This article is downloaded from

http://researchoutput.csu.edu.au

It is the paper published as:

Author: N. Pawsey

Title: The Quality of IFRS: Australian Preparers Perspectives

Editor: Dr. Z. Haqq

Conference Name: Research for Progress: 9th International Business Research Conference

Conference Location: Melbourne, VIC

Publisher: World Business Institute

Year: 2008

Pages: 1-19pp

Date: 24-26 November 2008

Abstract: Despite concerns about their quality, recent years have seen a rapid uptake of IFRS. This paper documents the results of a study which utilised a mail-survey and explored the perceived quality of IFRS amongst CFOs from large, ASX listed Australian firms. Respondents acknowledged that IFRS adoption had meant that firms now have tighter guidance on some issues that had previously not been adequately addressed in the past by AASB standards. Despite this, there was strong support for the position that IFRS adoption had reduced the quality of financial reporting in Australia and numerous faults with IFRS were identified. Standards singled out for specific criticism, due to their perceived complexity and questionable treatments, included those in relation to financial instruments, share-based payments, impairment and intangible assets.

Author Address: npawsey@csu.edu.au

URL: http://www.worldbizconference.com/Prog-conf-Mel-08.pdf

http://researchoutput.csu.edu.au/R/-?func=dbin-jump-full&object_id=7474&local_base=GEN01-CSU01

CRO identification number: 7474

The Quality of IFRS: Australian Preparers' Perspectives

Nicholas Pawsey

Despite concerns about their quality, recent years have seen a rapid uptake of IFRS. This paper documents the results of a study which utilised a mail-survey and explored the perceived quality of IFRS amongst CFOs from large, ASX listed Australian firms. Respondents acknowledged that IFRS adoption had meant that firms now have tighter guidance on some issues that had previously not been adequately addressed in the past by AASB standards. Despite this, there was strong support for the position that IFRS adoption had reduced the quality of financial reporting in Australia and numerous faults with IFRS were identified. Standards singled out for specific criticism, due to their perceived complexity and questionable treatments, included those in relation to financial instruments, share-based payments, impairment and intangible assets.

Key words: Chief Financial Officers; International Accounting; Listed Australian Companies; Quality of Accounting Standards; Surveys

Field of research: International Accounting

1. Introduction

Recent years have seen a rapid growth in the number of countries moving to adopt the International Accounting Standards Board's (IASB) body of International Financial Reporting Standards (IFRS)[i]. Following the lead of the European Union (EU), Australia committed itself to the adoption of International Financial Reporting Standards (IFRS) in July 2002 (see FRC, 2002). As typified by the changes relating to intangible assets and financial instruments, this move has had a significant impact on the accounting practices applied by Australian firms[ii].

Nicholas Pawsey
Charles Sturt University
Panorama Ave Bathurst NSW 2795
npawsey@csu.edu.au
Telephone: (02) 6338 4466
Facsimile: (02) 6338 4649

Acknowledgements: The author duly acknowledges the supervision of Associated Professor J Bisman and Professor MR Mathews on a thesis from which this paper was derived.

The decision of Australia and other countries to adopt IFRS was a surprise to many given the prior concerns about the quality of IFRS. Indeed, much of the conjecture concerning the quality of IFRS has been far less than complementary. As identified in Table 1.1, there are a number of sources of evidence available in exploring the conjecture concerning the quality of IFRS[iii].

Table 1.1. Evidence concerning the quality of IFRS

Source	Examples
Empirical studies exploring the relevance and reliability of information prepared under IFRS and apparent financial statement user preferences towards accounting standards.	Leuz & Verrecchia (2000); Ashbaugh & Pincus (2001); Young & Guenther (2003); Ahearne, Griever & Warnock (2004); Cuijpers & Buijink (2005); Covrig, Defond & Hung (2007).
Published academic reviews of the quality of IFRS.	Haswell & McKinnon (2003); Jones & Wolnizer (2003); Haswell (2006); Haswell & Langfield-Smith (2008).
Reviews of the perceived quality of IFRS amongst financial report preparers.	Jermakowicz (2004); Sucher & Jindrichosvska (2004); Jones & Higgins (2006).

This study contributes to the growing body of evidence exploring the quality of IFRS, exploring the perceptions of Australian financial report preparers towards IFRS. Specific research questions examined include:

(i) What is the perceived quality of IFRS in comparison with prior Australian Accounting Standards Board (AASB) standards?
(ii) What specific IFRS are perceived to be an improvement or decline in quality in comparison with prior AASB standards?
(iii) Can any factors (i.e. size, industry or otherwise) explain inter-firm differences in the perceived quality of IFRS?

Data used for the purposes of this study was captured using mail-survey which explored the broad costs and benefits of IFRS adoption for the Top 400, Australian Stock Exchange (ASX) listed Australian firms[iv]. The survey was completed by company Chief Financial Officers (CFO) in late 2005 as most firms were winding up their IFRS conversion activities. Some 107 (27.70%) useable responses to the survey were received.

Overall, there was significant support for the position that IFRS adoption had reduced the quality of Australian financial reporting. Specific criticisms of IFRS included that they were overly complicated, confusing, time consuming and costly to interpret and apply. Some respondents even asserted that the application of IFRS did not produce a true and fair view of their firms' position and results. Particularly problematic standards included:

(i) AASB 132/139;
(ii) AASB 2;
(iii) AASB 136;
(iv) AASB 3/127; and
(v) AASB 138.

Such evidence is likely to be relevant to other countries or firms considering the adoption of IFRS. It is also likely to be of interest to those parties interested in the development and refinement of IFRS to maximise the benefits from their global adoption.

This paper is organised as follows. The following section reviews the relevant background literature, in particular, the moves to adopt IFRS and the evidence and conjecture concerning their quality. Section Three outlines the methodology applied in the exploration of the research questions. The results of the responses to the survey are documented in Section Four and the overall conclusions regarding these results are presented in Section Five.

2. Literature Review
Introduction

Following the accelerated globalisation trend of recent decades, there has been a growing push to develop IFRS (Murphy, 2000; Garrido, Leon & Zorio, 2002; Lehman, 2005; Daske & Gerbhardt, 2006). While developing nations have historically been strong supporters of the IASB (see for example, Agars, 1996; Chamisa, 2000), developed nations have been typically unwilling to accept changes to their domestic accounting standards. In recent years, though, following the IASB's completion of its *Core Standards Project* and the subsequent endorsement of these core standards by the International Organisation of Securities Commissions (IOSCO), developed nations have appeared more willing to consider adoption of IFRS. The IASB "has become more of a force" (Zeff, 2007, p. 301) with Hope, Jin and Kang (2006, p. 1) observing that "by the end of 2005, IFRS were required in at least 65 countries for all domestic-listed companies". Pawsey (2008), in exploring the use of IFRS at 1 January 2008 amongst the 40 most developed nations, found that for the 30 countries for which information on the use of IFRS was available, only three (10%) entirely ruled out the use of IFRS.

In 1996, the AASB began a process of harmonisation with IFRS. In doing so, it was regarded as the first major standard setter to commit to a formal harmonisation program (see for example, Humphry, 1997; Collett, Godfrey & Hrasky, 1998; Sharpe, 1999; Parker & Morris, 2001). Somewhat surprisingly, given the initial concerns about the verbatim adoption of IFRS in the late 1990's (see for example, Zeff, 1998; Dunk & Kilgore, 1999; Humphry, 1997; Warrell, 1999; Brown & Tarca, 2001), on 28 June 2002, the Financial Reporting Council (FRC) announced that it would require the AASB to adopt IFRS by 1 January 2005 (see FRC, 2002).

Key differences between Australian standards and IFRS

Despite Australia's harmonisation policy since the mid 1990's, and despite the relative alignment of traditional Australian accounting practices with IFRS and other Anglo-American accounting practices (see for example, Gray, 1988; Wines, 1989), Australia's decision to adopt IFRS in 2005 resulted in a number of significant changes. As summarised in Table 2.1, the significance of such changes are

particularly evident by the changes in relation to intangible assets, share based payments and financial instruments.

Table 2.1. Key impact of IFRS adoption on Australian accounting practices

Area	Prior Australian treatment	IFRS treatment
Research costs	No distinction between research and development costs. Both could be capitalised so long as they were recoverable beyond a reasonable doubt.	The research phase is explicitly separated from the development phase. Research costs must be expensed when incurred. Development costs can be capitalised subject to some restrictions.
Goodwill	Goodwill amortised over a maximum period of 20 years.	No compulsory goodwill amortisation, however, goodwill is subject to tests of impairment.
Other internally generated intangible assets	Beyond internally generated goodwill, there was no explicit restriction on the recognition of internally generated intangible assets. Internally generated intangible assets could be revalued so long as their fair value could be determined reliably.	Internally generated intangible assets such as brands, mastheads, customer lists are explicitly prohibited from recognition as an asset. Internally generated intangible assets can only be revalued when an active market exists for the asset.
Share based payments	No requirement to recognise share based payments to employees as an expense.	The value of the services received as part of share based payments is recognised as an expense.
Financial instruments	Limited specific guidance was available in regards to many issues surrounding financial instruments.	Explicit requirements, for example, regarding the disclosure of financial assets and liabilities on the balance sheet; the measurement and revaluation of financial assets to fair value and recognition of gains in profit; and hedge effectiveness.

(see for example, Curran, 1996; Deloitte Touche Tohmatsu, 2004; Deegan, 2005)

Evidence on the financial impact of such changes has been provided by studies conducted by Jubb (2005), Ernst and Young (2005) and Jones and Higgins (2006). The results of these studies are summarised below.

In accordance with AASB 1047, Australian companies were required to provide estimates of the potential impact of IFRS adoption on their accounts. Jubb (2005) reviewed the AASB 1047 disclosures filed with the ASX for annual and half year reporting periods ending 30 June 2004 for a sample of 808 listed companies. In her review Jubb (2005, p.10) identified six key areas of change, namely, income tax, asset impairment, share based payments, financial instruments, goodwill, and intangible assets.

Adopting a similar methodology to Jubb (2005), Ernst and Young (2005) examined the 2005 annual report disclosures provided by 78 Top 100 Australian companies regarding the impact of IFRS adoption. The study found that, on average, transition

to IFRS was expected to increase profit by 6% in the first comparative year. The key areas of change affecting profit included accounting for investment properties, goodwill and financial instruments. The study further highlighted that the transition to IFRS was expected to decrease equity by an average of 15%. Changes in the accounting for financial instruments, intangible assets and income taxes were the primary factors contributing to this decrease.

Jones and Higgins (2006) discuss the results of 60 telephone surveys with senior finance personnel aimed at exploring the impact of IFRS adoption on Australia's top 200 companies. The majority of respondents (52%; 62%) agreed/strongly agreed that IFRS adoption would have a significant impact on their financial position and performance. In exploring the standards which had the most significant impact, Jones and Higgins (2006, p. 642) noted that "IFRS will have their greatest reporting impact in areas where there are currently no existing Australian standards" including those relating to financial instruments and intangible assets.

The quality of IFRS

Whittington (2005, p.133) argued that the process of converging accounting standards "is intended to lead to the adoption of the best practices currently available". Indeed, many of the potential benefits of IFRS adoption, particularly those in relation to financial statement users, are dependent on the quality of IFRS. Whether the development of IFRS has actually involved a move towards the 'best practices' has been subject to much debate. Among other things, IFRS have been described as being written based upon an international compromise, less rigorous than other accounting standards, overly reliant on historical cost accounting, overly complicated and increasingly rules-based, internally inconsistent and as providing little guidance and allowing too many choices or options (see for example, Sharpe, 1999; Warrell, 1999; Godfrey & Langfield-Smith, 2005; Haswell & McKinnon, 2003). As Haswell and Langfield-Smith (2008, p. 47) argued, "the long history of the IASB, commencing in 1973, has been of difficulty in convincing domestic regulatory authorities that its products were up to scratch"[v].

As illustrated below, there are a number of sources of evidence available in exploring the issue of the quality of IFRS.

Firstly, there have been a number of empirical studies which have explored the relevance and reliability of information prepared under IFRS and apparent financial statement user accounting standard preferences. To illustrate, Young and Guenther (2003), Ahearne et al. (2004), Cuijpers and Buijink (2005) and Covrig et al. (2007) found a positive association between IFRS use and the level of foreign ownership. Other studies have identified that IFRS use appears to be associated with an improvement in the accuracy of analysts earnings forecasts (see for example, Ashbaugh & Pincus, 2001) and a reduction in firms' cost of capital (see for example, Leuz & Verrecchia, 2000).

Secondly, there have been a number of published academic reviews of the quality of IFRS. Haswell and Langfield-Smith's (2008) review of the drafting and consistency in the application of the rules and principles of 36 Australian equivalent IFRS used by most financial statement preparers exemplify such reviews. Their review identified "57 serious defects", although they acknowledge "a longer paper would capture many more" (p. 47). Among other things, Haswell and Langfield-Smith (2008) criticised the over complexity of IFRS, describing the terminology for financial instruments as "nearly incomprehensible" (p. 50). They highlighted numerous inconsistencies between standards, the treatment of revenues/expenses and assets/liabilities, the conceptual basis of standards and their requirements, and in the terminology used. They also argued that many of the standards would create confusion for preparers and questioned the relevance of much of the information produced through the application of the standards.

Similar evaluations of the quality of IFRS are provided by Haswell and McKinnon (2003) and Haswell (2006).

Haswell and McKinnon (2003, p. 15) asserted that "claims that IFRS are 'tighter', 'stricter', or more valid and so on do not seem to be based on evidence". In support of their claim, Haswell and McKinnon (2003) cited the "complex, unwieldy, costly and time consuming IFRS version of tax-effect accounting", the allowable exemptions to the need to prepare consolidated financial statements and questionable depreciation and revaluation treatments under IAS 16.

In light of the discussion concerning the problems of rules-based standards in comparison with principles-based standards, Haswell (2006) examined the rules-based deficiencies of IFRS. Haswell (2006, p.55) concluded that:

> One would need to be very cautious before attempting to make a sweeping claim that IFRS were 'superior' to US GAAP in the principles-rules debate. In fact, both sets of GAAP continue to exhibit serious problems in their recent pronouncements.

Jones and Wolnizer (2003) further identified numerous concerns with the prospect of replacing the existing Australian AASB framework with that of the IASB. Such concerns included that the AASB's existing SACs 1 through 4 tended to be "more detailed, explanatory and prescriptive than their IASB counterparts … [and] have been more actively utilised to drive the development of particular accounting standards" (p.378). Jones and Wolnizer (2003) also identify how the AASB has been more advanced than the IASB in its conceptual framework work program and, unlike the IASB, has been able to develop a framework equally applicable to all entities.

A final body of evidence concerning the quality of IFRS relates to perceived quality of these standards amongst financial report preparers. In an Australian context, beyond exploring the impact of IFRS adoption on financial statements, Jones and Higgins (2006) explored the perceptions of senior finance personnel from Australia's top 200 companies towards the quality of IFRS. Only a very limited number of respondents (21.7%; 33.4%) agreed/strongly agreed that IFRS adoption would either improve the

quality of financial reports or that IFRS were more transparent and understandable in comparison with existing standards.

A number of studies have also reviewed the perceptions towards IFRS amongst European preparers.

Jermakowicz (2004) documented the results of a survey of the perceived benefits and challenges of IFRS adoption for financial officers from 11 BEL-20 companies[vi]. The majority of respondents identified an increase in the volatility of earnings because of the reliance on fair value accounting, the complex nature of IFRS and the lack of implementation of guidance as key challenges associated with IFRS adoption. IAS 39 and IAS 36 were identified as being particularly complex.

Sucher and Jindrichosvska (2004) used interviews to explore the preparedness for IFRS adoption and general issues with IFRS for 11 representatives from nine Czech Republic firms. Concerns were raised about the complexity and increased information requirements associated with IASB 11, IAS 36, IAS 37 and IAS 39 and about the difficulty and cost associated with determining fair values. Cynical views were expressed about the potential income to be derived by audit firms in advising on IFRS issues. As one interviewee commented:

> The knowledge is kept in the audit company. It is big business [for the audit firm]. You can train companies to do the supporting sheets but the final bit is done by the audit firm (p.132).

3. The current investigation

This study contributes to the growing body of evidence exploring the quality of IFRS. Such evidence is particularly important given that, as previously discussed, the process of developing and adopting IFRS is intended to be one of moving towards the best practices (see for example, Whittington, 2005). If it is not, then many of the potential benefits of IFRS adoption may go unrealised.

Data used for the purposes of this paper was captured using mail-survey which reviewed the broad costs and benefits of IFRS adoption for the Top 400, ASX listed Australian firms. The specific survey items analysed in this paper relate to those which explored perceptions towards whether IFRS adoption was viewed as improving (declining) the quality of financial reporting in Australia and which specific IFRS were viewed as being an improvement (decline) in quality on past AASB standards. The survey targeted company Chief Financial Officers and was mailed out, following a pre-test phase, in late 2005. Respondents were given a unique identifier (i.e. R8, R40) and these identifiers are used in the analysis of the results.

Once received, survey data was coded and tabulated using computer data analysis and spreadsheet packages. Where scaled items were used, they were coded using a 7-point scale ranging from one – *Very Strongly Agree* – to seven – *Very Strongly Disagree*. *Not Applicable* responses, together with non-responses, were excluded from the analysis.

4. Results
Response rate and respondent characteristics

In total, 113 responses and 107 useable responses were received. This produced a total response rate of 29.35% and a usable response rate of 27.79%. The full population of 400 companies was adjusted for those companies that could not be contacted due to mailing difficulties and for those that had been de-listed or taken over since the construction of the sample frame. The majority of respondents (61.32%) were either their company's CFO/Deputy CFO or their company's Financial Controller/Manager. The respondent company sector breakdown is presented in Table 4.1. Table 4.2 provides information on the relative size of the respondent companies. For the purposes of inter-company comparisons, firms were grouped into three, approximately equal, sized groups – small, medium and large.

Table 4.1 Respondent industry sector breakdown

Industry sector (n 107)	Frequency	Percent
Primary	24	22.43%
Secondary	15	14.02%
Tertiary	68	63.55%

Table 4.2 Respondent company size

	n	Min.	Max.	*Median* *(Q^2)*	$\bar{x}$	SD
Sales turnover ($000)	106	3,000	12,000,000	355,000	1,240,107	2,119,391
Total employees	106	6	38,000	905	3,322	6,256

Consistent with Roberts (1999, p.53) "prescription for rigorous survey research", both response/population comparisons for selected characteristics and comparisons of late and on-time responses for selected survey questions were conducted. No significant differences were detected with the characteristics of the respondents appearing reasonably consistent with those of the population.

The perceived quality of IFRS

Figures 4.1 and 4.2 present the relative breakdown of responses to survey items to which respondents were asked to indicate their level of agreement to statements that IFRS adoption would either result in an improvement or decline in the quality of financial reporting. The median's of 3.00 (*disagree*) and 4.00 (*neutral*) achieved for these items suggested that respondents were somewhat indifferent about the quality of IFRS. Despite this, a paired-sample t-test identified a significant difference between the means of these items (t -2.14, p 0.04). Specifically, respondents were significantly more supportive of the position that IFRS adoption had resulted in a decline in the quality of their firms' financial reporting ($\bar{x}$ 3.74) than the position that adoption has resulted in an improvement in quality ($\bar{x}$ 3.24).

ANOVA procedures further explored whether perceptions towards the quality of financial reporting under IFRS were affected by firm size (i.e. small, medium and

large) or sector (i.e. primary, secondary and tertiary). No significant differences were detected, with responses to the positions that IFRS adoption would either result in an improvement or a decline in the quality of financial reporting not appearing to be affected by firm size (*F* 1.09, *p* 0.34; *F* 1.55, *p* 0.22) or sector (*F* 0.94, *p* 0.40; *F* 0.58, *p* 0.56).

Figure 4.1. IFRS adoption will improve the quality of financial reporting (n 104)

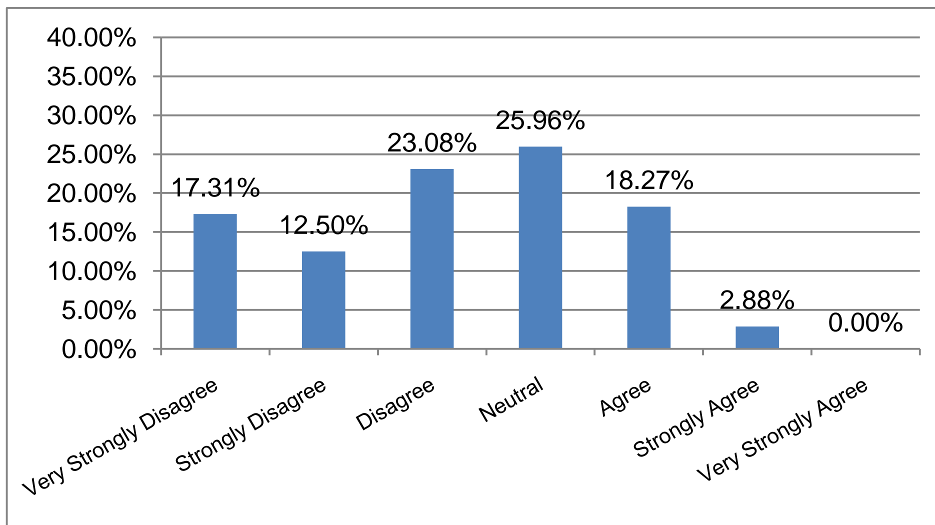
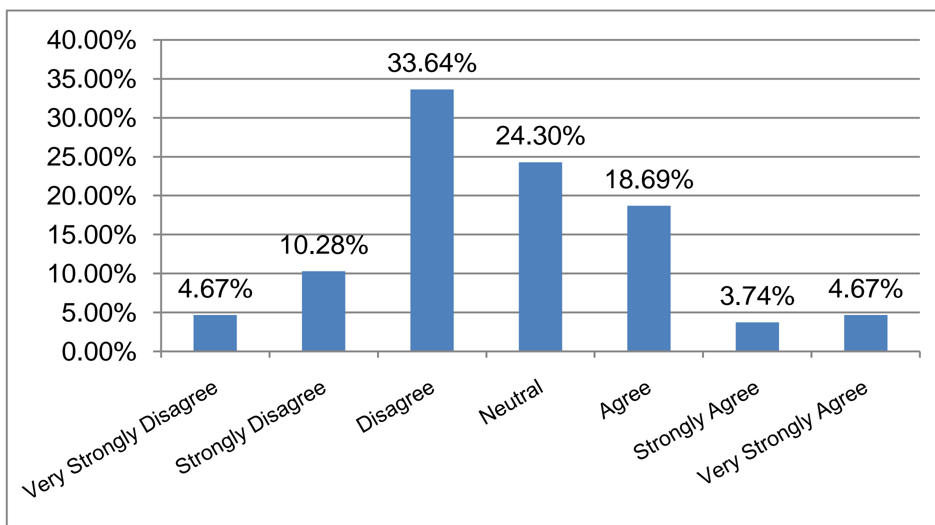


Figure 4.2. IFRS adoption will result in a decline in the quality of financial reporting (n 107)



Some 37 (35.92%) respondents identified at least one specific standard/area to have improved in quality following the adoption of IFRS. A further 49 (49.00%) respondents identified at least one specific standard/area to have declined in quality. Ten respondents, while not identifying a specific area to have declined in quality, also provided generalist comments about how IFRS were more complex and time consuming to apply, lacked descriptive guidance and definitions, were inapplicable to their firms' industries, and/or created confusion amongst financial statement users. To illustrate, R5 argued that they believed that:

> … there are instances where the complexity of particular standards have created some significant confusion within the business and in equity markets, which has impacted the veracity of the analysis performed.

The specific standards identified by respondents as being either an improvement or decline in quality on existing standards are identified in Table 4.3. Notably, of the five standards/areas most cited as being an improvement in quality, four – AASB 2, AASB 132/139, AASB 136 and AASB 138 – were included in the five standards/areas most cited as being a decline in quality. Overall, it would seem that the adoption of IFRS has “solved some issues, [and] created issues in others” (R106).

Table 4.3 Specific standards to have improved or declined in quality

Areas of Improvement in Quality (n 103)	
Standard	**Time Cited**
AASB 2	12 (11.7%)
AASB 132 /139	11 (10.7%)
AASB 136	10 (9.7%)
AASB 138	6 (5.8%)
AASB 137	3 (2.9%)
AASB 112	2 (1.9%)
AASB 116	2 (1.9%)
AASB 117	2 (1.9%)
AASB 3/127	1 (1.0%)
AASB 4	1 (1.0%)
AASB 5	1 (1.0%)
AASB 111	1 (1.0%)
AASB 119	1 (1.0%)
AASB 120	1 (1.0%)
AASB 121	1 (1.0%)
Extractive Industries	1 (1.0%)

Areas of Decline in Quality (n 100)	
Standard	**Time Cited**
AASB 132 /139	24 (24.0%)
AASB 2	11 (11.0%)
AASB 136	8 (8.0%)
AASB 3/127	6 (6.0%)
AASB 138	6 (6.0%)
AASB 137	5 (5.0%)
Extractive Industries	5 (5.0%)
AASB 101	4 (4.0%)
AASB 119	4 (4.0%)
AASB 112	2 (2.0%)
AASB 124	2 (2.0%)
AASB 111	1 (1.0%)
AASB 117	1 (1.0%)
AASB 131	1 (1.0%)
AASB 133	1 (1.0%)

Chi-square procedures failed to identify a significant relationship between the identification of a specific standard/area to have either improved or declined in quality and firm industry sector (χ^2 2.51, *d.f.* 2, *p* 0.29; χ^2 1.82, *d.f.* 2, *p* 0.40). Independent sample t-tests also failed to detect any significant relationship between the identification of a specific standard/area to have either improved or declined in quality and firm size (t 0.67, p 0.50; t -0.49, p 0.63).

Frequently, in discussing why they felt a specific standard/area had been an improvement on existing standards, respondents provided general comments about how they felt the changes had addressed areas which had not been adequately addressed in the past. For example, how the new standards provided stricter or more specific rules that resulted in information that was more comparable across companies and more useful or reliable to financial statement users.

Those that felt that AASB 132 and 139 were an improvement commented on how the standards would result in better measurement and disclosure practices. For example, R141 commented that while AASB 132 and 139 were "complex, they [brought] standardisation to areas that were open to multiple treatments". The improved disclosure practices in relation to financial instruments were largely attributed to the disclosure of derivatives on the balance sheet.

R73 noted that AASB 138 adopted an "improved definition on what can be capitalised" as an intangible asset. Similarly, R139 noted that the adoption of AASB 138 was beneficial because:

> Previously no Australian standard… comprehensively addressed the treatment of intangible assets. The group and other entities applied a number of general accounting standards in order to account for intangible assets.

R73, in further discussing issues surrounding intangible assets, identified that AASB 136 was beneficial because it "adopted a stricter test for impairment than previous accounting". The respondent did, however, feel that the "guidance on discount rates could be expanded".

Other respondents, which identified AASB 136 as being an improvement on existing rules, noted the elimination of compulsory goodwill amortisation. R89, in particular, highlighted that "the removal of goodwill amortisation has made [their company] more comparable with [their] US peers".

Respondents which identified AASB 2 as an improvement noted that they agreed with expensing options and that doing so would be "valuable to shareholders" (R141). R62 further commented that expensing options would "make remuneration committees think more about such policies".

Respondents who identified specific standards to have declined in quality were, at times, very passionate in their attitudes, describing the new standards as "absurd" (R1), "nonsense" (R21), "ridiculous" (R104; R 103), "illogical" (R129) and "a mess" (R113). Broad criticisms of IFRS included that they:

(i) Are overly complicated and confusing to both preparers and financial statement users;
(ii) Were overly reliant on assumptions and approximations;
(iii) Are less specific when compared to previous standards;
(iv) Are overly restrictive or onerous;
(v) Require more effort and time to apply; and/or
(vi) Produce misleading results that do not provide a true and fair view of a company's position and performance.

As one respondent argued:

> IFRS is not a user friendly tool if you consider its impact on the rank and file investors in our organisation. Of a population of almost 4,000 investors probably 70 – 100 are institutional with the appropriate skill set. For the bulk of the others, the changes are confusing and excessively complicated (R128).

Other respondents also commented that the move to IFRS has been meaningless given the prior standing of Australian accounting standards amongst foreign investors:

> Australian accounting standards were very highly regarded (R105).
>
> International investors never questioned Australian accounting standards or treatments so I can't see any benefits (R125).

R61, in discussing a perceived increase in financial statement user uncertainty, noted that "more time will be spent recruiting the numbers to assist the investment community to value the firm". Similarly, R110 commented on the need for separate explanation for financial statements users to help them understand their firm's underlying results, following the release of their IFRS income statement with no profit. R18 went further, arguing that financial statement users will place a greater emphasise on cash flow data in the future:

> AIFRS involves playing around with the time of costs. Cash flow information will take on more prominence because users of financial statements will drown in the drivel. Only the more technical consultants will understand the statements – the average shareholder, and many analysts, will simply not understand financial statements for a few years until they get used to some of the concepts.

Respondents, which criticised AASB 2, questioned the overall validity of recognising share-based payments as an expense. For example, R89 argued that expensing such payments "results in an expense that is disconnected to actual cash flows". Similarly, R92 felt that share-based payments result in "no genuine economic loss" and that they felt the approach adopted by AASB 2 was "more to do with noisy ignorant shareholder lobby groups than good governance". Others described AASB 2 as "nonsense" (R21) and "Byzantine… the weakest link" (R89), with R21 citing the standards reliance on approximate values and R89 contending:

> For our business, like all others, how we finance our company (debt versus equity) is separate from how we run our company. The stock compensation standard conflates these two issues/decisions.

A detailed critique of the increased need for fair value adjustments under AASB 132/139 was provided by R30. They argued that such adjustments produce financial statement volatility, may be misused by preparers and might force financial statement users to be more reliant on cash flow data:

> Mark to market can change rapidly and is unrealised. You can't generate cash from mark to market yet it does generate a result, which can be dividended. Cash and real profit is much more important and going forward we will see greater reliance on cash flows.

> In regard to borrowings, most covenants are based on current accounting standards. Not only have the IFRS standards introduced greater volatility into earnings, there is also greater balance sheet volatility. This makes balance sheet planning more difficult and breach of covenants more possible.
>
> I believe mark to market type impacts will be backed out as they only confuse users … [Furthermore] an unscrupulous preparer of accounting statements could use that confusion to their benefit. The more variables there are to pricing a mark to market items the more opportunity to orchestrate a result. If we look at what went wrong with Enron it was their ability to use mark to market.

More specific criticisms associated with AASB 132/139 included criticisms of their prescribed hedge effectiveness and documentation rules. To illustrate, R142 noted that while they "[agreed] with the objectives of the standard, its requirements around documentation have limited value and are overemphasised". R17 noted that the "documentation of hedges ties up senior staff in non value added work". Another respondent asserted that AASB 132/139:

> … completely undermines 'substance over form' concepts by its overemphasis on documentation requirements. Perfectly valid hedges may not be eligible for IFRS hedge accounting solely on documentation grounds (R136).

Consistent with the above comments, R121 felt that the adoption of AASB 139 "has meant that hedge accounting does not reflect the commercial reality of hedging transactions".

Negative comments relating to AASB 136 were largely directed towards the impairment test for goodwill and adoption of the cash generating unit concept. As an exemplar, R1 commented that while they considered "impairment testing to be good in theory", it would "create annual problems for many companies and auditors and fluctuating financial results". R80 further criticised AASB 136's conservative use of fair value accounting, noting that the "half hearted attempt at fair value accounting makes a mockery of the income statement. Either go fair value or not – halfway is meaningless".

Notably, in relation to AASB 137, one respondent argued that the changes had affected the valuation of their firm's interest cost creating confusion amongst financial statement users:

> The treatment of rehabilitation provision creates confusion in that the discount appears in interest. As our debt level is low this creates queries in relation to the cost of our debt, borrowing costs, etc. ratios used by banks / analysts are impacted.

Criticisms associated with AASB 138 included the "disparate treatment of generated and acquired intangible assets" (R64) and the restrictions of the capitalisation of research costs. AASB 138 was also identified by respondents as being a standard which potentially resulted in information that did not provide a true and fair view of an entity's position and performance. To illustrate R62 contended that:

> Internally generated intangibles, particularly in a service industry, not being able to be booked on the balance sheet does not give a true and fair view of the company in question.

In relation to AASB 3/127, a limited number noted that their company was required to consolidate certain entities into their group accounts that they had previously not in the past. Doing so, they argued, would produce misleading financial statements:

> The inclusion of these funds assets, liabilities and operations tend to distort the position and results of the corporate entity (i.e. shareholder view) (R6).

> [Consolidating these entities] would make reports look ridiculous and will not make interpretation by shareholders, analysts etc. easier but more difficult (R13).

Further information on the perceived complexity of IFRS was provided by a survey item which prompted respondents to indicate their level of agreement to the statement that IFRS adoption would result in additional work being devoted to financial reporting as some of the new standards were more onerous than existing standards. Almost all (95.33%) of respondents agreed with this item and both firm sector (F 1.24, p 0.30) and size (F 0.62, p 0.50) did not appear to be significant to such perceptions. Thus, for the large majority of respondents, the move to IFRS was perceived as resulting in a significant increase in work both during the transition period and in future years. As two respondents, in discussing the overall impact of IFRS adoption of their firm, highlighted:

> There is much more work involved in preparing financial statements and having them audited under IFRS (R94).

> [IFRS adoption has resulted in] additional costs stemming from consultants, auditors and actuaries and many more fair value exercises (R107).

Also, in discussing the overall impact of IFRS adoption, some asserted that it was in the interests of large accounting firms to make the standards as complex as possible. R136, for instance, commented that within their firm there was “a jaundiced view that IFRS is being pushed by the big accounting firms for their own benefit and that making the rules complex is in their best interests”. Likewise, R24 argued that it suits large accounting firms to exaggerate the impact of IFRS adoption to maximise their revenues:

> The transition to AIFRS has not been a significant cost or impact to our company. Much of the perceived impact of the transition has been a 'beat up' by Big 4 and related professional service advisors who have gained professional services fee’s as a result. In many cases, their fees have added little or no shareholder value, and have been self serving for the accounting firms.

5. Conclusions

This study, using a mail-survey, has sought to explore the perceived quality of IFRS amongst large, listed Australian firms. Numerous positive and negative comments were identified in relation to the perceived quality of IFRS. Positive comments focused on the areas in which preparers felt they now have requirements that are

more specific than they had been in the past. Overall, though, there was significantly more support for the position that IFRS adoption had reduced the quality of accounting standards than for the position it had resulted in an improvement in quality. Specific criticisms of IFRS included that they were overly complicated, confusing and time consuming and costly to apply. Such perceptions appeared to be unaffected by firm size or sector. Thus, negative perceptions towards IFRS did not appear confined to smaller firms, less likely to be able to meet the increased reporting requirements, or those from sectors most likely to be significantly impacted by the reporting changes (see for example, Jones and Higgins 2006).

The negative comments by respondents, particularly those concerning the complexity of IFRS, directly parallel those of prior studies which have explored the perceptions of financial report preparers towards IFRS (see for example, Jermakowicz, 2004; Jones & Higgins 2006; Sucher & Jindrichosvska, 2004). They also parallel those of prior academic reviews of the quality of IFRS including Haswell and Langfield-Smith (2008) who identified 57 serious defects in selected IFRS. These serious defects included six in relation to AASB 136 and nine in relation to AASB 132/139. The frequent identification of standards relating to share based payments, financial instruments and intangible assets for specific discussion is not surprising given that they were identified as some of the key areas of change in studies conducted by Jubb (2005) and Ernst and Young (2005).

End-notes

[i] For the purposes of this paper, the term IFRS is used to encompass all IASB standards.

[ii] It should be noted that the AASB has not adopted IFRS word for word. In some instances, the AASB has adjusted the wording or added material to IFRS to make them, for example, relevant to non-profit organisations and to align them with the Corporations Act 2001. In other instances, where no IFRS existed for particular issues, the AASB has maintained its existing standards. Hence, the standards currently used in Australia are frequently referred to as Australian equivalents to IFRS (i.e. A-IFRS). Despite this, A-IFRS generally are able to "make an unreserved statement of compliance with IFRS" (Deloitte Touche Tohmatsu, 2005). Deloitte Touche Tohmatsu (2004) provided a detailed comparison between IFRS and A-IFRS. A summary of the AASB standards referred to in this paper, along with their IASB equivalents, is provided in Appendix 1.

[iii] AAA (2008) adopted a similar approach to the classification of the sources of evidence concerning the quality of IFRS. AAA (2008) consider four sources of evidence, namely, (i) reviews of the behavioural changes by users and preparers after firms adopt IFRS; (ii) value relevance studies which explore the correlation between accounting earnings and stock returns; (iii) reviews of the aggregate properties of stock markets which adopt different accounting standards; and (iv) reviews of institutional factors in the financial reporting environmental that may affect the implementation of accounting standards.

[iv] Australian firms were chosen as the focus for the study because of the anticipated negligible impact of IFRS adoption on foreign ASX listed firms as such firms were able to apply IFRS prior to 2005. Consistent with both the ASX and Australian Securities and Investments Commission (ASIC) definitions, Australian companies were defined as those companies formed or incorporated in Australia.

[v] Some have attributed this unwillingness of developed nations to accept IFRS to nationalism (see for example, Stamp, 1972; Doost & Ligon, 1986; Wolk & Heaston, 1992).

[vi] The BEL-20 contains the twenty most actively traded stocks listed on the Brussels Stock Exchange.

Reference list

AAA 2000. "A Perspective on the SEC's Proposal to Accept Financial Statements Prepared in Accordance with IFRS without Reconciliation to US GAAP", *Accounting Horizons,* Vol 22 No 2, pp. 241-248.

Agars, P. 1996. "Keeping a Global Balance from Down Under", *Accounting Forum*, Vol 19 No 2, pp. 361-372.

Ahearne, A.G., Griever, W.L. & Warnock, F.E. 2004. "Information Costs and Home Bias: An Analysis of US Holdings of Foreign Equities", *Journal of International Economics*, Vol 62 No 2, pp. 313-336.

Ashbaugh, H. & Pincus, M. 2001. "Domestic accounting standards, International Accounting Standards, and the Predictability of Earnings", *Journal of Accounting Research*, Vol 39 No 3, pp. 417-434.

Brown, P. & Tarca, A. 2001. "Politics, Processes and the Future of Australian Accounting Standards", *Abacus*, Vol 37 No 3, pp. 267-296.

Chamisa, E. 2000. "The Relevance and Observance of the IASC Standards in Developing Countries and the Particular Case of Zimbabwe", *The International Journal of Accounting*, Vol 35 No 2, pp. 267-286.

Collett, P., Godfrey, J. & Hrasky, S. 1998. "Standard-Setting in Australia: Implications of Recent Radical Reform Proposals", *Australian Accounting Review*, Vol 8 No 2, pp. 9-17.

Covrig, V., Defond, M. & Hung, M. 2007. "Home Bias, Foreign Mutual Fund Holdings, and the Voluntary Adoption of International Accounting Standards", *Journal of Accounting Research*, Vol 45 No 1, pp. 41-70.

Cuijpers, R. & Buijink, W. 2005. "Voluntary Adoption of Non-local GAAP in the European Union: A Study of Determinants and Consequences", *European Accounting Review*, Vol 14 No 3, pp. 487-524.

Curran, B. 1996. A comparative Study of Australian & International Accounting Standards, Coopers & Lybrand, Sydney, NSW.

Daske, H. & Gerbhardt, G. 2006. "International Financial Reporting Standards and Experts' Perceptions of Disclosure Quality", *ABACUS*, Vol 42 No 3/4, pp. 461-498.

Deegan, C. 2005. Australian Financial Accounting, 4th edn, McGraw-Hill, North Ryde, NSW.

Deloitte Touche Tohmatsu 2004. "Differences between current Australian GAAP and equivalents to IFRS", available at: http://www.iasplus.com/au/0408differences.pdf (accessed 26 May 2005).

Deloitte Touche Tohmatsu 2005. "A-IFRS vs IFRS: Differences between Australian equivalents to IFRS (AIFRS) and IFRS", available at: http://www.iasplus.com/au/0509differences.pdf (accessed 15 July 2006).

Doost, R. & Ligon, K. 1986. "How US and European Accounting Practices Differ", *Management Accounting*, Vol 68, pp. 38-41.

Dunk, A. & Kilgore, A. 1999. "IASC Harmonisation: One step forward, two steps back?", *Australian CPA*, March, pp. 36-38.

Ernst and Young 2005. “The Impacts of AIFRS on Australian Companies: A study of the financial statement disclosures by Australia’s Top 100 listed companies”, available at: http://www.ey.com/global/download.nsf/Australia/AABS_-_TCG_Report/$file/TCG_8-12-05.pdf (accessed 15 February 2006).

FRC 2002. “FRC Bulletin 4-3 July: Adoption of International Accounting Standards by 2005”, available at: http://www.frc.gov.au/bulletins/(2002)/04.asp (accessed 15 January 2003).

Garrido, P., Leon, A. & Zorio, A. 2002. “Measurement of Formal Harmonisation Progress: The IASC Experience”, *The International Journal of Accounting*, Vol 37, pp. 1-26.

Godfrey, J. & Langfield-Smith, A. 2005. “Regulatory capture in the globalisation of accounting standards”, *Environment and Planning*, Vol 37, pp. 1975-1993.

Gray, S. 1988. “Towards a theory of cultural influence on the development of accounting systems internationally”, *Abacus*, Vol 24 No 1, pp. 1-15.

Haswell, S. 2006. “Over-Complexity in Accounting Standards and the Emerging Duopoly of US GAAP and IFRS”, *Australian Accounting Review*, Vol 16 No 1, pp. 49-59.

Haswell, S. & Langfield-Smith, I. 2008. “Fifty-Seven Serious Defects in 'Australian' IFRS”, *Australian Accounting Review*, Vol 18 No 4, pp. 46-62.

Haswell, S. & McKinnon, J. 2003. “IASB Standards for Australia by 2005: Catapult or Trojan Horse?”, *Australian Accounting Review*, Vol 13 No 1, pp. 8-16.

Hope, O., Jin, J. & Kang, T. 2006. “Empirical Evidence on Jurisdictions that Adopt IFRS”, *Journal of International Accounting Research*, Vol 5 No 2, pp. 1-20.

Humphry, R. 1997. “The Competitive Imperative of Harmonisation with International Accounting Standards”, *Australian Accounting Review*, Vol 7 No 2, pp. 27-29.

Jermakowicz, E. 2004. “Effects of Adoption of International Financial Reporting Standards in Belgium: The Evidence from BEL-20 Companies”, *Accounting in Europe*, Vol 1 No 1, pp. 51-70.

Jones, S. & Higgins, A. 2006. “Australia's switch to international financial reporting standards: a perspective from account preparers”, *Accounting and Finance*, Vol 46 No 4, pp. 629-652.

Jones, S. & Wolnizer, P. 2003. “Harmonisation and the Conceptual Framework: An International Perspective”, *Abacus*, Vol 39 No 3, pp. 375-387.

Jubb, C. 2005. “Transition to IFRS: Listed Companies’ Expected Accounting Policy Impacts as Revealed by AASB 1047 Disclosures”, available at: http://www.icaa.org.au/upload/download/AEIFRStudy2.pdf, (accessed 15 September 2005).

Lehman, G. 2005. “A critical perspective on the harmonisation of accounting in a globalising world”, *Critical Perspectives on Accounting*, Vol 16, pp. 975-992.

Leuz, C. & Verrecchia, T. 2000. “The Economic Consequences of Increased Disclosure”, *Journal of Accounting Research*, Vol 38 No 3, pp. 91-124.

Murphy, A. 2000. “The Impact of Adopting International Accounting Standards on the Harmonisation of Accounting Practices”, *The International Journal of Accounting*, Vol 35 No 4, pp. 471-493.

Parker, R. & Morris, R. 2001. “The Influence of US GAAP on the Harmony of Accounting Measurement Policies of Large Companies in the UK and Australia”, *Abacus,* Vol 37 No 3, pp. 297-328.

Pawsey, N. 2008. “IFRS Adoption: Costs and Benefits for Large, Listed Australian Companies”, paper presented at the Global Accounting and Organisational Change Conference, 9-11 July, Melbourne, VIC.

Roberts, E. 1999. “In defence of the survey method: An illustration from a study of user information satisfaction”, *Accounting and Finance*, Vol 39 No 1, pp. 53-77.

Sharpe, M. 1999. “Is Australia Moving Too Far Ahead of the United States in the Convergence to International Accounting Standards?”, *Australian Accounting Review*, Vol 9 No 3, pp. 69-72.

Stamp, E. 1972. “Uniformity in International Accounting Standards?”, *Journal of Accountancy*, April, pp. 64-67.

Sucher, P. & Jindrichosvska, I. 2004. “Implementing IFRS: A Case Study of the Czech Republic”, *Accounting in Europe*, Vol 1 No 1, pp. 109-141.

Warrell, C. 1999. “Harmonisation and proposed standard-setting reforms”, *Accounting Forum*, Vol 23 No 3, pp. 307-316.

Whittington, G. 2005. “The Adoption of International Accounting Standards in the European Union”, *European Accounting Review*, Vol 14 No 1, pp. 127-153.

Wines, G. 1989. “The Influence of Cultural Factors on the Development of Australian Accounting Principles”, *Accounting Forum*, Vol 13 No 3, pp. 3-15.

Wolk, H. & Heaston, P. 1992. “Toward the Harmonisation of Accounting Standards: An Analytical Framework”, *The International Journal of Accounting*, Vol 27, pp. 95-111.

Young, D. & Guenther, D.A. 2003. “Financial Reporting Environments and International Capital Mobility”, *Journal of Accounting Research*, Vol 41 No 3, pp. 553-579.

Zeff, S. 1998. “An American View on CLERP”, *Australian Accounting Review*, Vol 8 No 2, pp. 3-8.

Zeff, S. 2007. “Some obstacles in to global financial reporting comparability and convergence at a high level of quality”, *The British Accounting Review*, Vol 39, pp. 290-302.

Appendix 1 Summary of Key Standards Referred to in Paper

AASB Standard	Standard Name	IASB Equivalent
AASB 2	Share-based Payment	IFRS 1
AASB 3	Business Combinations	IFRS 3
AASB 4	Insurance Contracts	IFRS 4
AASB 5	Non-current Assets Held for Sale and Discontinued Operations	IFRS 5
AASB 6	Exploration for and Evaluation of Mineral Resources	IFRS 6
AASB 101	Presentation of Financial Statements	IAS 1
AASB 111	Construction Contracts	IAS 11
AASB 112	Income Taxes	IAS 12
AASB 116	Property, Plant and Equipment	IAS 16
AASB 117	Leases	IAS 17
AASB 119	Employee Benefits	IAS 19
AASB 120	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20
AASB 121	The Effects of Changes in Foreign Exchange Rates	IAS 21
AASB 124	Related Party Disclosures	IAS 24
AASB 127	Consolidated and Separate Financial Statements	IAS 27
AASB 131	Interests in Joint Ventures	IAS 31
AASB 132	Financial Instruments: Presentation	IAS 32
AASB 133	Earnings per Share	IAS 33
AASB 136	Impairment of Assets	IAS 36
AASB 137	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
AASB 138	Intangible Assets	IAS 38
AASB 139	Financial Instruments: Recognition and Measurement	IAS 39