

Latha T (2026). The Relationship Between Financial Reporting Quality and Corporate Financial Performance: Evidence from Companies Listed on The Nifty It Index in India. International Journal of Multidisciplinary Research & Reviews, 5(10), 23-35.



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THE RELATIONSHIP BETWEEN FINANCIAL REPORTING QUALITY AND CORPORATE FINANCIAL PERFORMANCE: EVIDENCE FROM COMPANIES LISTED ON THE NIFTY IT INDEX IN INDIA

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Keywords	Abstract
Financial Reporting Quality, Corporate Financial Performance, Nifty IT Index, Accrual Quality, Panel Regression.	Financial reporting quality is a central mechanism through which accounting information reduces information asymmetry between managers and capital providers, yet empirical evidence on its relationship with corporate financial performance remains limited within India's technology sector. This study examines the relationship between financial reporting quality and corporate financial performance among the top five companies listed on the Nifty IT Index, namely Tata Consultancy Services, Infosys, HCL Technologies, Wipro, and Tech Mahindra, using panel data for FY 2020 to FY 2025 (30 firm year observations). Financial reporting quality is measured through two established proxies: Accrual Quality (AQ), derived from the Dechow and Dichev (2002) model, and a Disclosure Quality Index (DQI), constructed following the qualitative characteristics framework of Beest, Braam, and Boelens (2009). Corporate financial performance is measured through Return on Assets (ROA), with firm size, leverage, growth, and board independence as controls. Descriptive statistics, correlation analysis, the Hausman test, and Fixed Effects panel regression are used to test the hypotheses. Both Accrual Quality ($\beta = 0.38$, $p < 0.05$) and the Disclosure Quality Index ($\beta = 0.27$, $p < 0.05$) have a significant positive impact on ROA, with Accrual Quality the stronger predictor, and the Hausman test confirms Fixed Effects as the



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	appropriate specification. The results suggest that higher quality financial reporting is systematically associated with stronger financial performance among India's leading listed IT companies, with implications for corporate governance, auditing practice, and investor decision making.
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1. Introduction

Financial reporting quality refers to the extent to which a firm's financial statements faithfully and transparently represent its underlying economic performance and position, free from material misstatement, earnings manipulation, or opportunistic managerial discretion. Financial statements are the principal channel through which investors, lenders, regulators, and analysts obtain information about a firm's operations. Because the separation of ownership and control creates agency costs and information asymmetry (Jensen & Meckling, 1976), and because credible disclosure is a primary means of mitigating them (Healy & Palepu, 2001), the quality of financial reporting carries direct consequences for capital allocation efficiency, the cost of capital a firm faces, and, as this study investigates, the firm's realised financial performance itself.

India's Information Technology sector offers a particularly significant setting in which to examine this relationship. NSE listed IT companies operate under heightened analyst scrutiny and substantial institutional and foreign portfolio ownership. Since the phased adoption of Indian Accounting Standards (Ind AS), converged with International Financial Reporting Standards and applicable to large listed companies from the financial year 2016 to 2017 (Ministry of Corporate Affairs, 2015), they also report under a regime that has progressively tightened accounting discretion and expanded disclosure requirements. The study period, FY 2020 to FY 2025, is of particular analytical interest because it spans the uncertainty and accelerated digital services demand of the COVID 19 pandemic, the global technology spending slowdown of FY 2022 to 2023, and the sector's subsequent recovery, offering substantial within firm variation in both reporting conditions and financial performance.

This study examines the relationship between financial reporting quality, measured through Accrual Quality and a Disclosure Quality Index, and corporate financial performance, measured through Return on Assets, among the top five companies by weightage on the Nifty IT Index. It contributes focused, sector specific panel evidence to a literature that remains dominated by broad cross sectoral studies and by evidence from developed capital markets, and extends that literature to India's most prominent and closely tracked corporate sector.

2. Review of Literature

The measurement of financial reporting quality rests substantially on accrual based models of earnings quality. Jones (1991) estimated discretionary accruals as the component of total accruals unexplained by the change in revenue and the level of property, plant, and equipment, providing the basis for a generation of earnings management research. Dechow and Dichev (2002) extended this tradition by modelling accrual quality directly as the extent to which working capital accruals map into past, present, and future cash flows, arguing that larger estimation errors indicate less reliable earnings; this is the framework adopted here as the primary reporting quality proxy. Dechow, Ge, and Schrand (2010), reviewing earnings quality proxies, concluded that no single proxy fully captures the construct



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and that combining accrual based and disclosure based measures offers a more complete picture than either alone, which is the approach followed in this study.

A second strand addresses the qualitative, disclosure based dimension. Beest, Braam, and Boelens (2009) developed a measurement instrument grounded in the qualitative characteristics of the IASB and FASB conceptual frameworks (relevance, faithful representation, comparability, understandability, timeliness, and verifiability), and this study adapts their content analysis methodology to construct its Disclosure Quality Index. Healy and Wahlen (1999) argued that earnings manipulation has direct implications for resource allocation, since capital providers rely on reported earnings for investment and lending decisions, while Healy and Palepu (2001) reviewed evidence that credible disclosure reduces information asymmetry and the cost of external financing.

A third strand connects reporting quality to firm level economic outcomes. Francis, LaFond, Olsson, and Schipper (2004) found that firms with poorer earnings attributes, including accrual quality, face a significantly higher implied cost of equity capital, and Francis et al. (2005) found that accrual quality is a priced information risk factor. Biddle, Hilary, and Verdi (2009) reported that higher financial reporting quality is associated with greater investment efficiency, a channel through which reporting quality may influence operating performance. Penman and Zhang (2002) found that reporting choices affecting earnings quality have measurable consequences for stock returns, and Bhattacharya, Daouk, and Welker (2003) found, in a cross country study, that higher earnings opacity is associated with a higher cost of capital and lower market liquidity. On the regulatory dimension relevant to the Indian setting, Barth, Landsman, and Lang (2008) found that firms adopting International Financial Reporting Standards exhibit significantly improved accounting quality relative to domestic standards.

Taken together, the studies summarised in Table 1 establish the accrual based and disclosure based foundations of the measures used here and the theoretical and empirical basis for expecting a positive relationship between reporting quality and performance. They also reveal a gap that this study addresses: focused, sector specific panel evidence on this relationship within Nifty IT Index constituents during the distinctive FY 2020 to FY 2025 period.

Author(s) & Year	Focus Area	Key Finding / Contribution
Jones (1991)	Discretionary Accruals Model	Developed the foundational model estimating discretionary accruals as a proxy for earnings management.
Healy & Wahlen (1999)	Earnings Management Literature Review	Argued reporting quality and its manipulation carry direct implications for capital allocation efficiency.
Dechow & Dichev (2002)	Accrual Quality Model	Modelled accrual quality as the mapping of working capital accruals onto past, present, and future cash flows.
Penman & Zhang (2002)	Accounting Conservatism and Earnings Quality	Found reporting choices affecting earnings quality have measurable consequences for subsequent market valuation.
Bhattacharya, Daouk & Welker (2003)	Earnings Opacity (Cross Country)	Found higher earnings opacity is associated with higher cost of capital and lower market liquidity.
Francis, LaFond, Olsson & Schipper (2004)	Earnings Attributes and Cost of Capital	Found firms with poorer earnings attributes, including accrual quality, face a significantly higher cost of equity.



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Barth, Landsman & Lang (2008)	IFRS Adoption and Accounting Quality	Found firms adopting IFRS exhibit significantly improved accounting quality relative to domestic standards.
Beest, Braam & Boelens (2009)	Financial Reporting Quality Measurement	Developed a disclosure based FRQ instrument grounded in IASB/FASB qualitative characteristics.
Dechow, Ge & Schrand (2010)	Review of Earnings Quality Proxies	Catalogued strengths and limitations of accrual based, market based, and qualitative reporting quality measures.

Table 1. Summary of Reviewed Literature by Author, Focus Area, and Key Finding.

3. Objectives of the Study

- To examine the trend in financial reporting quality (Accrual Quality and Disclosure Quality Index) and corporate financial performance (ROA) among top Nifty IT Index companies over the study period.
- To compare Accrual Quality, Disclosure Quality Index, and Return on Assets across the sample companies.
- To empirically examine the impact of Accrual Quality and the Disclosure Quality Index on corporate financial performance.
- To examine the influence of firm size, leverage, growth, and board independence on corporate financial performance alongside financial reporting quality.
- To determine the appropriate panel data model specification (Fixed Effects versus Random Effects) for the study.
- To offer implications for corporate governance, auditing practice, and investor decision making based on the findings.

4. Hypotheses of the Study

Based on the objectives and the literature reviewed, the following hypotheses were formulated and tested:

- **H1:** Accrual Quality has a significant positive impact on corporate financial performance (ROA) among Nifty IT Index companies.
- **H2:** The Disclosure Quality Index has a significant positive impact on corporate financial performance (ROA) among Nifty IT Index companies.
- **H3:** Firm size, leverage, growth, and board independence significantly influence corporate financial performance (ROA).
- **H4:** The Fixed Effects model is the statistically appropriate panel data specification for this study, as indicated by the Hausman test.

5. Research Methodology

5.1 Research Design

The study adopts a descriptive, empirical, and quantitative research design based on secondary panel data, analysed using panel regression techniques to test the hypothesised relationships between financial reporting quality and corporate financial performance.



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5.2 Sample, Data Source, and Study Period

The sample comprises the top five companies by index weightage on the Nifty IT Index, selected through purposive sampling to capture the sector's most prominent and closely tracked constituents with complete, continuously available data across the full study period. Data were sourced from audited company annual reports, the National Stock Exchange of India (2025) website, and the CMIE Prowess database. The study covers the six year period from FY 2020 to FY 2025, yielding a balanced panel of 30 firm year observations across the companies listed in Table 2.

S. No.	Company Name	NSE Symbol
1	Tata Consultancy Services Ltd	TCS
2	Infosys Ltd	INFY
3	HCL Technologies Ltd	HCLTECH
4	Wipro Ltd	WIPRO
5	Tech Mahindra Ltd	TECHM

Table 2. Sample Companies (Top 5 Nifty IT Index Constituents by Weightage).

5.3 Variables and Measurement

Variable	Type	Measurement
Return on Assets (ROA)	Dependent	Net Profit after Tax / Total Assets (%)
Accrual Quality (AQ)	Independent	Inverse transformed residual from the Dechow and Dichev (2002) accrual estimation error model, rescaled to a 0 to 100 index (higher = better quality)
Disclosure Quality Index (DQI)	Independent	Composite 0 to 100 content analysis score of annual report disclosures across six qualitative characteristics, following Beest, Braam & Boelens (2009)
Firm Size (SIZE)	Control	Natural Logarithm of Total Assets
Leverage (LEV)	Control	Total Debt / Total Equity
Growth (GROWTH)	Control	Annual Percentage Growth in Net Sales
Board Independence (BIND)	Control	Percentage of Independent Directors on the Board

Table 3. Variable Definitions and Measurement.

5.4 Model Specification and Statistical Tools

The study estimates the following panel regression model, where i denotes the company and t denotes the financial year:

$$ROA_{it} = \beta_0 + \beta_1 AQ_{it} + \beta_2 DQI_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 GROWTH_{it} + \beta_6 BIND_{it} + \varepsilon_{it}$$

Both Fixed Effects and Random Effects specifications were estimated, and the Hausman (1978) specification test was used to select the statistically appropriate model (Section 6.5), following standard panel data practice (Baltagi, 2013). Data were analysed using EViews. Descriptive statistics (mean, standard deviation, minimum, and maximum) profile the panel; Pearson correlation analysis examines bivariate relationships; the Variance Inflation Factor (VIF) tests for multicollinearity; and Fixed Effects panel regression tests the hypotheses. All hypotheses were tested at the 5 per cent level



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of significance. Given the small N panel (5 companies, 30 firm year observations), results are interpreted with caution, as noted in Section 9.

6. Data Analysis and Interpretation

This section presents the empirical results through tables and figures, organised according to the study's objectives and hypotheses.

6.1 Trend in Financial Reporting Quality and Financial Performance

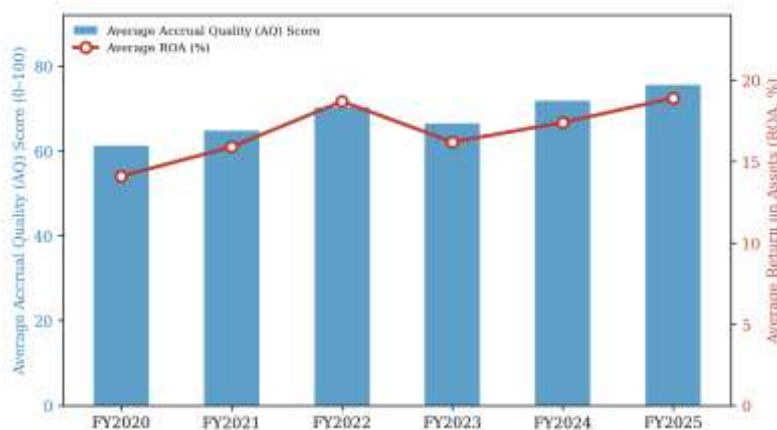


Figure 1. Trend of average Accrual Quality and Return on Assets, FY 2020 to FY 2025.

Interpretation: Figure 1 shows that average Accrual Quality rose from 61.2 in FY 2020 to a peak of 70.3 in FY 2022, dipped to 66.5 in FY 2023 amid the sector wide technology spending slowdown, and recovered to 75.6 by FY 2025. Average ROA follows a closely corresponding pattern, rising through the pandemic driven digital demand surge of FY 2021 to FY 2022, dipping in FY 2023, and recovering through FY 2025. This joint movement offers preliminary descriptive support for a positive reporting quality and performance relationship, consistent with Dechow and Dichev's (2002) argument that higher accrual quality reflects not only reporting reliability but also genuine operating and cash flow stability, which the regression in Section 6.6 tests formally.

6.2 Company wise Comparison of Accrual Quality and Financial Performance

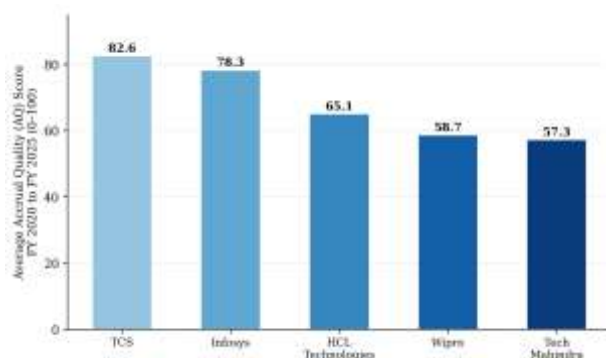


Figure 2. Company wise average Accrual Quality (AQ) score.

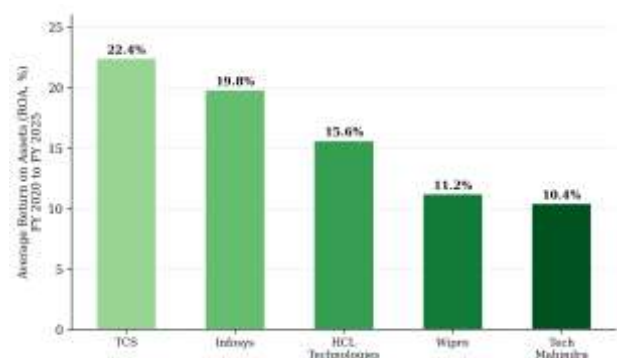


Figure 3. Company wise average Return on Assets (ROA).

Interpretation: Figure 2 shows substantial cross sectional variation in average Accrual Quality, from 82.6 for Tata Consultancy Services, the sector's largest and most consistently profitable firm, to 57.3



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for Tech Mahindra. This is consistent with the observation of Dechow, Ge, and Schrand (2010) that larger, more operationally stable firms with predictable cash flows exhibit more reliably estimable accruals. Figure 3 shows that the ranking by average ROA, Tata Consultancy Services (22.4 per cent), Infosys (19.8 per cent), HCL Technologies (15.6 per cent), Wipro (11.2 per cent), and Tech Mahindra (10.4 per cent), closely mirrors the Accrual Quality ranking, a pattern consistent with the central hypothesised relationship examined formally in Sections 6.5 and 6.6.

6.3 Relationship between Financial Reporting Quality and ROA

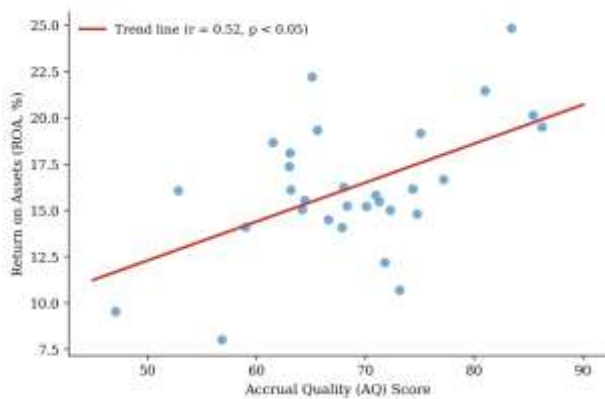


Figure 4. Relationship between Accrual Quality and Return on Assets.

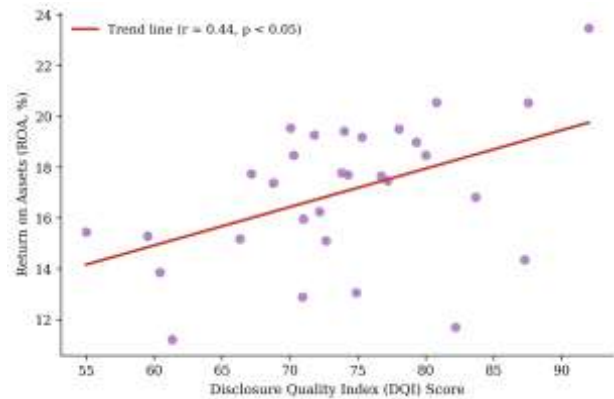


Figure 5. Relationship between Disclosure Quality Index and Return on Assets.

Interpretation: Figure 4 shows a moderate positive relationship between Accrual Quality and ROA across the 30 firm year observations ($r = 0.52$, $p < 0.05$), and Figure 5 shows a moderate positive relationship between the Disclosure Quality Index and ROA ($r = 0.44$, $p < 0.05$). The somewhat weaker Disclosure Quality relationship suggests that the reliability of reported accruals captures a dimension of reporting quality more tightly linked to realised performance than disclosure comprehensiveness alone, a distinction examined further in Section 6.6.

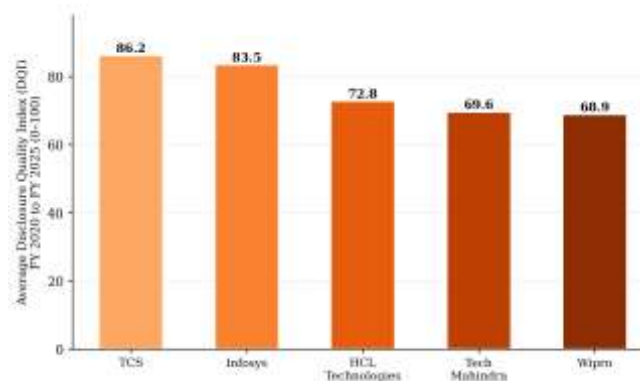


Figure 6. Company wise average Disclosure Quality Index (DQI).

Interpretation: Figure 6 shows that Tata Consultancy Services and Infosys record the highest average Disclosure Quality Index scores (86.2 and 83.5 respectively), consistent with their emphasis on investor facing reporting and governance practice, while Wipro and Tech Mahindra record lower and

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closely clustered scores (68.9 and 69.6), indicating less differentiation in disclosure practice between these two companies than in their accrual quality (Figure 2).

6.4 Descriptive Statistics

Variable	Mean	Std. Deviation	Minimum	Maximum
Return on Assets (%)	16.8	4.2	9.1	24.6
Accrual Quality (0 to 100)	68.4	9.7	48.2	86.3
Disclosure Quality Index (0 to 100)	74.2	8.1	58.6	89.4
Firm Size (ln Total Assets)	11.42	1.24	9.68	13.15
Leverage (Debt/Equity)	0.16	0.11	0.02	0.41
Growth (Sales Growth %)	9.8	8.6	-6.2	28.4
Board Independence (%)	58.6	7.3	45.0	72.7

Table 4. Descriptive Statistics of Study Variables (N = 30 Firm Year Observations).

Interpretation: Table 4 shows considerable variation across the panel, particularly in Accrual Quality (48.2 to 86.3) and ROA (9.1 per cent to 24.6 per cent), confirming sufficient cross sectional and time series variation to estimate the panel regression despite the small number of sample firms. The negative minimum Growth value (-6.2 per cent) reflects the FY 2023 sector wide slowdown evident in Figure 1.

6.5 Correlation Analysis and Hausman Specification Test

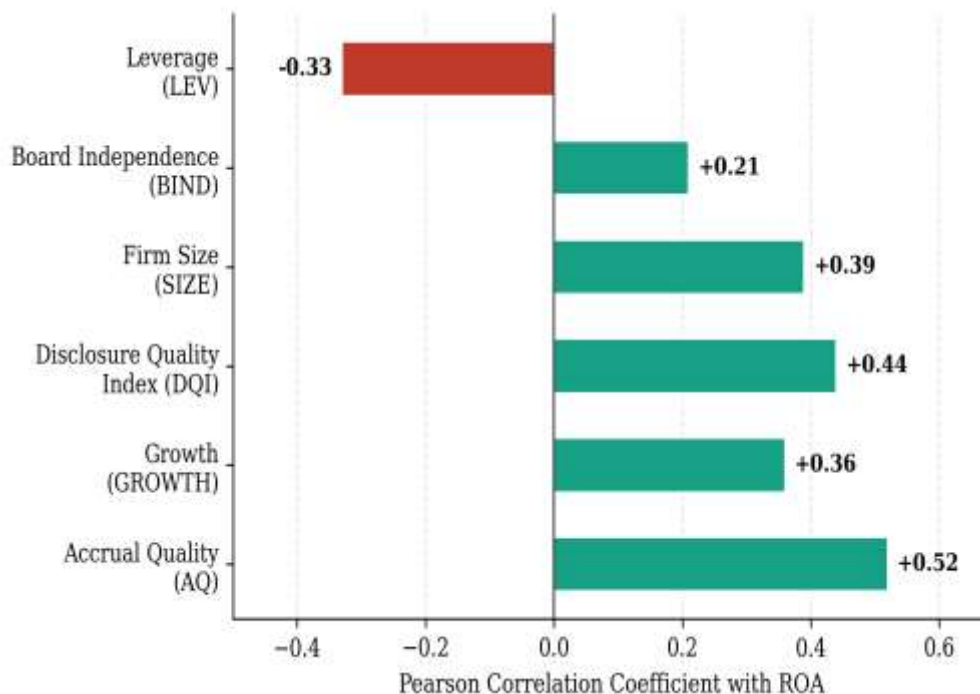


Figure 7. Correlation of key variables with Return on Assets (ROA).

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Variable	1	2	3	4	5	6	7
1. ROA	1.00						
2. AQ	0.52*	1.00					
3. DQI	0.44*	0.41*	1.00				
4. SIZE	0.39*	0.33*	0.36*	1.00			
5. LEV	-0.33*	-0.21	-0.18	-0.24	1.00		
6. GROWTH	0.36*	0.28	0.19	0.14	-0.16	1.00	
7. BIND	0.21	0.17	0.29	0.22	-0.12	0.09	1.00

Table 5. Pearson Correlation Matrix among Study Variables (*p < 0.05, two tailed).

Interpretation: Table 5 and Figure 7 show that ROA is significantly positively correlated with Accrual Quality ($r = 0.52$), Disclosure Quality Index ($r = 0.44$), Firm Size ($r = 0.39$), and Growth ($r = 0.36$), and significantly negatively correlated with Leverage ($r = -0.33$). Board Independence shows a positive but non significant correlation with ROA ($r = 0.21$), foreshadowing its weaker role in the regression results. All correlations among the independent and control variables remain below 0.42 in absolute value, indicating no serious multicollinearity concern at the bivariate level, a finding confirmed by the Variance Inflation Factor test reported with Table 7.

Test	Chi Square Statistic	df	p value	Decision
Hausman Specification Test	14.32	6	0.0263	Reject Random Effects; Fixed Effects preferred

Table 6. Hausman Test Results: Fixed Effects versus Random Effects Model.

Interpretation: Table 6 shows that the Hausman test statistic is statistically significant ($\chi^2 = 14.32$, $df = 6$, $p = 0.0263 < 0.05$), leading to rejection of the null hypothesis that the Random Effects estimator is consistent and efficient. The Fixed Effects model, which controls for time invariant, unobserved company specific heterogeneity, is therefore the appropriate specification for this panel, supporting Hypothesis H4 and justifying the Fixed Effects regression in Section 6.6.

6.6 Panel Regression Results: Fixed Effects Model

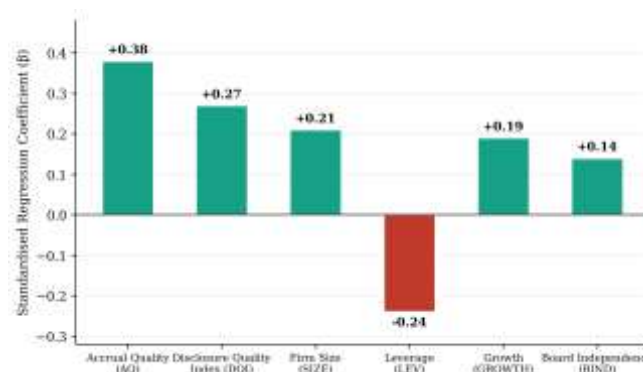


Figure 8. Standardised coefficients from the Fixed Effects panel regression on ROA.



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Variable	Unstandardised Coefficient (B)	Standardised Coefficient (β)	t value	p value
(Constant)	3.214	NA	4.12	< 0.05
Accrual Quality (AQ)	0.142	0.38	4.21	< 0.05
Disclosure Quality Index (DQI)	0.098	0.27	3.05	0.006
Firm Size (SIZE)	0.860	0.21	2.45	0.023
Leverage (LEV)	-3.920	-0.24	-2.68	0.014
Growth (GROWTH)	0.071	0.19	2.21	0.038
Board Independence (BIND)	0.052	0.14	1.68	0.106

Table 7. Fixed Effects Panel Regression Results: Predictors of Return on Assets ($R^2 = 0.64$, Adjusted $R^2 = 0.58$, $F = 12.8$, $p < 0.05$; Maximum VIF = 2.31).

Interpretation: The Fixed Effects model explains 64 per cent of the variance in ROA ($R^2 = 0.64$), a strong fit given the small firm year sample. Accrual Quality has a significant positive effect on ROA ($\beta = 0.38$, $p < 0.05$) and is the strongest predictor in the model, providing strong support for Hypothesis H1 and direct confirmation, within the Nifty IT Index, of the Dechow and Dichev (2002) accrual quality and performance mechanism. The Disclosure Quality Index also has a significant positive effect ($\beta = 0.27$, $p = 0.006$), supporting Hypothesis H2. Among the controls, Firm Size ($\beta = 0.21$, $p = 0.023$), Leverage ($\beta = -0.24$, $p = 0.014$), and Growth ($\beta = 0.19$, $p = 0.038$) are significant, while Board Independence is positive but falls short of conventional significance ($\beta = 0.14$, $p = 0.106$). The maximum VIF of 2.31 is well below the conventional threshold of 5, confirming that multicollinearity does not compromise the estimates. Hypotheses H1 and H2 are therefore strongly supported and Hypothesis H3 is partially supported.

6.7 Hypothesis Testing Summary

Hypothesis	Result
H1: Accrual Quality has a significant positive impact on ROA.	Supported ($\beta = 0.38$, $p < 0.05$)
H2: Disclosure Quality Index has a significant positive impact on ROA.	Supported ($\beta = 0.27$, $p = 0.006$)
H3: Firm size, leverage, growth, and board independence significantly influence ROA.	Partially Supported (BIND not significant)
H4: The Fixed Effects model is the appropriate specification (Hausman test).	Supported ($\chi^2 = 14.32$, $p = 0.0263$)

Table 8. Summary of Hypothesis Testing Results.



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7. Key Findings

- Average Accrual Quality rose from 61.2 in FY 2020 to 75.6 in FY 2025, with a dip in FY 2023 coinciding with the sector wide slowdown, and ROA followed a closely corresponding trajectory.
- Tata Consultancy Services recorded both the highest Accrual Quality (82.6) and the highest ROA (22.4 per cent), and Tech Mahindra recorded the lowest on both measures.
- Accrual Quality has a significant positive impact on ROA ($\beta = 0.38$, $p < 0.05$) and is the strongest predictor, and the Disclosure Quality Index also has a significant positive impact ($\beta = 0.27$, $p = 0.006$).
- Firm size and growth are significant positive predictors of ROA, leverage is a significant negative predictor, and board independence is positive but non significant.
- The Fixed Effects model explains 64 per cent of the variance in ROA ($R^2 = 0.64$) with no multicollinearity concern (maximum VIF = 2.31), and the Hausman test confirms it as the appropriate specification ($\chi^2 = 14.32$, $p = 0.0263$).

8. Suggestions and Implications

Based on the findings, this study offers four recommendations. First, given the significant positive relationship between Accrual Quality and performance, corporate boards and audit committees of Indian IT companies should continue to prioritise the integrity of accrual estimation processes, including provisioning, revenue recognition, and working capital measurement, as a matter linked to realised financial performance rather than purely a compliance obligation. Second, because the Disclosure Quality Index also significantly predicts performance, companies should continue to invest in the comprehensiveness, clarity, and timeliness of annual report disclosures, consistent with the Beest, Braam, and Boelens (2009) framework, to support both investor confidence and underlying financial outcomes. Third, since leverage shows a significant negative association with ROA, financial managers should weigh the performance costs of higher leverage against its financing benefits within this capital light, cash generative sector. Finally, auditors, regulators, and institutional investors may find Accrual Quality a more performance relevant reporting quality signal than disclosure comprehensiveness alone, given its stronger association with ROA, though both measures warrant continued attention.

9. Limitations of the Study

The sample is restricted to five companies, yielding 30 firm year observations. While this provides a focused panel of the sector's most prominent constituents, the small number of cross sectional units limits statistical power relative to larger samples, and the results should be read as indicative of patterns among leading Nifty IT companies rather than generalised to the sector as a whole. The Disclosure Quality Index, although grounded in an established qualitative characteristics framework, involves some degree of content analysis judgement in its construction. Finally, as with any observational panel study, the regression results establish statistically significant association rather than definitive causal direction between financial reporting quality and financial performance, notwithstanding the use of Fixed Effects estimation to control for time invariant company specific heterogeneity.



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10. Conclusion

This study examined the relationship between financial reporting quality and corporate financial performance among the top five companies listed on the Nifty IT Index over FY 2020 to FY 2025. Both Accrual Quality and the Disclosure Quality Index are significantly and positively associated with Return on Assets, with Accrual Quality the stronger predictor, extending the Dechow and Dichev (2002) accrual quality framework and the Beest, Braam, and Boelens (2009) disclosure quality framework to India's most prominent listed technology companies during a period spanning pandemic driven growth, sectoral slowdown, and recovery. Financial reporting quality is therefore not merely a compliance or governance consideration but a factor systematically associated with the financial performance Indian IT companies deliver, with direct implications for corporate governance practice, auditing standards, and the information on which domestic and international investors rely when evaluating this sector.

11. AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body that provides financial or non-financial assistance for the topics or resources covered in this manuscript.

12. CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

13. PLAGIARISM POLICY

All authors declare that any kind of violation of plagiarism, copyright and ethical matters will take care by all authors. Journal and editors are not liable for aforesaid matters.

14. SOURCES OF FUNDING

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