



## Accounting-Based Performance Evaluation and Risk Measurement in Financial Reporting: A Conceptual Evaluation of Indian Flexi-Cap and Large-Cap Mutual Funds

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### Abstract

The present study examines the Capital Asset Pricing Model as a framework for accounting-based performance and risk measurement in the financial reporting of Indian Flexi-Cap and Large-Cap mutual funds during the post-reclassification period. Monthly fund returns were computed from reported Net Asset Values, while benchmark excess returns were proxied using NIFTY 500 TRI for Flexi-Cap funds and NIFTY 50 TRI for Large-Cap funds. The 91-day Treasury Bill rate was employed as the proxy for the risk-free rate and the study evaluated the performance of mutual funds from April 2021 to March 2025. The Capital Asset Pricing Model is interpreted not merely as an asset-pricing model, but as a conceptual framework for understanding Net Asset Value-based reporting and standardised performance evaluation. The findings indicate that mutual fund returns are explained largely by systematic market exposure, while statistically significant abnormal performance is limited to only a few schemes. This suggests that the post-reclassification environment has improved comparability and strengthened the interpretation of mutual fund performance through market-linked risk measures. In this context, beta represents systematic risk in reporting, whereas alpha serves as a limited indicator of abnormal accounting performance. The study contributes to accounting research by repositioning the Capital Asset Pricing Model as a framework that contributes to the standardisation of performance measurement, provides a theoretical basis for measuring risk-adjusted returns and enhances comparability of financial reporting. The study extends the discussion beyond model validation to an accounting-oriented theoretical interpretation.

**Keywords:** Accounting-based performance measurement; Risk measurement in financial reporting; NAV-based reporting; Fair value measurement; Accounting standardisation

### 1. Introduction

The evaluation of financial performance is not based solely on price movements in financial markets but can also be interpreted through valuation measures reported in financial statements. The accounting aspect of the interpretation of return thus relies on the measure, reporting, and comparison of performance and risks between investment entities. Capital Asset Pricing Model (CAPM) continues to be a notable reference point and use in explaining the expected returns concerning systematic market risk (Sharpe, 1964). But when applied to the mutual fund scenario, CAPM cannot be considered solely as a finance model of price efficiency. It can also be viewed as a model that applies to performance measurement based on accounting since the performance of the mutual funds is reported in terms of reported valuation measures, returns relative to benchmarks and organised disclosure practices. CAPM is therefore not only applicable in studying the movement of returns in a market with risk but also used in the interpretation of reported performance in a regulated reporting setting.

It is significant in this way as the performance of a mutual fund is reported using Net Asset Value (NAV). NAV is not only a market result, but it is a valuation-based accounting assessment that influences the interpretation of returns by investors. According to the accounting research, information based on valuation is meaningful when it enhances the usefulness of the numbers that were reported to be used in evaluation and decision-making (Barth, 1994). In this regard, NAV-based returns can be conceptualised as accounting constructs, whereas CAPM can be regarded as a conceptual framework used to evaluate whether reported returns should be considered as sufficient to expose systematic risk. The applicability of this interpretation is more apparent in the conceptual framework of financial reporting. The financial information is supposed to have the following qualities: relevance, faithful representation and comparability in order that the users can be able to assess the performance in a consistent manner (IFRS, C., 2018).

In mutual funds, this has the implication that the reporting of returns cannot be interpreted as simple

performance reporting, but as a systematic reporting of risk-adjusted performance. CAPM helps to achieve this insight by associating reported returns with market-related risk and by allowing one to discriminate between benchmark-driven returns and abnormal returns. This matter gained particular significance in the post-2017 reform of mutual fund categorisation and rationalisation by SEBI, standardising the definition of schemes, their portfolio norms, and alignment with benchmarks, the result of which makes the reported performance of funds more consistent (Securities and Exchange Board of India, 2017). Accounting comparability was also enhanced due to such regulatory restructuring, which is fundamental to the cross-fund evaluation (De Franco et al., 2011). It is on this backdrop that the current paper positions CAPM not merely as a financial model but as a framework for measuring and reporting the comparability of performance in Indian mutual funds from an accounting perspective.

Besides this, the accounting relevance of this perspective can be interpreted in a better way within the context of the larger linkage of financial information, disclosure and capital market interpretation. Financial reporting not only documents performance, but it also minimises information asymmetry, facilitates good governance and enhances the usefulness of the reported measures to the market participants (Bushman & Smith, 2001; Healy & Palepu, 2001). Here, the Capital Asset Pricing Model can be considered to supplement accounting-based assessment to explain whether reported mutual fund returns provide sufficient systematic market exposure. This opinion is also aligned with the fact that the model has remained relevant in explaining the relationship between the risk and the expected return in investment environments (Lintner, 1975). Based on this, CAPM can be placed not only in the context of the finance theory but also in an expanded accounting and disclosure context with interests in the interpretation, comparability and informational value of reported performance.

## 2. Literature Review

The Capital Asset Pricing Model has traditionally been a key model used in explaining the connection between expected return and systematic market risk. The significance of beta was determined in early empirical research that focused on whether or not a beta could be used to explain the differences in returns between securities and portfolios (Black et al., 1972; Fama & MacBeth, 1973). Such contributions made CAPM a standard for the pricing and performance measurement of assets. This is also applicable in the context of mutual funds since the performance of a fund is usually evaluated with regard to market-related risk exposure. Literature later has, however, revealed that CAPM has its limitations. The data on size, value and other anomalies of returns showed the suspicion that one-factor beta is not enough to explain the observed pattern of returns in assets (Fama & French, 1996).

Even though this criticism undermined the argument that CAPM was a comprehensive explanatory model, it did not discount its utility. Instead, it turned the focus to the situations in which CAPM is informative and the situations in which its ability to explain can be limited.

In accounting, CAPM can be applied in other areas besides testing finance models. Performance of mutual funds is reported in terms of valuation measures, which are particularly Net Asset Value (NAV), on the basis of which reported returns are based. Accounting literature has revealed that reported measures of valuation should be significant when it assists the users to interpret economic outcomes and aid in decision-making (Barth et al., 2001). CAPM can thus be considered an intellectual framework for investigating whether fund returns as reported are sufficient in the exposure of systematic risk. Therefore, it has relevance in accounting-based performance measurement. The same applies to risk disclosure in this accounting. When reporting conveys more than outcomes about the uncertainty and exposure that those outcomes represent, the reporting is more helpful. According to the previous literature, risk disclosure is most informative when it describes the foundation of reported performance, instead of the mere presentation of summary results (Elshandidy et al., 2018). In this respect, CAPM will offer a systematic evaluation in which the performance of a mutual fund can be associated with systematic risk and may help in increasing transparency in performance reporting.

This discussion is especially timely in the context of the Indian mutual funds. In 2020, Flexi Cap category was introduced by SEBI to establish a unique regulatory environment where more flexibility in the allocation across market-cap segments is allowed without the formal category recognition (SEBI, 2020). The implications of this development on performance evaluation are significant in that it alters the nature of interaction between managerial flexibility and category discipline in the reported fund outcomes. The current research on post-reclassification research remains in the assessment of CAPM as a financial model and has given minimal consideration to its applicability in accounting-based performance measurement. The essential gap is the lack of connection between CAPM and accounting theory, especially regarding NAV-based reporting, performance comparability and the accounting consequences of systematic risk estimation. The current study is thus intended to analyse CAPM in the context of accounting-performance relation, estimation of systematic risk in accounting of mutual fund and comparability of post-reclassification reporting in Flexi-Cap and Large-Cap funds.

## 3. Materials and Methods

### 3.1 Research Design

The research design adopted in this study is an empirical and quantitative, thus investigating the relationship between systematic risk and reported performance of Indian equity mutual funds in the

Capital Asset Pricing Model. Analysis has been made on Flexi-Cap and Large-Cap funds since these two types of funds indicate varying levels of investment flexibility and portfolio diversification. The research lies in the institutional context of the reclassification framework by the Securities and Exchange Board of India that standardised the types of schemes and enhanced the comparison between cross-funds.

### 3.2 Sample Selection and Data Sources

The paper is based on the secondary data collected from the existing database about finances and is concentrated on the post-reclassification period to guarantee analytical consistency with the regulatory framework that was implemented by SEBI. The sample was selected using open-ended Flexi-Cap and Large-Cap funds that had a Value Research rating of four stars or above. Further screening was done to capture only the actively managed regular plan-growth options to remove direct plans and dividend variants to ensure uniformity in the cost structure and measurability of investor returns.

The 22 Flexi-Cap funds were found in the initial screening. Out of this set, only schemes that were named explicitly as Flexi-Cap were kept in order to provide categorical clarity. Subsequent filtering narrowed the sample to funds that were launched before 2020 and had expense ratios of less than two per cent, yielding eight Flexi-Cap funds. The same process has been undertaken on the Large-Cap funds, where eleven eligible schemes were obtained. To maintain parity in sample size between categories and ensure comparability, three Large-Cap funds were excluded based on relatively lower net asset values and expense ratios approaching two percent. Consequently, the final sample comprised eight Flexi-Cap funds and eight Large-Cap funds, all representing actively managed regular plans-growth options with strong historical performance ratings and adequate operational maturity.

### 3.3 Measurement of Returns and Reporting Variables

Fund returns were computed from month-end NAVs for a period of four years from April 2021 to March 2025. The NAV-based returns are considered in this work as accounting constructs since NAV is a reported measure of valuation based on the known value of scheme assets less the liabilities. As a result, NAV-based returns are not only market-based but also reported financial results that have been generated using valuation and reporting mechanisms.

NIFTY 500 Total Return Index (TRI) and NIFTY 50 TRI were used as the proxies of market returns, representing the broad equity market performance. Monthly market returns were derived from month-end closing values of the NIFTY 500 and NIFTY 50 TRIs for the same study period.

The risk-free rate was computed using the monthly average yields of 91-day Treasury Bills published by

RBI. Weekly weighted average yields obtained from the Reserve Bank of India's Database were aggregated into monthly annualised averages and subsequently converted into monthly equivalents for empirical analysis. For the computation of the monthly risk-free rate, the yields reported on the dates of auction were used. In the current concept, the risk-free rate is a well-defined reference point by which the reported performance of the fund is measured on an excess-return basis.

### 3.4 Conceptual Interpretation of CAPM Variables

The three CAPM variables are translated into relevant variables as far as the accounting-based performance evaluation is concerned before model estimation is carried out. Alpha is considered a measure of abnormal accounting performance and it is a part of reported excess performance that is not attributed to benchmark-related market exposure. On statistically significant report, alpha indicates that there is a deviation in reported performance that would not be expected by systematic risk alone.

Beta is understood as a measure of systematic risk in the reporting environment. Instead of considering beta as a regression coefficient, it serves to show how much the returns reported on funds co-move with the overall risk in the market. This interpretation can endorse the evaluation of risk disclosure, reporting transparency and comparability within mutual fund categories. These conceptual explanations do not alter the econometric system of the model. However, it offers empirical evidence supporting the theoretical foundation for interpreting the results within an accounting-based model

### 3.5 Model Specification and Hypothesis Testing

Each fund's systematic risk ( $\beta$ ) and abnormal return ( $\alpha$ ) were estimated using the Capital Asset Pricing Model using the three variables: mutual fund return, market return and risk-free rate:

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_i(R_{m,t} - R_{f,t}) + \varepsilon_{i,t}$$

The analysis tests whether systematic risk explains reported fund performance and whether abnormal performance persists beyond benchmark-related market exposure.

The following hypotheses were examined:

H01:  $\beta_i = 0$

H11:  $\beta_i \neq 0$

H02:  $\alpha_i = 0$

H12:  $\alpha_i \neq 0$

H03:  $R^2 = 0$

H13:  $R^2 > 0$

These hypotheses test the existence of systematic market risk in explaining mutual fund excess returns, the existence of abnormal performance in addition to market-related exposure and the usefulness of the

CAPM model in explaining reported fund performance over the post-reclassification period.

#### 4. Results

##### 4.1 Descriptive Statistics and Performance Interpretation

The mean excess returns of the Flexi-Cap funds range from 0.87% to 1.36% per month, indicating considerable heterogeneity in performance within the category. Among the Flexi-Cap schemes, FC 3 exhibits the highest mean excess return ( $M = 1.42$ ), while FC 8 records comparatively lower average excess return. The standard deviations, which vary between 3.67 and 5.37, show moderate to high return volatility across Flexi-Cap funds. In comparison, the Nifty 500 TRI, which serves as the market proxy for the Flexi-Cap segment, reports a mean excess return of 0.85 with a standard deviation of 4.04, indicating that several Flexi-Cap funds generate higher average excess returns than the broader market index.

In contrast, Large-Cap funds display mean returns closely aligned with the Nifty 50 TRI, accompanied by similar or marginally lower standard deviations, reflecting strong market tracking with limited scope for abnormal performance. For the Large-Cap funds, mean excess returns range from 0.57 to 1.12, with LC 2 demonstrating the highest average excess return ( $M =$

1.12), while LC 4 shows relatively lower average performance. The volatility of Large-Cap funds, reflected by standard deviations between 3.51 and 3.84, appears marginally lower than that of Flexi-Cap funds, indicating relatively greater return stability. When benchmarked against the Nifty 50 TRI, which records a mean excess return of 0.68 with a standard deviation of 3.78, the Large-Cap funds exhibit mixed performance, with only a few schemes delivering superior average excess returns relative to the index. In short, both categories demonstrate risk-return characteristics consistent with their respective benchmark indices, supporting the relevance of benchmark-based CAPM evaluation. On an accounting-based performance basis, such a trend indicates that Flexi-Cap funds offer more variability of performance results, yet also a less stable reported performance result. The comparability associated with large-Cap funds is higher as the performance of such funds is more reliably linked to benchmark behaviour. It means that the post-reclassification structure has enhanced the interpretability of reported fund performance, especially in the Large-Cap segment, as category discipline is stronger. The descriptive statistics of monthly excess returns of the Flexi-Cap and Large-Cap mutual funds and their respective benchmark indices of 48 observations are shown in Table 1.

**Table 1: Descriptive Statistics of Monthly Excess Returns for Selected Flexi-Cap and Large-Cap Mutual Funds and Their Benchmark Indices**

Excess Returns	N	Mean	SD
FC 1	48	1.36	3.70
FC 2	48	1.13	3.67
FC 3	48	1.42	5.37
FC 4	48	0.92	4.09
FC 5	48	1.03	3.85
FC 6	48	0.90	4.27
FC 7	48	1.22	4.28
FC 8	48	0.87	4.41
Nifty 500 TRI	48	0.85	4.04
LC 1	48	0.92	3.76
LC 2	48	1.12	3.84
LC 3	48	0.96	3.51
LC 4	48	0.57	3.62
LC 5	48	0.69	3.70
LC 6	48	0.75	3.69
LC 7	48	0.67	3.56
LC 8	48	0.67	3.54
Nifty 50 TRI	48	0.68	3.78

##### 4.2 Normality Testing

Results of Shapiro-Wilk indicate that all fund excess return series and both benchmark excess return series are normally distributed with a p-value of more than 0.05. This underpins the application of parametric methods for the further estimation of CAPM. The conceptual basis of the stable interpretation of reported performance measures is also supported by the lack of

distributional irregularity. This is because, as the series of excess returns exhibit reasonable regularity, the following estimates of alpha, beta and explanatory power can be viewed with more confidence in a reporting context. Table 2 presents the outcome of the Shapiro-Wilk test of normality of the excess returns of the chosen mutual funds and the respective benchmark indices.

**Table 2: Shapiro-Wilk Normality Test Results for Excess Returns of Selected Mutual Funds and Benchmark Indices**

Excess Returns	Shapiro-Wilk			
	Statistic	df	p-value	Decision
FC 1	.978	48	.484	Normal
FC 2	.957	48	.076	Normal
FC 3	.967	48	.199	Normal
FC 4	.980	48	.572	Normal
FC 5	.975	48	.391	Normal
FC 6	.977	48	.453	Normal
FC 7	.978	48	.517	Normal
FC 8	.971	48	.273	Normal
LC 1	.985	48	.794	Normal
LC 2	.990	48	.957	Normal
LC 3	.971	48	.289	Normal
LC 4	.985	48	.779	Normal
LC 5	.980	48	.587	Normal
LC 6	.982	48	.652	Normal
LC 7	.984	48	.736	Normal
LC 8	.981	48	.636	Normal
Excess market return Nifty 500 TRI FLEXI	.983	48	.721	Normal
Excess market return Nifty 50 TRI LARGE	.983	48	.694	Normal

#### 4.3 CAPM Regression Results

The results of the CAPM regression indicate that all sixteen funds have positive and statistically significant beta coefficients. The beta values in the Flexi-Cap category are between 0.679 and 1.155, whereas in the Large-Cap category, they are more concentrated around unity with values between 0.905 and 0.978. These findings show that excess return in markets is a high predictor of fund excess return in both groups. The accounting relevance of the results of this study is as follows: since beta values close to unity substantiate the disclosure of systematic risk in mutual fund reporting, the disclosure of the systematic risk is relevant. Where returns are highly correlated with market risk, reported performance can be viewed as being explained by exposures to benchmarks as opposed to being explained by idiosyncratic factors. Beta is therefore not only a regression coefficient, but a useful depiction of systematic risk in performance reporting.

The alpha values are positive in most of the funds, and only statistically significant in FC1, LC2 and LC3. In the other schemes, alpha is not significant. This implies that deviations in performance with respect to abnormal performance that is not incorporated in benchmark market exposure are restricted throughout the sample. In accounting, insignificant alpha can be construed as a sign of reporting efficiency, since reported fund returns can be explained by systematic risk and not by unaccounted return pervasiveness. A high level of alpha, when it occurs, can be considered a sign of abnormal accounting performance. Nonetheless, given that these examples are scarce, the overall tendency implies that the process of post-reclassification fund reporting is mostly consistent with market-based risk disclosure. Table 3 shows the estimated alpha and beta of the selected Flexi-Cap and Large-Cap mutual funds, their respective t-statistic and p-value in the framework of Capital Asset Pricing Model.

**Table 3: CAPM Alpha and Beta Estimates with Significance Statistics for Selected Flexi-Cap and Large-Cap Mutual Funds**

Fund Name	$\alpha$	$\alpha$ (p-value)	B	t-Statistic ( $\beta$ )	$\beta$ (p-value)
FC 1	0.633	0.002	0.858	17.850	< 0.001
FC 2	0.552	0.136	0.679	7.613	< 0.001
FC 3	0.445	0.267	1.155	11.892	< 0.001
FC 4	0.093	0.576	0.974	24.035	< 0.001
FC 5	0.251	0.09	0.924	26.03	< 0.001
FC 6	0.052	0.793	1.005	20.899	< 0.001
FC 7	0.395	0.124	0.973	15.752	< 0.001
FC 8	0.105	0.776	0.904	10.02	< 0.001
LC 1	0.26	0.065	0.965	26.638	< 0.001
LC 2	0.45	0.006	0.978	23.917	< 0.001
LC 3	0.339	0.007	0.905	28.7	< 0.001
LC 4	-0.052	0.751	0.913	21.45	< 0.001
LC 5	0.04	0.742	0.956	30.031	< 0.001

LC 6	0.1	0.356	0.959	33.932	< 0.001
LC 7	0.039	0.741	0.918	29.746	< 0.001
LC 8	0.047	0.669	0.916	31.915	< 0.001

#### 4.4 Comparative Interpretation of Flexi-Cap and Large-Cap Funds

The findings show that there is a sharp difference between the two types. The variation in both the mean returns and the beta estimates can be seen to be more in flexi-cap funds, as there is more flexibility in the management of such funds. Large-Cap funds have higher levels of clustering around benchmark movements, less return dispersion and more predictable model behaviour. This difference has a financial reporting comparison implication. Flexi-Cap funds are similar in terms of the regulation framework, yet their greater diversification implies that the discretion of management is still more influential on the reported results.

#### 4.5 Hypothesis Testing

Following null hypotheses were tested was H01:  $\beta = 0$ , H02:  $\alpha = 0$ , and H03:  $R^2 = 0$ . The findings indicate the positive statistically significant beta of all 16 funds and reject H01 of all the portfolios. This proves that systematic market risk is an important factor in determining reported fund excess returns. In terms of accounting-theory, the rejection of  $\beta = 0$  is an indication that systematic risk has been measured in accounting-based performance measurement. Provided beta was irrelevant, the risk associated with the market would have provided a limited interpretive meaning to reported performance. The relevance of its importance in all the funds represents that systematic risk is an applicable element of mutual fund performance interpretation and reporting.

Regarding alpha, FC1, LC2 and LC3 are the only ones that have statistically significant intercepts. H02 cannot be rejected regarding the remaining funds. This denotes that there is a restriction in the cases of abnormal performance disclosure throughout the sample. Significant alpha can be viewed as anomalous accounting performance that cannot be accounted for by systematic market exposure, but small alpha can represent a generally benchmark-consistent reported performance. The majority of the funds exhibited insignificant alpha, hence, justifies the perception that the fund outcomes can be sufficiently explained through a market-linked reporting structure.

All funds reject the null hypothesis H03:  $R^2 = 0$  since the F-statistic is significant in all instances. This demonstrates that market excess return is responsible for a significant amount of fund excess return variation. In accounting, this means that reporting of risk-adjusted returns has an explanatory element of value and that the use of benchmark-related measures in the evaluation of mutual funds has a basis in the reporting of risk-adjusted returns.

#### 4.6 Model Validation

The validation of the model also gives credibility to the interpretation of CAPM in an accounting-based framework. In the case of Flexi-Cap funds, the values of R2 lie between 0.558 and 0.936, whereas those between 0.909 and 0.962 in the case of Large-Cap funds. The adjusted values of R2 are very similar to the value of R2, meaning that explanatory power is not exaggerated. In theory, R 2 can be seen to imply the explanatory sufficiency of accounting-based reporting of returns. The fact that excess returns are calculated using NAV-based reported values implies that a large R2 indicates that benchmark-related market exposure is a systematic explanation of variation in reported fund performance. The higher values of R2 of Large-Cap funds would also suggest a higher level of reporting comparability and closer correlation between reported results and benchmark-related risk.

The overall strength of the regression equations is proved by the fact that the F-statistics are quite significant in all funds. This is beneficial from an accounting perspective regarding the principle of reliability in that the explanatory relationship between reported excess return and market excess return is always observed in schemes. These findings then support the reliability of the measurement system applied during the study. The Durbin-Watson values across the estimated fund regressions ranged approximately between 1.383 and 2.608, clustering around the benchmark value of two, which indicates no first-order autocorrelation in the residuals. These results suggest that serial dependence in regression errors is largely absent, thereby confirming that the CAPM estimations are econometrically well-specified and robust.

As far as reporting is concerned, it can be perceived as evidence to the stability of the accounting performance metrics over time. In case the residual structure was very unstable, there would be low reliability of alpha and beta as measures of interpretation. Rather, the findings of the Durbin-Watson suggest that the stated performance measures are reasonably stable to make inferences. In general, the validation results indicate that the CAPM estimates can be statistically as well as conceptually useful in the performance assessment of accounting based on accounting concepts. A high explanatory power and a good model fit, and the consistency of the residual behaviour indicate that benchmark-linked reporting of returns is a solid basis on which the systematic risk and the reported performance of mutual funds can be interpreted in the post-reclassification environment.

Table 4 shows the model validation and robustness statistics for CAPM Estimation of selected Flexi-Cap and Large-Cap mutual funds with F-statistic and p-value.

**Table 4: Model Validation and Robustness Statistics for CAPM Estimation of Selected Flexi-Cap and Large-Cap Mutual Funds**

Fund Name	R	R2	Adj.R2	F statistic	F (p-value)	Durbin-Watson
FC 1	0.935	0.874	0.871	318.614	< 0.001	2.608
FC 2	0.747	0.558	0.548	57.956	< 0.001	2.325
FC 3	0.869	0.755	0.749	141.418	< 0.001	1.846
FC 4	0.962	0.926	0.925	577.686	< 0.001	2.001
FC 5	0.968	0.936	0.935	677.543	< 0.001	2.067
FC 6	0.951	0.905	0.903	436.781	< 0.001	1.383
FC 7	0.918	0.844	0.84	248.139	< 0.001	1.645
FC 8	0.828	0.686	0.679	100.394	< 0.001	1.985
LC 1	0.969	0.939	0.938	709.589	< 0.001	2.387
LC 2	0.962	0.926	0.924	572.006	< 0.001	2.078
LC 3	0.973	0.947	0.946	823.717	< 0.001	1.847
LC 4	0.953	0.909	0.907	460.101	< 0.001	1.979
LC 5	0.975	0.951	0.95	901.875	< 0.001	1.617
LC 6	0.981	0.962	0.961	1151.414	< 0.001	1.712
LC 7	0.975	0.951	0.95	884.853	< 0.001	2.132
LC 8	0.978	0.957	0.956	1018.538	< 0.001	1.465

## 5. Discussion

This study indicates that CAPM is applicable in the post-reclassification Indian mutual fund environment, but its role in the current context is not restricted to the testing of the finance models. The results show that beta is significant and positive among all sampled funds and alpha is significant only among a few schemes. This pattern implies that the reported performance of mutual funds can be attributed to systematic market exposure much more than to the consistent generation of abnormal returns. Under the accounting prism, the results indicate that the NAV-based reporting of returns captures market-linked risk in a significant format that can be used in performance measurement, comparability and disclosure. In this way, the research changes the meaning of CAPM from a limited predictive model to a more generalised framework for comprehending the measures and reporting of the performance of mutual funds.

The results of the study provides that the Capital Asset Pricing Model is aligned with the accounting issues of performance measurement, comparability and decision-usefulness. Even though CAPM came into existence based on asset-pricing theory, its application is also applicable to accounting due to the fact that the performance of mutual fund is reported in terms of NAVs and benchmark-related returns. Beta can be interpreted as a measure of systematic risk in the reported performance in this environment and alpha can be interpreted as an abnormal performance in relation to the expected performance. Such interpretation is consistent with the study of accounting that states that reported measures are one of the ways to

assist users in gauging value and performance (Barth et al., 2001; Kothari, 2001).

The results also apply to the performance measurement standard. Reported returns are positively correlated with benchmark-related market exposure, which indicates that systematic risk is no longer a technical coefficient but an informative element of mutual fund reporting. This gives credence to the idea that the risk-adjusted measurement of performance ought to be taken as relevant in accounting-based measurement, particularly in regulated investment products, when performance is viewed in relation to reported benchmarks. In this sense, the study is relevant to the accounting theory as the measurement of risks is correlated with the reporting comparability and interpretive usefulness.

The current results are in line with the previous studies, indicating that beta has explanatory value in return behaviour when it is not necessarily strong in all contexts (Fama & MacBeth, 1973). Meanwhile, the paper does not imply that CAPM solves the broader issues that are addressed in the asset-pricing literature comprehensively. Previous research has indicated that size, value and other anomalies have been considered as problems to the adequacy of a one-factor model (Fama & French, 1996). On the same note, conditional extensions and consumption-based extensions of CAPM were developed due to the fact that the behaviour of returns is not always straightforward (Jagannathan & Wang, 1996; Breeden et al., 1989). The current research does not thus purport comprehensive applicability of CAPM. Instead, it demonstrates that in post-reclassification Indian mutual funds, CAPM is still

applicable as an interpretive paradigm to consider accounting-based performance measurement.

The findings are also related to the concept of market efficiency. As alpha does not matter to most funds, the results are widely in line with the argument that it is hard to maintain persistent abnormal returns in organised capital markets (Fama, 1970). The trend is particularly evident in the Large-Cap segment, whereby the returns are more aligned with benchmark movements and the model fit is better. Flexi-Cap funds, in their turn, exhibit slightly more variation, indicating that managerial discretion still affects reported performance, even though not to the scale of creating widespread endemic abnormal performance.

The outcomes also have repercussions on the policy of regulatory reporting. The consistency of reported fund outcomes and the increase in interpretability in the emerging market environment are aligned in line with the effects of institutional structure on market behaviour (Bekaert et al., 2002). The reclassification by SEBI can thus be perceived as a market reform cum a reporting harmonisation of a scheme, which enhances consistency and aligns performance measurement across schemes.

The current research focused only a few Flexi-Cap and Large-Cap funds during the post re-classification period and it is based on the single-factor CAPM model. These options are appropriate to the current purpose, but they do not allow for too much generalisation. The theoretical contribution could be extended in future by the researcher by looking at multifactor models, other classes of mutual funds and further post-reform durations. More research can also be done on how systematic risk can be more explicitly included in mutual fund disclosure and accounting-based reporting frameworks. These extensions would enhance the relationship between the evidence and the theoretical progress in the accounting-based performance measurement.

## 6. Conclusion

This study empirically evaluated the efficiency of the Capital Asset Pricing Model for sixteen Flexi-Cap and Large-Cap mutual funds in India during the post-reclassification period using monthly excess returns. It is found that systematic market risk is the key factor in explaining mutual fund performance, with few schemes being found to possess statistically significant abnormal performance. The overall contribution of the study, however, is not only empirical evidence. It further develops the accounting understanding of the mutual fund performance. It supports that CAPM can be used as an accounting related performance measurement. The paper links CAPM to the wider accounting issues associated with comparability and transparency in reporting and performance measurement by using NAV-based returns. Beta can be used as a measure of systematic risk and alpha as a potential signifier of abnormal accounting performance. The analysis reveals that regulatory changes, including the reclassification framework by SEBI, could enhance comparability and interpretability of reported mutual fund performance.

Future studies can further this conceptual area of investigation by looking at multifactor asset-pricing models, other types of mutual funds and the greater role of risk disclosure in accounting-based reporting systems. This would contribute to further advancement of the accounting theory in the area where performance measurement, regulation and financial reporting intersect.

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