Related Party Financial Statement Disclosures of Selected Indian Business Units: Scanning of Some Managerial Components

Sanjoy Kumar Roy[1], Mousumi Roy[2], Subrata Kar[3]

[1]Department of Commerce, Durgapur Government College, Durgapur, West Bengal-712214, India

[2]Department of Commerce, Savitri Girls' College, Kolkata, West Bengal-700007, India

[3]Department of Commerce, Darjeeling Government College, Darjeeling, West Bengal-734101, India

Abstract

A short time ago, there were enormous number of corporate scams occurred around the world and in India, owing to existence of related party transactions (RPTs). Accordingly, AS 18, 'Related Party Disclosures', issued by the ICAI, came into effect compulsorily in respect of accounting periods commencing from 1-4-2004 (ICAI, 2018) in India to rheostat the malpractices instigating due to related party transactions. This study emphasizes on significant likelihood of some crucial related party transactions and to examine significant influence of some decisive related party transactions on net profit. The entire study is based on published annual report of all the companies in the Nifty Index (arbitrary cut-off date – 01. 04 2015) in respect of the years 2014, 2015, and 2016, where we have considered 09 sectors comprising of 46 companies. We have used statistical software package SPSS 17.0 version for the purpose of statistical measurement.

Keywords: Related Party Transaction, AS – 18, Related Party Revenues, Key Management Personnel.

1. Introduction

A short time ago, a large number corporate scandals have occurred universally[1], which showed an exhaustive mirror image of the regulatory role of the government in protecting the interests of shareholders and safeguard the economy of the country as well. India is not an exception to this vulnerable situation. In most of the cases, the existence of related party transactions cannot be denied at all. In this setting, Accounting Standard (AS) 18, 'Related Party Disclosures', issued by the Council of the Institute of Chartered Accountants of India (ICAI), originally adapted from the International Accounting Standard (IAS)-24,

came into effect compulsorily in India in respect of the accounting periods commencing from 1 April, 2004. So, we have already passed almost a decade after effectuation of the standard. Evidence from 'related party disclosure' studies suggests that related party relationship is a normal feature of business and it has significant effect on profit/loss and financial position of an entity. For financial reporting purposes, parties are considered to be related if one party has the ability to significantly influence or control the activities of another, or if both parties are under the common influence of another party (Deegan, 1999, 383). 'Prior research indicates that most companies engage in related party transactions and details of such transactions need to be reported in details as 'related party transactions' have been used to provide misleading accounting figures by companies such as Enron' (Chatterjee, et al.2009, 287).

2. Literature Review

The disclosure of related party transactions provides the market with the information necessary for investors to discipline opportunistic behaviour (Jensen and Meckling, 1976, 305). 'The disclosure of accounting information is related to firm and country characteristics. So it is an integral part of the financial statement reporting' (Alford et al. 1993, 183). 'One neglected area of research is management's decision making on related-party sales, an area where the monitoring and auditing of such transactions are difficult' (Levine et al. 1997, 47). 'The existence of a related-party relationship may expose a reporting entity to risks or provide opportunities, which would not have existed in the absence of such a relationship' (Deegan, 1999, 412). 'Expropriation of assets (i.e. tunnelling) by controlling parties damages minority shareholders which in turn reduces stock market values and returns for those firms that enter into such transactions'(Johnson et al., 2000, 23). The tunnelling literature suggests the abuse of minority shareholders by controlling shareholders is commonplace in developing

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[1] Adelphia Communications, Enron, Tyco International, Worldcom, Bank of Credit and Commerce International (BCCI), Polly Peck in the USA, Banesto in Spain, Balsam, Bremer Vulkanverbund, Philipp Holzmann in Germany, Adelaide Steamship, Bond Corporation, Harris Scarfe, HIH Insurance in Australia, ABB, Fermenta in Sweden, Daqing Lianyi, Kangsai Group, Lantian Gufen, Shenzhen Yuanye in China, Riccar, Sanyo Special Steel in Japan, Satyam in India.

economies like China and is present in more sophisticated forms in developed countries. 'Dividend policy may also be used to tunnel cash to controlling shareholders that leads to some sort of RPTs' (Chen et al. 2009, 210). It is also proclaimed that 'some related party transactions efficiently fulfil economic needs of the company' (Gordon et al. 2004, 81). So all related party transactions are not harmful from the view point of business, society and economy as well.

It is evidenced that that controlling shareholders can take advantage of their group structures through connected transactions, especially in emerging markets where legal protection of investors is weak. It is also a matter of fact that controlling shareholders can extract private benefits through tunneling. The expropriation of minority shareholders includes activities ranging from outright theft to selling assets or products at lower than market prices to a firm in which they have higher stake, or buying at high price from the firm. Evidences suggest that controlling shareholders can also use private resources to prop up the firm that is in trouble. That is, they temporarily transfer resources to the firm to boost the performance so that default or delisting is avoided. They can both exist in the same firm but during different time periods. Thus, tunneling and propping are the two major purposes for controlling shareholders to engage connected transactions within their business group or related party. That also induce the firm in management of earnings by distortion of accounting facts and figures in terms of related party transactions.

3. Objectives of the Study

Related party disclosures are aimed at ensuring that a company's financial statements contain the disclosures necessary to make an assessment of how the financial results and position of the company are affected by its transactions and relationships with related parties. In this study our overall objectives are:

➢ To examine significant influence of some crucial related party transactions on net profit of the reporting company. We have taken 'total revenues (TOTAL REV)', 'related party revenues (RPT REV)', 'transactions with key management personnel (TKMP) and 'net profit (NP)' of the company for the purpose of the analysis.

➢ Measurement of likelihood for some frequently reported RPTs, like, RPT Revenue Expenses, RPT Revenues Earnings, Borrowings, Loan and Transactions with Key Management Personnel (TKMP). The likelihood measurement will show the tendency of the reporting company to transact and deal with the related parties.

4. Research Methodology

We have examined the financial statements as published in annual reports of 46 companies out of 50 companies as given in the Nifty Index, pushing aside 04 sectors which are poorly representing 01 number of company in each sector, in respect of the years 2014, 2015, and 2016. The Nifty is a well diversified 50 stock index accounting for more than 20 sectors of the economy. The NIFTY 50 is the flagship index on the National Stock Exchange of India Ltd. (NSE).

In this study the main information sources we have used are accounting regulations and published annual reports. Books, journal articles and study reports also constitute an important information source of the study. We have used the following statistical methods using statistical software package SPSS 17.0 version.

The following statistical methods have been used to calculate some vital values of data and information to elucidate the subject matters and also to examine whether the stated fact and figures bear any statistical significance in real practice:

❖ Frequency Distribution of Sample Company Types
❖ Measurement of likelihood in favour of the reporting company for the following frequently reported Related Party Transactions (RPTs):
  ✓ RPT Revenue Expenses;
  ✓ RPT Revenues Earnings;
  ✓ Borrowings;
  ✓ Loan and
  ✓ Transactions with Key Management Personnel (TKMP)
❖ Descriptive Statistics showing Mean, Standard Deviation to measure central tendency, and variability (volatility) of measurements for a group from an average or mean within the given distributed values.
❖ Correlations among the variables to test the statistical relationship among the variables.
❖
  ultiple Regression Model has been used to analyse the influence of average RPT Revenues and average of TKMP on N.P. taking average Total Sales as control variable.

It is to be noted that the Nifty companies account for more than 20 sectors of the economy. However, for the purpose of the study, we have taken 09 broad sectors comprising of 46 companies out of 50 companies as given in the nifty list. These are – Automobile[1], Cement & Cement Products[2],

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[1] Bajaj Auto Ltd., Bosch Ltd., Hero MotoCorp Ltd. Mahindra & Mahindra Ltd., Maruti Suzuki India Ltd., Tata Motors Ltd,

[2] ACC Ltd., Ambuja Cements Ltd., Grasim Industries Ltd., Ultra Tech Cement Ltd.

Consumer Goods [1] , Energy [2] , Financial Services [3] Information Technology (IT)[4], Mining & Metals[5], Pharma[6], Telecom[7]

The following presumptions have been drawn for the purpose of aforementioned analysis:

- All the figures taken from the annual reports of the company for the purpose of analysis have been expressed in crores of rupees and up to two decimal figures have considered.
- Depending upon the nature of the company, total revenues may include the following component part:
    - Sales
    - Interest Income
    - Dividend Income
    - Rent Received
    - Commission Received and
    - Any Other Income as given in the profit & loss a/c.
- Only the stand alone profit and loss a/c and balance sheets of the companies have been considered in acquiring the data and information from the annual reports. In no case consolidated profit & loss a/c and balance sheets have been taken into account.
- As mentioned earlier, only one Nifty – 50 list of companies as on 1 April 2015 has been considered to select the companies and the same list has been sustained to collect the annual reports of companies for all the years in order to maintain uniformity and consistency.
- Profit after tax (PAT) has been considered as Net Profit for all the cases.
- Segregation of types of companies, denoted as sector in this study, has been made as per the

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[1] Asian Paints Ltd., Hindustan Unilever Ltd., I T C Ltd.

[2] Bharat Petroleum Corporation Ltd., Cairn India Ltd., GAIL (India) Ltd., NTPC Ltd., Oil & Natural Gas Corporation Ltd., Power Grid Corporation of India Ltd., Reliance Industries Ltd., Tata Power Co. Ltd.

[3] Axis Bank Ltd., Bank of Baroda, HDFC Bank Ltd., Housing Development Finance Corporation Ltd., ICICI Bank Ltd., IndusInd Bank Ltd., Kotak Mahindra Bank Ltd., Punjab National Bank, State Bank of India. Yes Bank Ltd.

[4] HCL Technologies Ltd., Infosys Ltd., Tata Consultancy Services Ltd., Tech Mahindra Ltd., Wipro Ltd.

[5] Coal India Ltd., Hindalco Industries Ltd., Tata Steel Ltd., Vedanta Ltd.

[6] Cipla Ltd., Dr. Reddy's Laboratories Ltd., Lupin Ltd., Sun Pharmaceutical Industries Ltd.

[7] Bharti Airtel Ltd., Idea Cellular Ltd.

grouping available in the Nifty – 50 list of companies.

5. Research Hypothesis

Apart from the measurement of likelihood of some frequently reported Related Party Transactions (RPTs) as mentioned earlier, for the purpose of this study, the following propositions have been drawn in order to ascertain the impact of some Related Party Transactions (RPTs) on Net Profit (NP) of the reported companies:

$H1_0$: RPT REV has no significant influence of TOTAL NP of the firm, against

$H1_1$: RPT REV has significant influence of TOTAL NP of the firm.

$H2_0$: TKMP has no significant influence of TOTAL NP of the firm.

$H2_1$: TKMP has significant influence of TOTAL NP of the firm.

6. Analysis and Interpretation of Results

6.1 Frequency Distribution of the Sample Company Types

Table 1 estimates Frequency Distribution of the sample company types, which shows that financial service sector represents 22% of the total companies under consideration followed by Energy Sector (17%), Automobile Sector (13%), IT Sector (11%) and so on. Telecom sector has the least value of frequency, 4%.

Table 1: Frequency Distribution of the sample company types

Company Type	Frequency	Percent
Automobile	6	13.0
Cement And Cement Product	4	9.0
Consumer Goods	3	7.0
Energy	8	17.0
Financial Services	10	22.0
IT	5	11.0
Mining And Metals	4	9.0
Pharma	4	9.0
Telecom	2	4.0
Total	46	100.0

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

6.2 Likelihood Accounting for Some Frequently Reported RPTs

Tables 2, 3, 4, 5 and 6 show comparative static analysis of the change in likelihood of different activities with related party:

Table 2: Likelihood of purchase of different types of companies from related party

Company Type	Year 2014		Year 2015		Year 2016	
	Total number of Companies	Probability of purchase from related party	Total number of Companies	Probability of purchase from related party	Total number of Companies	Probability of purchase from related party
Automobile	6	1	5	1	6	1
Cement & cement products	4	1	4	1	4	1
Consumer goods	3	1	3	1	3	1
Energy	8	0.75	8	0.75	8	0.75
Financial Services	4	0.25	10	0.5	10	0.5
IT	5	0.8	5	0.8	5	0.8
Metals	4	1	4	1	4	1
Pharmaceutical	4	1	4	1	4	1
Telecommunication	2	1	2	1	2	1

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Table 3: Likelihood of revenue earning of different types of companies from related party

Company Type	Year 2014		Year 2015		Year 2016	
	Total number of Companies	Probability of revenue earning from related party	Total number of Companies	Probability of revenue earning from related party	Total number of Companies	Probability of revenue earning from related party
Automobile	6	1	5	1	6	1
Cement & cement products	4	1	4	1	4	1
Consumer goods	3	1	3	1	3	1
Energy	8	0.875	8	0.875	8	0.875
Financial Services	4	0.7	10	0.7	10	0.7
IT	5	1	5	0.8	5	0.8
Metals	4	0.8	4	0.75	4	0.75
Pharmaceutical	4	1	4	1	4	1
Telecommunication	2	1	2	1	2	1

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Case (i): Purchase from related party:

Table 2 reports the computed probabilities of a company within an industry to purchase from the related party. These probabilities are computed on the basis of the binary information on purchase or don't purchase from the related parties. It is observed from this table that automobile, cement & cement products, consumer goods, pharmaceutical, and telecommunication industries are more likely to purchase from the related parties. The likelihood of the purchase from the related party has been increased for metal and financial service industries, but it has been declined for the information and technology (IT) industry. The probability of related party purchase is constantly low for the energy, financial services and information technology industries. It can be observed that the probability of purchase of the public sector banks is the least consistently over time.

Case – (ii): Revenues from related party:

Table 3 reports the computed probabilities of a company within an industry to earn revenue from the related party. These probabilities are computed on the basis of the binary information on earning revenue or don't earning revenue from the related parties. Likewise, in the case of purchase, in the case of the revenue earned from the related parties it can be observed from Table 3 that the probability of revenue earned from the related parties is not identical for all industries. For major number of industries, the probability is equal to one, but for automobile, energy, financial services and metals these probabilities are not always equal to one. In almost all cases the probability of revenue earning of the automobile is unit except in 2013-14. Therefore, comparing all these probabilities, it can be concluded that automobile, cement & cement products, consumer goods, metals, and telecommunication are more likely to earn revenue from the related party compared to the energy, financial services, information technology and metals. The likelihood of revenue earning of the information technology industry has been increased during intermediate period, but it has declined again from 2015-

16. Likelihood of revenue earning from the related parties for energy and financial services industries has been increased from the initial period, and the likelihood of revenue earning from the related parties for metal industries is almost constant over time. As in the case of purchase from related parties, in this case of revenue earning the likelihood of revenue earning of the public sector is the least in the financial service industry, which brings down the probability of revenue earning for the financial service providing industry.

Table 4: Likelihood of borrowing of different types of companies from related party

Company Type	Year 2014		Year 2015		Year 2016	
	Total number of Companies	Probability of borrowing from related parties	Total number of Companies	Probability of borrowing from related parties	Total number of Companies	Probability of borrowing from related parties
Automobile	6	0.833	5	0.833	6	0.833
Cement & cement products	4	0.5	4	0.5	4	0.5
Consumer goods	3	1	3	1	3	1
Energy	8	0.375	8	0.375	8	0.375
Financial Services	4	0.5	10	0.5	10	0.5
IT	5	0.8	5	0.8	5	0.8
Metals	4	0.5	4	0.5	4	0.5
Pharmaceutical	4	0.75	4	0.75	4	0.75
Telecommunication	2	1	2	1	2	1

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Case – (iii): Borrowing from related party:

Table 4 reports the computed probabilities of a company within an industry to borrow from the related party. These probabilities are computed on the basis of the binary information on borrowing, i.e., borrow or don't borrow from the related parties. In the case of borrowing more consistent result is obtained. It can be observed that across all years of interest the probabilities of all industries for the borrowing from related parties are constant except the financial service providing industry. However, the consumer goods and telecommunication industries are more likely to borrow from the related parities compared

to automobile, cement & cement products, energy, financial services, information and technology, metals and pharmaceutical industries. More specifically the likelihood of borrowing from related parties is the least for the companies included in the financial service providing industry. Moreover, the public sector commercial banks exhibit the least involvement with the related parties as in the case of purchase and revenue earning.

Table 5: Likelihood of loans of different types of companies from related party

Company Type	Year 2014		Year 2015		Year 2016	
	Total number of Companies	Probability of loans from related parties	Total number of Companies	Probability of loans from related parties	Total number of Companies	Probability of loans from related parties
Automobile	6	0.833	5	0.833	6	0.833
Cement & cement products	4	1	4	1	4	1
Consumer goods	3	1	3	1	3	1
Energy	8	0.75	8	0.75	8	0.75
Financial Services	4	0.7	10	0.7	10	0.7
Information and Technology	5	1	5	1	5	1
Metals	4	0.75	4	0.75	4	0.75
Pharmaceutical	4	0.75	4	0.75	4	0.75
Telecommunication	2	1	2	1	2	1

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Case – (iv): Loans given to the related parties:

Table 5 reports the computed probabilities of a company within an industry lend to the related party. These probabilities are computed on the basis of the binary information on lending, i., lend or don't lend to the related parties. One significant fact can be identified while we examine the probability of loans given by the industries to the related parties is that there is no overtime change in this probability during the period of interest. Moreover, it is also important to state that the probabilities of loan taken by any company within an industry are quite similar even when these probabilities are less than one. Likewise, the

previous cases and especially in the case of borrowing, energy and financial service providing industries are having less than one probability of loan provision to the related parties. It can also be observed from the reported figures of probabilities that the likelihood of lending to the related parties by the financial service providing industry is the least, i.e., the chance of lending to the related parties is the lowest for any concern included in the financial service providing companies. Another important fact is that all of the concerns included in the cement & cement products, consumer goods, information and technology, metals, pharmaceuticals, services, telecommunication industries consistently lending to their related parties over the whole period of interest.

Table 6: Likelihood of TKMP of different types of companies

Company Type	Year 2014		Year 2015		Year 2016	
	Total number of Companies	Probability of TKMP	Total number of Companies	Probability of TKMP	Total number of Companies	Probability of TKMP
Automobile	6	1	5	1	6	1
Cement & cement products	4	1	4	1	4	1
Consumer goods	3	1	3	1	3	1
Energy	8	1	8	1	8	1
Financial Services	4	0.9	10	0.9	10	0.9
IT	5	1	5	1	5	1
Metals	4	1	4	1	4	1
Pharmaceutical	4	1	4	1	4	1
Telecommunication	2	1	2	1	2	1

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Case – (v): TKMP
Table 6 reports the computed probabilities of transaction with key management personnel of different companies. It can be observed that the probability is one after 2nd year for all industries except the financial service providing companies. Therefore, the financial service providing companies are less likely to transact with key management personnel compared to the companies included in the other industries. Initially the likelihood of transaction with key management personnel for the companies included in metal industry was lower than that of the companies

included in other industries, but it has been increased to one in later years. Therefore, it can be concluded that almost all companies included in different industries are making transaction with the key management personnel during the period of interest.

6.3 Descriptive statistics of the Variables used for the Sample Companies
Table 7 presents the formulae used for the purpose of measuring the variables used in the present study:

Table 7: Variables for measuring Average RPTs and company related parameters

Variable	Measurement
AVERAGE RPT REV	Average of RPT revenues during three years (Compiled from Annual Reports of 2014, 2015, 2016) $$(\text{AVERAGE RPT SALE})_j = \frac{\sum_{i=1}^{n}(\text{RPT REV})_{ij}}{n}$$ Where 'i' and 'j' subscripts are used for indexing the years and company respectively. Therefore, $(\text{RPT REV})_{ij}$ represents the RPT Revenue of the j-th company in i-th year, and n is total number of years, i.e., 3 years.
AVEREGE TOTAL REV	Average of three years' Total Revenue (Compiled from Annual Reports of 2014, 2015, 2016) $$(\text{AVERAGE TOTAL REV})_j = \frac{\sum_{i=1}^{n}(\text{TOTAL REV})_{ij}}{n}$$ Where 'i' and 'j' subscripts are used for indexing the years and company respectively. Therefore, $(\text{TOTAL REV})_{ij}$ represents the RPT Revenue of the j-th company in i-th year, and n is total number of years, i.e., 3 years.
AVERAGE NET PROFIT	Average of three years' Net Profit (Compiled from Annual Reports of 2014, 2015, 2016) $$(\text{AVERAGE NET PROFIT})_j = \frac{\sum_{i=1}^{n}(\text{NET PROFIT})_{ij}}{n}$$ Where 'i' and 'j' subscripts are used for indexing the years and company respectively. Therefore, $(\text{NET PROFIT})_{ij}$ represents the RPT Revenue of the j-th company in i-th year, and n is total number of years, i.e., 3 years.
AVEREGE TKMP	Average of three years' TKMP (Compiled from Annual Reports of 2014, 2015, 2016) $$(\text{AVERAGE TKMP})_j = \frac{\sum_{i=1}^{n}(\text{TKMP})_{ij}}{n}$$ Where 'i' and 'j' subscripts are used for indexing the years and company respectively. Therefore, $(\text{TKMP})_{ij}$ represents the RPT Revenue of the j-th company in i-th year, and n is total number of years, i.e., 3 years.

Table 8 reports the descriptive statistics of the variables of interest for the sample of companies.

Table 8: Descriptive Statistics of the Sample Companies

Item (1)	No. of Companies (N) (2)	Mean (3)	Std. Deviation (4)
AVERAGE RPT REV	46	3134.2457	7957.1835
AVEREGE TOTAL REV	46	45504.6867	58551.4480
AVERAGE NET PROFIT	46	5875.6580	6044.7780
AVEREGE TKMP	46	54.8711	112.0916

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Arithmetic mean or simply mean is the average value of the observations, which is considered as the expected value for the probability distribution, and it is likely the mid-point of the distribution unless there is no outlier. Taking into account all the years and all the sectors of companies, mean of averages of RPT revenues, total revenues, net profits and transactions with key management personnel are provided in column no. 3. It can be observed from the reported figures in Table 8 that mean of average total revenue is higher followed by average net profit, average RPT revenues and averages of transactions with key management personnel (TKMP) in that order.

Another important instrument for measuring the behaviour of the distribution of a variable is standard deviation, which enables us to explain the variations of the observations. It actually assesses the variation of the observations about the average or expected value of the distribution of the respective variable. Therefore, lower value of the standard deviation of a distribution reveals that major proportions of the observations are closer to the average or expected value of the distribution of the variable. On the contrary, high standard deviation implies that major proportions of the observations are significantly varied from the average or expected value of the distribution of the variable. The computed values of standard deviation of the distributions of all variables of interest are reported in column (4) of Table 8.

Coefficient of correlation is a scalar measure of the strength of association between two variables. However, this coefficient only enables us to explain the linear relationship between each pair of variables. The value of the correlation coefficient lies between +1 and -1. Greater magnitude of the value of the correlation coefficient of each pair the variables indicates greater strength of linear association between the variables. Table 9 reports the computed values of the correlation coefficients of each pair of the variables of interest. We have used statistical software package SPSS 17.0 version to compute these values of the *Pearson's correlation coefficient* among the variables considering the given set of values.

Table 9: Pearson's Correlation Coefficient

	AVERAGE TOTAL REV	AVERAGE RPT REV	AVERAGE NET PROFIT	AVERAGE TKMP
AVERAGE TOTAL REV	1	.427**	.601**	-.065
AVERAGE RPT REV	.427**	1	.508**	.021
AVERAGE NET PROFIT	.601**	.508**	1	-.200
AVERAGE TKMP	-.065	.021	-.200	1

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Correlation coefficient is a scalar measure of the degree of association between the variables of interest, such as average total revenue (AVERAGE TOTAL REV), average RPT revenue (AVERAGE RPT REV), average net profit (AVERAGE NET PROFIT) and average TKMP (AVERAGE TKMP). The computed values of the correlation coefficients among the variables provided by Pearson are reported in Table 9. The results reveal that average RPT revenue has significant positive correlation with average total revenue and average net profit. Average TKMP does not bear any significant correlation with average total revenue, average RPT revenue and average net profit.

Results of the regression analysis (given in Table 10) describes the impact of the change in the dependent variable due to the change in each of the independent variables taken into account in the study. We have used multiple regression analysis to describe the relationships between a set of independent variables and the dependent variable. In this study multiple regression analysis was conducted to evaluate the extent by which 'AVEREGE RPT REV' and 'AVEREGE TKMP' may influence the 'AVERAGE NET PROFIT' of the company taking 'AVEREGE TOTAL REV' as the control variable. The results of the regression analysis have been presented in Tables 10(a), 10(b).

The results reveal that 'AVEREGE RPT REV' and 'AVERAGE TOTAL REV' have a significant positive influence on the 'AVERAGE NET PROFIT' of the sample companies. H1$_1$ is accepted as per our analysis. However, 'AVEREGE TKMP' has no significant influence on 'AVERAGE NET PROFIT'. Hence, H2$_1$ is rejected in accordance to our estimation. This indicates that revenue generated through RPTs may have an influence on the net profits of the company.

Table 10 (a): Variables included in the regression

Variables	Type of the variable
Dependent Variable: AVERAGE NET PROFIT	Cardinal Variable
Independent Variables: AVERAGE RPT REV AVERAGE TOTAL REV AVERAGE TKMP	Cardinal Variable Cardinal Variable Cardinal Variable

Table 10 (b): Regression results

	Coefficient	t-value	p-value
Constant	3510.624***	3.772	0.001
AVERAGE RPT REV	0.241**	2.552	0.014
AVERAGE TOTAL REV	0.047***	3.639	0.001
AVERAGE TKMP	-9.540	-1.568	0.124
Value of R Square: 0.469			

Note: *** *implies significant at 1 per cent level;* ** *implies significant at 5 per cent level; &* * *implies significant at 10 per cent level.*

Source: Calculated from Annual Financial Report, Nifty 50 Stock Index

Concluding Observation

Put in a nutshell, the core findings of the study thus reveal the facts that –

- In India, the ICAI's accounting standard for the Related Party Disclosure is AS 18 which is based on the International Accounting Standard IAS 24 has some crucial elements namely, loan. borrowing, TKMP, revenue expeses and revenue earnings to disclose in detail for the purpose of better understanding of the stakeholders.
- In likelihood analysis results reveal that all the firms are well accustomed to transact with related partiies namely in terms of loan. borrowing, revenue expeses, TKMP and revenue earnings Therefore, all the factors under consideration are very decisive for the purpose disclosing the information of the related parties.
- Therefore, the standard setters should give additional guidelines and explanatory statements in order to facilitate the process of identification of RPT revenues and transactions with KMP. Transactions with KMP is very vital. The financial service providing companies are less likely to transact with key management personnel compared to the companies included in the other industries. The analysis reveals the fact that either the firms are reluctant to disclose all the items associated with transactions with KMP or the respective standard AS 18 should be revisited to

include more items which are now obscure in nature

- Correlation analysis results reveal that a significant positive correlation has been observed between average RPT revenue and both average total revenue and average net profit. However, average TKMP has no significant correlation with either average total revenue or average net profit.
- The present study has been conducted based on published annual reports of 50 companies. The scope of the present study may be extended by including more companies. In this study, we have used published financial statements of three years only in order to perform our empirical analysis. More years can be accompanied in the analysis in order to get better result.

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Sanjoy Kumar Roy, Associate Professor, Durgapur Government College: Has completed post-graduation in Commerce in the year 1992 from Calcutta University. Joined as Lecturer in Accountancy in West Bengal Educational Service in the year 1999. Currently, he is pursuing Ph.D. program from the West Bengal State University. He has keen interest in the field of Accounting & Finance.

Dr. Mousumi Roy, Associate Professor, Savitri Girls' College, Kolkata: Has completed post-graduation in Commerce in the year

1996 from the Calcutta University. Joined as Lecturer in Commerce in the year 2001. In the year 2016, she has obtained Ph.D. degree from the Calcutta University. She has profound concern in the field of societal aspects of Accounting & Finance.

Dr. Subrata Kar, Associate Professor, Darjeeling Government College, Darjeeling: Has completed post-graduation in Commerce in the year 1989 from the Calcutta University. Joined as Lecturer in Accountancy in West Bengal Educational Service in the year 1999. Has achieved Ph.D. degree from the Burdwan University in the year 2006. His area of interest is confined to hard core accounting.