

## **Application of IAS/ IFRSs on Corporate Financial Reporting of Selected Commercial Banks in Bangladesh**

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**Abstract:** The financial reporting practices in commercial banks in Bangladesh, in accordance with regulatory compliances, are of utmost importance due to their role in ensuring accountability, comparability, consistency, faithfulness, and timeliness. Additionally, these practices contribute significantly to the sustainability of the banks. The objective of this paper is to analyze the inter-relationship between the disclosure practices, earnings, and asset volume of the selected banks. The study is conducted empirically, using quantitative data obtained from secondary sources covering ten years for ten commercial banks. Multiple regression analysis is employed in the study to explore the relationship between the outcome variable and the explanatory variables. The study discovered that the correlation between disclosure practices and the amount of assets is insignificant, whereas the association between disclosure practices and earnings is moderately positive. The findings of this research can be utilized by regulators and professionals to guarantee the long-term viability of reporting practices in the banking industry. A major drawback of this study is the limited scope of ten years of operational data, which constrains the statistical analysis and interpretation.

**Keywords:** Financial Reporting, Commercial Banks, Financial Reporting Council, IAS, and IFRS

### **Introduction**

Corporate financial reporting is the process of presenting accounting information to the stakeholders in accordance with fundamental accounting principles. The fulfillment of stakeholders' interests in making effective decisions is heavily reliant on the adherence to IAS/IFRSs and other regulatory guidelines set forth by the Bangladesh Bank and the Bangladesh Securities and Exchange Commission. The importance of corporate financial reporting in this context cannot be overstated. The basic characteristics that underpin such practices include comparability, verifiability, timeliness, understandability, relevance, and reliability of faithful representation. In Bangladesh, commercial banks predominantly adhere to the guidelines provided by the Bangladesh Bank, the Bangladesh Securities Exchange and Commission, the Banking Company's Act of 1991, and the relevant IFRS for their financial reporting purposes.

IFRS prescribes that clarity, relevance, reliability and comparability are the basic pillars of reporting practices while GAAP recommends the good use of objectivity, materiality

consistency, and prudence. It is known that GAAP is prescribed by FASB but IFRS refers to internationally desirable standards made by IASB. Up till now, we have 24 IAS and 17 IFRS applicable in Bangladesh. Financial analysis shows that IFRS is better than GAAP due to their more focus on investors' expectations. IFRS ensures the availability of globally comparable information to regulators, investors and other policymakers. Recently FASB has asserted the need for convergence and harmonization of US standards with IFRS due to its more clarity, simplicity, transparency, and comparability among financial statements of different countries but the major constraints are related to the existence of different cultures, ethical values, nature and economics, political atmosphere, religions superstitions etc. Firms following IFRS show higher accounting quality compared to GAAP practices, however, resistance to change is found among professionals, auditors management authorities, etc.

Jahangir (2013) conducted a study on "Compliance with Accounting Standards in Financial Reporting of Commercial Banks in Bangladesh" and concluded that there exists no significant variation in the viewpoints of the participants concerning adherence to regulatory requirements. Biswas & Rahman (2012) explored the topic of "IFRS and Environmental Accounting in Bangladesh". Their findings indicated that the guidelines provided by GRI initiatives and other regulatory frameworks fail to meet the expected standards for the disclosure of environmental assets and liabilities, as well as the associated benefits and deterioration. Additionally, Daniel, et al., (2002) analyzed the quality of financial reporting pertaining to financial experts and financial literacy. Their research revealed that experts prioritize relevance when evaluating the overall quality of financial reporting to a greater extent than the significance accorded to literature, which is crucial as information relevance forms the basis of various recent SFC and FASB initiatives.

Abo, et al., (2023) conducted an examination with focused on comparing the effects of financial ratios related to liquidity, profitability, and indebtedness before and after the adoption of IFRS. They recommended the full adoption of IFRS by banks to demonstrate its impact on financial performance and the need for an independent supervisory body to ensure compliance with IFRS by listed banks.

Saha, Kabir, Chakraborty, and Islam (2018) conducted an examination of the advantages and disadvantages associated with the International Financial Reporting Standards (IFRS) in relation to the advancement of the accounting profession. The findings revealed that the adoption of IFRS holds significant potential in terms of reduced capital costs, enhanced quality of financial reporting, and improved ability to secure borders, leading to improved access to global capital markets. In a separate study, Quraishi and Islam (2014) investigated the process of adopting and implementing IFRS in Bangladesh, as well as its effects. The research demonstrated that the government of Bangladesh was compelled to adopt IFRS without any modifications due to substantial pressure from investors and international donor agencies, driven by both financial and time-related constraints. Fazlur khan (2019) mentioned that corporate environmental reporting is a significant way of developing corporate reporting practices. He suggested for extensive use of regulatory framework regarding corporate reporting practices.

From the review of various relevant studies such as Daniel, et al., (2023); Samrudha, et al., (2020); Hakim, Bhuiyan, and Tuhin, 2008; Haider and Akter, 2006; Uddin, et al.,2006; Bhuiyan, et al., 2007; Haque, et al., 2007; and Muttakin and Hossain, 2003; it is clear that there is enough scope to develop the financial practices of our commercial banks based on IAS/IFRS, and some other regulatory frameworks. The major challenges of financial reporting of commercial banks are related to financial crises, chronic stuck-up advances, unfavorable investment climate, industrial backwardness, non-cooperation of borrowers, high cost of capital, unethical practices of management defective prior appraisals, etc. That is why this study will be more contributory for the policymakers in the context of financial reporting efforts of our commercial banks. The study aims to ascertain the inherent qualities and features of financial reporting practices in commercial banks in Bangladesh, with a particular focus on the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Furthermore, the study aims to analyze the presence of other applicable regulatory frameworks in the disclosure practices, as well as any associated limitations.

### **Materials and Methods**

This investigation primarily centered on the private commercial banks that are listed on the DSE. The selection of a non-probability sampling method, specifically a convenience sampling method, was made for the purpose of this study. In order to carry out the investigation, a decade's worth of cross-sectional data (2011-2020) was gathered from the annual reports of ten private commercial banks that are listed on the Dhaka Stock Exchange (DSE). Additionally, the publications of the Ministry of Finance, the Bangladesh economic survey, and the annual reports of the Bangladesh Bank were consulted for the purpose of this study. This study used SPSS, Eviews 10.0, and Microsoft Excel Sheet for analyzing the collected data. As per the outcome of related literature, following alternative hypotheses are developed:

H<sub>a1</sub>: A positive association can be observed between the divulgence of accounting information and the magnitude of assets within the banks included in the sample.

H<sub>a2</sub>: A statistically substantial correlation exists between the size of assets and the earnings of the companies considered in the sample.

H<sub>a3</sub>: A significant connection can be identified between the earnings of commercial banks and the degree of disclosure.

For testing of three hypotheses, this study used multiple regression models to examine the inter-relation of the disclosure practices, earnings and asset volume on panel data. The panel data framework is defined through a multiple regression equation, such as:

$$Y_{it} = \alpha + \beta X_{it} + e_{it}$$

In the context of this equation,  $Y_{it}$  represents the dependent variable for the  $i$ -th individual cross-section at time  $t$ . In this particular study, the dependent variable utilized was the disclosure practices of a private commercial bank. The term  $\alpha$  signifies the individual intercept specific to each individual cross-section, while  $\beta$  represents the vector of coefficients for the independent variables.  $X_{it}$  refers to a vector encompassing  $k$  independent variables for the  $i$ -th individual cross-section at time  $t$ , and  $e_{it}$  denotes the random error term. In order to fulfill the research objective, the independent variables chosen were earnings and asset volume.

### Results and Discussion

**Correlation Analysis:** The Pearson correlation coefficient quantifies the magnitude and direction of the linear association between two variables. The values range from -1 to 1, where -1 represents a perfect negative correlation, 0 represents no correlation, and 1 signifies a perfect positive correlation. As depicted in Table 1, the correlation coefficient between disclosure and earning is 0.428, implying a moderately positive correlation between these two variables. Similarly, the correlation coefficient between disclosure and asset is 0.176, indicating a weak positive correlation. Furthermore, the correlation coefficient between earning and asset is 0.571, reflecting a moderately strong positive correlation. Due to the correlation coefficient of 0.176 between assets volume and disclosure score, which suggests a weak positive correlation,  $H_{a1}$  is rejected.

**Table 1.** Pearson correlation at a glance

		DISCLOSURE	EARNING	ASSET
Pearson Correlation	Disclosure	1		
	Earning	0.428	1	
	ASSET	<b>0.176</b>	<b>0.571</b>	<b>1</b>

Source: Author’s calculation

The correlation between disclosure and asset is 0.176, which indicates a weak positive correlation. Based on the above table it is clear that correlation between asset and earning is 0.571. That is why  $H_{a2}$  is accepted.

The p-values presented in the table serve to indicate the likelihood of observing a correlation that is as strong as, or stronger than, the one observed in the sample, assuming there is no correlation between the variables in the overall population. A significance value below 0.05 would signify that the observed correlation is statistically significant at a confidence level of 95%. Within this table, it is evident that the correlations between disclosure and earning, as well as disclosure and asset, are statistically significant at a 95% confidence level ( $p < 0.05$ ). Furthermore, the correlation between earning and asset also holds statistical significance.

Based on the evidence presented in  $H_{a3}$ , it is acknowledged that a substantial correlation exists between the earnings and disclosure volume of the companies included in the sample. In brief, the tabular data demonstrates a positive correlation between disclosure and earnings, disclosure and assets, as well as earnings and assets. The correlation between disclosure and earning is moderately positive, while the correlation between disclosure and asset is weakly positive.

**Regression Analysis:** Table 2 provides a comprehensive overview of the findings obtained from the regression analysis. The primary objective of this analysis is to delve into the intricate connection between three distinct variables, namely Asset, Earning, and Disclosure. It is essential to note that disclosure acts as the dependent variable, while Asset and Earning serve as the two independent variables.



**Table 2.** Model Summary

<b>R</b>	<b>R<sup>2</sup></b>	<b>Adj. R<sup>2</sup></b>	<b>F Change</b>	<b>Sig. F Change</b>
0.436 <sup>a</sup>	0.190	0.174	11.391	0.000

Source: Author’s calculation

Table 2 presents the outcomes pertaining to the overall adequacy of the model. It is worth noting that the coefficient of determination, commonly referred to as R-squared, exhibits a value of 0.190, thereby indicating that a mere 19% of the variability in disclosure can be elucidated by the model. Upon further examination, the adjusted R-squared demonstrates a slightly diminished value of 0.174, thereby implying that the inclusion of the independent variables does not significantly enhance the model's appropriateness beyond what would be anticipated by mere chance.

The statistical significance of the F statistic at a p-value of less than 0.001 indicates that the inclusion of the predictors indeed enhances the fit of the model.

In recent research, there has been increasing interest in studying the determinants of voluntary disclosure. The findings of the regression analysis in Table 3 suggest that earning is a significant predictor of disclosure, while asset may not be an important predictor. This result is consistent with some previous research that has found a positive association between earnings and voluntary disclosure. However, the weak and insignificant effect of asset on disclosure contrasts with some other studies that have found a positive association between asset size and voluntary disclosure. In theoretical terms, this regression model is based on the signaling theory, which suggests that companies disclose information to signal their value to investors and other stakeholders. The model assumes that companies with higher earnings have more valuable information to disclose, while companies with larger assets may have more resources to disclose information. However, the weak and insignificant effect of asset on disclosure suggests that asset size may not be an important signal of company value in this context.

**Table 3.** Regression Result

<b>Variables</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
Constant	26.443	.631	41.898	.000
Earning	0.009	.002	4.367	.000
Asset	-1.632E-005	.000	-.912	.364

Dependent Variable: Disclosure

Source: Author’s calculation

**Major Observations:** IAS-1 is used for presentation of financial statement where current assets, current liabilities, non-current assets and liabilities are equity position shown BRPD circular -15 of Bangladesh bank is followed for the presentation of balance sheet and comparative income statement. As per IFRS 9 financial instruments are shown at fair value. Changing the fair value has also shown through other comprehensive income statement. Impairment allowance is shown to control the credit risk. No provisions for disclosure off balance sheet items are made at all. In case of impairment amortization cost is considered. As BRPD circular 14 investment income on classified investment is not recognized rather it is shown in suspense account. Bangladesh bank guidelines for financial reporting consist of

Basel- I, II and III. Basel- I provides guidelines for maintaining capital and reserve on risk level of assets, Basel -II and III added new requirements. Practically Basel-III introduced for maintaining leverage ratio more than 3% considering tier one capital and total assets of a bank. IFRS requirements for disclosure emphasized on balance sheet, statement of comprehensive income, changes in equity, cash flow statement and notes to financial statements but Bangladesh bank guidelines and Bank Companies Act 1991 (amended 2013) and BRPD circular-14 of the 2003 emphasized the followings disclosures –balance sheet, profit and loss account, cash flow statement changes in equity, liquidity statement and certain disclosures like- non banking assets, intangible assets, provision and suspense account acceptance etc.

### **Conclusion**

From the overall analysis and interpretation of both quantitative and qualitative data, it could be concluded that earning has a positive effect on disclosure score but asset volume may not have a significant impact on disclosure. The addition of the independent variable to the model significantly improves the model fitting. For the improvement of the financial reporting practices of the sample companies IAS and IFRS should be made mandatory for the listed commercial banks in Bangladesh. Bangladesh bank guidelines for financial reporting should be emphasized while using IAS and IFRS. Monitoring of compliance should be done by the Financial Reporting Council, BSEC and Bangladesh Bank. At the same time, professional accountants and auditors should be motivated to popularize the benefits of the application of IAS and IFRS. Now days the alignment with IFRS has increased comparability, and improved presentation of loans and advances, intangible assets and other relevant items in our private commercial banks in Bangladesh. Additionally, mandatory compliance monitoring by regulatory bodies such as the Financial Reporting Council, BSEC, and Bangladesh Bank acts as a safeguard, reinforcing accountability. On a societal level, these measures strengthen investor confidence, protect stakeholders through standardized reporting, and contribute to overall economic development by attracting investments. The role of professional accountants and auditors in advocating for the benefits of IAS and IFRS further solidifies the positive impact, creating a financial ecosystem in Bangladesh characterized by integrity, stability, and global competitiveness.

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