Examining the Financial Statements of Banks in India

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ABSTRACT

Financial statements purport to communicate a true and fair view of the financial position, performance and cash flows of a business entity so that the same is useful to the stakeholders for making proper economic decisions. The managers can however manage the financial statements by exploiting the flexibilities in GAAP like those in accruals, by going beyond GAAP, or even by taking real economic decisions to mislead the stakeholders. In order to enable the stakeholders to take correct economic decisions and to win their confidence on the business entity, it becomes necessary to assure that its financial statements are not managed to give them a look as desired by the manager.

Banks act as the custodian of public deposits. Therefore, public confidence is utmost important for their stability and growth. Any slightest loss of public confidence on a bank can bring in bank failures, which can convert into a world wide contagion in no time. Since loss in public confidence can arise from any small adverse news about the financial performance or position of banks and the severity of its impact can be greater than that in any other industry, it becomes all the more important to assure the credibility of the financial statements of banks.

Most of the studies on management of financial statements of banks are in the US context and their results are in conflict with each other. Indian context is different from the US context primarily in terms of predominant government ownership and social control. Further, enquiry into the financial statements of banks in India becomes imperative since a number of studies show the banks in India are poor in transparency and poor transparency is likely to provide a fertile ground for managing their books. Moreover the large size, the fast pace of growth of Indian economy and its increasing integration with world economies make the worldwide implications of any loss of investor confidence on Indian banks even more important.

In this light, the study examined the financial statements of Indian commercial banks over a

affected the decisions. Banks seemed to have used multiple discretionary tools to achieve their financial reporting goals. The choice of discretionary tools often varied depending upon the financial reporting goal sought to be achieved and the period. The decisions with respect to the discretionary tools were also found to be mostly interdependent. This suggests that any attempt to examine the tendency of managers to manage the financial statements would remain largely incomplete if simultaneity among the discretionary tools is left