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A REVIEW ON THE PRACTICABILITY OF FINANCIAL REPORTING AND STOCK MARKETS WITH REFERENCE TO STATISTICS

Aditya Prasad Sahoo

PhD Research Scholar
KIIT University, Bubaneswar, Odisha
adityasahoo007@gmail.com

Abstract

The main drive of the study is to know the practicability of statistics in financial reporting and stock market in order to cultivate financial reports of companies. An analytical way is taken into account as research design. Habitually it is sued that studies related to statistics shows the relationship between financial reporting and stock market especially through co-variation. This leads to worthy financial report. Results from study point out limited support of statistics to understand financial reports for taking good financial decision. A case on the side of such assertions stays to be prepared. From conceptual point of view all the academicians and analysts are instructed for being exceptionally cautious while depicting interpretations after results of variant relationship flanked by financial reports and data from stock market for implementing the reporting procedure. Considering public repercussions from different financial researches better analysis must be taken to account to remove negative policy consequences. This study rears new questions about procedural implications from a huge course of pragmatic inquiry in accounting.

Key words: Financial, Reporting, Interpretations, Accounting, Market, Co-variation

1. INTRODUCTION

It is conceivable to outline improved financial reporting through vividly observing the structure, for instance applicability, steadfastness, suitability, etc. All these characteristics are critical, complex and need vivid analysis. This also needs deep observation of the variables and their impact on financial figures while evaluating financial reports. Market sensations being more enthusiastically noticeable than investor behavior and organizational actions, and it will drive anyone towards the stance of reporting of financial information for superior markets.

The wings of finance are spreading over many areas like capital market, labor market, products and amenities. There has been a solid however mainly inexplicable predisposition to emphasize deliberation taking place in capital markets, separating the further two classes of marketplaces to a great extent by way of the accounting treatise. Indeed inside the course of capital markets, emphasizes is given on collective equity of public corporations.

This study studies the implications which are complex to pull by using statistical assessment of financial information as well as examining secondary market to get information for public firm's equity. It is irrelevant to say that information of financial reports is not useful for other markets only because the attention is on the equity markets. Also it does not suggest that "better markets," though explained, certainly initiate prosperity or a superior society. Imperative as these queries are, those are not considered under the narrow space of this study.

2. SUPERIOR MARKETS FOR COLLECTIVE EQUITY

Mutual opinion is essential and beneficial to all and we must think about for a better market for shared equity. It is essential to create a rapport between financial reporting standard and stock market behavior. This will lead to develop a better picture of equity market for all. In economics, a flawless market and comprehensive one is much needed and for this purpose we must take a new step for it. In addition to other things a market is viewed as being impeccable if (1) all members have the applicable data, (2) no contributor has the supremacy to sway the prices, (3) the expenses will be zero for entrance and existent in the market, and (4) all members have the right to entry in appropriate production knowhow. The market which stands widespread by including the potential wealth can go for free trades.

A market which is flawless and comprehensive is a must in order to streamline economic replicas of a composite world. It is another question arises here is that can change of market to make it better possible? Or is it essential to change the market to make it a better place? When the model is used in the analysis for the betterment of the market itself include certain loopholes, then, the goal for perfection could not be met. The appeal for interference rest on the viewpoint taken for study, as Pareto advancement in the status-quo can come from few interventions.

When the market will get perfect, it will automatically create a linkage between reporting of financial data and market results. On the other hand, financial market always open to ambiguity in environment volatility, where it is difficult to attain perfection, and the epitome is moved towards market efficiency. We defined market are efficient on the basis of information where prices contain all the relevant data in tenure of the retail investors. Had every participant have the whole information as it is known to each individual investor efficient market prices will not show any change. As Hayek (1945) told movement of stock market is relied upon the information, as possesses by the investors.

The whole market does not reflect which information is most vital and efficient for us in order to take decisions. Subsequently it not practicable to make available of the whole business information to all participants as business concerns is full of uncertainty and volatility. Meanwhile whatever limited information is known to different corporate persons, making the information available to the society includes some exclusive, regulatory and modest inferences. Additionally it is hazy what appliances can be castoff to persuade managers to reveal information when they do not contemplate that revelation will aid their very own advantages.

The rule of financial reporting is depend up on analytical concern and there for can be guided by linking the data of financial reports with stock market performance by using descriptive statistics. As it is generally known that movement of prices consider the replication of all the important information in the efficient stock market, hence we can practice assistance from stock markets to pinpoint which accounting methods the markets discover applicable to govern prices generated by information; it can be attained by pinpointing the accounting methods which yield information withholding statistical closeness means rank correlation with stock prices; and competency of markets can be enhanced by applying such accounting postulates. In the meantime even ambiguity situation is exist the ideal markets status is competitive and proficient; this technique for landing at accounting arrangement will advance market proficiency, and consequently market superiority. The entire the four contentions want completely some examination.

3. EFFICIENCY OF STOCK MARKET

How we can say that stock market is efficient? How we can properly use the available financial data through following the current financial reporting policy. There is a dilemma exit between interpretations and available stock market information particularly in market efficiency. Under the first interpretation, as the price is not depend on the information, it will not helpful in determining the policy for financial. In the subsequent understanding, the selection of reporting procedure necessitates selecting among the several efficient equipoises.

3.1. *Price determination by following pertinent accounting procedure*

This is a realistic contention. Here issue is that in the first construal of efficiency, accounting techniques do not make any difference. Meanwhile in the second clarification, all accounting techniques not including minor opposite number are significant.

3.2. *Correlation technique for finding standard*

To find out closeness in the middle of accounting and stock market factors through statistics as the benchmark for selecting from different accounting possibilities, realizing more closeness, certainly distinctive, is insignificantly modest: by taking accounting on the thrust of market factors or variables. Suppose if we consider the equity market's capitalization for quantifying the level of income and changes in income, both accounting actions and market measure would be indistinguishable. However such a framework, withholding ideal proximity among accounting and various market factors, hardly give any information that will help in making investment decision thereby supporting the market contributors.

4. ELEVATION OF EFFICIENT MARKETS DEPENDS ON SUCH ACCOUNTING METHODS

In above analysis we found that selecting accounting procedure by considering familiarity among different stock market factors and accounting hardly make available any certainty to help in constructing market further efficient or improved in some predefined regard. It can be said that one researcher when selecting the financial reporting methodology, the researcher can go for statistics in order to study the variant relationship between accounting and stock market. The evidence regarding this can be derived from the thesis (Sunder, 1973, 1975), and the author found it quiet challenging in his research.

So far one view from the recent research on this notion can be found from the research paper (Vishnani and Shah, 2008,) where their study aims at analyzing the changes of market prices of listed companies on the basis

of impact of financial reporting. They found that the value is not significant as stated in of circulated financial reports. Even the addition of cash-flow reporting will not provide any significant value for decision making.
The above argument included two problems which are one: Is it the one and only or prevailing source of selecting corporate financial reporting in consideration with stock market? And second one is: Can we decide on incorporating a good practice of financial reporting from the statistical co-variation amid accounting and stock market information which was promised to bring help in preparation? First problem shall not be addressed by the author; reasonably second one has been taken in to consideration.
Think through the elementary configuration of the fat figure of research inclusively consider that a well-versed financial reporting system can be established by incorporating the help of statistical results of co-variation between information of stock market and accounting. The existing state of affairs Financial Reporting Method A apparently sources Price Method A; the pivotal bearing being intrinsic is searching a better market.

Reporting of Financial information Method A → Price Method A

As soon as the information is received on 2 side of the arrow, computer can use mathmatical calculation to evaluate calculus to do an educated guess R(A). Here R(A) include variant relationship of accounting informatons from the left side of the arrow and prices on the other side.

Reporting of Financial information Method A → Price Method A
R (A)

For instance we have an another hypothetical assumption where we can incorporate 'Method B' in financial reporting system .So assuming the "Method B" in financial reporting system probably generate price 'Method B'.

Financial Reporting Method B → Price Method B

Subsequently we can find out any other means of calculating the accounting numbers which are likely to be under B. This helps us to find out the existence of association amid the stock prices that are available under 'B' and accounting data under 'B'. To do so or to check the relationship between two factor we need to go for estimation of co-variation, R(B).

Reporting of Financial information Method B → Price Method B
R (B)

Here the question is what information we will get by matching the variation of Method A and Method B considering their kin appeal with the stock prices R (A) and R(B) as produces by them. Let for maximization purpose the benchmark to be set is that the numerical contiguity of accounting numbers to stock prices. Previously we found that, it is trifling to realize this accounting paradise; the only thing to be done is to consider the variation in firm's market capitalization as income and by the by an efficient system of data processing can be accomplished. However, it would be accounting on the basis of market but we can not say it is the market on the basis of accounting.
In any case, things are much more regrettable than the disappointment of co-variety to control us to better frameworks of announcing; as a rule, the co-variety R (B) itself can't be assessed. One may probably assess the accounting information under B which has not yet been actualized. Apart from this we know that the data formulated under reporting system under B is completely based on hunch of predication. Hence, one has no chance to get of assessing R (B) so it tends to be contrasted with R (A).

Reporting of Financial information Method A → Price Method A
R (A)
Reporting of Financial information Method B → Price Method B
R (B)

So if no data is in hand regarding Price Method B, what will happen? Here someone can do is to for co-variation analysis of R (B) of reporting Method B by means of price Method A.

5. FINDINGS

From the investigation of Vishnani and Shah (2008), along with several other investigation by different researcher on this accounting anvil have taken this path for examination. So actually what can derive from the relationship of R (A) with R (B)? It can not disclose to us whether B is preferable or more awful over A. In point of fact, their examination is very superfluous, except if one accepts that Price Method B and Price Method A both are equal in nature.

R (A)
Financial Reporting Method A Price Method A

R (B)

Financial Reporting Method B Price Method B

And, after it's all said and done, applying different accounting trilogy has put no effect to the value framework. On the off cha nce that accounting hardly put any effect on the price of the stock, it is insignificant to consider accounting system based on price of stocks.

6. CONCLUSION

Last but not the least it is difficult to derive any sufficient coherent conclusion by studying the association of R (A) and R(B) and this statistical measure hardly put any relevancy in formulation of strategy even if it is it is a substantial part of accounting. As a result, incorporation of this methodology following the investigation towards covariation of financal data and stock market information for building financial reporting strategy rests in the nest and further research to reveal new outcome must be initiated.

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