



Factors influencing the extent of corporate compliance with International Accounting Standards: summary of a research monograph[☆]

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Abstract

This report provides a summary of a research monograph sponsored by the ACCA (2001). The objective of the research is to examine the financial statements and footnotes of a worldwide sample of companies referring to the use of International Accounting Standards (IAS) to assess the extent of compliance and most importantly to provide evidence of the factors associated with compliance.

The major findings are that there is a significant extent of non-compliance with IAS, especially in the case of IAS disclosure requirements. Further, as regards factors associated with compliance with IAS disclosure requirements, there is a significant positive association with a U.S. listing/filing and/or non-regional listing, being in the commerce and transportation industry, referring exclusively to the use of IAS, being audited by a Big 5 + 2 firm, and being domiciled in China or Switzerland. Additionally, there is a significant negative association with being domiciled in France, Germany, or other Western European countries. As regards compliance with IAS measurement and presentation standards, there is a significant positive association with exclusive reference to the use of IAS, being audited by a Big 5 + 2 firm, and being domiciled in China. Additionally, there is a significant negative association with being domiciled in France or Africa. © 2002 Elsevier Science Inc. All rights reserved.

Keywords: International Accounting Standards; Compliance; Disclosure

[☆] Editor's note: The following is a summary of a research monograph conducted for the Association of Chartered Certified Accountants. The full text of the monograph, RR 74, *Observance of International Accounting Standards: Factors Explaining Non-compliance*, can be downloaded at (http://www.accaglobal.com/publications/research_reports/).

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1. Introduction

The International Accounting Standards Committee (IASC), now renamed as the International Accounting Standards Board (IASB), emerged in 2001 as a restructured, viable accounting standard setter that has achieved much since its formation in 1973. In May 2000, the IASC received an endorsement from the International Organization of Securities Commissions (IOSCO), and the European Commission announced it would encourage member states to agree to legislation requiring all European Union (EU) listed companies to prepare consolidated financial statements based on International Accounting Standards (IAS) by 2005. However, the IASB continues to face major obstacles as it aims to achieve worldwide recognition and acceptance of IAS.

The long awaited IOSCO endorsement fell short of expectations. Following an assessment of IAS, [IOSCO \(2000a\)](#) recommended that its members allow multi-national issuers to use 30 core IASC standards, as supplemented by reconciliation, disclosure, and interpretation where necessary to address outstanding substantive issues at a national or regional level. In conjunction with the somewhat limited endorsement of IAS, [IOSCO's \(2000b\)](#) Technical Committee published a report summarizing its assessment work and noting numerous outstanding issues members expect to address through supplemental treatments. Hence, members of IOSCO, including the United States (U.S.) Securities and Exchange Commission (SEC), will now individually determine whether or not to endorse IAS for cross-border listings.

In addition to sharing concerns regarding “quality” issues raised by IOSCO’s Technical Committee, the SEC, which regulates the world’s largest capital market, argues that a comprehensive infrastructure must be in place in order for high-quality international accounting and financial reporting standards to be used, interpreted, and enforced consistently throughout the world. The International Federation of Accountants (IFAC) has stated that auditors are asserting that financial statements comply with IAS when the accounting policies and notes indicate otherwise ([Cairns, 1997](#)). Recent research supports IFAC’s view that non-compliance with IAS is problematic ([Cairns, 1999](#); [Street and Bryant, 2000](#); [Street, Gray and Bryant, 1999](#)).

This article provides a summary of a research monograph sponsored by the Association of Chartered Certified Accountants ([Street and Gray, 2001](#)).¹ The objective of the research is to examine the accounts of a worldwide sample of companies referring to the use of IAS to assess the extent of compliance/non-compliance in more detail and most importantly to identify key factors associated with compliance.

The main research questions investigated are as follows:

1. What are the key factors associated with the degree of compliance with IAS-required disclosures for companies that refer to IAS?
2. What are the key factors associated with the degree of compliance with IAS-required measurement and presentation practices for companies that refer to IAS?

The research is carried out on a sample of 279 companies and comprises a detailed analysis of 1998 company annual reports in respect of compliance with IAS-required disclosures and measurement/presentation practices. Statistical testing of hypotheses derived from prior research is conducted and findings evaluated. A more informed understanding of the factors influencing compliance/non-compliance should assist the IASB, IFAC, and other interested

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