

# **DETECTION OF FRAUDULENT FINANCIAL REPORTING USING FINANCIAL RATIOS**

**BY**

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## MBA Thesis 2nd Half-Semester Progress Report & Thesis Approval Statement

### Supervisor – Student Meeting Record

S#	Date	Place of Meeting	Topic Discussed	Signature of Student
01	2-10-19	University	Discussion of 1 <sup>st</sup> three chapters & revisions	<i>Zohaib</i>
02	13-11-19	University	Finalization of methodology & discussion	<i>Zohaib</i>
03	4-12-19	University	Discussion on finding results & conclusion	<i>Zohaib</i>

### APPROVAL FOR EXAMINATION

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I hereby certify that the above candidate's thesis has been completed to my satisfaction and, to my belief, its standard is appropriate for submission for examination. I have also conducted plagiarism test of this thesis using HEC prescribed software and found similarity index at 19% that is within the permissible limit set by the HEC for the MBA thesis. I have also found the thesis in a format recognized by the Department of Management Sciences.

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### Declaration of Authentication

I, hereby, declare that no portion of the work referred to in this thesis has been submitted in support of any application for another degree or qualification of this university or any other institution of learning.

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## Abstract

### Purpose

*The purpose of the research work is to study the indication and detection of fraudulent financial reporting in the financial statements of the company using ratios analysis.*

### Methodology & Design

*The research method is used by considering the study objectives and ease of the data collection. Thus, the deductive approach, explanatory study and secondary sources have been used to conduct this research. A sample size consists of 14 companies from Insurance, Manufacturing sectors registered with SECP and listed on Pakistan Stock exchange. The sample of companies consist of 7 companies involved in fraudulent reporting of which 3 are from insurance sector and 4 are from manufacturing sector and alleged by SECP via show cause notices and 7 companies of which 2 are from insurance sector and 5 are from manufacturing sector not involved in any fraudulent reporting. The number of financial ratios observations consists of 70 samples which includes yearly data ranges from 2014 to 2018 (five years) for each 14 companies taken as sample. These financial information was taken from annual reports of the sample companies. The outcomes have been reached by using the quantitative data analysis tools. Regression and correlation test was performed on 70 observations from 14 companies using SPSS data analysis tool.*

### Findings

*As a whole, the research concludes that there is the mean of the ratios of fraudulent and non-fraudulent firm have a significant difference between them and secondly the financials ratios are the significant predictors of fraudulent financial reporting.*

### Limitations

- *The research is limited to five key financial variables namely Liquidity, Financial leverage, Asset composition, Profitability, Asset turnover which are further sub categorizes to 8 measure to find results.*
- *Research sample size limited to the years from 2014 to 2018.*

- *Limited to the yearly data for five years' period*
- *Limited to the companies listed at PSX and registered with SECP.*
- *Limited time and resources available to conduct the study.*

## **Recommendations**

*The recommendations made in the study are listed below:*

- *Investors are recommended to make investments in gold as it benefits the both stocks.*
- *this study provides a recommendation for the auditors or fraud investigator that in order to get an indication of fraudulent financial reporting while analyzing the financial statements of the companies they can do mean calculation of financial ratios and get them compared with industry norms or competitor's results or past trends*
- *The research study provides results that can be used by the shareholders and other stakeholders of the company in order to access the financial performance of the company and managements competence.*
- *Financial ratios of a company are the significant indicators of fraudulent financial reporting as per this research the ratios of Total debt/ Total equity, Current Assets / Total Assets and Receivables / Revenue are among the most significant ratios that can indicate the misrepresentation in the financial statements of a company*

## **Keywords**

*Fraudulent financial reporting, detection of fraud, risk of financial misstatement, Ratio analysis, financial statement analysis*



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