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Global Accounting Convergence and the Potential Adoption of IFRS by the United States John Wiley & Sons
U.S. private entities considering adoption of International Standards for Small- and Medium-sized Entities (IFRS for SMEs) need to understand how the new standards will modify financial reporting. However, there has been no determination of the significance of the financial statement impact of changing from United States Generally Accepted Accounting Principles (U.S. GAAP) to IFRS for SMEs. Without this knowledge, private entities in the United States will not be able to make an informed decision as to the benefits or consequences of adopting IFRS for SMEs. Based on stakeholder theory, this study sought to determine how adoption of IFRS for SMEs would affect the financial reporting of U.S. private entities. Using identified reporting differences between the 2 sets of standards, hypothetical 2010 IFRS for SMEs’ financial statements were prepared for 3 participating entities. Analysis of variation between the hypothetical IFRS for SMEs’ financial statements and the original U.S. GAAP financial statements provided a means to determine the financial reporting impact of IFRS for SMEs’ adoption. In each of the 3 case studies, adoption of IFRS for SMEs did not significantly influence the financial reporting of U.S private entities, indicating that the communication of financial information would be fundamentally the same using the simplified IFRS for SMEs or the more complex U.S. GAAP. The results of this study suggest that IFRS for SMEs should be considered an acceptable set of standards for the preparation of quality financial statements by U.S. private entities. This study positively contributes to social change by providing new knowledge to assist private companies in the evaluation of the adoption of IFRS for SMEs; such knowledge could, in turn, reduce financial reporting costs and improve the SMEs’ economic conditions.
Relative Effects of IFRS Adoption and IFRS Convergence on Financial Statement Comparability GRIN Verlag
One of the primary objectives of both adoption of International Financial Reporting Standards (IFRS) and convergence between IFRS and U.S. Generally Accepted Accounting Principles (U.S. GAAP) is to increase financial statement comparability. Using a unique setting in Germany, we compare the effectiveness of these two approaches in achieving this desired outcome. Our empirical tests show that both adoption and convergence lead to an increase in comparability after the new enforcement regulation in 2005. However, difference-in-differences tests

show that adoption does not lead to a significant incremental increase in comparability beyond convergence. The findings of this study should be of interest to regulators and standard-setters as they assess alternative methods of aligning domestic standards with IFRS.

Does the Mandatory Adoption of IFRS Improve the Association Between Accruals and Cash Flows? Evidence from Accounting Estimates Springer

This research monograph examines whether International Financial Reporting Standards (IFRS) are interpreted and applied in a consistent manner within and across countries, and questions the implicit assumption that accounting convergence will automatically lead to comparability in financial reporting.

Deviations from the Mandatory Adoption of IFRS in the European Union GRIN Verlag

In the past few decades, there has been a global trend of international harmonization of accounting standards, with many countries having either partially or completely replaced their national accounting standards with the International Financial Reporting Standards (IFRS). The intended goal is to remove the barriers that hinder investors when comparing accounting information of companies from different nations, while simultaneously reducing the transaction costs for firms. However, research has shown that countries adopt IFRS unequally, ranging from resistance, partial adoption to full adoption. If the IFRS are not adopted to the same extent around the world, the central purpose of international standards can be compromised, as foreign investors cannot be confident when comparing financial statements. Uneven IFRS adoption could even be harmful to investors who believe that accounting standards have been converged worldwide--when, in fact, financial reporting differences continue to exist across national borders while being covered under the façade of the IFRS.Using China as the case country, this thesis aims to conduct an analysis on the causes of different degrees of IFRS adoption at the national level and to examine how and why such causes affect accounting standard-setters' strategies in the era of international accounting harmonization. To build a holistic view within the complex empirical phenomenon of simultaneous convergence with and resistance to the IFRS, this thesis draws on the influence of neo-institutional theory while integrating the approach from international accounting classification. It puts forward the viewpoint that, in order to comprehend the coexistence of diversified acceptance levels of IFRS, it is necessary to understand the dynamics of the institutional variables that underlie the responses deployed by accounting standard-setters when deciding whether a set of exogenously developed accounting standards can really fit into their domestic institutional settings.The research relies on extensive archival documents. The findings show that the factors influencing China's current convergence status with the IFRS are multifaceted, fluid, and interrelated. The Chinese accounting standard-setters' reaction to the pressure of international accounting harmonization is a strategic response that follows China's national ideology. Furthermore, IFRS convergence in the case of China reflects a cooperation and mutual dependence between the external institutional norm and the adopting organization, rather than a one-sided pressure. The Chinese experience also reveals that the economic incentives embedded in the technical attributes of the IFRS contributed to IFRS acceptance in China.

US Adoption of IFRS May Help to Jumpstart the US Economy Springer

As well as consolidating on the existing literature on fair value accounting, by way of reference to jurisdictional analyses which include a focus on China, Japan, Brazil, and South Africa, this paper not only highlights why there is need for a re-think of the use of fair values as the primary basis for the implementation of IFRS, but also accentuates the links between systemic risk and information asymmetries - hence the justification for greater focus on information channels as well as disclosure and financial reporting requirements. Audits, which serve as vital signalling mechanisms in capital markets, have limited roles in many emerging economies than is the case with industrial nations. In contributing to the extant literature on the topic, this paper also aims to address the vital and crucial question relating to whether certain emerging economies are justified in their reluctance to fully embrace audits - based on cost-benefit considerations, as well as other inadequacies relating to fair value measurements. Furthermore, it will be highlighted that whilst audits may appear to have more limited roles in certain jurisdictions, there appears to be greater willingness to embrace Basel III requirements - and in particular, the Basel III leverage ratios in jurisdictions such as China. Ultimately the paper also aims to investigate whether there are any justifications or rationales for a jurisdiction's willingness and pace to adopt IFRS, Basel III requirements, in relation to the existing role assumed by audits in such jurisdictions.

International Financial Reporting Standards (IFRS) Workbook and Guide GRIN Verlag

This study examines European stock market reactions to 16 events associated with the adoption of International Financial Reporting Standards (IFRS) in Europe. European IFRS adoption represented a major milestone towards financial reporting convergence yet spurred controversy reaching the highest levels of government. We find an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption. We find an incrementally negative reaction for firms domiciled in code law countries, consistent with investors' concerns over enforcement of IFRS in those countries. Finally, we find a positive reaction to IFRS adoption events for firms with high quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption.

Meta-Analysis of the Impact of IFRS Adoption on Financial Reporting Comparability, Market Liquidity, and Cost of Capital Concepts Books Publication

An extensive number of empirical studies have been devoted to the adoption of IFRS but the results have been inconclusive. We use a meta-analysis of 42 empirical studies with 68 independent samples to determine whether IFRS adoption has impacted on financial reporting comparability, market liquidity, and the cost of capital. This approach provides a logical and objective view of the empirical results, in contrast to narrative reviews which offer subjective conclusions. We find that IFRS adoption has significantly increased financial reporting comparability and market liquidity, and reduced the cost of capital. However, our assessment of sources of heterogeneity shows that the above relationship is moderated by differences in modes of adoption, peculiarities in legal systems, the divergence of local GAAP from IFRS, and the level of standards and regulatory enforcement of the country in which a firm operates. This study is beneficial to regulators and policymakers of jurisdictions that are considering the adoption of IFRS.

The Impact of Voluntary Adoption of IFRS on the Earning Quality and the Cost of Capital John Wiley & Sons

This article investigates whether the adoption of international financial reporting standards (IFRS) affected corporate tax avoidance in Canada. Based on a 3,200 firm-year data set of 400 publicly listed Canadian firms that adopted IFRS and 400 listed US firms, matched one-to-one using propensity score matching, the authors' regression results show that IFRS adoption was followed by a decrease in corporate tax avoidance in Canada, at least in the short run. The study finds a significant increase in cash tax paid in the post-adoption period by Canadian firms that adopted IFRS compared to US firms that used US generally accepted accounting principles. Additional regression results based on a small control sample of Canadian firms that did not adopt IFRS present collaborative evidence. The authors further test specific taxpayer attributes and accounting issues identified in Canada Revenue Agency internal memorandums -- in particular, concerns that the adoption of IFRS may increase the risk of tax avoidance. While the authors find evidence that the IFRS firms that engaged in accrual management paid more taxes in the post-adoption period, their analysis provides no evidence of statistically significant relationships between IFRS adoption and tax avoidance associated with revenue management, ownership of foreign operations, industry membership, profitability, or impairment losses or writeoffs. Taken together, the authors' findings present preliminary but strong empirical evidence that IFRS adoption is associated with a decrease in corporate tax avoidance, at least in the short run.

IFRS Adoption and Banks GRIN Verlag

The objective of this research is to investigate the direct relationship between the voluntary adoption of IFRS and cost of capital. Also, it investigates the indirect effect of earning quality on the voluntary adoption of IFRS and cost of capital. These relationships have been a very important issue and topic for researcher since IFRS became mandatory in EU at a beginning of 2005. Therefore, the aim of this study is to explore the nature of relationship between voluntary adoption of IFRS on the cost of capital and earning quality in Egypt and European firms. The sample is collected from the financial statements of 20 Egyptian and European firms as a secondary source of data. The 20 firms are classified into 10 adopting EAS in Egypt and the other 10 adopting IFRS in Europe from 2006 to 2015. The sample was from a range of industrial sectors. The results show that there is a negative relationship between voluntary adoption of IFRS and cost of capital. Costs of capital reduced in firms adopt EAS more than IFRS. Also, earning quality is not considered to be a mediator because it does not affect the relation of voluntary adoption of IFRS and cost of capital. However, there is a significant positive relationship between voluntary adoptions of IFRS on earning smoothness and accrual quality. Also, there is a negative relationship between earning quality and cost of capital.

Network Effects in Countries' Adoption of IFRS Emerald Group Publishing

If the differences in accounting standards across countries reflect relatively stable institutional differences (e.g., auditing technology, the rule of law, etc.), why did several countries rapidly, albeit in a staggered manner, adopt IFRS over local standards in the 2003-2008 period? We test the hypothesis that perceived network benefits from the extant worldwide adoption of IFRS can explain part of countries' shift away from local accounting standards. That is, as more jurisdictions with economic ties to a given country adopt IFRS, perceived benefits from lowering transactions costs to foreign financial-statement users increase and contribute significantly towards the country's decision to adopt IFRS. We find that perceived network benefits increase the degree of IFRS harmonization among countries, and that smaller countries have a differentially higher response to these benefits. Further, economic ties with the European Union are a particularly important source of network effects. The results, robust to numerous alternative hypotheses and specifications, suggest IFRS adoption was self-reinforcing during the sample period, which, in turn, has implications for the consequences of IFRS adoption.

Do Principles-based Accounting Standards Matter? GRIN Verlag

Objective - The Indonesian Accounting Standard Authority has required companies to adopt the International Financial Reporting Standard (IFRS) since its adoption in 2012. The new standard emphasizes relevance, while the previous standard focused on conservative issues. While the IFRS does not specifically aim to reduce conservatism, this aspect is no longer the emphasis of the new standard. There are concerns about whether the IFRS reduces conservatism and the research on this issue are still uncertain. Hence, this study aims to determine the level of conservatism in the period following the adoption of the IFRS. The study also aims to examine the outcome of the adoption of the IFRS since its adoption in Indonesia in 2012.Methodology/Technique - Using the accounting conservatism model developed by Basu (1997), the authors compare firm conservatism before and after the adoption of the IFRS. The sample includes companies listed on the Indonesian Stock Exchange between 2006 and 2016. There are 3.742 firm-years that consist of 394 companies from various industrial sectors. The data is analyzed using a Pooled Least Square method.Findings - The results show that conservatism was high prior to the adoption of the IFRS. Further, accounting earnings are more sensitive to the negative return than to the positive return before the adoption of the IFRS. However, in the post-adoption period, sensitivity to negative return has decreased. This means that the adoption of the IFRS has reduced levels of conservatism. The Indonesian Accounting Standard Authority may rely on these results to evaluate the mandatory policy of IFRS.Novelty - This study explores the prevalence of conservatism within firms prior to, and following, the adoption of the IFRS using longitudinal data.Type of Paper: Empirical.

Adopting IFRS

Seminar paper from the year 2016 in the subject Business economics - Accounting and Taxes, grade: 81%, University of South Wales, language: English, abstract: The report aims to analyse the opportunities, negative impacts and limitations of adopting IFRS for German SMEs. At first, a classification of SMEs in Germany is given and their current situation is demonstrated. The next passage critically analyses the impact of an introduction of IFRS for SMEs in Germany. The analysis includes investigating if the effect varies in different crucial business factors of SMEs as well as their company type. At last, the results are summarised and recommendations are given.

The Impact of IFRS Adoption on the Financial Activities of Companies in India

Drawing on the academic literature in accounting, finance and economics, we analyze economic and policy factors related to the potential adoption of International Financial Reporting Standards (IFRS) in the U.S. We highlight the unique institutional features of U.S. markets to assess the potential impact of IFRS adoption on the quality and comparability of U.S. reporting practices, the ensuing capital market effects, and the potential costs of switching from U.S. GAAP to IFRS. We discuss the compatibility of IFRS with the current U.S. regulatory and legal environment as well as the possible effects of IFRS adoption on the U.S. economy as a whole. We also consider how a switch to IFRS may affect worldwide competition among accounting standards and standard setters, and discuss the political ramifications of such a decision on the standard setting process and on the governance structure of the International Accounting Standards Board. Our analysis shows that the decision to adopt IFRS mainly involves a cost-benefit tradeoff between (1) recurring, albeit modest, comparability benefits for investors, (2) recurring future cost savings that will largely accrue to multinational companies, and (3) one-time transition costs borne by all firms and the U.S. economy as a whole, including those from adjustments to U.S. institutions. We conclude by outlining several possible scenarios for the future of U.S. accounting standards, ranging from maintaining U.S. GAAP, letting firms decide whether and when to adopt IFRS, to the creation of a competing U.S. GAAP-based set of global accounting standards that could serve as an alternative to IFRS.

Achieving Global Convergence of Financial Reporting Standards

We investigate the effect of mandatory International Financial Reporting Standards (IFRS) adoption in the European Union on the association between accounting estimates and future cash flows, a key concept of accounting quality within the International Accounting Standard Board conceptual framework. We find that the predictive value of accounting estimates improves after IFRS adoption. This improvement is largely driven by specific types of accounting estimates, such as accounts receivable, depreciation, and amortization expense. We also find that the improvement is concentrated in countries with larger differences between pre-IFRS domestic GAAP and

IFRS. Our findings suggest that IFRS allow managers to exercise their judgment to provide information about future cash flows through the more subjective/judgmental portion of accounting accruals.

The introduction of IFRS. Consequences for investment decisions

While prior research on mandatory IFRS adoption fails to provide evidence of improvement in the quality of financial reporting (increased transparency and/or comparability), it provides almost unanimous evidence of beneficial capital-market impacts. Within the European Union (EU), mandatory IFRS adoption coincides with the adoption of the Market Abuse Directive (MAD). While the mandatory adoption of IFRS took place in 2005, MAD was passed between 2004 and 2007 depending on the EU country under consideration. Furthermore, both IFRS and MAD aim towards increased transparency, either by improving the quality of financial reporting (IFRS) or by prohibiting selective disclosures to enhance common information available to all market participants (MAD). Our first essay aims to disentangle the respective market impacts of MAD adoption and IFRS adoption in order to determine the specific effect of each regulation. Our evidence suggests that a significant part of the capital market effects usually attributed to IFRS comes, at least to some extent, from the contemporaneous adoption of the Market Abuse Directive. Our second essay focuses on the role of information environment. Investigating how information environment affects the market impacts of both MAD adoption and IFRS adoption is crucial to determine whether all firms benefit identically from these regulations. Using firm size and analyst following as proxies capturing firms' information environment, we provide evidence showing that small firms and firms with weak analyst following are those that benefit the most from the introduction of the IFRS mandate. In contrast, large firms and firms with high analyst coverage benefit the most from MAD adoption. Our third essay analyzes the role of enforcement. We find that the effectiveness of both IFRS and MAD is hampered by different enforcement levels across firms and countries. Moreover, the observed capital-market outcomes on one regulation differ if the effects of both regulations are not clearly dissociated. Thus, we caution researchers not to attribute capital-market outcomes primarily or solely to one regulation without taking into account the concomitant adoption of the other one.

The Adoption of International Financial Reporting Standards (IFRS) and Basel III Requirements

This paper examines the underlying causes for why some countries adopt IFRS for bank reporting, while others do not. Using theory linking the effects of ownership on financial reporting, I first predict that countries with greater state or private concentrated ownership in banks are less likely to choose IFRS for bank reporting. I further predict that countries' banking industries with lower business activity in countries that adopted IFRS (that is lower "network effects") are less likely to choose IFRS for bank reporting. Using hand-collected data from 36 countries--all of which adopt IFRS for non-financial firms, but exhibit variation in the adoption of IFRS for banks--I document strong support of a negative association between adoption of IFRS for bank reporting and the extent of state or private concentrated ownership; I do not find evidence consistent with “network effects"--future work will address potential measurement error in the experimental variable.

Voluntary Implementation of IFRS in German Non-Listed Companies

Wiley IFRS: Practical Implementation Guide and Workbook, Second Edition is a quick reference guide on IFRS/IAS that includes easy-to-understand IFRS/IAS standards outlines, practical insights, case studies with solutions, illustrations and multiple-choice questions with solutions. The book greatly facilitates your understanding of the practical implementation issues involved in applying these complex "principles-based" standards. PS-Line

The Accounting Conservatism of the Adoption of IFRS in Indonesia

Michael Erkens analyzes the determinants and consequences of information disclosure. He presents an empirical investigation of corporate risk management disclosures of nearly 400 firms from 20 European countries. The results show that countries’ institutional settings and cultural values are predominant factors why firms disclose information on their risk management practices. In another study, the author analyzes the economic consequences associated with the publication of an annual report in English by European firms from non-English speaking countries. He finds that the release of English annual reports attracts more analysts and foreign investors to the firm, and decreases information asymmetries between insiders and outsiders of the firm.

The Effect of IFRS Adoption on Accounting Quality and Market Liquidity

In this paper, we evaluate the common assertion that EU firms began using IFRS by 2005 when the EU formally adopted IFRS. We find that although the incidence of firms using local (or some other) GAAP has declined between 2005 and 2009, it is still nontrivial. For instance, by 2009 the incidence of non-IFRS financial statements was still in excess of 17% (42% of which were fully consolidated). We estimate a model of the non-adoption of IFRS as a function of proxies for EU-wide and country-specific implementation of the IFRS regulation, country-specific enforcement mechanisms, and firm-specific reporting incentives. We find that being traded in EU-regulated markets, preparing fully consolidated financial statements, and having a more diversified corporate structure are positively associated with the likelihood of using IFRS, and using US GAAP in the preceding year is significantly negatively associated with adopting IFRS. We find little evidence that country-specific enforcement is associated with IFRS adoption during our time period. Finally, we find that several reporting incentives proxies are associated with adopting IFRS, such as being large and closely-held with wider analyst following. We interpret our results to mean that many EU firms do not use IFRS; that firms exploited definitions, exemptions, and deferrals in the regulation to avoid adopting IFRS; and that firms responded to their reporting incentives in making the decision to adopt IFRS.

Meta-analysis of the Impact of Adoption of Ifrs on Financial Reporting Comparability, Market Liquidity and Cost of Capital

Exploiting the unique feature that Latin American countries have not undergone a significant change to the enforcement of accounting standards and investor protection mechanisms, we investigate whether mandatory adoption of IFRS and firm-level reporting incentives improve analysts' information environment in Latin American countries (Argentina, Brazil, Chile, Mexico and Peru), and whether the precision of public, private and consensus information improve after IFRS adoption. The results show that mandatory adoption of IFRS and firm-level reporting incentives improve analysts' information environment. Overall, we confirm the positive effects of IFRS adoption, because the precision of public and consensus information is enhanced.