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Does IFRS adoption affect accounting quality ;a review

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Abstract

The widespread applicability of IFRS all over the world, enhanced in the situation of after adoption of IFRS (converse as Ind AS) in India. They are become mandatory after notified by the Ministry of Corporate Affairs in the Gazette of India which is effective from 1 April 2015 whosoever unlocked the turf for several empirical studies that examined diverse perception on IFRS adoption Value of accounting information should improve through an application of IFRS it also should grow transparency & comparability of financial reporting .paper is basically written for the objective to analyses effect on conversion of accounting standard to IFRS on accounting quality in India its related to review of literature.

Keywords – accounting quality, earning management, value relevance, financial statement, IAS

Introduction

There are lots of shreds of evidence are exist on advantages of the adoption of IFRS, which also displays the effect on the book value of equity, earning and further related matters from the financial statement. ball (2006) Ball (2006) recommends the benefit of IFRS adoption contains timely financial information which is accurate & comprehensive, it is more globally equivalent information and it is effective capital market. "investigative financial statement imputation is significant because, while adoption of IAS might guide to indirect economic outcomes such as the hike in market liquidity or decrease in the cost of capital, one direct effect of IAS adoption are changed financial statements…". To priority reach planned gain of adoption of IFRS, linked to improved transparency & comparability of financial reporting, the application of IFRS should answer and enhance the quality related to accounting information.

In this research, the researcher wishes to give an answer to these questions by qualitative research which is conducted on literature for that researcher develops based on 40 papers published in a worldwide journal which is published during 2002-2018. researcher includes those paper and reviewed which shows a relationship between the adoption of IFRS and earning quality which fulfilled the objective of our research

Limitation of the study

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In this research, there is a limitation about the subjectiveness of the papers because the researcher knows that there is a lot of paper which is related to IFRS ,accounting quality and earning management.

Objective of the study

1. To understand the meaning of accounting quality.
2. To understand the metrics of accounting quality based on review of literature.
3. To understand the impact on accounting quality (earning management, value relevance)

of adoption of IFRS.

4. To understand does the only adoption of IFRS improve the quality of financial statement.

Meaning of accounting quality according to the literature review

In the framework, we examine the IFRS Context is the best primary source used designed for determining accounting quality. Qualitative features of beneficial financial reporting recognize sorts of information expected to greatest convenience near users in creating decisions around reporting entity in this premise. Qualitative features put on correspondingly financial information in common motive of financial reports along with financial information providing in another form .It is always useful when financial information shown truth and it is relevant for what it significances to signify. If the financial information is understandable, equivalent, timely, certifiable & relevant so it enhanced the usefulness of it. (Pounder,2013) defines that financial accounting value is commonly determined by financial accounting quality. Chen(2010), studies accounting quality signifies that “the level to which the financial statement information imitates the fundamental economic condition”. Platikanova & Perramon (2012) studies “The quality of accounting information is very high if similarities and differences will found in two sets of economic phenomena identify by the users”

There are many types of users who are interested in accounting quality because of their interest and it involves the financial reporting chain. Basically financial accounting quality has no specific definition of honor single or Universal application. From individual project companies and Organization point of view as well as depending on their purposes there are so many definitions about financial accounting quality which serves the purpose for financial information to be used by various persons. As per literature, it can be said that on one hand accounting quality provides financial reports which send information to various equity investors about the expected cash flows and other information.

2. Metrics of accounting quality – based on research literature

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Concerning informational value of accounting information for investors lenders and other creditors' accounting qualities are appreciated. In research literature quality metrics developed which is also tailored to access the usefulness of accounting to all the stockholders

2.1 The value relevance approach

The capability of information which is revealed through the financial statements to record and summarize value of a firm is known as value relevance. With the help of statistical relations among the information offered through the financial statements & the stock market value returns value relevance can be measured. Emphasis of focus on investors as a primary user of financial reporting is expected to be a possible explanation for this choice. To calculate the effect of IFRS adoption on accounting qualities 14 of the analyze paper use for value relevance model.

2. 2 The credit relevance approach

Other than stock market investors there is a huge variety of demands for financial reporting from various parties as per (soderstrom and sun 2007). Credit relevance means the ability which is relative to account risk measures to describe default prevented record by standard and poor Ishwar credit's rating as per (Kosi 2010). The author too verified that credit ratings are complex to leverage interest coverage ratio & profitability which is testified below mandatory IFRS reporting rule.

The extent of earnings management practices

Adoption of IFRS is used for improving accounting quality from which it will affect to reduce earning management practice relationship among IFRS and earning management is describe by berth (2008) according to author IFRS removes accounting alternatives, managerial discretion and improve the accounting quality. As by extent of earning management reduces the way accounting quality improves.

Timeliness & conservatism are contended to needed qualities of earnings and collected record plentiful and normally used thought of transparency of financial statements. Timeliness is definite according to the capacity of earnings who shows both news good as well as bed news united in returns. Secondly, Conservatism is regarded following different capacity of accounting earnings to replicate economic losses alternative economic gains (Zeghal et al., 2012).

- income smoothing is studies by (Christensen (2008) ; Hellman, (2011), Paanamen and Lin,; Hellman, (2011); Zeghal (2012); Uyar, (2013); Ahmed, (2013); Chen , (2010)
- earning quality measures by (Dechow, Ge, and Schrand (2010); Liu.(2015)
- earnings management to come and meet with target is studies by B. v Tendeloo et al.(2005) (Ahmed, (2013); Chen ., (2010); liu (2011);Dimitropoulos .(2013)
- Earning smoothing is studies by (Devalle.(2010); Ebaid .(2016)

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• managing toward small positive earnings is shown in research paper (Zeghal , (2012); Uyar, (2013) Dimitropoulos.(2013); Christensen(2008);

• absolute discretionary accruals is describes by (van.2005),liu (2015)

• earnings persistence is shown by (Liu et al.2015)

• accruals quality describe by Dechow, Ge, and Schrand (2010)

• Timeliness of loss recognition by Christensen et al. (2008), Christensen et al. (2008), Chen et al. (2010) Devalle (2010), Zeghal et al. (2012), Ahmed et al. (2013),).

• Accounting quality and accounting conservatism was studies in analyzed papers, by berth et al.(2008) and Martinez-Ferrero, (2014).

Determining factor of accounting quality

Related to the various studies reacted to the paper which the researcher selected, a researcher found that by the similar accounting quality metrics, authors providing diverse outcomes on the capability of conversion to IFRS to enhance the accounting data and its quality. There are two types of circumstances of adopting IFRS is mandatory adoption of voluntary adoption. Christensen (2008) describes “enhancements are kept to firms with inducements to approved” & “inducements control accounting standards in defining accounting quality”. Researcher similarly mentioning differs elements of accounting quality which improve quality of financial reporting after IFRS adoption there is a summary was written below regarding findings of the positive and negative consequence of IFRS adoption in diverse countries all over the world through empirical Data presented in summary display varied results about the effect IFRS adoption on accounting quality all over the worldwide.

Study Van der Meulen (2007)	Countries include Europe	Metric used value relevance	Findings No evidence between IFRS & U.S. GAAP.
Study Christensen (2008)	countries Germany	Metrics used 1.earnings management 2 timely loss recognition	Findings there is not any indication of accounting quality developments for firms to adoption of IFRS. More timely loss recognition and less earning management due to Voluntary IFRS adoption.

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Study	Countries	Metric used	Findings
Devalle 2010	EUROPE	Earnings Smoothing ,Timely Loss Recognition ,	results propose that, to progress transborder similarity of financial statements.
Study Dechow, Ge, and Schrand (2010)	Countries	Metrics used earning quality (accrual ,smoothness, timeliness investor responsiveness)	Findings no single conclusion find on earning quality because earning quality is conditional on decision framework
Study Devalle,2010	Countries Europe	Metric used 1.Earnings Smoothing 2.Timely Loss Recognition and IFRS	Findings not achieved because researcher results recommend that the aim of IFRS, to enhance transborder financial statements but it is not achieved.
Study Kosi (2010	Countries UK , Finland, Sweden , Spain, Ireland, Portugal Germany, Netherlands, Switzerland, Norway, , Greece Portugal, Italy, UK ,Austria, France,	Metric used 1 credit relevance	Findings Increased credit relevance it also shows weak and strong protection of credit ,enforcement of law and financial risk .
Study Klimczak (2011)	Counties Poland	Metric used 1 value relevance	Findings The impact is quietly low after adoption of IFRS.
Study Zeghal et al.(2012)	Counties UK Spain Netherland Sweden, Belgium, Greece, Austria, Denmark, , France, , Ireland, Luxembourg, Portugal, Italy, Finland, Germany	. Metric used earnings management (small positive earnings ,absolute discretionary , , accruals quality, accruals income smoothing), value relevance.	Findings development in accounting quality;
Study Ahmed et al. (2013)	Counties Switzerland, UK ,Spain , Netherland,	Metric used 1. timely loss rec. 2.earnings	Findings Growth in income smoothing

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	,Spain , Netherland ,Sweden, Belgium, Greece, Austria, Denmark, , France, , Ireland, Luxembourg, Portugal, Italy, Finland, Germany ,norway.	management (income smoothing)	decrease in timeliness of loss rec. Accounting quality decreased.
Study Uyar (2013)	counties Turkey	metric used 1. .timely loss recognition 2 value relevance, 3,earnings management	findings value of accounting was enhanced and market turn into further growth.
Study (Dimitropoulos et al.2013)	Countries Greece	Metric used 1 ,Value relevance 2Earnings management 3.,Timely Loss	Findings Less earning management ,greater value relevance of earning management and book value of equity
Study Boumediene (2014)	counties France	metric used 1.earnings management (discretionary accruals)	findings decreases in earnings management.
Study (Liu 2015)	Counties Canada	metric used , earnings quality is a market-based measure, earnings persistence, small positive earnings discretionary accruals, performance-matched discretionary	findings earning management measures did not show changes in earnings quality and earnings persistence is higher from after and before adoption of IFRS.
Study (Ebaid et al.2016)	Countries Egypt	Metric used Managing earnings toward earnings target, Earning smoothing	Findings . accounting quality, as measure by earnings management, has diminished in before adopting IFRS related to after adopting .IFRS provide high-quality financial reporting.

Conclusion

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Accounting quality is exaggerated by accounting standards political system and the legal system as well as incentives for financial reporting so these are basic things which affect accounting quality. From countries specific factors and firms specific factors proper results must be obtained in terms of empirical research related to the effects of IFRS adoption from accounting quality point of you. From quality of accounting data opinion testing effects of adoption of IFRS are necessities but it is not enough without knowing whether IFRS makes a proper contribution towards accounting quality or not. As well as there is more need to make research as well as to make an investigation to know the significance and quality of information which is offered by the financial statements.

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