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Measuring the impact of first-time adoption of International Financial Reporting Standards on the performance of Romanian listed entities

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Abstract

Beginning with 2005, all the entities listed on the European Union regulated markets must prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). Romanian listed entities compulsorily apply the IFRSs starting with the consolidated financial statements prepared for the financial year 2007. The main objective of this study is to identify and measure the impact of first-time adoption of IFRS on the performance of Romanian listed entities, performance being expressed by means of net income. The results suggest that no clear tendency can be identified regarding changes in net income of listed entities generated by the transition from Romanian accounting regulations to IFRS.

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1. Introduction

At European level, from 2005, all the entities listed on the European Union regulated markets must prepare consolidated financial statements according with the International Financial Reporting Standards (IFRS).

In Romania, the IFRSs were adopted gradually, starting with the credit institutions, which must prepare IFRS consolidated financial statements starting with the financial year 2006. The scope of IFRS extends in the financial year 2007, when Romanian listed entities compulsorily apply the IFRSs for the preparation of consolidated financial statements. Beginning with January 1st, 2012, the credit institutions have to keep the accountancy records according to IFRSs and will publish the individual annual financial statements according to IFRS, in Romanian and national currency. Recently, IFRS became mandatory for individual financial statements of listed entities, prepared beginning with the financial year 2012.

The research literature underlines the benefits of IFRS adoption, related to the increase comparability and transparency of financial reporting Haverals, 2007, the harmonization of internal and external reporting under IFRS by creating a single accounting “language” across the business Jermakowicz, 2004, the decrease of information asymmetry Djatej et al., 2009 or to the fact that IFRS adoption may improve the functioning of capital markets Schleicher et al., 2010. Also, the international standards make financial statements more credible Dumontier and Raffouriner, 1998 cited in Petreski, 2006: 4.

On the other hand, the limits of IFRS implementation are also documented in the research literature. Many authors suggest that IFRSs are too complex, costly and burdensome Guerreiro et al., 2008; Callao et al., 2007; Jermakowicz and Gornik-Tomaszewski, 2006 or that IFRS have affected negatively the relevance of financial reporting Callao et al., 2010; Hung and Subramanyam, 2007 and the local comparability, as a consequence of “a two-standard system” Street and Larson, 2004; Callao et al., 2007.

Some researchers have concluded that factors unique to a certain country, such as the economy, politics, laws, regulations and culture, may influence the adoption and implementation of IFRS in that country, with effects on the comparability between countries Holm et al., 2009; Jeanjean and Stolowy, 2008; Hung and Subramanyam, 2007.

Great interest is shown in the literature for the study of the effects of IFRS adoption on the financial statements. “Examining financial statement implications is important because, while IAS adoption might lead to indirect economic consequences ... the only direct effects ... are changed financial statements ...” Hung and Subramanyan, 2004 cited in Petreski, 2006: 4. Empirical research conducted in EU member states testifies that, in most cases, performance measured according to IFRS is greater than performance reported based on previous generally accepted accounting principles Finland: Adams et al., 1993; France: Marchal et al., 2007; Germany: Hung and Subramanyam, 2007; Italy: Cordazzo, 2008; Portugal: Cordeiro et al., 2009; United Kingdom: Stenka and Ormrod, 2007 and Callao et al., 2010.

IFRS implementation in Romania was initially analyzed in theoretical studies, focused on the stages of Romanian accounting reform Albu et al., 2011 or on the advantages and difficulties arising from the transition to IFRS Feleagă and Feleagă, 2006.

Empirical research related to IFRS adoption in Romania analysed the conformity of published financial statements with the disclosure requirements from IFRS Fădur and Rusu, 2012, the disclosure practices related to risks in Romanian entities compared to the requirements in IFRS 7 „Financial instruments: disclosure” Gîrbină and Bunea, 2009, the costs of IFRS implementation Ionașcu et al., 2007 and its possible benefits, such as better financial communication that created the economic advantage of a lower cost of capital for Romanian listed companies Ionașcu et al., 2010. Feleagă et al. 2009 find that the image of Romanian listed entities may be totally different when the IFRS referential is used, significant differences arising especially for net income and equity. Filip and Raffournier 2010 investigated the value relevance of earnings of Romanian listed companies over the years 1998–2004 and find that the association between accounting earnings and stock returns is comparable to the levels reported by studies conducted on more mature markets. Also, their results shown that

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