THE QUALITY OF FINANCIAL REPORTING IN THE CONTEXT OF ADOPTING IFRS

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Abstract

International Financial Reporting Standards are considered principle -based standards, because they offer general guidance concerning the acknowledgement, the evaluation and the presentation of various elements within the financial situation frame.

The awaited benefits brought about the adoption of IFRS, concerning the comparability and the transparency of financial reporting, can be achieved only if the application of IFRS contributes to the improvement of the quality of the accounting information.

Some specific traits could boost the improvement of the quality of the accounting information, just by their application and leaving outside the jurisdiction of other institutional factors, specific to each country.

***Keywords**: IFRS, IASB, financial reporting, accounting information*

***JEL classification:** M40, M41*

1. Introduction

International Financial Reporting Standards are an assembly of accounting norms, which are compiled by IASB. The draw up and the usage of financial-accounting documents, with whose help financial reporting of companies is made, has become a necessary process, being imposed by the economical domain.

In Romania, a member of E.U. since 2007, financial reporting to the international standards, has become mandatory since 2012.

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Starting from the idea that quality accounting information, are a force of the capital market, the main goal of IFSR is the development of these standards, which are based on very well-defined principles.

The process of being a part of IFRS is due to the globalization, mainly. The impact of globalization is shown through the increased number of multi-national companies, the economic integration measured through the evolution of commerce and the relationships between countries. That is why globalization brought about a unique accounting language and IASB responded to this necessity through the emission of IFSRs (Albu et al., 2011b). Besides a natural phenomenon of aligning to IFSR, seen in many countries because of the need of maintaining there the competitivity on international markets, there has been also a need of improvement of the accounting system, and IFRS has been considered a role model. In Romania, as in many other countries, as well, the World Bank and FMI have had a huge influence in bringing about IFRS, through promoting them as role models.

According to the authors (Soderstrom&Sun, 2007), the quality of accounting information is determined by selected accounting standards. Taking into account the activities of international organism IASB, to issue quality accounting standards and the optimisation of the value of these standards, it is considered that financial reporting in accordance with IFRS should be more plausible and more relevant.

Taking into account that IFRS is based first and foremost on Anglo-Saxon traditions, their appliance in other countries, with different traditions can lead to different outcomes. Even more, the emergent countries can seem less prepared for the application of IFRS. Albu et al. (2011a) shows that the problem of implementing IFRS is quite complex, and many factors should be taken into account when this implementation is evaluated: the characteristics of the Romanian accounting system, its historical background, the characteristics and the attitudes of Romanian companies, the users of financial situations and their expectations, and non the least, the traits of Romanian accounting profession. Hence, even if there is a need for the application of IFRS in Romania, the complexity of this process leads to the need of thorough researches, made through various theoretical and methodological perspectives.

2. The general context regarding the apparition and spreading of IFRS. The adopting of IFRS at a European and national level

Michel Prada the president of IFRS administrator's assembly, presents the success of the adopting process of accounting standards, showing, in June

2005, their application in 140 countries, representing 98 % of the GDP, and also IFRS application in all the countries, USA including. (IFRS Foundation, 2015).

Regarding the amplification of globalization, of trans-national companies' development, there have been concerns about the formation and the emission of useful accounting information, synthesized in a common accounting form, capable of creating a good communication between its users.

The phenomena such as accounting normalisation, harmonisation, convergence, have sprung as answers to those. The accounting normalisation concept implies the usage of identical accounting norms in the same geo-political frame, and also the making of some homogeneous accounting practices. (Ionaşcu, 2003).

The companies which report accounting information, their benefactors and the national economies are considered to be the benefactors of normalisation phenomenon.

Accounting harmonisation is defined by (Feleagă, 2005) as being a perfecting process of the national rules and norms, which are different for each country, and as a result we will have the diminish of some differences met in accounting practices, to ensure their compatibility and comparability. (Feleagă, 1997).

The process of accounting convergence has founded, at a European level, the creation of some accounting directives. To be more exact, in the 70's, the process of accounting harmonisation has been initiated, at a European level, and the accounting directives have been as follows: the fourth directive, in 1978, the seventh directive, in 1983, and the eighth directive, in 1984. These accounting directives at a European level are considered mandatory for all the UE members, and their application has to be made in a given amount of time (Ionaşcu, 2003).

According to (Mackintosh, 2014a) the process of convergence has brought a significant contribution, globally, to the quality of financial reporting.

The main objective of IASC and its successor IASB, is to draw up a single set of financial reporting standards, of high quality, which can be applied and accepted worldwide.

With a smaller number of pages and details, IFRS approaches the main aspects of accounting nature, starting with the presentation of financial situations and ending with business combinations.

It was shown, through studies that the liquidities of the markets grow in the moment of implementing the international standards, together with the appreciation of the stock value and the diminishing of the capital cost (Ionaşcu et al., 2011).

4. Research methodology

Analysing the research which measured empirically the effect of adopting IFRS on the quality of financial reporting in Europe, in the following table the used methods and the results have been analysed regarding the effect of embracing IFRS, in the European countries. Research regarding the quality of reporting for adopting IFRS are shown in table no.1.

Table 1: Research regarding the quality of reporting for adopting IFRS

STUDY	EUROPEAN STATES INCLUDED IN THE SURVEY	USED METHODES	OBTAINED RESULTS
Lenormand&Touchais (2009)	France	The relevance of accounting datas on the capital market	There has been a positive impact on the result and the capital
Bouchareb *et al.* (2014)	France	The use of manipulating the result practices (discretionary commitments)	The level of discretionary commitments has decreased significantly after IFSR
Christensen *et al.* (2008)	Germany	The use of manipulating the result practices: reporting of small positive results, the opportunity of acknowledging the loss	Not even a proof of improvement of financial reporting. Voluntary adopting of IFRS is associated with diminishing the practices

			of manipulating the result and the acknowledgement of the loss
Paananen& Lin (2009)	Germany	The use of manipulating the result practices: (polishing the result); the opportunity of acknowledging the loss, the relevance of accounting datas on the capital market	The diminishing of the quality of financial reporting. The quality of accounting reporting improved for the countries which have adopted, voluntarily, IFRS
Kousenidis *et al.* (2010)	Greece	The relevance of accounting datas on the capital market	Adopting of IFRS has reduced the informational content of own capitals, analyzed in correlation with the stock price and led to an improvement of the informational content of the result

Maggina&Tsaklanganos (2011)	Greece	The relevance of accounting datas on the capital market	Not even an effect of adopting IFRS on the price or the stocks
Klimczak (2011)	Poland	The relevance of accounting datas on the capital market	The impact of adopting IFRS is relatively low
Chen *et al.* (2010)	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherland, Portugal, Spain, Sweden, United Kingdom	The use of manipulating the result practices: (polishing the result); manipulating the result towards a target-value; discretionary commitments; quality of commitments; opportunity of acknowledging the loss	After adopting IFRS: the diminishing of manipulating the result practices towards a target-value, the diminishing of the discretionary commitments, the increase in the quality of commitments, but an increase in polishing the result techniques, and massive loss which are not reported timely

Martinez-Ferrero (2014)	United Kingdom, Ireland, Germany, Netherland, Luxemburg, Austria, Denmark, Norway, Finland, Sweden, Switzerland, France, Italy, Spain, Belgium, Portugal, Greece	The use of manipulating the result practices (quality of commitments);	The quality of financial reporting increased to those who have adopted IFRS, For the entities with a low rate of corruption, the quality of accounting information has a positive impact on the financial performance.
Takacs (2012)	Romania	The relevance of accounting datas on the capital market	The adopting of IFRS had a negative outcome on the accounting information in the financial market.

Source: Own processing on the basis of analysed scientific papers

5. Results

The information synthesized above show that the authors have used different ways of empirically testing the effects of adopting IFRS in Europe, on the quality of financial reporting. The results, which have been obtained, reveal the measure in which the adopting of the international standards led to an improvement in the quality of accounting information. The effects depend on their quality in comparison with the quality of the national standards and the efficiency of the adopting mechanisms.

The outcome of this survey is that, using the same methods of measuring the quality of financial reporting, the researchers made different results, in opposition, regarding the ability of the international standards to help the development of accounting information. One of the explanations may be connected to the circumstances in which the entities who have adopted IFRS, voluntarily or mandatorily.

Adopting IFRS contributes to the improvement of the quality of accounting information if the practices of manipulating the results are limited. The connection between adopting IFRS and the practices of manipulating the results is explained by (Barth *et al.*, 2008). He stated that the international standards eliminate some accounting alternatives, reducing the possibilities for opportunistic behavior of managers, which has as a result the improvement of the quality of accounting information.

The quality of the accounting standards used in the process of financial reporting is often estimated to the distance between the national accounting prior used regulations and IFRS.

Ahmed *et al.* (2013) sustain that if IFRS is superior in quality to the local standards and if they are applied accordingly, then mandatory adopting of IFRS will contribute to the improvement on the quality of accounting reporting.

Christensen *et al.* (2008) gets to the conclusion that the improvement of financial accounting quality appears when the companies are motivated, and that dominates the accounting standards in establishing the accounting information quality.

To offer a faithful image of the position and the financial performance, starting with 2001, IASB proposed to eliminate permissive accounting alternatives. Such a step is a premise for the growth of accounting information quality following adopting IFRS, taking into account that opportunistic behaviour of managers is limited when talking about accounting values, for example, limiting the possibilities of manipulating the result.

In literature there are various conflicting studies regarding the effects of adopting IFRS. For example, a study on Greece, (Ballas et al., 2010), has concluded that the introduction of international standards improved the accounting information quality of Greek companies. Another study, based on 327 companies from 21 countries which have adopted IAS/IFRS between 1999-2003, has examined the relation between the applicability of these standards and the accounting reporting quality. So, the companies which apply IFRS, communicate higher quality of financial information, to the ones which apply national standards. (Barth et al., 2008). Also, for the companies which have implemented IFRS, the financial reporting quality improved drastically after adopting the standards, regarding the preparation and publishing of financial situations.

In a study carried on by (Păşcan and Ţurcaş, 2012) on the companies listed on the Romanian stock exchange, it was noticed that the application for the first time of IFRS differs from an entity to the other. In some cases, the adopting of IFRS generated a slight increase or decrease of the income in consolidated financial statements. These differences can be caused by the dimension of the entities, their domain of business or the conditions of adopting IFRS- voluntarily or mandatorily.

The general conclusion of this study is that the mandatory adopting of IFRS generates significant differences between entities, an important part when the costs and benefits of this process on a society are calculated.

6. Conclusions

The amplification of the accounting information quality creates transparency which diminishes informational asymmetry and leads to satisfying some informational needs of the investors. The companies with a great quality of accounting information will be able to accomplish higher performances, because the market positively evaluates the companies capable of elaborate quality information not only for their shareholders, but also for the participants, with the goal of reducing or avoiding the informational asymmetries (Martinez-Ferrero, 2014).

Amiram (2012) stated that in the countries which have adopted the international standards can be seen an ascending trend in the portfolio foreign investments.

In Romania, (Ionaşcu et al., 2007), have identified the following costs for implementing IFRS: for staff training, honouring consultations, adapting informational systems and those for double reporting.

The quality of accounting information could be improved in the situation in which, in the same time with adopting IFRS, there would be some modifications of the financial reporting system, for example, through a more rigorous applying system.

The conclusions of some researchers show that the reported accounting information in accordance with IFRS are more qualitative than those reported on local accounting standards, used previously, but there are also studies which stated the negative effects of adopting IFRS on financial reporting quality or obtained inconclusive results, insignificant from a statistic point of view regarding the reported accounting information in accordance with IFRS.

The effects regarding the improvement process of accounting information quality after the international standards had been adopted are well detailed in the specific literature through presenting some important factors of quality, which, together with the adopting of the international standards, lead to emphasis of financial reporting quality. The factors refer to the quality of the international standards in relation to the quality of national standards, which have been applied, and the efficiency of the adopting mechanisms, the juridical and political system, the reasons of the companies when they fill in financial reporting in accordance with the international standards.

I consider that the effects the adopting of the international standards on the accounting reporting quality have must be understood taking into account the characteristics of the reporting entity, and the country in which it operates.

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