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Financial Reporting Regime & Financial Statements Antecedents Banking Sector Case of Pakistan

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ABSTRACT. The current study hypothesized the significant correlation of financial reporting regime with financial statements ingredients. Study used convenience sampling technique for data acquisition have employed separate and combined descriptive test, Hosmer & Lemeshow test and binary logistic test for interpretation. Thus, the study revealed its significant correlation with historic investigations. While, more systematic work is required because of time, resources and potential constraints limited findings are concluded.

1. INTRODUCTION

Financial statements are key items used for record keeping, budgeting and financial decision making. While, financial statements are scheduled under financial reporting standards (Iqbal, Nasir & Iqbal, 2015). Thus, international financial reporting standards (IFRS) are developed. And such standards are planned and executed mainly by American Accounting standard board (AASB) and international accounting standard board (IASB). In Pakistan these standards were adopted by few years ago.

And mainly global financial crises has increased accountability concerns of industries i-e banking sectors because of increasing liquidity risk in corporate financial sector (Iqbal et al., 2015). And in this crisis there was lack of fair value representation (Khan, 2009: Yahya, Yousaf and Dania, 2015). Thus, to cover the gap the current study is working on financial reporting regime and financial statements determinates.

Before 1947 sub continent was under supremacy of Great Britain. And after came into being as Pakistan there was serious lack of rules of accounting. And then various rules were adopted of general accepted accounting principles (GAAP) and then after some decades International financial reporting standards (IFRS) are being adopted. So to measure such integration a facet as financial reporting regime is used where both GAAP and IFRS are used measured by dummy variables to analyses its correlation with financial statements facets.

Thus, the current study is exploratory and contextual will reveal key findings for theorists, accounting practitioners, accounting standard makers and for accounting scholars. Moreover, the study tried to cover the gap regarding financial reporting up to its best.

So the scheme of the study is that part (01) explains introduction, part (02) clarifies methodology, hypothesis, measurement instruments and sample of the study. Part (03) interprets the study results, part (04) concludes the study findings and part (05) reports new directions.

2. RESEARCH METHODOLOGY

The current study is exploratory in nature and explores the impact of corporate financial reporting regime on corporate determinants i-e growth, firm size, leverage, profitability, liquidity, assets tangibility and age. And it is hypothesized that there is significant correlation of reporting regime on financial statements determinants.

The acquired the data from the financial statements of the banks acquired from state bank of Pakistan database and open doors database. The technique for data collection was convenience sampling technique. The range of the data consists from Jan 2009 to Dec 2013.

In above mentioned banking sector only listed banks are included in the study i-e Habib Bank of Pakistan, Muslim Commercial Bank of Pakistan, United Bank of Pakistan, Allied Bank of Pakistan, Punjab Bank of Pakistan, Standard Chartered Bank of Pakistan, Askari Bank of Pakistan, Bank Islami, Tameer Bank, Meezan Bank & Bank Alfalah. Moreover, to interpret the data descriptive test, correlation test and regression analyses are used as instrumentation. Thus, the model of the study is given below,

$$y = \alpha + \beta_1(G) + \beta_2(FS) + \beta_3(LEV) + \beta_4(P) + \beta_5(LIQ) + \beta_6(AT) + \beta_7(AGE) + e$$

In above econometric model G represents growth, FS represents firm size, LEV represents leverage, P represents profitability, LIQ represents liquidity, AT represents assets tangibility and AGE represents the age of the bank. And y represents the financial reporting regime. Thus, to measure such econometric model in statistical way the measurement models of the variables are as follows,

$$y = \text{Reporting Regime} = 1: \text{Reporting Under IFRS. } 2: \text{Reporting Under GAAP}$$

$$\text{Age (age)} = \text{Total life of the bank} - \text{initial year}$$

$$\text{Growth (g)} = \Delta \text{Gross Earnings}$$

$$\text{Firm Size (fs)} = n \cdot \log(\text{net revenues})$$

$$\text{Leverage (lev)} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

$$\text{Profitability (p)} = \frac{\text{Earnings before Taxes}}{\text{Total Assets}}$$

$$\text{Liquidity (liq)} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$\text{Assets Tangibility (at)} = \frac{\text{Fixed Assets}}{\text{Total Assets}}$$

3. RESULTS & ANALYSES

Table 01
(Descriptive Analysis- Under GAAP)

Variable	Mean	Standard Deviation
G	1.20	2.71
P	3.44	7.61
LIQ	0.87	2.48
LEV	6.09	9.24
AGE	3.33	3.78
AT	1.15	3.42
FS	0.07	1.23

The table 01 explains the results of descriptive analyses and observation of general accepted accounting principles (GAAP). Thus, mean value of growth is 1.20, profitability 3.44, liquidity 0.87, leverage 6.09, age 3.33, assets tangibility 1.15 and firm size is 0.07. And the standard

deviation value of growth is 2.71, profitability 7.61, liquidity 2.48, leverage 9.24, age 3.78 assets tangibility 3.24 and firm size is 1.23 respectively.

Table 02
(Descriptive Analysis- Under IFRS)

Variable	Mean	Standard Deviation
G	1.77	3.1
P	3.67	7.93
LIQ	1.15	3.57
LEV	6.71	10.34
AGE	3.76	4.55
AT	1.87	3.88
FS	0.56	2.14

In table 02 descriptive analyses results are reported of company financial determinants under international financial reporting standards (IFRS). Thus, the mean value of growth is 1.77, profitability 3.67, liquidity is 1.15, leverage is 6.71, age has 3.76, assets tangibility has 1.87 and firm size has 0.56. Moreover, deviation value of growth is 3.10, profitability has 7.93, liquidity 3.57, leverage has 10.34, age has 4.55, assets tangibility has 3.88 and firm size has 2.14 respectively.

Table 03
(Combined Descriptive Analysis- Under GAAP & Under IFRS)

Variable	N	Mean by GAAP	Mean by IFRS	Δ	SD of GAAP	SD of IFRS	Δ
G	11	1.20	1.77	0.57	2.71	3.1	.39
P	11	3.44	3.67	0.23	7.61	7.93	0.32
LIQ	11	0.87	1.15	0.28	2.48	3.57	1.09
LEV	11	6.09	6.71	0.62	9.24	10.34	1.1
AGE	11	3.33	3.76	0.43	3.78	4.55	0.77
AT	11	1.15	1.87	0.72	3.42	3.88	0.46
FS	11	0.07	0.56	0.49	1.23	2.14	0.91

The table 03 explains the comparative descriptive results of company's financial determinants under GAAP and IFRS. Thus, results have reported higher mean values and standard deviation values of determinants under IFRS regime as compare to GAAP. Though, the mean value of IFRS than GAAP of growth is higher at 0.57, profitability has 0.23, liquidity has 0.28, leverage has 0.62, age has 0.43, assets tangibility has 0.72 and firm size has 0.49 respectively.

Thus, the standard deviation values of IFRS as compare to GAAP are found higher. Therefore, growth has 0.39, profitability has 0.32, liquidity has 1.09, leverage has 1.10, age has 0.77, assets tangibility has 0.46, firm size has 0.91 higher change respectively.

Table 04
(Paired Sample t-Test)

	Paired Differences					t	d.f	Sig 2.t
	Mean	SD	SEM	Lower	Upper			
Pre -Post	-5.4728	3.0179	.5981	-1.8632	.8745	-.875	15.2	.473

The table 04 reports the results of paired sample t-test where the mean value is -5.4728, lower value is -1.8632 and upper value is 0.8745. Value of t is -0.875 with distribution function of 15.2 and

significance at 2 tails is 0.473. Moreover, Eta squared is used to interpret the magnitude data intervention calculated as follows,

$$= (-0.875)^2 / (-0.875)^2 + (16.2-1) \\ = 0.01$$

Thus, the Eta squared proved significance of paired differences as 0.01 ($p < 0.05$).

Table 05
(Hosmer & Lemeshow Test)

Step 01	-2 likelihood	Cox & Snell R ²	Nagelkerke R ²	Probability
1	36.44589	.724	.968	.992

In table 05 hosmer & lemeshow tests are applied to find the data response probability and difference regarding GAAP time frame and IFRS time frame. Thus, the Cox & Snell r square value is 0.742 and Nagelkerke r square value is 0.968. While, probability value is 0.992 that is greater than 0.05 that indicates no statistical change in GAAP period and IFRS period of adoption reporting standards.

Table 06
(Binary Logistic Regression)

Variables	B	S.E	d.f	Significance
G	25.76	11.37	1	0.02
P	12.48	7.01	1	0.048
LIQ	0.57	0.12	1	0.18
LEV	0.77	0.32	1	0.24
AGE	7.51	3.55	1	0.01
AT	6.77	2.45	1	0.039
FS	12.88	4.78	1	0.000

The table 06 explains the results of binary logistic regression where the beta value of growth is 25.76, profitability 12.48, liquidity 0.57, leverage 0.77, age 7.51, assets tangibility 6.77 and firm size 12.88 and the distribution function is 01. Moreover, growth is found significant at 0.02 ($p < 0.05$), profitability is found significant at 0.048 ($p < 0.05$), liquidity is found insignificant at 0.18 ($p < 0.05$), leverage is found insignificant at 0.24, age is found significant at 0.01 ($p < 0.05$), assets tangibility is found significant 0.039 ($p < 0.05$) and firm size is found significant at 0.000 ($p < 0.05$) respectively.

4. CONCLUSION

The study concluded financial statements ingredients significant with reporting regime. But from facets of financial statements leverage is found insignificant. It is because of variants nature of industries, decision oriented minds and financial structures. Thus, other facets i-e profitability, growth, fair value of firm size and assets tangibility are found significant. Hence, the study has concluded its results up to historic investigations. So the managers have to focus such ingredients before planning and executing financial concerns.

5. FUTURE DIRECTIONS

- 1) Future research could be conducted in similar in any other context and it can be investigated by comparing such findings among cross economies comparatively.

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- 2) Another research can be investigated by incorporating industrial demographics in recent model.
 - 3) A study would reveal more clear findings by analyzing moderating role of managerial expuoser, decisions of financial managers and emotional behavior between reporting regime and financial statements facets.
 - 4) Such all can be investigated by analyzing reporting regime impact separately on financial statements i-e income statements, share holders equity statement, balance sheet statements, cash flow statement and consolidated financial statements.

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