4.904	0.000
	Banking sector	0.037	0.033		

### 4.4 Multiple Regression analysis

Before doing the regression analysis must solve the Collinearity Statistics among variables. Therefore, Hair et al. (2010) suggested that the Variance inflation factor (VIF) value of less than 10. Therefore, in this study indicates that there is no major multicollinearity concern (see Table 6). Furthermore, the independent variables used in this study are linked with each other by less than 0.70. It may state that there is no multicollinearity issues in the correlation matrix such as investigations of Almaqtari, (2019); Almaqtari et al. (2021). Table 6, shows the Ordinary least square (OLS) method that has been employed. To determine the link between DACC and the explanatory variables (Independence of the board, the board size, the diligence of the board, board meetings, size of the audit committee, and audit committee diligence) Explanatory variables were treated as independent explanatory variables, while DACC was treated as a dependent variable. In this regard, F-value equal (2.919) with a probability of (0.000 < 0.01) and a 99% confidence interval in Table 6, Panel (A), indicating that the regression is significant. Moreover, the adjusted R-squared is (0.063), indicating that the variables of model account for nearly 6% of the variability in the dependent variable (DACC) in Indian textile sector. Concerning Table 7, shows a model based on accounting standards, thus Adj. R<sup>2</sup> of textile sector under Ind.AS is (0.19) is more than Adj. R<sup>2</sup> of Indian GAAP equals (0.00). There is an impact in Panel (B), with an F-value of (2.960) and a probability < 0.1%. Secondly, the adjusted R-square is (0.08), indicating that the variables in the model represent nearly 8% of FRQ variability. Table 7 confirms that the adjusted R<sup>2</sup> is (0.16) under Ind.AS less than the R<sup>2</sup> under Indian GAAP (0.29). Therefore this means that the Ind.AS have not contributed more to improving the quality of financial reporting in the banking sector. According to the results of the panel (A) and (B), we have seen that independent variables under the adoption of Ind.AS contribute to enhancing the quality of financial reporting of the textile sector better than the banking sector.

**Table 6,** Regression analysis of models according sector-wise.

Variables	Panel(A), Textile sector				Panel (B), Banking sector			
	B	t	Sig.	VIF	B	T	Sig.	VIF
(Constant)	-0.270	2.359	0.019		-0.280	2.816	0.006	
BFSIZE	0.010	2.582	0.011	1.065	0.000	0.103	0.918	1.270
BIND	-0.176	1.326	0.186	1.049	-0.080	2.054	0.042	1.207
BMET	0.018	2.582	0.011	1.065	0.007	5.485	0.000	1.225
BDEL	0.141	1.814	0.071	1.337	0.157	2.151	0.033	1.369
ACSIZE	0.004	0.492	0.624	1.229	-0.007	2.223	0.028	1.141
ACDEL	0.054	1.547	0.124	1.161	0.044	0.714	0.477	1.550
Period	-0.270	2.359	0.019	1.041	0.007	1.633	0.105	1.381
R-squared				0.096				0.286
Adjusted R-squared				0.063				0.247
F				2.919				7.277
Sig.				0.000				0.000

According to the data in table 6, panel (A) for the textile sector, the size of the board (BFSIZE) has a positive statistically significant influence on DACC at the level of 5% (p-value = 0.011 < 0.05). This supports the findings of Felo et al. (2003), who discovered a favorable association between financial reporting quality and BFSIZE. In this regard, there is influence of BFSIZE on DACC in the textile sector under Ind.AS, the results reveal statistical proof of the difference between Ind.AS and Indian GAAP, with (P-value = 0.01 < 0.05), While (p-value > 0.05) in case of Indian GAAP, i.e. not significant, which is consistent with Alastair et al (2021). However, this led to rejected H02 in the textile sector. But, BFSIZE has no impact on the banking sector's FRQ under Ind.AS and Indian GAAP (P-value > 0.05), despite the fact that H02 is accepted in the banking sector due to the results in Table 6, and Table 7. Table 6, panel (A), confirms that independent directors (BIND) has no statistically significant impact on financial reporting quality (p-value > 0.05). While in Table 7, BIND has impact on DACC under Ind.AS at level of 10% (p-value = 0.08 < 0.10) and it did not recorded impact in the case of Indian GAAP The same results were also validated by Almaqtari et al. (2021), who said that BIND does not affect the quality of financial reporting. This implies that under Ind.AS that BIND has impact on the quality of financial reporting. This led to rejected H03. In addition, Table 6, Panel (B) we have seen that BIND in the banking sector recorded the impact of BIND on DACC at level of 5% (p-value = 0.042 < 0.05). While, results in Table 7, Panel (B), shows that there is a positive impact of BIND on DACC under Indian GAAP (p-value = 0.01 < 0.05) is better than in Ind.AS (p-value = 0.19 > 0.05). Thus, this means that Ind.AS no change occurred in the case of the banking sector. Accordingly, we rejected H03.

Moreover, board meetings (BMET), as seen in table 6, panel (A), have a positive statistically significant impact on DACC in the textile sector at a level of 5% (p-value = 0.011 < 0.05). In same context, the result in table 7, panel (A) recorded a positive impact of BMET on DACC of the textile sector under Ind.AS at level of 1% (p-value = 0.00 < 0.01). While BMET did no impact on DACC under Indian GAAP, this result led to rejected **H04**. Also, in Table 6, panel (B) BMET recorded a positive statistically significant impact on DACC in the banking sector at level of 1% (p-value < 0.01). This indicates that BMET contribute to DACC of the banking sector. Also in Table 7, Panel (B), there is a positive significant impact of BMET on DACC under Indian GAAP at level of 1% (p-value < 0.01), and it has impact on DACC at level of 5% (p-value = 0.01 < 0.05). Based on results related to BMET has been rejected H04 in the banking sector. In the textile sector, the results in table 6, reveal that board diligence (BDEL) has statistically significant impact on DACC at the level of 10% (p-value = 0.071 < 0.10). This suggests that BDEL does contribute to FRQ and that the number of board meeting attendance times in the Indian textile sector, in general, is insufficient. However, the results in Table 7, BDEL under Ind.AS has a beneficial impact on DACC in the textile sector at level of 1% (p-value = 0.00 < 0.01), whereas there is no impact under Indian GAAP. In the same vein, there is a beneficial influence of BDEL on DACC in the banking sector (p-value = 0.033 < 0.05) in table 6. Additionally, under both accounting standards, BDEL has no effect on DACC. As a result of these findings, H05 was rejected in the textile sector but accepted it in the banking sector. The results in Table 6, panel (A), for AC variables; Audit committee size (ACSIZE), reveal that has no statistically significant impact on DACC. Moreover, results in Table 7, ACSIZE has no effect on DACC in the textile sector under Ind.AS and Indian GAAP. Also, Table 6, panel (A), shows that ACSIZE has a statistically significant impact on FRQ at the level of 5% (p-value = 0.028 < 0.05) in the banking sector. As well as, results in Table 7, ACSIZE has effect on DACC under Indian GAAP only at level of 10% (p-value =

0.07 < 0.10). On based above, we accepted H05 in case of textile sector and rejected it in case of banking sector. Finally, the transformation from local accounting standards to IFRS/Ind.AS in India had no effect on audit committee diligence (ACDEL), and as a result, the quality of financial reports in both industries under investigation remained unaffected.

**Table7.** OLS regression analysis under Indian GAAP and Ind.AS

Variables	Panel (A), Textile sector						Panel (B), Banking sector					
	Indian GAAP			Ind.AS			Indian GAAP			Ind.AS		
	B	t	Sig.	B	t	Sig.	B	t	Sig.	B	t	Sig.
Constant	0.08	0.49	0.62	-0.27	1.56	0.12	-0.18	1.71	0.09	-0.15	1.23	0.23
Bsize	0.00	0.67	0.50	0.02	2.80	0.01	0.00	0.74	0.46	0.01	1.49	0.14
BIND	0.01	0.06	0.95	-0.34	1.80	0.08	0.02	2.54	0.01	-0.09	1.33	0.19
BMET	0.00	0.30	0.77	0.03	3.18	0.00	0.01	4.69	0.00	0.01	2.93	0.01
BDEL	0.05	0.53	0.60	0.40	3.17	0.00	0.12	1.26	0.21	0.13	1.10	0.27
ACsize	0.01	1.01	0.32	-0.01	0.71	0.48	-0.01	1.86	0.07	-0.01	1.31	0.20
ACDEL	-0.17	1.61	0.11	-0.19	1.67	0.10	0.11	1.23	0.22	-0.04	0.50	0.62
R-squared	0.07			0.24			0.34			0.23		
Adjusted R-squared	0.00			0.19			0.29			0.16		
F	1.07			4.87			6.84			3.00		
Sig.	.386			.000			.000			.013		

Finally, the data in Table 7, reveal that AC diligence (ACDEL) has no influence on the DACC in both sectors, this result led to acceptH07.

**Table 8,** Summary of the hypotheses results for the research model.

Summary of Hypotheses			
<b>H01;</b> The quality of the financial reporting of Indian textile companies did not differ from that of Indian commercial banks under Indian GAAP and Ind.AS.			
<b>H01a</b>	The quality of the financial reporting of Indian textile companies did not differ from that of Indian commercial banks under Indian GAAP.		Rejected
<b>H01b</b>	The quality of the financial reporting of Indian textile companies did not differ from that of Indian commercial banks under Ind.AS.		Rejected
		Textile sector	Banking sector
<b>H02</b>	Under pre and post-Ind.AS the Bsize has no substantial impact on FRQ.	Rejected	Accepted
<b>H03</b>	Under pre and post-Ind.AS the BIND has no substantial impact on FRQ.	Rejected	Rejected
<b>H04</b>	Under pre and post-Ind.AS the BMET has no substantial impact on FRQ.	Rejected	Rejected
<b>H05</b>	Under pre and post-Ind.AS the BDEL has no substantial impact on FRQ.	Rejected	Accepted
<b>H06</b>	Under pre and post-Ind.AS the ACsize has no substantial impact on FRQ.	Accepted	Rejected
<b>H07</b>	Under pre and post-Ind.AS the ACDEL has no substantial impact on FRQ.	Accepted	Accepted

### V. Conclusion

This study attempts to evaluate the quality of financial reporting in light of the standards followed in the Indian context between two different sectors, the financial services sector represented by the banking sector and the other is the commercial sector represented by the textile sector. Thus, we want to know which of the two sectors represents a better case for adopting modern Indian accounting standards (Ind.AS) that began to be followed according to the stages mentioned in the introduction to this research. Results of the study concluded that there is a difference in financial reporting quality between the two sectors included in this research under Indian GAAP and Ind.AS by an independent t-test, where the average DACC as proxy for FRQ in the Indian

textile sector under Ind.AS and Indian GAAP is better than the Indian banking sector. While an average of DACC under Ind.AS in two sectors is better than Indian GAAP. In addition, results of OLS analysis in the textile sector found that BSIZE, BMET, and BDEL have a positive statistically significant impact on FRQ under Ind.AS. Therefore this statistical evidence supports that Ind.AS is better than Indian GAAP. But the BIND, ACSIZE, and ACDEL have no statistically significant impact on the FRQ of the textile sector under both accounting standards. Concerning the Indian banking sector, BIND has a positive impact on FRQ under Indian GAAP. Also, BMET has a positive statistically significant impact on the FRQ under both accounting standards. While ACSIZE has a negative statistically significant impact on the FRQ under Indian GAAP. Therefore, the rest of the variables did not impact FRQ under all accounting standards examined in this investigation. Thus, we note that there is a clear superiority of Ind.AS in the textile sector more than Indian GAAP. While the superiority of Indian GAAP in the banking sector is better than Ind.AS, which indicates that the commercial sector (the textile sector) is better than the service sector (the banking sector) in the application of Ind.AS that converged with IFRS. Based on results of hypotheses, this study recommends that all regulators of the business sector in India should encourage the economic sectors, including the banking sector, to adopt modern Indian international accounting standards (Ind.AS) to improve the quality of financial reporting and attract foreign investments. Accordingly, we recommend researchers in the future expand the scope of research at the level of all sectors and become familiar with all the governance factors that affect the output of financial reports because of their paramount importance to many parties, whether inside or outside the economic entity. The current investigation was limited to evaluating the quality of financial reporting with some important governance factors in light of the local Indian GAAP and modern standards Ind.AS that converged with IFRS in only two Indian sectors.

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