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INTERNATIONAL FINANCIAL REPORTING STANDARDS: A PRE-/POST-IFRS ADOPTION COMPARATIVE ANALYSIS

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Abstract

The development of capital markets as well as the work of multinational companies in recent years has called for the implementation of some accounting standards to ensure the comparability of global financial reporting. Internationally, financial reporting is the area best covered by the rules issued by international bodies, the most important of which are the international financial reporting standards, US standards and European directives. The convergence of national regulations with the International Financial Reporting Standards has been an international accounting reality in recent decades, and IFRS is a benchmark for updating national regulations for countries that have fewer resources to set standards. Trends in the liberalization of the financial and capital market since the 1980s have increased the need for information as a means of ensuring financial stability, in order to adopt some rational financial and economic decisions. From the comparative analysis of national and international practices, it can be noticed that international regulations place more emphasis on professional reasoning, while national regulations complying with European directives limit the possibility of the accountant practitioner to decide in certain situations, the modalities of action being imposed most often by standards. Accounting policies are influenced, from country to country, by the fiscal regime, the political and economic context, or by the legal system, and the consequences of applying some accounting practices within the economic entities will be noticed in the results and performance of the entity in a certain period of time (usually the financial year).

Keywords: International financial reporting standards, national regulations, relevance of accounting information, financial performance.

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1. Introduction

Along with the enactment of the Accounting Law no. 82/1991 and its Implementation Regulation in 1993, accounting began to be regulated after other co-ordinates, with Romania opting in a first stage of the accounting reform for the French line guidance. The Romanian accounting regulations are characterized by a series of rapid changes, mainly due to the adoption of foreign models and influences. Since 1999, the International Accounting Standards (IAS) have been included, with some exceptions, in national regulations applicable to all large companies. Along with the adoption of the Order of the Ministry of Public Finance no. 403/1999, subsequently replaced with the Order of the Ministry of Public Finance no. 94/2001, features of the economic vision emerged, and a series of elements of the IASB General Framework were introduced. In 2005 new regulations were issued (Order of the Ministry of Public Finance no.1752/2005), in order to prepare for Romania's accession to the European Union. The regulatory document also concerned the application of IFRS as of January 1st, 2006 for a small number of entities, namely fifty financial institutions. However, the target entities encountered difficulties in assimilating and implementing an accounting system based on the international reference. Following Romania's accession to the European Union, the International Financial Reporting Standards became mandatory for the compilation of group accounts of listed companies. Thus, according to the Order of the Ministry of Public Finance no. 1121/2006, as of January 1st, 2007, the Romanian companies listed on a regulated market were obliged to apply the IFRS reference for consolidated financial statements. Starting with 2012, trading companies whose securities are admitted to trading on a regulated market must apply the International Financial Reporting Standards when preparing individual annual financial statements, as specified by the Order of the Ministry of Public Finance no. 881/2012. Thus, IFRS compliant financial statements will be obtained by re-processing the accounting information prepared under the national accounting regulations and will be subject to statutory audit. Moreover, the Order of the Ministry of Public Finance no. 1286/2012 for the approval of the Accounting Regulations complying with the International Financial Reporting Standards sets out the accounting policies to be applied by companies whose securities are admitted to trading on a regulated market for the preparation of financial statements in line with IFRS requirements. Thus, the individual financial statements for the 2012 financial year will provide comparative accounting information, including from the beginning of the 2011 financial, in accordance with IFRS 1 standard ″First-Time Adoption of International Financial Reporting Standards″ when the concerned entities have not applied IFRS in the preparation of individual financial statements in the previous years.

Given the expansion of capital markets and the development of multinational companies, the need for providing complex and comparable accounting information has become increasingly evident, materialized by the widespread application of high quality global accounting standards accepted by national normalization bodies. The application of IFRS worldwide is a solution in this respect, drawing on many advantages generated mainly by increasing the comparability of companies' financial statements and by allowing investors to access capital at lower costs and lower risk.

The financial statements for the year ended December 31st, 2012 are the first financial statements prepared in accordance with the IFRS standards adopted by the EU. For the ″up to″ and including the year ended December 31st, 2012, financial statements have been prepared in accordance with the general accounting principles applicable at national level (according to the Order of the Ministry of Finance no.

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3055/2009). The period commencing with the 2012 financial year marks the mandatory application of the IFRS also at the level of the individual financial statements of the companies listed on the Bucharest Stock Exchange following the exercise of an option under the Regulation no. 1606/2002 of the European Commission. Along with the Order of the Ministry of Public Finance no. 881/2012 and Order of the Ministry of Public Finance no. 1286/2012, the Accounting Regulations in line with the International Financial Reporting Standards applicable to trading companies (for individual annual financial statements) whose securities are admitted to trading on a regulated market are approved.

2. Literature Review and Theoretical Framework

The mandatory passage to IFRS in the EU has created the premises of a very rich literature on the impact of IFRS on published accounting figures and on the distance separating IFRS from national standards. Starting with 2012, Romania adds to the list of countries that allow such analyses, even if on the basis of individual financial statements. The results of several studies highlighted that the mandatory application of IFRS worldwide has had the effect of increasing the quality of financial reporting, comparability and transparency of financial statements (Jermakowicz & Gornik-Tomaszewski, 2006). The authors believe that the implementation of IFRS in the European companies has led to the increase in the comparability of companies listed on the stock exchange and has improved the quality of financial information. The financial statements must fairly present the financial position, financial performance and cash flows of an entity, which is possible by complying with the applicable International Financial Reporting Standards, which implies the selection and application of accounting policies that comply with IAS 8, as well as the presentation of accounting information in a relevant, credible and intangible manner.

Lantto & Sahlström (2007) conducted a survey using a sample of 125 companies located in Finland. They concluded that the adoption of IFRS changed the extent of the underlying financial statements due to changes in the book value and the imposition of more stringent requirements on certain aspects. The authors concluded that the adoption of IFRS changes the magnitude of key accounting rates, significantly increasing rates of return and significantly reducing returns on capital.

The scholarly literature includes numerous research related to the adoption of IFRS at European level, their application being made differently, depending on the economic, social and cultural factors that are manifesting at each country level. Armstrong, Barth, Jagolinzer, & Riedl (2010) analysed investors' responses to the adoption of IFRS at European level. The authors concluded that investors expect from the implementation of IFRS to increase the quality of accounting information, to reduce information asymmetry and capital cost, and these benefits may be lower in countries where the implementation of IFRS would be less rigorous. Karğın (2013) concluded that the implementation of IFRS led to a significant improvement in the relevance of accounting information based on a study on the quality of accounting information before and after the implementation of the International Financial Reporting Standards for a number of Turkish companies listed on the stock exchange during the period from 1998 to 2001. Thus, the author observed that the implementation of IFRS has improved the value of accounting information for companies and periods under review.

In Greece, Athianos & Ekaterini (2008), examined a sample of Greek companies that adopted IFRS in 2003-2004. The study concluded that the value of assets, the book value of equity and the change in

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equity and net income are significantly higher under IFRS than with GAS. The authors also argued that there are no IFRS effects on the financial indicators, except for the rate of return on assets. On the other hand, Zeghal & Mhedhabi (2012) analysed the association between the use of IAS/IFRS and the development of capital markets in emerging countries. The study was conducted on a sample of 38 developing countries that adopted the IASB standards. The authors reached the conclusion that the implementation of IFRS has led to improvements in the quality of the financial statements of listed companies and to motivating investors to trade more.

According to the scholarly literature, some authors believe that changes brought to accounting standards have created a number of difficulties, as the widespread implementation of IFRS has led to a change in traditional accounting principles in different countries of the world. On the other hand, other authors see in the application of the International Financial Reporting Standards a chance to regain the trust of users of accounting information from financial reporting. The financial statements must provide detailed information on risk management, the uncertainties faced by the entity, the manner of determining the fair value, thus ensuring greater transparency of information provided by entities in order to increase investors' confidence.

Based on our study on the scholarly literature, we synthesized in the following table the methods used to quantify the effects of the transition to IFRS on the quality of accounting information and the results obtained by applying these patterns in different European countries or groups of European countries:

Table 01. Effects of adopting IFRS in Europe

Authors	European States included in the sample	Obtained results
Nafti*et al.* (2013)	France	The application of IFRS has led to an increase in the information content of the accounting data.
Boumediene*et al.* (2014)	France	The results manipulation practices were less used.
Christensen *et al.* (2008)	Germany	There is no evidence of improving the quality of financial reporting for entities required to adopt IFRS. Noteworthy is the diminution of the results handling practices and the more timely recognition of the loss for companies that have voluntarily adopted IFRS.
Maggina & Tsaklanganos (2011)	Greece	There is no effect of adopting IFRS noticed on the price or return on equity.
Klimczak (2011)	Poland	The impact of adopting IFRS is relatively small for the relevance of capital market data.
Hellman (2011)	Sweden	The voluntary adoption of IFRS has enabled entities to use the profit/loss handling practices.
Karğın (2013)	Turkey	Following the adoption of the IFRS, the relevance of equity accounting data has improved but no improvement in the relevance of the outcome has been noticed.
Chen *et al.* (2010)	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom	Following the adoption of the IFRS, it was found: to reduce the practices of manipulating the result to a target value, to reduce the value of discretionary accrual accounting and to increase the quality of accrual accounting, but to increase the practices of smoothing the result and large losses that are not timely reported.
Kosi*et al.* (2010)	Austria, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom	There is an increase in the relevance of the accounting data required to calculate the earnings before interest and tax (EBIT) and the increase in the relevance of accounting data on profitability for entities that were required to adopt IFRS, from countries with a strong system of protection of creditors.

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In light of the scholarly literature, we have formulated, for testing and validation, the following hypothesis:

H1: Does the transition to the international financial reporting standards have a major impact on the quality of the accounting information presented in the annual financial statements, so that the users of this information (investors, creditors) benefit from a fair presentation of the financial position and financial performance?

3. Research Method

3.1. Sample and Data Collection

In order to test and validate the proposed research hypothesis, we analysed the empirical data from the annual financial statements of a company listed on the Bucharest Stock Exchange, prepared for the pre-IFRS and post-IFRS periods.

3.2. Analyses

For research purposes, we used the *dependent variable*:

− Y - the degree of general indebtedness, an indicator that highlights the proportion of financing the company total debt from equity.

A decrease in the indicator reflects the strengthening of self-financing capacity in the short, medium and long term. A level higher than 50% may trigger an alarm for the company's creditors.

The independent variables included in the analysis refer to a series of relevant economic and financial indicators to reflect the economic and financial situation of a company, as presented in Table 2.

Table 02. Relevant indicators for the economic and financial situation

Category	Indicators
Profitability	Return on assets (ROA)
	Return on equity (ROE)
	EBIT margin
	EBITDA margin
Liquidity and solvency	Current liquidity
	Quick liquidity
	Solvency ratio
Economic and financial balance	Rate of financial autonomy
	Rate of financial stability
	Total debt ratio
	Current assets from equity coverage ratio
Activity	Turnover/Total assets

It is considered that the relationship between the selected variables and the level of indebtedness is clear and economically viable, i.e. the relationship between each of the variables: commercial profitability, return on assets, current liquidity, interest coverage and default rate is inversely proportional, respectively, an increase in these indicators implies a lower default rate, while the relationship between the total indebtedness ratio and the default rate is directly proportional, with an increase in this indicator implying a higher default rate.

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The data analysis and the determination of research results were carried out with the help of the Excel package, the econometric analysis being made on logarithmic series to facilitate the interpretation of the results.

The coefficient of the independent variable shows how much the Y_t dependent variable changes when the X_{jt} independent variable changes with a unit, while the other independent variables remain constant. For the purpose of the analysis, empirical correlations were made between the variables to reflect the degree of influence of each independent variable on the dependent variable.

In order to determine the discriminatory power of each variable, we carried out univariate analyses for each of the 12 indicators proposed in the analysis.

As a result, we have retained in the analysis four independent variables which are not closely related:

- X1 – current liquidity
- X2 – solvency ratio
- X3 – return on assets
- X4 – current assets from equity coverage ratio

4. Findings

The completion of the process of collecting and processing the information for each analysed variable resulted in a structured database according to Table 3.

Table 03. Database with the main variable values

	RAS		**IFRS**					
	2011	**2012**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Current liquidity	4.4445	5.6903	3.7135	6.4571	4.9452	5.9356	5.7946	4.3745
Solvency ratio	8.1467	10.4107	6.9246	9.8141	8.8562	9.8284	10.8135	8.4676
Return on assets	0.0944	0.1126	0.1109	0.1076	0.0950	0.1304	0.1118	0.0933
Current assets from equity coverage ratio	0.7138	0.7940	0.6196	0.7484	0.7201	0.7479	0.7630	0.7243

The correlation matrix of the analysed variables (Tables 4 and 5) shows that the negative values of the correlations between the level of indebtedness and the analysed variables indicate that the high values of the independent variables are associated with low values of the level of indebtedness, while the low values of the independent variables are associated with high values of the level of indebtedness

Table 04. Matrix of correlation of analysed variables - according to the International Financial Reporting Standards

	Current liquidity	**Solvency ratio**	**Return on assets**	**Current assets from equity coverage ratio**	**Level of indebtedness**
Current liquidity	1				
Solvency ratio	0.805380983	1			
Return on assets	0.732102454	0.7006102	1		
Current assets from equity coverage ratio	0.791984855	0.9648819	0.731004821	1	
Level of indebtedness	-0.807441931	-0.999989	-0.70210961	-0.96425339	1

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Table 05. Matrix of correlation of analysed variables – according to the National Financial Reporting Standards

	Current liquidity	**Solvency ratio**	**Return on assets**	**Current assets from equity coverage ratio**	**Level of indebtedness**
Current liquidity	1				
Solvency ratio	0.928255807	1			
Return on assets	0.909739253	0.758855537	1		
Current assets from equity coverage ratio	0.784121701	0.889083627	0.656241824	1	
Level of indebtedness	-0.858614307	-0.922013231	-0.69503338	-0.742163507	1

The differences found between the two financial reporting standards are not significant, and therefore we can conclude that the shift to the international financial reporting standards does not have a significant impact on the decision of accounting information users. To highlight the dependence between the selected variables in the chosen time horizon, we estimated the regression model in Excel, as follows:

Table 06. Regression model estimate in Excel – IFRS

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.999995376
R Square	0.999990752
Adjusted R Square	0.999963007
Standard Error	0.000655763

Table 07. Regression model estimate in Excel – RAS

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.970235836
R Square	0.941357577
Adjusted R Square	0.765430307
Standard Error	0.052218556
Observations	6

We can notice that the evolution of indebtedness is 99.99% influenced by the indicators selected in the analysis, reported according to the international accounting standards (R Square = 0.999990752) and 94.14% by the indicators reported according to the national financial reporting standards (R Square = 0.941357577). The differences found between the two financial reporting standards are not significant, and therefore we can conclude that the shift to the international financial reporting standards does not have a significant impact on the decision of accounting information users. Considering that the dependent variable and the independent variables are expressed in natural logarithms, the coefficients of the independent variables show by what percentage the dependent variable varies on a 1 percent change in the independent variables.

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Table 08. Research results in relation to independent variables

	Reporting under IFRS		Reporting under RAS	
	Coefficient	**Std.Error**	**Coefficient**	**Std.Error**
Current liquidity	0.371494873	0.01701468	0.0103242	1.698760415
Solvency ratio	-0.00366828	0.0038586	-0.08554405	0.863611338
Return on assets	-1.11346069	0.00597203	-0.89670207	0.669387226
Current assets from equity coverage ratio	-0.00095801	0.00368113	-0.00991928	0.502579964

After an analysis of the econometric results, we can notice a significant difference between the values obtained on the basis of the reporting made according to the national accounting standards and those obtained on the basis of the reporting according to the international financial reporting standards. The study will continue with the application of the analysis on several companies listed on the Bucharest Stock Exchange and the comparison of the results of the analysis with the results obtained in other emerging countries, so that we can determine whether the transition to the international accounting standards has a significant influence on the creditors' opinion.

5. Conclusion and Discussions

The re-processing of the financial position and equity situation in accordance with IFRS implies a number of effects generated by the transition from national to international financial reporting standards, which we summarized in Table 9, based on the data in the annual financial statements of the company under analysis. According to the explanatory notes, at the date of the adoption of IFRS for the first time, the company under analysis adopted the fair value of the tangible assets as a deemed cost. In accordance with national accounting standards, the company presented the items of tangible assets at revalued amounts. In 2011, the company revalued tangible assets for statutory financial statements. Considering that in its financial statements prepared in accordance with IFRS the company uses the cost model for tangible assets, the results of the statutory revaluation have been cancelled. The fair value ratio led to an increase of RON 1,440,811 thousand in tangible assets. Subsequently, the financial statements were adjusted to reflect the new cost assumed in the movement and depreciation of its tangible assets.

Table 09. Effects of the transition to the International Financial Reporting Standards

	Previous standards	**Effects of the transition to IFRS**	**IFRS opening balance**
Assets			
Fixed assets			
Tangible assets	5,624,939	255,831	5,880,770
Other intangible assets	230,704	-	230,704
Associates	7,614	-	7,614
Trade receivables and other receivables	-	52,646	52,646
Other financial assets	1,646	-	1,646
Other assets	22,749	(5,823)	16,926
Total fixed assets	**5,887,652**	**302,654**	**6,190,306**
Current assets			
Stocks	507,854	(5)	507,849
Trade receivables and other receivables	1,603,745	(696,939)	906,806
Other financial assets	2,500,060	(1,571,825)	928,235
Other assets	377,957	(245,523)	132,434
Cash and cash equivalents	167,173	1,572,157	1,739,330

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Total current assets	**5,156,789**	**(942,135)**	**4,214,654**
Total assets	**11,044,441**	**(639,481)**	**10,404,960**
Capital and liabilities **Capital and reserves** Called-up capital Reserves Retained earnings	 383,038 8,363,254 1,235,692	 1,507,259 (6,589,603) 4,445,120	 1,890,297 1,773,651 5,680,812
Total capital	**9,981,984**	**637,224**	**9,344,760**
Long-term liabilities Provisions for pensions Deferred tax liabilities Provisions	63,785 - 181,676	- 257,835 (17,161)	63,785 257,835 164,515
Total long-term liabilities	**245,461**	**240,674**	**486,135**
Short-term liabilities Trade payable and other debt Current income tax payable Provisions Unearned revenues Other liabilities	114,564 - - 1,588 700,844	178,121 68,044 28,735 (1,588) (516,243)	292,685 68,044 28,735 - 184,601
Total short-term liabilities	**816,996**	**(242,931)**	**574,065**
Total liabilities	**1,062,457**	**(2,257)**	**1,060,200**
Total capital and liabilities	**11,044,441**	**(639,481)**	**10,404,960**

As far as the profit and loss account is concerned, the national accounting standards do not recognize the concept of deferred tax. According to IAS 12 ″Income tax″, taxable temporary differences, which are those differences that will generate taxable amounts in determining the taxable profit (loss) for future periods when the book value of the asset or liability is recovered or settled, and the deductible temporary differences, that are temporary differences that will generate deductible amounts in determining the taxable profit (loss) for future periods when the book value of the asset or liability is recovered or settled should generate liabilities concerning the deferred tax or assets concerning the deferred tax. An adjustment for the recognition of the deferred tax liability was recorded in the retained earnings, in the opening financial statements of the company under analysis at the date of transition to IFRS, and subsequently in the profit or loss for each financial year.

Table 10. Effects of the transition to the International Financial Reporting Standards

	Previous standards	Effects of the transition to IFRS	IFRS opening balance
Turnover Goods for resale Revenues from investments Other gains or losses Changes in inventories Raw materials and consumables expense Depreciation and impairment Personnel expenses Financial expenses Operating expenses Other expenses Other revenues	3,837,941 (904,580) 148,326 25,619 110,852 (151,783) (694,138) (503,092) (561) - (724,286) 384,535	- - - (75,425) - 33,419 88,024 48 (23,672) (193,304) 288,581 (250,863)	3,837,941 (904,580) 148,326 (49,806) 110,852 (118,364) (606,114) (503,044) (24,233) (193,304) (435,705) (133,672)
Profit before tax Tax expense Year-to-date profit Year-to-date overall profit/loss	1,528,833 (284,786) 1,244,047 1,244,047	(133,192) 8,324 124,868 124,868	1,395,641 (276,462) 1,119,179 1,119,179

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The transition to IFRS should lead to an increase in the quality of financial information (relevance, exact representation and comparability). Thus, in accordance with IAS 1/2015, the primary purpose of the financial statements is to provide quality information about an entity's financial position and cash flows that are required by users to substantiate their decisions. Even if users' expectations (especially investors and creditors) are high, it is important for them to be aware of the gap between the picture presented in the financial statements and the reality in the entity. Adaptation of the picture represented by accounting figures to the economic reality can be influenced by two major factors:

- first of all, the picture that can be trusted is the consequence of accounting normalization and the adoption of accounting references to increase the quality of financial information.
- second of all, the true picture reflected by the financial statements is the result of the intervention of professionals accredited to verify and guarantee the quality of the information in the financial statements, namely the financial auditors.

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