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Impact of COVID-19 pandemic on financial reporting and disclosure practices: empirical evidence from Bangladesh

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Abstract

Purpose – To investigate the consequence of COVID-19 pandemic on the financial reporting and disclosure (FRD) practices, the study has been conducted. Moreover, this paper highlights the significance of FRD practices in any emergency period and its relevance with legitimacy theory in Bangladesh Perspective.

Design/methodology/approach – The COVID-19 pandemic has adverse impact on business. Hence, all the business activities have been categorized into five major aspects which are financial factors, business operations, business contracts, business value and stakeholders. These five major activities have been considered as independent variable. By analyzing various policy recommendations and guidelines of global and local accounting bodies, a structured questionnaire was developed in association with related IAS and IFRSs. Then, it was distributed among the accounting professionals of Bangladesh who are currently engaged in financial statement preparation and auditing services. Finally, data was analyzed through structural equation modeling (SEM) to test the hypothetical relationship between dependent variable and independent variable.

Findings – This study finds that financial factors, business contracts and stakeholders have significant relationship with the financial reporting and disclosure practices during the COVID-19 pandemic period. However, business operation and business value have no significant relationship with financial reporting and disclosure practices.

Research limitations/implications – This study tries to analyze why and how firms should disclose essential information (both financial and non-financial) to the financial statement users during the COVID-19 pandemic. This study can be used as benchmark to issue a separate policy or standard for reporting any kind of adverse event in the financial reporting and disclosure practices.

Originality/value – To our best knowledge, we believe that this is first kind of study undertaken to investigate the consequence of COVID-19 pandemic on the FRD practices in the context of Bangladesh. This study is kind of exploratory in nature. Hence, future studies can explore industry-based financial reporting and disclosure practice in any pandemic period.

Keywords Financial reporting and disclosure, COVID-19, Legitimacy theory, SEM Bangladesh

Paper type Research paper

1. Introduction

Financial reporting and disclosures (FRD) refer to the accounting recording of various business transactions in an entity's financial statements by following prescribed set of accounting assumptions and reporting standards. FRD helps to ensure proper disclosure of

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significant information required in the decision-making process. Moreover, the role of FRD is very much critical as it portrays the real financial scenario of an entity's business (Ailwan *et al.*, 2013). As a part of operational activities of business, FRD focuses on revealing contemporary business scenario, contingent risks associated with the business, overall macroeconomic scenario and relevant information used in the preparation of financial statements. These kinds of disclosure help the stakeholders to take essential decision in handling any adverse economic event. Adverse economic event denotes occurrence of any event or rise of any incident which will lower economic growth, increase unemployment and make the overall economy fragile. Adverse economic event includes outbreak of any global pandemic, worldwide economic disruption and so on. Recent, flare-up of COVID-19 pandemic can be recognized as an adverse economic event as it has caused a global economic downturn (McKibbin and Fernando, 2020). The COVID-19 pandemic has slowed down economic activities globally as it led to the closure of cities and countries in the form of strict lockdown. Restricted movement imposed by government of different countries has reduced sales and production volume of business enterprises. Consequently, business performance of enterprises has been affected adversely as there exists a negative impact of COVID-19 on the firm performance (Shen *et al.*, 2020). Such damaging effect of the COVID-19 pandemic has altered the reporting and disclosure dimension. Because closure of business activities for so long will affect the various the estimates and measurement mechanisms of various elements of financial statements. Moreover, this negative effect will also cause an uncertain situation of various agreement and contracts made earlier by business organizations. Considering these facts, there has been a lot of discussion about the potential reporting guidelines for this COVID-19 pandemic period as there exists a lot of uncertainty about the overall economic performance, business operation, future earnings and many more things directly related with financial statements. However, professional accounting standard setters and practicing firms have tried to outline a pertinent guideline for FRD in this uncertain period (KPMG, 2020a). These guidelines include a directive for financial statements preparer, auditor and regulators. Similarly, Institute of Chartered Accountants of Bangladesh (ICAB), a regulatory body of professional accounting in Bangladesh, has also stressed on the various FRD aspect during the COVID-19 pandemic and issued few specific guidelines to follow for preparation of financial statements (ICAB, 2020). This kind of prompt and timely response from ICAB is a gesture of protecting investors right and keep investors informed about the potential adverse effect of this pandemic on business through relevant FRD.

Bangladesh has been graduated from least developed country (LDC) to a developing country very recently (Byron and Mridha, 2021). The milestone has been the result of Bangladesh's continuous economic development over the last decade. At an average, the GDP growth of Bangladesh is more than 6.50%. The GDP growth rate in Bangladesh before the COVID-19 pandemic was 8.13% for FY2018–2019 (Ministry of Finance, 2019–2020). However, the COVID-19 pandemic has tarnished the economic growth of Bangladesh and brought it down to 5.24% in FY2019–2020 (The Financial Express, 2021). This tumble of economic growth also signifies how badly businesses in Bangladesh have been affected by the COVID-19 pandemic. Such fall in the performance of the business cause investors to lose money in the capital market as the COVID-19 pandemic affects the capital market negatively (Chowdhury, 2021). To help the investors investment protected, Government of Bangladesh and Regulators have made various policy and provided reporting guidelines for companies. Companies also have significant responsibility in informing their shareholders about any kind of risky or adverse situation the business is facing. Companies should make sufficient disclosure about the adverse business environment in the annual report to communicate with the stakeholders and make themselves legitimate in the society by talking about the crisis. In the presence of specific disclosure related with the COVID-19 pandemic, the investors will feel confident about the management's determination and efficiency.

This study intends to examine the impact of the COVID-19 pandemic on the financial reporting and disclosure (FRD) practices in the context of Bangladesh with the support of legitimacy theory. To do so, a self-administered structured questionnaire was developed and distributed among the accounting professionals of Bangladesh. Finally, data was analyzed through SMART-PLS3 to get the desired result.

2. Theoretical background and conceptual framework

2.1 Legitimacy theory

Every business organization has social responsibility within which it operates. Legitimacy theory facilitates to comprehend the organization's actions in developing, implementing and communicating its social responsibility policies (Zyznarska-Dworczak, 2018). Suchman (1995) defines legitimacy as a generalized perception where an entity performs desirable and appropriate actions within socially constructed norms, values, beliefs and definitions. The idea of legitimacy theory is based on social contract which requires to be fulfilled by organizations. Consequently, it enables the organizations to fulfil their objectives. Here social contract means society's expectation both implicit and explicit toward how organizations run their operation in the societal context. In the legitimacy theory, organizations try to ensure that they operate within the bounds and norms of their respective societies, that is they want their activities to be legitimate (Degaan, 2006). According to this theory business activities will not be legitimate by its actual actions rather it is the social perception about organization's conduct which forms legitimacy. Legitimacy is a relative concept as with the change in society's expectation organization has to reshape its activities for legitimization. Based on this theory, impression of the organization is responsive to society's expectation where organization has to validate its existence through legitimate economic, environmental and social arrangements that do not endanger the social system within which it operates (Schiopoiu Burlea and Popa, 2013). Eventually, power of the organization represents its legitimacy that is not a legal validity but a tacit respect of legal and voluntary moral social norms (Gunningham *et al.*, 2004).

2.2 Legitimacy theory and accounting disclosure

The credibility of business organization is based on legitimized activities in accordance with moral rules of society where noncompliance of these rules may lead to organizational failure (Schiopoiu Burlea and Popa, 2013). The existence of an organization will be in danger if the organization fails to meet societies' expectation or goes against social norms. Business organization is surrounded by a broad form of social system where it has to deal with number of stakeholders including shareholders, employees, general public, lenders and government etc. Legitimacy theory operates in an established environment where these stakeholders continuously putting pressure on entity to legitimize their business actions. Disclosure of accounting information is vital to establish such corporate legitimacy (Degaan, 2006). Legitimacy theory explains management's behavior in developing voluntary disclosures. In other words, management gets motivation to prepare disclosures to portray that whatever they are doing is ethical and as per social norms and values. Business activities are reported and communicated through accounting disclosures. Hence, the role of accounting disclosure in decision-making process of stakeholders' is very meaningful. Disclosure should be used as a mechanism to establish positive image in front of stakeholders. Business organizations should also disclose any potential risk arising from any uncertain event so that stakeholders become aware of the situation and take appropriate decision accordingly. Lack of proper disclosures lead to several corporate scandals (Arthur Andersen, KPMG, The AIG, Parmalat and Enron) and cause stakeholders to lose their money. Informing stakeholders about the negative impact of such issues makes disclosure as an imperative tool of legitimizing business activities.

2.3 COVID-19 pandemic, financial disclosure and legitimacy theory

Global economy is terribly deteriorating by the outbreak of the COVID-19 pandemic. Precautionary actions like ceasing business operation for indefinite period of time, social distancing, travelling restrictions and repetitive lockdown announcements have caused instantaneous negative impact on the business. Such type of economic turbulence will definitely affect society adversely as economic downturn will affect all its parties including investors, creditors, general public, financial intermediaries, government, employees, etc. These stakeholders are now looking for disclosures to measure financial impact of this global pandemic. Timely and relevant disclosure will help them in taking key decision during this crisis time. Legitimacy theory signifies that companies tend to report socially responsible information so that they can legitimize their behaviors to their stakeholder groups (Gavancha and Paiva, 2020). The legitimacy theory is used to describe social and environmental reports disclosure but it can be used in corporate report, suggested by Woodward *et al.* (1996), as one possible legitimacy/accountability reporting framework, to communicate with the shareholders (Damaso and Lourenço, 2001). Tsang (2001), Ogden and Clarke (2005) have explored corporate report behavior and concluded that organizations use such reporting for legitimacy purposes. It is theoretical stance that predicts companies' behavior toward managing and maintain the perspectives of key stakeholders though company disclosure (Gavancha and Paiva, 2020). Schiopoiu Burlea and Popa (2013) has identified role of legitimacy theory in explaining behavior of organization in providing voluntary disclosures in any jumpy economic environment condition like the COVID-19 pandemic. Through disclosures organization can draw attention of stakeholders to take prompt decisions to hedge future risk associated with this economic downturn. Organizations should keep in mind that management may exaggerate financial information and get short-term benefit but in long run it will lead to corporate scandals and destroy image of the organization. Adherence to society's expectation in the current turbulent economic environment caused by the COVID-19 emerges venues for business organization to survive in upcoming days, where society expects true and fair view of disclosures rather than symbolic and inaccurate ones. Considering the mentioned theoretical significance and importance of FRD in the COVID-19 pandemic, the proposed research framework has been designed (see Figure 1).

3. Literature review and hypothesis development

Similar to several global pandemics including Severe Acute Respiratory Syndrome in 2003, Swine influenza pandemic in 2009, Avian influenza in 2013 (Springborn *et al.*, 2015) and Ebola virus; the occurrence of this pandemic has already shaken the global economy. All the businesses have been directly or indirectly impacted by this virus. However economic turbulence of the COVID-19 pandemic in business sectors namely aviation industry, apparels, consumer durables, automobiles, electronics, hospitality and financial services are severe in the context of Bangladesh (ICMAB, 2021). As business activities are reported through the language of accounting therefore the COVID-19 pandemic has serious implications on financial reporting (El-Mousawi and Kanso, 2020). Moreover, this pandemic is putting risk to the survivability of business as it will affect going concern assumptions and by influencing which have significant and valuation of assets (KPMG, 2020a). Consequently, professional accounting bodies have emphasized on adequate disclosures in case of going concern ability and subsequent period reporting of organizations (Accounting Europe, 2020; ICAB, 2020). PRI (2020) has suggested disclosures in regard of reporting risk and uncertainties.

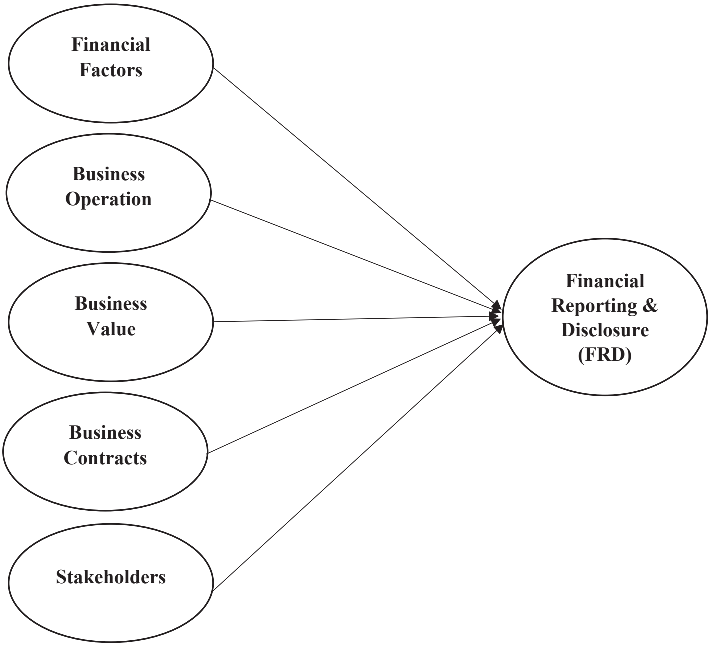

Figure 1.
Proposed research framework

Furthermore, PWC (2020) has recommended to consider the COVID-19 pandemic-related financial reporting by all organizations not only by affected organization.

3.1 Financial factors

As the occurrence of the COVID-19 pandemic is hampering economic activities of business, it is obvious all the financial components including asset, liability, income and expense required to run business will be affected. This global pandemic causes many businesses to shut down which may influence accounting of revenue cycle, enforceability of revenue contract, revenue estimation and loss on trade receivables (KPMG, 2020b). Collection of business is declining due to prolonged lock downs which may decline future cash flows (RSM, 2020). Hence, this liquidity crisis may lead to unavoidable liability or a loss-making contract for the business organization (KPMG, 2020b). However, due to lockdown, restricted movement and closure of land borders in the COVID-19 pandemic, it was very tough to mobilize inventory for production and selling purposes. This causes inventory demand to change dramatically. Additionally, perishable nature of the goods coupled with the growing pressure of sustainability rules and standards makes inventory management more challenging (Logistik Express, 2020). This concern puts a question about the reporting and disclosure of inventory management in this pandemic period. However, such kind of concern is also applicable for the valuation and measurement of financial assets as this pandemic will cause lower fair value of the financial assets held by business organizations. This lower of value of financial assets will lead the businesses to face credit risk (RSM, 2020; KPMG, 2020c). In this regard we may hypothesize that-

H1. COVID-19 pandemic will have a significant impact on financial factors an entity.

3.2 Business operation

Ongoing operation of business becomes a question due to rapid spread of the virus COVID-19. As a result, Global Accounting bodies and Local professional Accounting regulators have suggested that business organizations that have been adversely affected by the COVID-19 pandemic must conduct sensitivity analysis to determine ability to continue as going concern and provide adequate disclosures in case of material uncertainty (KPMG, 2021d; Accounting Europe, 2020; ICAB, 2020). The effect of the COVID-19 pandemic will be considered as a non-adjusting event for the business enterprise whose reporting period falls within the December 31, 2019 (ICAB, 2020; ICMAB, 2021). As the surge of the pandemic is continuing in 2020 and 2021 as well, entities should disclose major effects the business is experiencing due to the COVID-19 pandemic. To cope up with this unstable situation PWC (2020) has recommended management to take into consideration of impact of COVID-19 in case of both interim and annual financial reporting. Moreover, entities should also disclose their judgment and effort in developing significant accounting policies and estimations to deal with such crisis period (Accounting Europe, 2020; KPMG, 2020a). In this regard we may hypothesize that-

H2. COVID-19 pandemic will have a significant impact on business operation of an entity.

3.3 Business value

The COVID-19 pandemic is triggering the business world toward a new level of uncertainty as it is worsening earnings quality, business value and fair value. Business value is decreasing due to decline in current earnings causing from downward customer demand and forceful closures of business during this pandemic (Sadang, 2020). Consequently, stock price is also deteriorating due to decline in the profitability of business in the COVID-19 pandemic and unstable reactions of stock market in response to extended lockdown of business operation (El-Mousawi and Kanso, 2020). Hence, such market condition observable inputs are no longer relevant leading to rise of subjectivity associated with fair value measurement (ICMAB, 2021). In addition, investment in subsidiaries, associates and joint ventures are accounted through cost, fair value or equity method. Fair value is not measurable and there must be decline in values of subsidiaries, associates and joint ventures due to spread of COVID-19 which will ultimately affect investor's consolidation accounting (RSM, 2020). As this pandemic pushes the financial statement preparers to re-adjust accounting estimates and policies, it will certainly affect the valuation and measurement of Non-Current Assets (e.g. impairment and depreciation cost of various assets will be affected because of lower usage). In this regard we may hypothesize that-

H3. COVID-19 outbreak will have a significant impact on business value of an entity.

3.4 Business contracts

Economic disturbance resulting from the COVID-19 pandemic makes businesses to rethink about the terms and conditions of different sorts of business contracts and formations. Blake and Conticelli (2020) stated that strict policy to recover money from borrowers is no longer applicable by lenders where borrowers are becoming defaulters unintentionally and affordability of borrowers to run prolonged loan arrangements with limited income is a question. Considering the poor economic performance of the country, Bangladesh Bank has also extended the loan moratorium period for borrowers (Bangladesh Bank, 2020). Moreover, bankers could not go for site visits for asset valuation which will have an impact on material valuation uncertainty in case of sanctioning of loans. Different project and construction work have been stopped due to shortage of labor or supply which leads to suspension in the capitalization of borrowing costs. Therefore, the renegotiation or adjustment of borrowing terms may affect the amount of eligible borrowing costs (KPMG, 2020c). Not only loan agreements but also lease arrangements may be affected in terms of renewal or termination or purchase option between lessor and lessee leading to consideration of incremental borrowing rate by lessee and classification of lease and grants (ICMAB, 2021). Besides these agreements any kind of business combination conducted during this period requires careful consideration in case of fair value assessment of acquired asset, going concern ability of acquired entity and impairment review of the Goodwill balance at acquisition (RSM, 2020). In this regard we may hypothesize that-

H4. COVID-19 outbreak will have a significant impact on business contract an entity.

3.5 Stakeholders

Business organization comprises its internal (employees, management) and external parties (government, supplier, creditors, banks). The COVID-19 pandemic has disturbed the balance among these parties. There are some organizations offering special incentives toward employees for working in lockdowns which may affect in the recognition of employee benefits (ICMAB, 2021). Due to liquidity crisis in this pandemic companies are arranging share-based payments toward its employees (RSM, 2020) and other suppliers which require management consideration under IFRS 2 share-based payment. Timely assistance should be given from the government so that business organizations can survive in this battle. The Government of Bangladesh has offered many assistance and stimulus packages for all types of business. This includes loan at cheap rate, tax cutting, tax deferral and so on (Bhowmik and Bala, 2020; KPMG, 2020e). Such consideration from government and benefits to the employees have significant impact when it is recognized and measured by following relevant reporting standards. In this regard we may hypothesize that-

H5. COVID-19 outbreak will have a significant impact on stakeholders of an entity.

4. Research methods

4.1 Research design

To test the hypothetical relationship among the variables, relevant data have been used as prescribed by Copper and Schindler (2006). Data have been collected from professionals who are currently engaged in financial statement preparation and audit industry with a view to getting actual accounting information disclosure associated with the shock of the COVID-19 pandemic. A structured questionnaire was designed to get the primary data from respondents for this study. Finally, the result of analysis has be found for these hypothesized relationships through structural equation modeling (SEM).

4.2 Sample

The judgment sampling method has been used in this study. It is a kind of purposive sampling technique which is often used for deliberately choose respondents that are best fitted for examining research questions. As a part of technical and professional knowledge about the subject matter, the researchers have set some criteria to select group of respondents.

4.3 Measures of constructs

The construct of each variable has been measured based on financial factors, business operation, business value, business contract and stakeholders perspective from the business entities viewpoint. Moreover, the study takes into consideration of the various recommendation of global and local professional accounting bodies (Including KPMG, PWC, ICAB, etc.). Specifically, financial factors have been measured using five items adapted from KPMG (2020b, c) and RSM (2020), whereas Business Operation has been measured using three items adapted from ICAB (2020) and PWC (2020). Business value has been measured using five items adapted from El-Mousawi and Kanso (2020) and Sadang (2020) and Business Contract has been measured using five items adapted from KPMG (2020c) and RSM (2020). Finally, stakeholders have been measured using four items adapted from KPMG (2020e) and RSM (2020), whereas FRD has been measured using three items adapted from ICAB (2020) and El-Mousawi and Kanso (2020).

4.4 Data analysis technique

Statistical Package for Social Science and SMART PLS 3.0 have been used in the study for analyzing data and test the hypothetical relationships described above.

5. Findings and interpretation of the results

5.1 Demographic characteristics

To collect data from financial statement preparers, professional accountant and auditors, a self-administered structured questionnaire was developed and distributed accordingly. 650 questionnaires were distributed out of which 313 questionnaires were returned. Moreover, 13 questionnaires were incomplete. This means we got 300 responses useable for this study representing 46.15% response rate. Rubel *et al.* (2016) showed that 43.25% response rate is sufficient for conducting survey-based study in the context of Bangladesh. Several studies found that the demographics factor have influences on the responses of the respondents. The respondents' gender, age, education and industry experience were asked. Furthermore, profile of the respondents (Financial Statement Preparers, Professional Accountant and Auditor) in regards of the financial reporting and disclosure was studied and presented in Table 1.

5.2 Internal consistency

Internal consistency indicates the reliability based on the interrelationship of the observed items. The popular approach to identify internal consistency is Cronbach alpha and composite reliability (CR) (Table 3). The acceptable level for Cronbach alpha should be higher than 0.70 (Hair, 2014). However, it is not desirable to be more than 0.90 (Nunnally and Bernstein, 1994). Next, the CR should be higher than 0.70 to find strong internal consistency. This study finds both Cronbach alpha and CR are in acceptable level.

5.3 Indicator reliability

Indicator reliability indicates the amount of indicator variance that is explained by the latent variable. The value of outer or factor loadings should be greater than 0.70 (Table 2). If the factor loadings value is between 0.4 and 0.7 and supports to an increase in CR and AVE, it should be removed from the construct (Hair, 2014).

5.4 Convergent validity

This study assesses the composite reliability (CR), which specifies the internal consistency and reliability of the measured variables, and average variance extracted (AVE) to identify convergent validity (Hair *et al.*, 2014). Hair *et al.* (2014) stated that the fitness of every individual item to make any specific constructs are confirmed by Convergent Validity.

Demographic profile	Number of respondents (=300)	Percentage (%)
Gender		
Male	262	87.33
Female	38	12.67
Age		
20–24 years	08	2.67
25–30 years	102	34.00
31–35 years	70	23.33
35–40 years	60	20.00
40 years and above	60	20.00
Education		
Bachelor or equivalent	20	6.67
Masters or equivalent	34	11.33
Course completed (articleship)	48	16.00
Chartered accountant	180	60.00
Cost and management accountant	12	4.00
ACCA	06	2.00
Industry experience		
Financial institutions	74	24.67
Textile	28	9.33
FMGG	27	9.00
Manufacturing	46	15.33
Power and energy	18	6.00
Audit and assurance services	86	28.67
Healthcare	08	2.67
Real state	09	3.00
Tourism and travel	04	1.33

Source(s): Data analysis

Table 1.
Profile of the respondents

Besides, AVE analysis assesses the extent of variance controlled by a construct regarding the variance originated from random measurement error (Fornell and Larcker, 1981). Moreover, CR and AVE are calculated as measures of scale or construct reliability. Bagozzi and Yi (1988) conclude that the extent of CR needs to be greater than 0.6 to attain high internal consistency and reliability measure. Next, the value of AVE should be greater than 0.4 to achieve the acceptable level of convergent validity (Baumgartner and Steenkamp, 1994). Further, Chin (2010) asserts that AVE and CR should be greater than 0.50 and 0.70 respectively to achieve acceptable level. This study finds both CR and AVE are at acceptable level (See Table 2).

5.5 Discriminant validity

Discriminant validity is to what extent a latent variable discriminates from other latent variables. Due to presence of measurement error or similar context, unmeasured influences and other constructs within conceptual framework, a latent construct fails to account more variance in the observed variables related with it. It indicates the lack of discriminant validity. Hence, this study uses Fornell–Larker Criterion (Fornell and Larcker, 1981). This approach compares the square root of AVE presented in diagonal components with other components (off-diagonal components). Here, a latent construct should be able to account more variance in the observed variables than other latent

Constructs	Category	Related IASs/ IFRSs	Items	Loading	Cronbach's alpha	CR	AVE
Financial factors (FF)							
COVID-19 causes a reduction of movement in inventory during strict lockdown period	Inventory	IAS-2	FF1	0.778	0.814	0.870	0.573
Cash inflows of an enterprise have been reduced or deferred due to COVID-19	Cash flows	IAS-7	FF2	0.742			
Receivables and contract assets collection period will increase due to this pandemic	Revenue	IFRS 15	FF3	0.792			
COVID-19 likely affects the measurement of financial instruments by increased credit risk	Financial instruments	IFRS 9	FF4	0.746			
COVID-19 may result in an unavoidable liability or a loss-making contract	Contingent liabilities	IAS 1 and 37	FF5	0.724			
Business operations (BO)							
An entity's ability to continue as a 'going concern' may be affected in this pandemic	Survivability	IAS 1	BO1	0.825	0.832	0.899	0.749
Business will provide necessary disclosures of all events after the reporting date amid pandemic	Future activity	IAS 10	BO2	0.913			
COVID-19 likely affects the disclosure of significant accounting policies	Strategic activity	IAS 1	BO3	0.856			
Business value (BV)							
COVID-19 likely causes a fall in an organization's stock price	Share price	IAS-33	BV1	0.811	0.855	0.892	0.624
Impairment of non-financial assets will be significantly influenced as COVID-19 has reduced inventory movement, production capacity (less usage of machine) and other key resources	Impairment	IAS 36	BV2	0.713			
COVID-19 likely causes impairment of investment in an associate or joint venture	Impairment	IAS 36	BV3	0.795			
COVID-19 likely affects the fair values of investments in subsidiaries, associates, and joint ventures	Fair value	IFRS 13	BV4	0.823			
COVID-19 likely affects the costs and depreciation of PPE if the capital projects are suspended	PPE	IAS 16	BV5	0.803			

(*continued*)

Table 2. Results of the measurement models

Constructs	Category	Related IASs/ IFRSs	Items	Loading	Cronbach's alpha	CR	AVE
Business contracts (BC)							
COVID-19 likely affects the terms of a lease between a lessor and a lessee	Agreement	IFRS 16, IAS 23	BC1	0.728	0.805	0.860	0.551
COVID-19 likely affects the changes to terms of any borrowing or loan agreement			BC2	0.747			
Rent concessions during pandemic may create strong impact on accounting estimates and disclosure			BC3	0.737			
Customer contracts may be affected or invalid due to the pandemic			BC4	0.754			
COVID-19 likely affects business formation in terms of consolidation, associate and joint venture	Mergers/ Acquisition	IFRS 10 and 12	BC5	0.744			
Stockholders (SH)							
COVID-19 likely affects the reaction of governments' measures (tax rebates, supports, etc.)	Government	IAS 12 and 20	SH1	0.891	0.880	0.917	0.736
Government may provide the opportunity to carry forward tax liability amid COVID-19			SH2	0.874			
COVID-19 likely affects the recognition of liability of the employee benefits	Employee	IAS 19	SH3	0.879			
COVID-19 likely affects the liability towards suppliers based on share-based payment	Supplier	IFRS 2	SH4	0.783			
Financial reporting and disclosure (FRD)							
Coming years' financial reporting may require special attention to adjust the effects of pandemic	Pandemic related disclosure	IAS 8 and IAS 37	FRD1	0.860	0.797	0.881	0.712
Accounting estimates and policies should be prudent amid COVID-19			FRD2	0.801			
Financial statements require more disclosure of events, estimates, policy and uncertainties arising from this pandemic			FRD3	0.869			

Table 2.

constructs (i.e. the square root of each construct's AVE will be greater than other off-diagonal components), reflecting good discriminant validity in this study (Table 3). Besides, using cross loading between constructs, the elements of the constructs are examined for DV. According to rule of thumb of Hair *et al.* (2014), it is found acceptable. Next, Heterotrait–Monotrait (HTMT) ratio of correlation is used to assess discriminant validity (Table 4). The threshold level of this ratio is close to 1. If the value of HTMT ratio is greater than the threshold level, it indicates the lack of discriminant validity. Moreover, some studies conclude the threshold level should be 0.85 (Kline, 2011). This study finds the HTMT ratio within threshold level and shows good discriminants validity. In other words, it does not comprise the overlying elements from the respondents' perception in the constructs (see Table 5).

5.6 Structural path analysis

Structural equation modeling (SEM) helps to identify the assumed relationships between dependent and independent variables. A total of 500 resampling has been considered for this to examine the statistical significance through bootstrapping technique. Moreover, it is observed that 57.10% of variances FRD during the COVID-19 pandemic can be explained by the independent variables (FF, BO, BC, BC, SHs) of this study. Among the all the independent variables of this study, FF, BC and SHs have significant impact on FRD in this COVID-19 pandemic in the context of Bangladesh with value ($\beta = 0.512$, $p < 0.01$), ($\beta = 0.100$, $p < 0.10$) and ($\beta = 0.272$, $p < 0.01$) respectively. However, the remaining two independent variables (BV and BO) have no significant impact on the FRD.

	BC	BO	BV	FF	FRD	SH
BC	*0.742*					
BO	0.660	*0.866*				
BV	0.413	0.382	*0.790*			
FF	0.483	0.304	0.212	*0.757*		
FRD	0.480	0.267	0.160	0.714	*0.844*	
SH	0.65	0.372	0.247	0.643	0.641	*0.858*

Table 3. Fornell–Larcker criterion for discriminant validity

	BC	BO	BV	FF	FRD	SH
BC	–					
BO	0.831	–				
BV	0.511	0.447	–			
FF	0.56	0.369	0.249	–		
FRD	0.553	0.327	0.181	0.848	–	
SH	0.718	0.429	0.278	0.748	0.757	–

Table 4. Heterotrait–monotrait ratio (HTMT)

Direct path	Coefficient	*t*-values	*p*-values	Decision
BC ⇒ FRD	0.100*	1.390	0.092	Accepted
BO ⇒ FRD	−0.040	0.709	0.479	Rejected
BV ⇒ FRD	−0.041	1.017	0.309	Rejected
FF ⇒ FRD	0.512***	10.533	0.000	Accepted
SH ⇒ FRD	0.272***	4.790	0.000	Accepted

Note(s): ***$p < 0.01$ denotes significant at 1% level, *$p < 0.10$ denotes significant at 10% level (based on one-tailed test)

Table 5. Path analysis

5.7 Interpretation of the results

The objective of this study is to assess the potential impact of COVID-19 pandemic on the FRD in the context of Bangladesh. For examining the hypothesized relationships of dependent variable (FRD) and independent variables (FF, BO, BC, BV, SHs), SEM has been applied in this study. This study finds that FF has a significant and relationship with FRD (see also El-Mousawi and Kanso, 2020). This result indicates that most of the business organizations will disclose financial factors mostly as most of the businesses in Bangladesh have suffered from huge loss during this COVID-19 pandemic, more specifically due to the strict lockdown period and restricted movement of the people. Closure of business organizations have serious implication in the financial health of an entity. 12 weeks of strict lockdown and 9 weeks of restricted movement in Bangladesh have caused many businesses to close down their operation due to low sales volume, less collection of cash and more exposure to the credit risk (Ghosh and Saima, 2021; Purayil, 2020; El-Mousawi and Kanso, 2020). Moreover, FF can be affected due to cancellation of any upcoming projects or contracts that could not be entertained because of the pandemic (Joshi, 2020). Interestingly, BO has a no significant relationship with FRD. BO has a negative relationship with FRD which is quite surprising. Global and local professional accounting bodies have emphasized more on the managerial judgment to declare an organization amid this pandemic. However, we do not find any significant relationship between BO and FRD. Perhaps, timely declaration of stimulus package from the Government of Bangladesh and co-operation from other regulators have increased the confidence and improve the business environment which led to this insignificant relationship. Further, BV has no significant relationship with FRD. The relationship signifies that the COVID-19 pandemic does not have much impact on the market value. Hence, it will not have any substantial effect on the valuation of financial assets held by companies. Moreover, Bangladeshi capital market outperforms in this pandemic which can be a testimony of no effect of BV in FRD (Mahmud, 2020). The impact of this pandemic on the capital market of Bangladesh is less compared to the other Asian and developed economies (Mahmud, 2020). In addition, BC has a significant and positive relationship with FRD. This result implies that firms should disclose BC related information very promptly because such disclosure can affirm investors about the changes of terms and conditions of any business contract made earlier. Specifically for loan management, Bangladesh Bank has allowed loan moratorium period many times so that business firms can get sufficient time to repay their loans (Bangladesh Bank, 2020). Finally, SH has a significant and positive impact on FRD practices during this pandemic. It signifies that businesses should decisively disclose all the benefits being taken and given by the businesses. Because such benefits have major accounting impact in financial statement. Opportunity of tax deferral, high payment of employees for performing during pandemic and announcement and disbursement of stimulus packages should be presented through FRD. Because this will increase the accountability and transparency of the business organization and thus all the activities of business organization can be legitimized.

5.8 Structural path analysis

See Figure 2.

6. Conclusion and policy implications

The COVID-19 pandemic has brought drastic fall in the global economy in last one year. It has also affected the Bangladeshi economy as well. The estimated GDP growth of Bangladesh for FY2019-20 was 8.20% but actual GDP growth rate was 5.21%. This severe

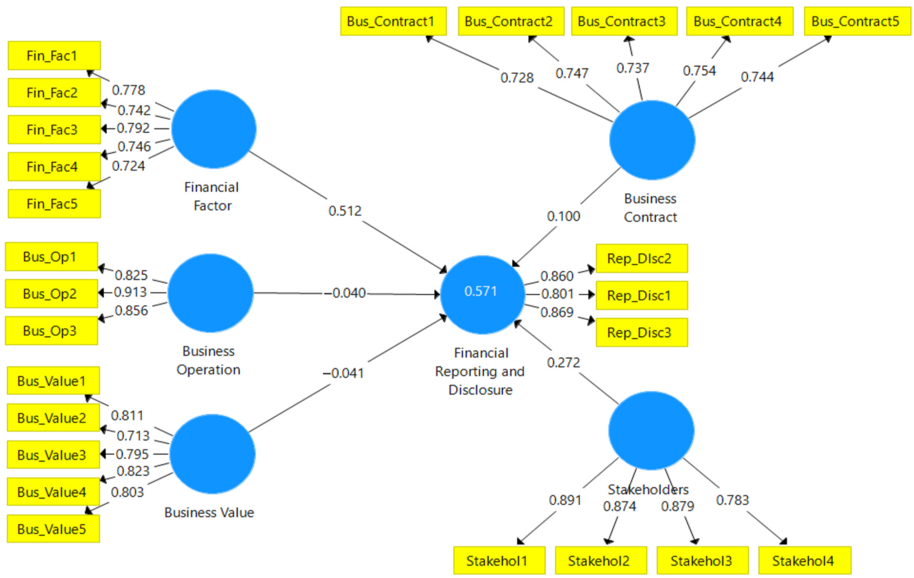

Figure 2.
Structural path

fall of Bangladeshi economic growth is the adverse effect of the COVID-19 pandemic. However, the government of Bangladesh is trying to tackle the shock of this pandemic and assisting business organizations with stimulus fund, loan extension period, tax cutting, tax deferral benefit, etc. Business Organizations are also trying level best to fight the shock of the COVID-19 and coming back to normal atmosphere of business. Combined effort to fight with the COVID-19 is the only solution so far. All these efforts of the government and the business organizations should be communicated properly to the investors and other stakeholders of the business. Because proper communication can increase the transparency and accountability of the business organization and increase their social acceptance. Hence, the proper way of communicating this information to the stakeholders is FRD. Therefore, this study aims to examine the impact of COVID-19 on the FRD practices in the context of Bangladesh. Moreover, the study has been lensed through the legitimacy theory that how such disclosures in this pandemic influence organizational legitimacy. The COVID-19 pandemic has adverse impact on business. Hence, all the business activities have been categorized into five major aspects which are financial factors, business operations, business contracts, business value and stakeholders. These five major activities have been considered as independent variable. Then, a structured questionnaire was developed based on related IAS and IFRSs with a view to reflecting the actual scenario of financial reporting and disclosure practice in this pandemic period. Responses have been collected from the knowledgeable professional accountants who are currently engaged in financial statement preparation and auditing services. The confirmatory factor analysis have been used to identify the factor and factor loading of financial factors, business operation, business contracts, business value and stakeholders. Lastly, SEM has been used to test the hypothetical relationship between dependent and independent variables. Results reveal that financial factors, business contracts and stakeholders have significant impact on financial reporting and disclosure practices in this COVID-19 pandemic.

This result indicates that most of the business organizations will disclose financial factors mostly as most of the businesses in Bangladesh have suffered from huge loss during strict lockdown period and restricted movement of the people. Closure of business organizations have caused many businesses to close down their operation due to low sales volume, less collection of cash and more exposure to the credit risk. Moreover, it is also found that firms should disclose business contracts related information very punctually because such disclosure can affirm investors about the changes of terms and conditions of any business contract made earlier. Finally, businesses should also think about its stakeholders and disclose necessary information to keep their legitimacy in the society. Opportunity of tax deferral, high payment of employees for performing during pandemic and announcement and disbursement of stimulus packages should be presented through FRD. However, business operation and business value have insignificant relationship with financial reporting and disclosure. Sensible government initiatives and well-behaved capital market performance may be the reason such outcome of business operation and business value with respect to the financial reporting and disclosure practices during the COVID-19 pandemic.

The study is an early attempt to examine the impact of COVID-19 pandemic on the financial reporting practices; however, the research is limited to one region only where we could have considered other aspects of entity including stock market implication, corporate governance, internal audit practice, etc. In addition, we have excluded viewpoint of reporting expectations of user groups in making decision during pandemic. There is no theoretical justification against our own elaborated model as it is exploratory in nature. In this study, we tried to analyze why and how firms should disclose essential information (both financial and non-financial) to the financial statement users. This study can be used as benchmark to issue a separate policy or standard for reporting any kind of adverse event in the financial reporting and disclosure practices. This study is kind of exploratory in nature. Hence, future studies can explore industry-based financial reporting and disclosure practice in any pandemic period.

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