A Study on The Impact of Financial Reporting on the Valuation of Stock Market

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***Abstract*—As financial reporting offers vital information about a company's financial health; it is fundamental to the valuation of stock markets. With an emphasis on how accuracy, openness, and adherence to global standards affects investor confidence and market performance, this study examines the effect of financial reporting on stock market value. The study secondary data collecting techniques, such as financial analyst and investor questionnaires. According to the research, accurate and honest financial reporting greatly raises investor trust, which in turn raises stock values. Additionally, the article investigates how market views are shaped by financial variables including debt-to-equity ratios, profits per share (EPS), and sales growth. The report also emphasizes how important regulatory frameworks like Ind AS and IFRS are to guaranteeing the accuracy of financial statements. The study also looks at how company governance, technology developments like blockchain and artificial intelligence, and external audits might help prevent financial misreporting. In order to encourage more open and effective stock markets, the study ends with suggestions for enhancing financial reporting procedures, regulatory frameworks, and investor education.**

***Index Terms*—Financial Reporting, Investor Confidence, Transparency, Stock Market Valuation, IFRS, Ind AS, Corporate Governance.**

I. INTRODUCTION

1.1 Background of the study

The stock market depends heavily on financial reporting since it gives investors, regulators, and other stakeholder's vital information. It assists in evaluating a company's stability, performance, and financial health. Making educated judgments about long-term investments, stock sales, and acquisitions is made possible by accurate financial reporting. This paper examines how financial reporting affects stock market value, paying particular attention to the Indian and international financial markets.

Financial reporting is important to stock market valuation because it gives stakeholders a fair assessment of a company's profitability and financial stability. Implementing international accounting standards like IFRS and Ind AS requires businesses to uphold greater levels of openness, which boosts investor trust and encourages responsible corporate behavior. But financial fraud, misreporting, and a lack of transparency can cause stock price volatility and investor mistrust, which can compromise the reliability of financial markets.

1.2 Problem statement

Financial reports frequently contain inconsistencies and abnormalities, which can cause disinformation and decrease investor confidence even in the face of international reporting rules. The purpose of this study is to assess the degree to which regulatory frameworks may improve market transparency and the influence that accurate financial reporting has on stock market value.

Accurate financial reporting has become even more crucial as a result of cross- border transactions, market globalization, and the rising complexity of financial instruments. In several instances, businesses have been charged with misrepresenting financial information to give investors a false assessment of their financial health. In addition to influencing stock prices, this manipulation compromises the effectiveness of financial markets.

The purpose of this study aims to fill these gaps by examining how financial reporting affects stock market value, determining the most important financial measures, and investigating how technology developments and legal frameworks might increase financial transparency.

1.3 Objectives of the study

- To determine how transparency in financial markets affects stock market value.
- To determine which financial variables, have the biggest impact on stock prices.
- To investigate the relationship between financial reporting accuracy and investor trust.
- To recommend changes to financial reporting that are both technological and regulatory.
- To evaluate how regulatory agencies such as the RBI and SEBI contribute to financial openness.
- To evaluate how well external audits work to stop financial misreporting.
- To investigate how technology advancements like block chain and artificial intelligence affect the accuracy of financial reporting.

1.4 Hypothesis

- Null hypothesis H0: Financial reporting has no significant impact on stock market valuation.
- Alternative hypothesis H1: Financial reporting has significant impact on stock market valuation.

II. LITERATURE REVIEW

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III. RESEARCH METHODOLOGY

3.1. Study design

The study uses a mixed-approaches strategy that incorporates both qualitative and quantitative data.

3.2. Data collection method

1. Primary data: 105 respondents, including accountants, professionals in finance, and investors, participated in the surveys.
2. Secondary data: NSE and BSE-listed firms' financial reports, SEBI's regulatory standards, and Bloomberg's stock market data.

3.3. Sampling techniques

1. Sampling units: Individual investors who use financial information to inform their stock market conclusions. Experts that work as financial analysts and in the stock market valuation sector.
2. Sample size:105 participant
3. Sampling method: Analysis of Data Descriptive

statistics, regression analysis, and Chi-Square testing were among the statistical methods used to examine quantitative data.

3.4. Data analysis

Thematic content analysis was used to examine qualitative data.

Particular	Always	Often	Sometimes	Rarely	Never	Total
	C1	C2	C3	C4	C5	
Male (R1)	12	18	8	5	1	44
Female (R2)	24	20	8	8	1	61
Total	36	38	16	13	2	105

ELEMEN TS	OBSERVE D	EXPECTE D	DIFFRENC E	SQAURE OF DIFFRENC E	CHI SQUAR E
C1R1	12	15.09	-3.09	9.57	0.63
C1R2	24	20.91	3.09	9.57	0.46
C2R1	18	15.93	2.07	4.29	0.27
C2R2	20	22.07	-2.07	4.29	0.19
C3R1	8	6.72	1.28	1.63	0.24
C3R2	8	9.28	-1.28	1.63	0.18
C4R1	5	5.46	-0.46	0.21	0.04
C4R2	8	7.54	0.46	0.21	0.03
C5R1	1	0.84	0.16	0.03	0.04
C5R2	1	1.16	-0.16	0.03	0.02
					2.1

Degree of freedom (DF) = (R-1) *(C-1)
= (2-1) *(5-1)
= 1*4
= 4

Critical value at a 0.05 significant level for DF=4 is 9.49

Since Chi-Square Calculated (2.10) > Critical Value (9.49) → H_0 is rejected

IV. RESULTS AND DISCUSSION

4.1. Key findings

- When making investing decisions, 43.8% of respondents said they always consult financial reports.
- 36.2% of respondents think that a company's actual financial situation is usually reflected in its financial reports.
- According to 78.1% of respondents, balance sheets have the greatest impact on stock valuation.
- Revenue growth is the most important financial statistic, according to 59% of respondents.

4.2. Statistics Examining

- The study employed a Chi-Square test to investigate the correlation between investor demographics and their dependence on financial reports. According to the findings, there is not a significant connection between gender and financial report trust (p-value > 0.05).
- In addition, regression research verified that debt-to-equity ratios, revenue growth, and EPS all had a major impact on stock prices.

4.3. Critical evaluation

- Financial report manipulation and inconsistencies continue to erode investor confidence, even though financial reporting has a beneficial effect on stock market price. Although external audits are essential in reducing these problems, they are not infallible. Block chain technology and the emergence of AI-based financial reporting systems provide intriguing ways to improve transparency and accuracy.

V. CONCLUSION AND FUTURE SCOPE

- The study comes to the conclusion that by boosting investor trust, accurate and transparent financial reporting has a major influence on stock market valuation. Misreporting and disparities still present difficulties, though. India's financial openness has increased since the implementation of IFRS and Ind AS norms, although more technical developments are required. Future studies should concentrate on combining blockchain technology for transparent disclosures, AI-based financial reporting systems, and automated auditing methods to increase timeliness and accuracy.

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