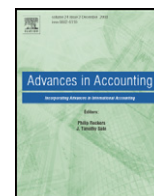


Contents lists available at [SciVerse ScienceDirect](http://www.sciencedirect.com)

# Advances in Accounting, incorporating Advances in International Accounting

journal homepage: [www.elsevier.com/locate/adiac](http://www.elsevier.com/locate/adiac)

## Transition to IFRS and compliance with mandatory disclosure requirements: What is the signal?

Ioannis Tsalavoutas\*

Accounting and Finance Division, The University of Stirling, Stirling FK9 4LA, Scotland, United Kingdom

### ARTICLE INFO

#### Keywords:

IFRS  
Mandatory disclosures  
Compliance  
Greece

### ABSTRACT

The present study examines 153 Greek listed companies' compliance with all IFRS mandatory disclosure requirements during 2005 and complements and extends prior literature in the following way. The unique setting i.e., measuring compliance with IFRS mandatory disclosure requirements during the first year of IFRS implementation, allows for examination of the possibility that the changes in the 2004 shareholders' equity and net income, as a result of the adoption of IFRS, constitute explanatory factors for compliance. Thus, this study hypothesises that, in addition to the financial measures and other corporate characteristics that prior literature identifies as proxies for explaining compliance, a significant change in fundamental financial measures, because of the change in the accounting regime, may also explain compliance based on the premises of the relevant disclosure theories. The findings confirm these hypotheses. This study also makes a methodological contribution on measuring compliance with all IFRS mandatory disclosure requirements by using two different disclosure index methods and pointing out the different conclusions may be drawn as a result.

© 2011 Elsevier Ltd. All rights reserved.

### 1. Introduction

One of the main objectives of the IASB is to produce enforceable standards (IASCF Constitution, paragraph 2). This is stressed because it is well documented that companies do not comply with accounting standards' mandatory disclosures. This evidence is in line with the argument that the existence of legislation and enforcing bodies does not guarantee compliance (Yeoh, 2005). Therefore, the possibility of uniform application of IFRS across different jurisdictions after 2005 has been heavily questioned (Ball, 2006; Larson & Street, 2004; Nobes, 2006; Soderstrom & Sun, 2007; Weetman, 2006; Zeff, 2007), arguing that the implementation of high quality standards [as IFRS claim to be] may not necessarily lead to high quality reporting. The present study addresses these concerns and contributes to the literature in the following three ways:

First, it examines 153 Greek listed companies' compliance with all IFRS mandatory disclosures during 2005. This sample represents approximately 48% of companies listed on Athens Stock Exchange (ASE) at the end of March 2006, resulting in the study being one of the very few large scale single country academic studies which examine companies' level of compliance with all IFRS mandatory disclosures after IFRS implementation in 2005 in EU countries.

Second, in line with prior studies, drawing on capital market based theories, agency theory, and cost based theories, this study tests several

variables as proxies for the factors related to the compliance identified. These determinants include size, gearing, profitability, liquidity, industry and audit firm size. However, beyond this, the present research complements and extends prior literature in the following way. The unique setting, i.e. measuring compliance with IFRS mandatory disclosures during the first year of IFRS implementation, allows also for examination of the possibility that the changes in the 2004 shareholders' equity and net income, as a result of the adoption of IFRS, constitute also explanatory factors for compliance. Thus, this study hypothesises that inter alia not only financial measures can be proxies for explaining compliance as derived by relevant theories. In addition, a significant change in fundamental financial measures, because of the change in the accounting regime, may also explain compliance based on the premises of the relevant disclosure theories. The rationale behind these tests is the following. Considering the implications deriving from the assumptions of agency and signalling theory, managers would have strong incentives to assess the "compliance risk" (cf. Adams, 1994), i.e. to assess the trade-off between agency costs or signalling effects and the impact on their companies' financial positions as this is caused by the transition to IFRS.

Third, the review of the pertinent literature to the present study indicates that the majority of prior studies examining compliance with national accounting standards' or IAS/IFRS mandatory disclosures apply only one disclosure index method. However, the findings of Street and Gray (2001) and Tsalavoutas, Evans, and Smith (2010) indicate that the findings of similar studies may be substantially biased because of the method employed for measuring compliance. On that basis, this study uses the two most commonly used disclosure

\* Tel.: +44 1786 467 284.

E-mail address: [Ioannis.Tsalavoutas@stir.ac.uk](mailto:Ioannis.Tsalavoutas@stir.ac.uk).

**Table 1**  
Prior research on compliance with mandatory disclosure of national standards.

Authors	Country	Year	Sample	Research instrument	No. of disclosure index methods used	Findings
Tai et al. (1990)	Hong Kong	1986	76	Disclosure checklist provided by a (then) 'Big 8' audit firm	1	Average compliance: 78%. Very low compliance levels regarding specific areas (e.g. 49% in relation to depreciation).
Cooke (1992)	Japan	1988	35	Self-constructed index	1	Average compliance: 95%. Standard deviation: 3%.
Solas (1994)	Jordan	1988	45	Self-constructed index	1	Average compliance: 46.35%. Standard deviation: 1%.
Ahmed and Nicholls (1994)	Bangladesh	1988	63	Self-constructed index	1	Only four companies exhibit compliance above 90%. 37 companies are to be found in the range of 60–80%.
Abayo, Adams, and Roberts (1993)	Tanzania	1990	51	Self-constructed index	1	Average compliance: 53%. Range between 31% and 72%.
Wallace and Naser (1995)	Hong Kong	1991	80	Self-constructed index	1	Average compliance: 73%. Range between 55% and 87%.
Wallace et al. (1994)	Spain	1991	50	Self-constructed index	1	Average compliance: 59%. Range between 29% and 80%.
Naser and Nuseibeh (2003)	Saudi-Arabia	1992	67	Self-constructed index	2	In contrast to other studies, they inter alia report a high degree of compliance (average: 89%).
Owusu-Ansah and Yeoh (2005)	New Zealand	1992	50	Self-constructed index	1	Compliance levels increased throughout this period from an average of 78% in 1992 to an average of 88% in 1997. The standard deviation of the scores has dropped as well (from 4.3% 1992 to 2.87% in 1997).
Patton and Zelenka (1997)	Czech Republic	1993	50	Self-constructed index	3	Large variability in the compliance scores: from 25% to 80%.
Craig and Diga (1998)	Singapore, Malaysia, Indonesia, the Philippines and Thailand	1993	145	Self-constructed index	1	Relatively low mean levels of disclosures, ranged from 51%–61%.
Owusu-Ansah (1998)	Zimbabwe	1994	49	Self-constructed index	1	Average compliance: 74%. Relatively small standard deviation (5%).
Vlachos (2001)	Greece	1996	74	Self-constructed index	1	Average compliance: 89% Small standard deviation of 2.3%. (With reference to the 74 Greek companies).
Ali et al. (2004)	Cyprus	1998	50	Self-constructed index	1	Average compliance approximately 80% for each country. Relatively large average standard deviation of 8%.
Akhtaruddin (2005)	India, Pakistan and Bangladesh	1998	566	Self-constructed index	1	Average compliance: 44% Small standard deviation (1.2%).
Aljifri (2008)	Bangladesh	1999	94	Self-constructed index	1	Average compliance: 67% Relatively large standard deviation (11%).
	United Arab Emirates	2003	31	Self-constructed index	1	

index methods (Cooke's method and the PC method – see Section 3 for more details) and tests the significance of the differences in the compliance scores identified. Additionally, it explores the implications of the application of both methods with regard to determinants of compliance with IFRS mandatory disclosures. In contrast to Street and Gray (2001), this study considers as valid findings only the compliance determinants being significant under both methods.

Greece offers a suitable as well as an interesting setting because of its distinctive financial reporting environment. The accounting/audit profession is relatively young (Baralexis, 2004) and enforcement of accounting regulation is very weak (Baralexis, 2004; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). Hence, it is highly probable that this background would allow for large differences of compliance levels across listed companies compared to Anglo-Saxon countries. Additionally, ASE is regarded as a developed market since 2000 (FTSE, 2009; Mantikidis, 2000) and almost 50% of the market capitalisation belonged to foreign investors at the end of March 2006 (Central Security Depository, 2006). Thus, there is not only national, but also international interest in the quality of Greek listed companies' financial statements.

## 2. Literature review and development of hypotheses

### 2.1. Compliance with national standards' mandatory disclosures

Table 1 provides a summary of the reviewed disclosure studies that examined compliance with national standards and regulations. These studies are classified according to the chronological order of the financial year examined (i.e. not year of publication).

From the 16 studies identified, four examine companies' compliance during the late 1980s, 11 during the 1990s and only one study examine compliance after 2000. In contrast to the present study, none of those is focused on a developed country, based on a recent sample. Additionally, with the exception of Ali, Ahmed, and Henry

(2004) which is a multi-country study and Owusu-Ansah and Yeoh (2005) who examine a sample of 50 companies over a four year period, the remaining studies use significantly smaller samples than the present study. Only the study of Craig and Diga (1998) employs a sample of a similar size (145 companies) although it is a multi-country study.

Furthermore, 14 out of the 16 studies employ only one disclosure index method (the commonly used dichotomous approach, see Section 3). Naser and Nuseibeh (2003) employ the commonly used dichotomous approach and a weighted index based on the mean and median responses of seven users of financial statements in the country which the study focuses (i.e. Saudi Arabia). Patton and Zelenka (1997) follow the commonly used dichotomous approach with two more alternatives, a "somewhat broader" and a "broad" index (Patton & Zelenka, 1997: 609).

It is acknowledged that the studies reviewed focus on companies operating in significantly different institutional settings (including enforcement) and thus caution is needed when one tries to compare their findings and draw conclusions. Additionally, the samples refer to different periods, and all studies employ self-constructed indices which may increase subjectivity of the scoring process.<sup>1</sup>

<sup>1</sup> The exception is the study of Tai et al. (1990) which uses an index provided by an audit firm. An indication of the potential impact of the structure of the research instrument and different sample is provided if one examines the findings of Ali et al. (2004) and Akhtaruddin (2005). The latter focuses explicitly on Bangladesh and examines the extent of mandatory disclosures by 94 listed companies in 1999. Ali et al. (2004) inter alia examine a sample of 118 companies from Bangladesh with reference to 1998. Akhtaruddin's (2005) research instrument includes fewer items than that of Ali et al. (2004) and he finds substantially lower levels of compliance. More specifically, he finds that, on average, companies disclose 44% of the items of information mandated by the accounting standards whilst Ali et al. (2004) report a compliance score of 78%. This example illustrates that researchers need to be cautious when making comparisons of findings of studies having implemented different research design.

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات