

Firm Characteristics of Swiss Companies that Utilize International Accounting Standards

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***Abstract:** This study examines firm specific characteristics of Swiss companies that have voluntarily elected to prepare financial reports using International Accounting Standards (IASs). An identification of differences between companies that select to adopt IASs and those that do not should aid in determining what the perceived benefits might be. The variables tested were foreign sales activity, foreign stock exchange listings, debt/equity ratio, market value, size and audit firm.*

The study used MANOVA and stepwise discriminant analysis to determine if differences existed between the group of 22 Swiss companies that adopted IASs and a group of 22 Swiss companies that use local standards, based on six independent variables. The foreign activity variables, percent of foreign exchange listings and percent of foreign sales were found to be statistically significant. Thus, the perceived benefits might be that international standards facilitate reporting to multinational stakeholders, and are not necessary for companies that are only required to report to domestic users. This study is an initial examination of Swiss companies that use IASs. Numerous questions, such as how does the market value companies' that utilize IASs, remain to be asked and investigated.

Throughout history accounting practices and standards have been influenced by commerce and economic activity. Current multinational trade seeks not only to trade physical goods across borders but to invest and raise capital internationally as well. This creates a need to communicate the corporation's financial position and future goals to an internationally diversified community of investors and creditors.

Differences in accounting procedures among countries complicate the comparison of financial statements presented by companies from two or more countries. The evaluation and analysis of financial statements of companies from different countries is hindered when companies use measurement procedures which, in some cases, may cause differ-

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ences in earnings of up to 70% (Euromoney 1985, 152) or more, as in the case of Daimler-Benz (Berton 1995, A13).

During the past two decades, the International Accounting Standards Committee (IASC) and other national and international organizations have devoted tremendous amounts of time and money to the development of International Accounting Standards (IASs). The purpose of the standards is to provide users with a common framework from which to evaluate the financial position of multinational corporations. One goal of the IASC is that "the quality of financial statements will be improved and there will be an increasing degree of comparability" (International Accounting Standards Committee 1995, 33).

Many questions may be raised with respect to the adoption and use of IASC standards. For example, who chooses to use the standards, why are companies choosing to use the standards, or how are the standards being used? The purpose of this study is to focus on one of these questions by examining variables which identify Swiss companies that utilize IASC standards. The result should provide a profile of a company which perceives benefits from using IASC standards. This profile should be of interest to the IASC since it may determine if the companies which have adopted IASC standards are similar to the entities the IASC is targeting. The research question addressed in this paper is:

What firm characteristics identify a Swiss company that chooses to utilize international accounting standards?

The IASs, as mentioned above, seek to provide a framework for reporting to a variety of users. However, as Al-Basteki (1995) explains, these standards are useful to companies in developing countries. The FASB (1996) noted, within their comparison project report, companies in countries where standards are nonexistent or countries within which standards exist yet fail to provide adequate disclosure, have benefited from using IASC standards (p. 8). Therefore companies that may benefit from the use of IASs might be categorized into two groups: (1) companies in countries where there are no national standards, specifically developing countries; and (2) multinational companies that seek to provide a common set of financial statements for a variety of international users.

Empirical research on the voluntary adoption of IASC standards has been limited. Al-Basteki (1995) examined the firm characteristics of publicly traded Bahraini corporations that choose to report using IASC standards. His study examined the first category of potential international standard adopters. Swiss companies differ from Bahraini companies since Switzerland is a developed country and has established accounting standards. Examining Swiss companies allows for an investigation into the benefits perceived by companies whose country has a set of national accounting standards.

Although Swiss companies have a set of national standards, these standards have been criticized for a number of reasons, specifically for their lack of disclosure and use of special reserves. Thus, some Swiss companies might be motivated to adopt international standards as a means of providing reports which are perceived to be more complete; nothing is being hidden from the user. Other companies might be using them to present financial information to a diversified set of multinational users and may choose to use them to avoid the costs of multiple reporting and reconciliation.

This paper is structured as follows: the next section presents a brief overview of the IASC, followed by a description of the accounting environment in Switzerland, the fourth

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