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Effect of Adaptation of International Financial Reporting Standards on Information Content of Financial Reports in Iran from the Perspective of Financial Managers[1]

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ABSTRACT

According to accounting standards, financial statements are designed to provide information about the financial position and results of a financial entity's operations. The higher the information content of financial reports, the closer to their goals will be. The present study was conducted to examine the effect of the adaptation of international accounting standards on the information content of financial statements from the perspective of financial managers. For this purpose, the Cochrane formula was used to determine sample size, and then respective questionnaires were randomly distributed among population members. The collected data were analyzed through statistical methods and software. According to tested hypotheses, financial managers of Iranian enterprises believed that international accounting standards have more information content than national accounting standards, so they are interested in these international standards. Moreover, the results showed that financial managers of enterprises have sufficient information about their recognizable income under the international financial reporting standards.

Keywords: Information Content, International Financial Reporting Standards (FRS), Accounting, Financial Accounting

[1] *This paper is extracted from a PhD dissertation*

Introduction

Financial statements are transparent when they have features such as availability, reliability, comprehensiveness, relevance, and timeliness. In other words, transparent financial statements have information content, so that transparency of these statements is a precondition for the information content. Stakeholders mostly rely on earnings information compared to other performance indices, including dividends, cash flows, and profit changes (Barth & Schipperke, 2008). Forensics et al. (2005) introduce net profit as the key element of financial reports. The net profit reported in financial statements is one of the most important criteria used to evaluate performance and determine the value of the economic firm. Net profit is widely used by accountants, financial managers, stock market analysts, investors, and stakeholders. Taker and Zarween (2006) explain that many empirical studies have been conducted on the information content of earnings presenting evidence for its information content. However, accounting profits are a substantial part of the information used by stakeholders and investors. Many equity valuation or corporate performance assessment models have been designed for profit. The actual profit may include information content that is free of any bias reflecting the economic position of the corporate entity.

Statement of Problem

According to accounting standards, the main purpose of financial statements and financial disclosure is to provide users with appropriate information about the financial status and results of operations done in the business entity. Financial statements are transparent when they have features such as availability, reliability, comprehensiveness, relevance, and timeliness. In other words, transparent financial statements have information content, so that transparency of these statements is a precondition for the information content. Stakeholders mostly rely on earnings information compared to other performance indices, including dividends, cash flows, and profit changes (Daraee & Moradloo, 2011).

According to the aforementioned points, the extant study aimed to examine the effect of the adaptation of international financial reporting standards on the information content of financial statements from the perspective of financial managers of Iranian companies. In other words, the present study aims to answer the question of whether adaptation of international financial reporting standards affects the information content of financial statements from the perspective of financial managers of Iranian companies.

Hypotheses

Hypothesis 1: From the perspective of financial managers of Iranian companies, international accounting standards have more information content than national accounting standards.

Hypothesis 2: Managers of financial companies have sufficient information about their recognizable earnings under the internatio0nal financial reporting standards.

Literature Review

Adaptation of a set of accounting standards improves the quality of earnings, increases comparability of financial statements and transparency, and reduces risk. Furthermore, comparable financial statements help potential investors to compare the financial information of domestic corporations with companies listed in foreign capital markets. Cost reduction is the most considerable outcome of adaptation of IFRS (Hook et al., 2016).

It should be noted that besides the mentioned advantages, some obstacles occur in the adjustment process; for instance, accounting standards are adjusted to the economic or sometimes political position of each country, and modification is just possible by the consideration of mentioned conditions (Ball, 2006). Therefore, modification requires spending time and cost. Moreover, some other barriers and threats occur while implementing international standards, including the considerable difference between accounting procedures, lack of trained forces to apply FRS, lack of legal, regulatory, and professional infrastructures in capital markets and corporations.

Background

Kijam and Athambawa (2016) conducted a study on different countries, including Europe, USA, UK, and Germany, in terms of relevance aspects, disclosure quality, cost of capital, and earnings management after adapting IFRS, which led to a reduction in the cost of capital and increase in earnings quality and disclosure quality. In this research, earnings per share (EPS), the book value of equity, R&D costs, goodwill, provisioned intangible assets, and unrealized gain was used as key accounting indicators to assess values' relevance caused by IFRS adaptation.

Hook et al. (2019) examined the influences of IFRS on European countries. They analyzed 24034 firm-year observations in European countries from 1998 to 2004. The obtained results showed that IFRS could increase earnings quality.

García et al. (2020) carried out a study to understand the effect of IFRS on financial reporting. The studied sample in this research comprised 923 firms in Argentina, Brazil, Chile, and Mexico from 2000 to 2014. According to the results, the implementation of IFRS increased the information relevance leading to timely identification of earnings.

Method

The questionnaire of AL-Mutairi et al. (2017) was used to test the first hypothesis, while the questionnaire designed by Birestraker et al. (2016) was employed to test the second hypothesis. The questionnaires mentioned above have been scored based on a five-point Likert scale (from highly good to highly bad). The data collected from the mentioned questionnaires were analyzed by using the Chi-square test and SPSS software.

Analysis of Results of Tested Hypotheses

Descriptive Statistics

Table 1. Central and dispersion indicators of scales

Scale	Number of items	Not answered	Mean	SD	Min	Max
Hypothesis 1	8	0	19.4	6.3	8	39
Hypothesis 2	5	0	12.5	5.6	5	17

Testing Hypothesis 1

Hypothesis 1: From the perspective of financial managers of Iranian companies, international accounting standards have more information content than national accounting standards. According to Table 1, this questionnaire comprised eight items. Analytical results of these items have been reported in Table 2:

Table 2. Testing hypothesis 1

Test values: 3					
Test statistic	df	Sig.	Mean difference	The confidence level of 95%	
				Upper bound	Lower bound
41.8	95	0.0	7172.1	624.1	811.1

According to Table 2, the significance level was less than an acceptable error (5%); hence, the probability that the first hypothesis is wrong is negligible. Therefore, hypothesis 1 is confirmed.

Testing Hypothesis 2

Hypothesis 2: Managers of financial companies have sufficient information about their recognizable earnings under the internatio0nal financial reporting standards.

Table 3. Testing hypothesis 2

Test values: 3					
Test statistic	**df**	**Sig.**	**Mean difference**	**The confidence level of 95%**	
				Upper bound	**Lower bound**
145.8	95	0.0	48.14	44.15	2555.98

According to Table 3, the significance level was less than an acceptable error (5%); hence, the probability that the second hypothesis is wrong is negligible. Therefore, hypothesis 2 is confirmed.

Summary of Hypothesis Test

The result obtained from tested hypotheses have been summarized and reported in Table below:

Table 7. Testing Hypotheses

Hypothesis	**Result**
International accounting standards have more information content than national accounting standards.	Confirmed
Managers of financial companies have sufficient information about their recognizable earnings under the internatio0nal financial reporting standards.	Confirmed

Discussion and Conclusion

Adaptation of international financial reporting standards (IFRS) leaves optimal effects on many organizations, while lack of readiness and awareness of accounting and financial sector of organizations prevents such advantages causing loss of potential opportunities. It seems that most Iranian organizations are not ready yet to adopt IFRS. Negligence of extensive range of this change prevents these organizations to understand potential opportunities. In this case, the internal audit entity plays an active with value-added in the change process. The business organizations and entities must learn about t5he size and domain of upcoming changes, as well as schedule and necessary measures taken for the effect of changes on the business processes. Corporations must have a clear prospect about the change process brought by IFRS to design an efficient and effective executive strategy.

To achieve the research objective, two hypotheses were designed, and then the necessary data were collected and analyzed through statistical methods. The results have been discussed herein.

The first hypothesis explains financial managers believe that international accounting standards have more information content than national accounting standards. The necessary data for testing this hypothesis was extracted from the questionnaire of AL-Mutairi et al. (2017) and then analyzed using statistical methods. The results approved the hypothesis so that the statistical population of financial managers of Iranian firms believed that international accounting standards have more information content than national accounting standards. The reason may stem from higher disclosure requirements and more complete information statements of international standards. Moreover, the higher comparability of financial statements is another reason confirming the hypothesis. The result of this hypothesis was consistent with findings obtained by Hook et al. (2020).

The second hypothesis expressed that managers of financial companies have sufficient information about their recognizable earnings under the internatio0nal financial reporting standards. The required data were collected to test confirmation or rejection of this hypothesis using statistical methods. Statistical results confirmed hypothesis 2; therefore, managers of financial companies have sufficient information about their recognizable earnings under the internatio0nal financial reporting standards. This finding indicates that financial managers of firms are aware of IFRS, and are willing to enter the international markets and compete in the international arena. This finding was matched with the results of Garsia et al. (2020).

According to the obtained results, it is recommended that Iranian legislatures and compilers of financial reporting standards approve and apply IFRS as soon as possible to expand the information content of financial statements regarding the richer information content of international accounting standards compared to the natio0nal standards.

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