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QUALITATIVE ASPECTS OF FINANCIAL REPORTING SYSTEM OF BANKS IN INDIA

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ABSTRACT

The Service sector of India has been growing at an annual rate of growth of about 28% during the last 5 years. Banking system became one in every of the fastest growing sectors after the primary phase economic reforms of 1991. The banking sector has played an important role in the overall economic development of the country right from the time of nationalization. Hence it's important to own a full stress on Financial Reporting System of Banks. Qualitative characteristics are the attributes that provide the data provided in the financial statements useful for various decision makers. The data must be useful in the formulation of objectives, the making of selections or the direction and control of resources to accomplish the objectives. The utility of data lies in its ability to scale back the uncertainty about the particular state of affairs of a company to the choice makers. Banks should consider many factors to supply a top quality of economic reporting information. Thus specializing in the National and International accounting principle (IAS), International Financial Reporting Standard (IFRS), General Accepted Accounting Principles (GAAP), factors of quality of the Accounting system (AIS), are important for financial reporting information. Quality of economic reporting information can help the managers of the general public and personal banks in India to acknowledge the strong and weak points of the banking operation and its status. This research study focuses on qualitative characteristics using financial reporting information publicly sector banks and it's comparing with private sector banks to search out the amount of economic reporting information gap. This research work won't only increase the standard of financial reporting information in Indian banks but also supporting to extend global market share of Indian banks by ensuring more accuracy and transparences in financial reporting information.

Keywords: *Financial Reporting, Accounting Principles, Economic Development, Banking System*.

Introduction

Sustenance and growth of public sector banking is incredibly much essential for balanced and effective economic development. Increased competition has made this a challenging task. It's imperative that there's urgent need to strengthen the Indian banking sector. Financial reporting is that the method that a firm uses to convey its financial stability to the marketers, investors and other stakeholders. The target of economic reporting is to produce information on the changes in a very firm's performance and financial position that may be accustomed make financial and operating decisions. Additionally to being a management aide, analysts use this information to forecast the firm's ability to provide future earning and as a way to assess the firm's intrinsic value. Other stakeholders like creditors, brokers, public, and government agencies will use financial statements as some way to guage the economic and competitive strength. Accounting and financial reporting evolved independently and sometimes very differently in numerous countries. Practice, regulation and particularly the mode of regulation differed and sometimes varied greatly in these countries. Accounting, especially appropriate and relevant accounting, may be a critical tool and an information source in any country's efforts towards economic process and development.

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What is Financial Reporting

The end product of accounting is financial reporting. Financial Reporting is a communication of Financial Statements and other related information by the corporates to the user of such financial information such as shareholders, creditor, Government and others. It's the reporting of accounting information of an entity (individual, firm, company, government enterprise) to a user or group of users. Company's financial reporting may be a total communication system involving the corporate as issuer (preparer); the investors and creditors as primary users, other external users; the accounting profession as measures and auditors and also the company law regulatory or administrative authorities. Financial reporting isn't an end in itself but could be a means to certain objectives. The first objective of financial reporting is to supply economic information to allow users of the knowledge to create informed decisions. Users include both the management of an organization (internal users) et al not involved in the daily operations of the business (external users). The external users usually don't have access to the detailed records of the business and don't have the advantage of daily involvement in the affairs of the corporate. They create their decisions supported financial statements prepared by management. The target of financial reporting are to produce information about the financial position (balance sheet), performance (income statement), and alter in financial Position (cash flow statement) of an entity. This information should be useful to a good range of users for the aim of creating economic decisions.

Growing Importance of Financial Reporting is emerged

It provided company's owners with a vehicle to manage the corporate. Capital was gathered from outside source the corporate and the owners delegated to managing the function to directors and provided them with the required authority to run the commercial activity. On the opposite hand, the structure of annual reports and financial reporting has changed dramatically in recent years. Today, annual reports aren't any longer restricted to the financial statements, but encompass a broad array of additional matters that must also be disclosed. No longer focused on historic results, it now includes prospective elements, like guidance on future revenue and earnings targets. Moreover, disclosure of a growing number of non-financial performance metrics is being required, along with an ever-increasing number of monetary metrics. Today, financial position reporting incorporates a direct influence on the manager's decisions and it's important for them. In fact, financial reports provide an image of how the firm runs and might even be some way to observe the business unit and its activities from the angle of management and therefore the board. External financial reporting should be ready to present such a view to individuals, shareholders, creditors etc. the first objective of economic reporting is to supply high-quality financial reporting information concerning economic entities, useful for economic deciding. In other words, providing prime quality financial reporting information is very important because it'll positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency.

Qualities of Financial Reporting Information

As stated earlier, the objectives of monetary reporting are concerned, in varying degree, with decision-making made by various users. However, there's a desire to grasp that creates financial information useful for decision-making, i.e., what qualities or qualitative characteristics are needed to create the knowledge useful and to assist in achieving the needs of monetary reporting. Informational qualities or qualitative characteristics make information reported through financial reporting a desirable commodity and guide the choice of preferred accounting methods and policies from among available alternatives. It's those qualities that distinguish more useful accounting information from less useful information. For financial information to be useful, it must possess two fundamental qualitative characteristics relevance and faithful representation (reliability). The standard enhancing characteristics are comparability, verifiability, timeliness and understandability. These characteristics enhance the decision-usefulness of economic information reporting that's relevant and faithfully represented. Relevant financial information is capable of creating a difference in the decisions made by users. Information is also capable of constructing a difference in a very decision whether or not some users choose to not make the most of it or are already attentive to it from other sources. Financial information is capable of constructing a difference in decisions if it's predictive value, confirmatory value or both. Financial information that faithfully represents an economic phenomenon depicts the economic substance of the underlying transaction, event or circumstances, which isn't always the identical as its legal form. Comparability is the goal; consistency may be a means to an end that helps in achieving that goal. Understandability is the quality of knowledge that permits users to understand its meaning. Comparability may enhance understandability.

Qualities of Financial Reporting in Banking

Users are curious about entities liquidity and solvency and also the risks associated with the assets and liabilities recognized on its record and to that are off record items. In the interest of full and complete disclosure, some very useful information is healthier provided, or can only be provided, by notes to the financial statements. The disclosure of notes and supplementary information provides the means to elucidate and document certain items, which are either presented in the financial statements or otherwise affect the financial position and performance of the reporting enterprise. Recently, lots of attention has been paid to the difficulty of market discipline in the banking sector.

RBI Guideline of Financial Reporting

Users of the Financial Statements are inquisitive about its liquidity and solvency and also the risks associated with the assets, liabilities recognized on its record, and to it's off record items. In the interest of full and complete disclosure, some very useful information is healthier provided, or can only be provided, by notes to the financial statements. The utilization of notes and supplementary information provides the means to clarify and document certain items, which are either presented in the financial statements or otherwise affect the financial position and performance of the reporting enterprise. The target of RBI guideline for financial reporting is to produce an in depth guidance to banks in the matter of disclosures in the „Notes to Accounts" to the financial statements. Banks are encouraged to create more comprehensive disclosures than the minimum required under the circulars if they become significant and aid in the understanding of the financial position and performance of the bank. The disclosure listed is meant only to supplement, and to not replace, other disclosure requirements under relevant legislation or accounting and financial reporting standards. Where relevant, a bank should befits such other disclosure requirements as applicable. Banks should disclose the accounting policies regarding key areas of operations at one place together with notes to accounts in their financial statements. A suggestive list includes; Basis of Accounting, Transactions Involving exchange, Investments Classification, Valuation, Advances and Provisions Thereon, Fixed Assets and Depreciation, Revenue Recognition, Employee Benefits, Provision for Taxation, Net Profit, etc.

In order to encourage market discipline, banking concern has over the years developed a group of disclosure requirements which permit the market participants to assess key pieces of data on Capital Adequacy, Risk Exposures, Risk Assessment processes and key business parameters. Banks also are required to go with the accounting standards on disclosure of accounting policies issued by. Additionally to the 16 detailed prescribed schedules to the record, banks are required to furnish the knowledge in the "Notes to Accounts": capital, investments, derivatives, asset quality, business ratios, asset liability management, exposures, and miscellaneous.

RBI Prudential Norms

To keep with latest practices at the international levels, commercial banks don't seem to be presupposed to recognize their incomes from non-performing assets on an accounting and these are to be booked only these are literally received. The policy of income recognition needs to be objective and supported the record of recovery. As per international standards income on NPA income is recognized in the books once it is actually received. Hence Banks should not take this income into account. Banks are required to classify non-performing assets further into the subsequent three categories supported the amount the asset has remained non-performing and therefore the reliability of the dues substandard assets, doubtful assets and loss assets. The first responsibility for creating adequate provisions for any diminution in the value of loan assets, investment or other assets is that of the bank managements and the statutory auditors. The assessment made by the inspecting officer of the RBI is furnished to the bank to help the bank management and the statutory auditors in taking a call in relevancy making adequate and necessary provisions in terms of prudential guidelines. Sufficiency of capital also instills depositors' confidence.

Conclusion

The industry, which may be a part of the service sector, has undergone tremendous changes mainly to stay pace with the fast changing global business. Indian banking is fully controlled by the government of India and escorted by RBI. The economic reform adopted within the financial services stimulates private and foreign banks to work in India. Indian banking was monopolized by the general public sector banks which are fully controlled by the government of India, These banks act as Government agents and serve hard in rendering of the favored scheme of the government. The economic reforms paved the way for the competition because the mantra for the survival of the banks. Financial reporting information in the banking system is extremely important for both external and internal users for various deciding towards successful strategies. Also the standard of economic reporting information in the industry allows for an accurate and complete evaluation of the bank activities and therefore the establishing of respective bank priorities for the delineation of their business horizon. The standard and utility of accounting information rely upon the transparency of accounting systems on a part of the bank. In the context of globalization the banks which are giants in the international financial market are fighting for supremacy. Power means information quality, especially in the banking world. High level of the compliance with prudential norms and Accounting Standards and high level of qualitative characteristics of economic reporting system ensure banks the trail to success. The financial information by banks should be better equipped to report to regulatory requests, increase transparency and improve the standard of monetary reporting. Priorities include data quality, process standardization, and reporting and analytics. Each bank has its own unique issues, but all operate in the foremost fast-paced, challenging and highly regulated environments. Therefore, quality of economic reporting is complex and requires co-operation of the many different areas in the banks. The banks should provide in their reports employing a common financial reporting framework. This can facilitate comparison of a banks' financial performance over time and against that of other banks and the industry itself. The banks should provide a standard financial accounting framework. The framework should comprise the fundamental foundations or elements on which the complete financial accounting infrastructure, Accounting Standards and RBI prudential norms of all banks should be based.

The present study can also be a decent aid for the managers of the bank in deciding towards changing and developing the standard of monetary reporting information and educate the government, RBI, investors, depositors, customers and other stakeholders regarding the particular financial status of the banks in the global industry.

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