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Adoption of International Financial Reporting Standard (IFRS) and its Consequences on Financial Reporting Quality: A Review

ATM Adnan[1*] and Prof. Md. Muinuddin Khan[2]

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ABSTRACT

Purpose: The broad adoption of IFRS around the world, aided by the IAS Regulation in 2002, created a critical foundation for numerous academic studies that examined various viewpoints on voluntary or obligatory IFRS adoption. As a result, this study aims to provide a comprehensive image of the advantages and disadvantages of IFRS implementation, as well as the implications for financial reporting quality. We highlight two financial reporting performance indices, Earning Management (EM) and Value Relevance (VR), to determine the possible effect of IFRS implementation on the quality of financial reporting activities.
Methodology: This paper examines the literature on the implications of mandatory or voluntary implementation of IFRS and the impact on accounting reporting quality that is expected to result from the transition. This paper takes a retrospective view, focusing on accounting research published in leading accounting journals and selective working papers, intending to understand the discussion on IFRS adoption and accounting quality in literature.
Findings: Review findings suggest that IFRS adoption is expected to deliver benefits in improving the consistency of financial statements, including value relevance and earnings control. According to published literature, IFRS adoption would be more effective if it is backed by good legal protections, qualified experts, as well as appropriate supervision and compliance. Moreover, empirical evidence has shown that the advantages of IFRS are not universally recognized across countries. Overall, this study suggests that accounting consistency cannot be measured solely in terms of IFRS implementation, whether optional or obligatory.
Limitations: This study is solely based on the qualitative review of the prominently published literature and also limits its focus on the two primary financial reporting quality metrics which could be extended. Moreover, macro-level determinants of IFRS's impact on reporting quality could be analyzed.
Practical Implications: This study adds to the current literature by including a much-needed summary overview of the significance of IFRS adoption in accounting quality metrics in a global context, which will help researchers explore the IFRS framework further.
Originality: This paper presented the measures used by studies to determine accounting reporting quality, summarizes the factors that contribute to accounting quality, and contributes to improving the quality assessment of financial reporting information.

1. Introduction

Differences in accounting standards in each country make it difficult for users of financial statements, especially for analysts, auditors, investors and creditors whose work cross-border in understanding the financial statements presented to a different standard. This will hamper business operations and international capital markets. The

* Corresponding Author
[1] Assistant Professor, Faculty of Business Studies, BGMEA University of Fashion and Technology (BUFT), Nishatnagar, Dhaka, Bangladesh. E-mail: atmadnan@buft.edu.bd
[2] Distinguished Professor & Dean, Faculty of Business Studies, BGMEA University of Fashion and Technology (BUFT), Dhaka, Bangladesh. E-mail: mmk@buft.edu.bd

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existence of accounting principles that varies from state results in the need for accounting standards internationally. Therefore, International Accounting Standards Board (IASB) issued International Financial Report Standards (IFRS). IFRS has been a global concern for around the last two decades. In recent years, IFRS has become progressively prevalent in a world scope. Many countries have been working diligently toward its implementation because they need consistency in reporting financial condition and expect that implementing IFRS could open access to further sources because investors and other users of the financial statements aspire 'standards that require high-quality, transparent, and comparable information' (Collings, 2012).

International Financial Reporting Standards (IFRS) is the set of accounting standards developed and published by the International accounting standard board (IASB). More than 100 countries have adopted the IFRS as accounting standards and most of the countries are on the way to adopting it (Tsakumis, Campbell Sr, & Doupnik, 2009). In the recent past, the acceptance and execution of international financial reporting standards by global public corporations are seen as the most noteworthy and remarkable event in the history of accounting reporting practices (Sacho & Oberholster, 2008). The main objective of formulating and implementing IFRS was to achieve the standardization and convergence among the several accounting standards being practiced in different countries, enhancing the usefulness of reported financial information resulted in achieving high quality and transparent information in the global financial market (Alali & Cao, 2010).

Before entering into the main discussion a brief background of IFRS and IASB is justified. The International Accounting Standards Board (IASB) is a private organization of a global scale with the function of issuing a set of universal financial statements preparing & reporting standards, so far it has issued 41 International Accounting Standards (IAS) and 17 IFRS (Epstein & Jermakowicz, 2008). IFRS got its highest recognition when the EU and Australia made mandatory adoption of IFRS in preparation of consolidated fi¬nancial statements for all of its publicly listed companies (Zeff & Nobes, 2010). The year 2010 was also a succeeding major achievement in the IFRS adoption process worldwide, with mandatory adoption in Brazil followed by, other countries with great economic significance. i.e. in 2011, Canada; in 2012, Mexico and Russia (Armstrong, Barth, Jagolinzer, & Riedl, 2010).

The implementation of the IFRS by public organizations around the globe is one of the most important financial accounting and reporting reforms in accounting history. Currently, over 180 countries have adopted IFRS or have taken action toward implementing these principles in the future (Sacho & Oberholster, 2008). In Europe, a publicly listed corporation in a member state of the European Union (EU) is expected to use IFRS when producing consolidated financial reports. The Securities and Exchange Commission (SEC) in the United States has required non-US companies to file financial statements in compliance with IASB issued IFRS without reconstruction (Erchinger & Melcher, 2007). Countries with large economies in Asia, such as Japan, India, and China, are either moving to IFRS or have already converged to IFRS (Alali & Cao, 2010). Furthermore, IFRS affects the majority of publicly traded firms around the world, either directly or indirectly.

Several studies have conducted addressing the consequences of the adoption of IFRS in the context of a mandatory and voluntary approach. According to the finding of (Barth, Landsman, & Lang, 2008), IFRS adoption resulted in a significant improvement in the accounting quality by the means of reducing earning management, the increased value relevance of financial information, and timeliness of loss recognition. A study carried by Carmona and Trombetta (2008) also found that the accounting quality improved more in the case of voluntary adoption than mandatory adoption. However different arguments are also presented through the research findings, such as (Pope & Walker, 1999); (Ball, Kothari, & Robin, 2000); (Leuz, Nanda, & Wysocki, 2003); (Soderstrom & Sun, 2007); (Nobes, 2008) are doubtful regarding the success of harmonization of accounting standards because the ISAB's lack of enforcement power, flexibility via principle-based standards and risk of window dressing by a firm through taking the IFRS name only.

In general, the implementation of IFRS is expected to have a relatively same impact, to improve the quality of financial statements that for instance can be characterized by increasing the value relevance and lowering the levels of earnings management. Moreover, since the IFRS is globally accepted, many companies around the world believe that the implementation will give many advantages, such as improve their stakeholders' confidence and understanding regarding their financial reporting thus, will lead to an increase in corporate value. However, although the adoption of IFRS become a major regulatory transition affecting over ten thousand of corporate in more than 100 countries, its costs and benefits were initially unclear (De George, et al., 2016). Some people believe that

the implementation of IFRS will give various advantages to the global economy; while some others argue that there are many problems in adopting the standards. Furthermore, it is widely recognized that the quality of financial reporting is influenced by many factors, including the company incentives and institutional arrangements where financial reporting occurred (Ball, 2006). This essay aims to provide a cohesive picture of the benefits and drawbacks of IFRS adoption, also its consequences on the quality of financial reporting.

The purpose of this study is to (1) Discuss the benefits and drawbacks of IFRS adoption and (2) Discuss its (adoption) consequences on financial reporting quality. This study reviews the empirical studies on the post facto of IFRS adoption. In evaluating the consequences of adoption in reporting quality this study focuses on two important scopes of accounting quality, that is to say, earnings management and value relevance which are frequently used in studies on the effects of accounting standards on accounting quality (Barth et al., 2008); (Gassen & Sellhorn, 2006); (Hung & Subramanyam, 2007); (Van Tendeloo & Vanstraelen, 2005). The underlining reason for choosing these two accounting qualities is to cover both the context of management discretion and market reaction.

The remainder of this paper is organized as follows. In section two we review the Benefits and Drawbacks of IFRS Adoption. Thereafter, the Consequences of IFRS Adoption on Financial Reporting quality based on value relevance and earning management have been discussed elaborately in section three. Finally, we conclude and discuss the implications of the study.

2. Benefits and Drawbacks of IFRS Adoption

With the increased tendency towards commonality on trade and financial matters, many countries are embracing International Financial Reporting Standards (IFRS). It is noted that although IFRS has contributed to the solving of many problems, it has also created others. For example, whereas it has enhanced the quality of financial reporting, IFRS has not resolved the issue of earnings management completely. De George, Li, and Shivakumar (2016) noted that regulation is important if IFRS is to succeed as a set of financial reporting standards. However, due to several reasons, it is not possible to enforce the adoption of IFRS uniformly across all countries. In addition, companies continue to use various ways to undermine the functionality of the standards as envisaged. The obligation to use the IFRS for listed companies is one of the most significant changes in the history of accounting regulations (Daske, et al., 2008). Mixed reactions emerged on this issue, both reactions for and against the adoption of IFRS. In addition to conceptual debates, many studies showed several benefits in adopting IFRS. In the following section, this paper discusses the benefits and drawbacks of IFRS adoption.

2.1 Benefits of IFRS Adoption

Much of the previous literature on the effect of IFRS adoption pays particular attention to its impact on investors. This section of the study would like to widen the scope by also including its (IFRS Adoption) effect (Pros and Cons) on various other stakeholders like Analyst, capital and/or credit markets participants and stakeholders like enforcement authorities and firm’s management body in the context of Information Quality, information cost, and information comparability. Van Tendeloo and Vanstraelen (2005) argued that IFRS adoption will result in improved quality and comparability of financial information that strengthens investors' power to make well-judged financial decisions, improved investment setting, and effective distribution of economic resources globally. (Ball, 2006) classified the potential advantages of IFRS adoption directly and indirectly (those are also supported by other independent researchers), Direct benefits are associated with lower risk to investors due to efficient market valuation (Horton & Serafeim, 2010), limiting adverse selection; reduce the cost to investors of processing financial information (Florou & Pope, 2012) and facilitating international merger and acquisitions (Henock & Oktay, 2012).

IFRS has also positive effects on the accuracy of analyst forecasts. With the benefit of a better information environment provided through IFRS adoption (Byard, Li, & Yu, 2011) forecast accuracy has increased significantly for analysts. Research carried by Horton, Serafeim, and Serafeim (2013) on 250 European firms exhibited that forecast error and deviation decreased more for the firms where IFRS are significantly and strictly imposed.

Empirical research evidence also suggests that IFRS has a positive effect on the improvement of operating circumstances in the capital or/and Credit market. (Beuselinck, Joos, Khurana, & Van der Meulen, 2009) in their study on the EU, firms revealed, that IFRS adoption reduces the abruptness of future disclosure (i.e., increased synchronicity) and enhanced the analyst capability to incorporate the industry-associated data into the stock valuation.

The research result of (Bissessur & Hodgson, 2012) on Australian firms, (Christensen, Lee, & Walker, 2009) on UK firms, and (Frino, Palumbo, Capalbo, Gerace, & Mollica, 2013) on Italian firms were also consistent with the earlier findings of a strong correlation between increased corporate information disclosure as imposed by IFRS and the market valuation of Financial Assets in the capital market.

Furthermore, Daske et al. (2008, 2013) also examined the influence of IFRS adoption and find some gains, such as an increase in market liquidity, a decline in cost of capital, and a rise in firms' equity value. Moreover, the adoption of IFRS also has an impact in enhance capital investment efficiency (Chen et al., 2013; Biddle, et. al., 2015). Due to the IFRS convergence, Investors will get high-quality information that will be valuable for making a decision (SEC, 2008). Similarly, Armstrong et al. (2010) conducted a study of the market reaction on IFRS adoption in the EU and found that there is a positive feedback of the market to the standard change. Another study conducted by Ball (2006) mentioned many positive influences of the convergence, such as the accuracy, completeness, and timeliness of accounting reports; help small companies to mitigate the risk of limited information; decrease the cost to gain high-quality information, and increase the probability to benefit from higher market efficiency; also boost the "takeover premiums". Ball (2006) also explained some advantages from the implementation of fair value accounting around the world, including in Europe. European and other markets believe that the adoption of IFRS using the fair value can improve the quality of accounting information which will ultimately have an impact on earnings forecasting and investment decisions. Most proponent countries believe that the usage of one global reporting language will improve the quality of accounting information that will lead to better economic conditions.

2.2 Drawbacks of IFRS Adoption

In contrary to many influential benefits provided by IFRS adoption, some of its drawbacks are hard to overlook. According to the evidential findings of the survey carried by the ICAEW called "EU Implementation of IFRS and the Fair Value Directive (2007)", Comparability & transparency in some cases may not be achievable because IASB is only engaged in developing the IFRS without enforcement authority (Veron, 2007), which makes it dependent on the local regulatory body for implementation. Due to the deficiency of proper enforcement mechanisms, genuine convergence and comparability are unlikely to achieve. Cultural, political, and business differences and management incentives might still bypass the high-quality standards (Bradshaw, Miller, & Serafeim, 2009) and resulted in a risk of getting comparatively inferior-quality accounting information (Leuz et al., 2003).

One of the fundamental issues of concern regarding the IFRS is its principle-based standards means it provides more flexibility of accounting presentation based on a different level that can hamper the consistency of presentation. In addition to that, IASB finds it proper not to issue too much interpretation to make IFRS rule-based like US GAAP. That is, however, allowing the space for managers & auditors' discretion (Gallery, Cooper, & Sweeting, 2008) while using judgment in interpreting standards that could lead to inconsistency at the national and firm level (Chand & Cummings, 2008).

In addition to that IFRS encourages accountants to use more fair value in replace of historical cost (Cairns, 2006). In the absence of liquid or arm's length market price, IFRS increases the opportunities of a firm's manipulation using the 'mark to model' technique in determining market price (Ball, 2006). Another important facet rarely addressed is the cost associated with training and hiring staff involved in the preparation of the financial report (Brown, 2011). According to the survey result by PWC, the lack of staff trained with IFRS knowledge resulted in a significant cost of hiring additional resources (Alison Fox and Gwen Hannah, 2013).

Additionally, a notable setback is associated with the transition from previous frameworks to IFRS. The IASB has the sole responsibility of deciding the standards regarding IFRS implementation (Nobes & Perramon 2013). Thus, despite the additional costs incurred in transitioning, it is noted that the benefits of adopting the system are not instantaneous. In particular, time is required for the harmonization of records prepared under the standards to increase consistency. However, as Pacter (2015) found, the main problem with IFRS is the shift from fair value accounting as the basis for liability and asset measurement. What is more, it is anticipated that the problem would become more pronounced given the possibility of increased volatility. Given the prohibitive costs and complexities involved in transitioning, Nobes and Perramon (2013) observed that the adoption of IFRS undermines the ability of small and medium-sized companies to operate. In practice, such businesses lack the financial capability to carry out activities that require enormous resources.

Moreover, researchers also argue that "the uniqueness of accounting issues, culture, & institutional frameworks in every country determine the effectiveness of accounting standards. Accordingly, an appropriate set of standards in one country is not necessarily applicable to another country" (Tan, et al., 2011). Thus, the use of a common set of international accounting standards may not achieve accounting harmonization in practice. Moreover, some researchers also argue that IFRS allows too many judgments in "fair value" measurements may cause the decline the transparency of accounting figures, even it could increase the probability of income smoothing due to the improvement of managerial flexibility (Tan, et al., 2011; Barth et al., 2008). This explanation is similar to previous studies conducted by Penman (2007) & Ball (2006) which also noticed some issues related to the using of fair value in financial statements and the uniformity of IFRS adoption related to the difference of local environment and enforcement. Ball emphasized that the intention to uniformity, supported with belief and desire will lead the process of IFRS convergence and will answer every question relevant to the benefits and drawbacks of its implementation.

3. Consequences on IFRS Adoption on Financial Reporting Quality

Besides the implementation of IFRS, companies must also adhere to the IASB-approved Conceptual Framework for Financial Reporting (IFRS Framework), which serves as the normative basis for all other relevant accounting principles from which fundamental characteristics of relevant financial information arise (Neag, 2014). In this context, the IFRS Framework is recognized as the main source for determining accounting quality in this study. Martinez-Ferrero (2014) describes financial reporting quality as the reliability of information conveyed by the financial reporting process where financial reporting quality allows businesses to actively broaden the range and accuracy of the information they report to ensure that market investors are properly aware to make a well-informed decision on investment and financing. Accounting quality, according to Chen et al. (2010), is the degree to which financial statement material illustrates the actual fiscal situation. According to Platikanova and Perramon (2012), the quality of information is strong if consumers can distinguish correlations and disparities between two sets of economic events," citing to the fact that IFRS is suggested to remove informational spillovers caused by a lack of comparability."

IFRS has had a substantial effect on the reporting of financial statements of companies. According to De George, Li, and Shivakumar (2016), even in the United Kingdom where GAAP is seen as similar to the IFRS standards, financial reports of organizations have changed drastically. For example, De George, Li, and Shivakumar (2016) observe that in a bid to reconcile profits under IFRS and GAAP, Vodafone announced net earnings of 6.5 billion pounds based on IFRS in the year 2005 while it reported a net loss of almost seven billion pounds in the same year, based on the use of UK GAAP. The difference was linked to the amortization of goodwill only. In the same breadth, British Airways reported a fall in shareholders' equity by almost 67% because of recognizing pension liabilities under the IFRS system. The above examples demonstrate that one or two accounting transactions have a significant effect on an organization's reported finances. Thus, it is evident that the adoption of IFRS has a major effect on the reported financial position. Hence, it is held that IFRS affects the financial reports of businesses even in jurisdictions that use GAAP that is similar to IFRS. Many observers of the adoption of IFRS standards such as Morris, Gray, Pickering, and Aisbitt (2014) believe that reporting quality improved with the adoption of the new guidelines. According to Barth, Landsman, Lang & Williams (2012), the assumption is that the framework would improve transparency in financial reports, reduce information asymmetry that was previously common in capital markets enhance cross-border comparability, improve capital flows and lower the costs associated with capital for organizations from adopting countries.

Considerable studies have investigated the consequences of adopting IFRS on the financial reporting quality. Most of the studies used earnings management, value relevance, timely loss recognition, Cost of capital, and information asymmetry as the basis of the accounting quality measures. This study will try to analyze the effect of IFRS adoption on the accounting quality measured by value relevance and earning management. The convergence of IFRS into domestic accounting standard aim to produce financial reporting that has a high degree of credibility. It is related to the objective of financial statements that 'is to give financial information about an entity that is beneficial to the existing and stakeholders in composing decisions' (IASB, 2010: OB2, p.7).

Regulators hope that the use of IFRS could enhance the comparability of financial statements, improve corporate transparency and quality of financial reporting that benefits investors. Nonetheless, there is still debate whether IFRS can improve the quality of accounting information. This essay will mainly discuss IFRS Adoption's consequences on financial reporting quality, related to value relevant and earnings management.

3.1 Consequences of IFRS Adoption on Value Relevance

Value Relevance is the ability of the accounting data to reflect the stock value of the firm. Bartov, Goldberg, and Kim (2005) suggest that information can be value relevant if it allows investors to make an accurate predictive measure of the market value of the firm or in other cases firms accounting amount is very strongly correlated with the share price. additionally, accounting data with more value relevancy is considered as higher quality information (Barth et al., 2008). In the nutshell, it can be said value relevance measures the confidence level of capital market participants (mainly investors) on the accounting information of firms reflecting in the share price of the firm. (Holthausen & Watts, 2001) classifies value-relevance studies that can practically study the relationship between stock price and accounting information into "relative association tests[1] , incremental association tests[2], and marginal information content studies[3]". Most of the significant value-relevance studies have focused on the two key drivers of firm valuation namely; Book Value of equity and Net Income or EPS (Feltham & Ohlson, 1995). Judy Beckman, Okafor, Anderson, and Warsame (2016) in their studies on 626 Canadian publicly listed firms from 2008-2013 to measure the effect of mandatory IFRS adoption on Value Relevance (VR) found that IFRS adopted firms have a higher price and return VR of accounting numbers than that of firms with local GAAP. The finding was important because it exhibits the benefit of IFRS beyond the European developed economy.

Clarkson, Hanna, Richardson, and Thompson (2011) in their study covered a different scenario. They compare the VR of accounting information between code law and common law counties[4]. Their empirical findings revealed that IFRS accounting number is more correlated with market price than that of local GAAP number and it has increased both for common and code law countries after mandatory adoption of IFRS. Their finding is also consistent with (Prather-Kinsey, Jermakowicz, & Vongphanith, 2008) on 16 different EU nations and (Chalmers, Clinch, & Godfrey, 2011) on Australian publicly traded firms, that IFRS adoption increases the VR even if for the nations with strong investors safeguard, reporting standards, and enforcement. Devalle, Onali, and Magarini (2010) applied panel-data regression analysis for the first time along with chow test[5] to measure the VR of 3721 companies from 5 EU nations. Their result also provided increased VR in all samples in terms of the regression of share price on BVPS and EPS whilst VR of BVPS has declined. This finding is also consistent with the findings of (Elbakry, Nwachukwu, Abdou, & Elshandidy, 2017) on 239 firms of the UK and Germany by applying dynamic co-integration analysis with the vector error correction model. Elshandidy (2014) studied the convergence effect of IFRS with CAS[6] rather than the full adoption effect. According to his findings based on 34,020 firms, yearly observations IFRS convergence results in more VR compared to CAS. Landsman, Maydew, and Thornock (2012) used "abnormal return volatility and abnormal trading volume" as a measure of identifying the increase in the information content of earnings (VR). Their studies on 20517 firms earning announcements of 37 world countries[7] found an increase in information content in firms of IFRS-adopted countries than that of non-IFRS adopting countries. They also found that countries with strong institutional enforcement have higher VR. Hung & Subramanyam (2007) conduct a study about the effect of IFRS adoption to value relevant in Germany and they found that there is no positive effect from the IFRS adoption to value relevance. However, they put some limitations of their study. First, their result study may not generalize other countries because only focus on Germany and using a small sample size. Second, since Germany has strong law enforcement, their results might not hold in countries with weak enforcement. Apart from the researches showing the positive effect of IFRS, contradictory findings have also emerged. Aubert and Grudnitski (2011) found no statistical evidence of the increase of VR in 19 EU countries and 20 industries at the same time which is completely reverse from the findings of (Clarkson et al., 2011). Paananen and Lin (2009) in their studies of German companies and (Morais & Curto, 2008) on Portuguese firms have not found any significant effect of IFRS on VR.

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[1] The relationship between capital market returns and accounting information under different accounting standard sets is measured in relative association tests. Accounting information resulting from larger R^2 is considered as more value-relevant.

[2] Incremental association tests investigate the regression coefficient between stock market returns (Price) and particular other specific variables. Considered to be value-relevant if regression coefficient $\neq 0$.

[3] A marginal information content study examines the association of the value changes with the release of an accounting number. Price reactions are measured proof of value relevance.

[4] 03 code law countries and 12 common law countries in EU and Australia.

[5] Chow test is used to state whether the sift to IFRS caused a structural break in the association between equity price and accounting data.

[6] CAS-Chinese Accounting Standard.

[7] 16 countries adopted IFRS and other 11 did not adopt IFRS

Table 1. Empirical Evidence of IFRS Implementation on Value Relevance

Paper / Author / Researcher	Adoption style	Country Coverage	Sample	Study Period	Accounting Measures/ Value	Type of value relevance study	Adoption Effect of IFRS
(Judy Beckman et al., 2016)	Mandatory	Canada	646 securities traded on the TSE	2008 to 2013	Book value of equity and earnings per share	1. Incremental association study 2. Time series incremental association model	Increased Value Relevance
(Clarkson et al., 2011)	Mandatory	14 EU countries and Australia	3488 publicly traded Firms	2004 to 2005	Book value, EPS, and Market price of equity	Traditional linear pricing models	Positive Value Relevance
(Devalle et al., 2010)	Mandatory	5 EU Countries Germany, Spain, France, Italy & United Kingdom	3, 721 Firms listed on five European stock exchanges, i.e. Frankfurt, Madrid, Paris, London, and Milan.	2002 to 2007	Book value, EPS, and Market price of equity	Panel-data models to test for value relevance	Positive Value Relevance
(Elshandidy, 2014)	Converged IFRS with CAS	China	34,020 firm-year observations	1999 to 2012	Market value-the stock price & book value of equity.	Relative Association tests	Positive with convergence
(Kargin, 2013)	Mandatory	Turkey	155 firms from Istanbul SE	1998 to 2011	Market value, book value, and earnings per share.	Modified price model (Ohlson, 1995)	Increased Value Relevance
(Bogstrand & Larsson, 2012)	Mandatory	Scandinavian region: Denmark, Norway, Sweden & Finland	4, 310 firms-year observations from respective Countries SE	2001 to 2010	Book values, accrual-based earnings, and cash-flow-based earnings.	Cross-Sectional Time-Series Analysis	Increased Value Relevance
(Landsman et al., 2012)	Mandatory & Voluntary	37 countries Worldwide 16 (IFRS) and 11 (Non-IFRS)	20,517 Firms earnings announcements From Respective Countries SE	2002 to 2007	Trading volume and security price	Multivariate & Univariate tests	Increased Value Relevance for IFRS adoption
(Elbakry et al., 2017)	Mandatory	Germany & UK	133 Firms for the UK and 96 for Germany from both stock markets	2002 to 2007	Book values and earnings per share	Dynamic cointegration analysis with the vector error correction model	Increase Value Relevance for IFRS adoption
(Aubert & Grudnitski, 2011)	Mandatory	13 EU countries	3,530 observations from twenty industries.	2004 to 2005	Earnings per share	Incremental association test	Negative Effect
(Morais & Curto, 2008)	Mandatory	Portugal	34 Portuguese listed firms	1995 to 2005	EPS & BVPS	Relative association test	Negative Effect

Source: Authors compilation from published literature

Note: The idea of the tabular presentation is originated from (Palea, 2013) & (Bogstrand & Larsson, 2012)

Existing studies exhibited that accounting information following IFRS resulted in more value relevance, maybe for its greater importance on fair values. Moreover, as IFRS requires additional disclosures, it is probable that the value relevance of accounting information increases in mandatory IFRS adoption.

3.2 Consequences of IFRS Adoption on Earning Management

In the simplest sense earning management is the process used by the managers to use their judgments & discretions (Healy & Wahlen, 1999) in the deliberate modification (Schipper, 1989) of a firm's actual economic performance (earning) within and or over the boundary of standards policies that could achieve the management's latent intended objectives by misleading the users of the Accounting information. Walker (2013) argued, everyone forms EM is not bad and not necessarily managed via fraudulent practices but providing the flexibility of exhibiting the reported earning in multiple measures. So the definition gives a general idea that earning management rest somewhere in between conservative accounting and aggressive accounting.

Mohanram (2003) states EM does not always mean income exaggerations but also in many intense intentionally lowering the earnings (i.e. cookie Jar, big bath) moreover EM is not limited to accounting practices but also by strategic actions. According to Healy and Wahlen (1999) followed by Vander Bauwhede (2001); managers are motivated to engage in EM due to three basic reasons,"1) capital market motivations[8]; 2) existence of explicit and implicit contracts; 3) political and regulatory motivation."

There is the argument that IFRS could improve the quality of accounting information for the use of fair value to reflect better the economic condition of the company. In addition, the application of IFRS is also hypothesized to limit the management of opportunistic acts (Barth, et al., 2008). Several prior studies have been done to identify the consequences of the IFRS adoption on Earning Management. Some of the dominating empirical study findings are discussed below; Van Tendeloo and Vanstraelen (2005) found no changes in EM practices among German companies after IFRS adoption but the nature of EM has changed. After IFRS, practices have moved towards more on managing discretionary accruals and earning smoothing rather than using hidden reserves. The study also signified the importance of auditors' judgments in controlling EM. Cai, Rahman, and Courtenay (2008) in their mega research of more than 100,000 firms, annual observation from 32 countries exhibited that IFRS harms EM. The results also argued that countries with strong enforcement have fewer EM practices. Barth et al. (2008) conducted a study of the impact of the application of international accounting standards (IAS) on companies from 21 countries in the European Union. From the research, he found empirical evidence that the application of the IAS can reduce earnings management, recognition of losses timelier, and more relevant than its value before adopting IAS. These results indicate that the quality of accounting information to be increased after the application of international accounting standards. These findings are also consistent with the findings of (Jeanjean & Stolowy, 2008) in their studies on three countries with different law bases, to reveal the impact of IFRS on EM found that EM is not declined for UK and Australia rather increased in the case of France. However, Walker (2013) is concerned that it is not clear whether an increase or decrease in earnings quality is caused by the adoption of IFRS or because the firms that adopted IFRS could provide a clean start to the financial information. Walker also said that identifying the impact of IFRS on earnings management is not easy, due to the changes in a company's economic circumstances during IFRS convergence, enforcement, or other factors.

Apart from the developed nations few studies have been done in emerging economies such as (Adibah Wan Ismail, Anuar Kamarudin, van Zijl, & Dunstan, 2013) on Malaysian firms suggest that IFRS adoption is strongly associated with lower earning management. Rudra and Bhattacharjee (2012) in their study on Indian firms revealed that IFRS firms are more engaged with earning smoothing than non-IFRS firms. They also suggest that besides IFRS adoption strong enforcement is necessary to control EM.

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[8] The widespread use of accounting information by investors and financial analysts can generate motivation for managers to maneuver earnings in an attempt to control short-term stock price performance when there is an expectation gap between firm performance and analysts. Meeting the expectations of financial analysts or management is another reason for EM that researchers have found out. (Teoh, Welch and Wong, 1998, De Angelo, 1988; Perry and Williams, 1994)

Table 2. Empirical Effect of IFRS Adoption on EM

Author	Adoption style	Country Coverage	Sample	Study Period	Accounting/ EM Measures	Summary findings of Adoption Effect
(Van Tendeloo & Vanstraelen, 2005)	Voluntary	Germany	636 German Listed Firms year observations	1999 to 2001	The magnitude of discretionary accruals, operating cash flows	Negative effect on EM measured by discretionary accruals; rather amplify the degree of discretionary accruals.
(Cai et al., 2008)	Mandatory & Voluntary	32 countries worldwide	100,000 firm year observations	2000 to 2006	Accruals, operating cash flows, the magnitude of accruals, and small loss avoidance.	Decreased EM in Countries with strong enforcement measures.
(Jeanjean & Stolowy, 2008)	Mandatory	Australia, France, and the UK	5,051 firm year observations	2002 to 2006	Discretionary accruals, specific accruals,	EM did not reduce after the adoption of IFRS and increased in France
(Zéghal, Chtourou, & Sellami, 2011)	Mandatory	France	353 French listed groups	2003 to 2006	Discretionary accruals	Decreased EM level for companies with good corporate governance and those that depend on Overseas financial markets.
(Adibah Wan Ismail et al., 2013)	Mandatory	Malaysia	4,010 firms annual observations	2002 to 2009	The absolute value of abnormal accruals	IFRS adoption is linked with reduced EM

Source: Authors compilation from published literature

The empirical evidence suggests that only the high-level standards are not sufficient enough to ensure the negative EM but with the strong enforcement and legislative mechanism along with IFRS can meet the objective.

4. Conclusion

In summary, IFRS has become a global concern since its publication and implementation. Most of the countries in the world have already committed to adopting IFRS in preparing their financial reporting, voluntary or mandatory. However, few countries do not want to adopt the IFRS. There is still much debate about the consequences of the application of IFRS. Many types of research had been conducted on the effects of IFRS adoption on various aspects. On one side, there are opinions in favor of IFRS in the improvement of accounting quality; on the other hand, there are also grounds to think that the adoption of IFRS is not sufficient to increase the value of financial reporting. Accounting quality is not solely resulted from accounting standards, but also the cohesive effect of the countries' macro-level forces as well as financial reporting incentives. Another important finding is that most of the studies are focused on IFRS adoption in the EU, very few quality studies are carried outside the EU and in emerging markets with different variables to study the consequences. But apart from its enforcement ability IFRS is perceived to be increasing the quality of the financial reporting. IFRS represents a gateway via which "countries can improve investor protection and make their capital markets more accessible to foreign investors."(Hope, Jin, & Kang, 2006). Research evidence consistently shows that IFRS adoption has already provided many advantages and would be more beneficial if the implementation of it is supported by strong legal protection, competent professionals, also adequate monitoring and enforcement.

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