IFRS Adoption: Costs and Benefits for Large, Listed Australian Companies[†]

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Abstract
The relevant academic and professional accounting literature contains a large amount of anecdote and conjecture concerning the potential costs and benefits of IFRS adoption for companies. This research paper documents the results of a survey aimed at exploring this anecdote and conjecture from the perspective of large, listed Australian companies. The survey was completed by CFO's from the Top 400 ASX listed Australian companies in late 2005/early 2006 as most firms were winding up their IFRS conversion projects. Some 107 (27.79%) useable responses to the survey were received.

The large majority of respondents agreed that IFRS adoption had involved considerable cost for their firms. Despite this, only a limited number of respondents perceived that their firms would receive any significant benefits and would be cost-beneficial. Those critical of IFRS adoption, highlighted the increased complexity and uncertainty associated with financial reporting; questioned the underlying need for adoption given their firms lack of international exposure and investor satisfaction with existing standards; questioned the underlying drivers of IFRS adoption; and criticised the regulatory bodies for failing to consult with the business community in the lead up to the decision to adopt IFRS. The contributions of this study to the international accounting literature are particularly significant given the increasing number countries moving to adopt IFRS, despite the lack of prior research exploring the perceived costs and benefits of such moves for firms.

Keywords
Chief Financial Officers; Globalisation; IFRS Adoption; International Accounting; Listed Australian Companies; Surveys.

1. Introduction

Following concerns about the potential negative impact of accounting diversity on corporate international business activities, Australia, following the lead of the European Union (EU), committed itself to the adoption of International Financial Reporting Standards (IFRS) in July 2002 (see FRC, 2002). The decision, which took effect in January 2005, resulted in a number of fundamental changes in the way Australian financial statements are presented and potentially significant conversion costs for affected companies. Despite the potential costs, the adoption of IFRS was largely held as being cost-beneficial because it was felt that these transition costs would be more than offset by the significant benefits of adoption. Overall, the proponents of IFRS adoption have asserted that diversity in accounting standards has been a significant barrier to international business activities and the adoption of IFRS will provide further impetus for the global business trend.

Evidence concerning these potential costs and benefits of IFRS adoption for companies can be derived from five chief sources. These include (i) reviews of the apparent and perceived barriers to foreign stock exchange listings; (ii) survey research with company executives; (iii) research into the apparent impacts of accounting diversity on investor decisions; (iv) reviews of the level of voluntary adoption of IFRS amongst firms; and (v) reviews of the impact of IFRS adoption on financial statements. While such evidence has provided a number of insights into the different aspects of the IFRS debate, there is a general lack of evidence regarding the costs and benefits of IFRS adoption for companies.

This research paper documents the results of survey aimed at exploring the anecdote and conjecture concerning the desirability of IFRS adoption from the perspective of large, listed Australian companies. The survey was completed by Chief Financial Officer's (CFO's) from the Top 400 Australian Stock Exchange (ASX) listed Australian companies[1] in late 2005 / early 2006 as most firms were winding up their conversion activities. Some 107 (27.70%) useable survey responses were received. Australian firms were chosen as the focus for the study because of the anticipated negligible impact of IFRS adoption on foreign ASX listed firms[2]. The principal research questions explored in this study are identified below.

Assuming IFRS become accepted internationally:

Research Question 1: What are the perceived benefits of IFRS adoption by large Australian companies and how significant are those perceived benefits?

Research Question 2: What are the perceived costs of IFRS adoption by large Australian companies and how significant are those perceived costs?

Research Question 3: Overall, is the adoption of IFRS perceived to be cost-beneficial by large Australian companies?

Research Question 4: Which factors (i.e. industry, size, and level of international business activity) can explain company perceptions towards the costs and benefits of IFRS adoption?

Amongst survey respondents, there was a general consensus that IFRS adoption had resulted in significant costs for their firms. Costs were, in particular, attributed to ensuring comparative and opening balance figures were in compliance with IFRS, staff training and development, and additional work in future years because of the complexity of IFRS. Despite these costs, very few respondents identified that IFRS adoption had resulted in any meaningful benefits and the large majority of respondents perceived that IFRS adoption

would not be cost-beneficial for their firms. Those critical of IFRS adoption cited the increased complexity and uncertainty associated with financial reporting; questioned the underlying need for IFRS given their firms lack of international exposure and investor satisfaction with existing Australian standards; questioned the underlying drivers of IFRS adoption; and criticised the regulatory bodies for failing to consult with the business community prior to the finalisation of the decision to adopt IFRS. These results are particularly relevant given the lack of prior research exploring the perceived costs and benefits of IFRS adoption.

This paper adopts a five section structure. Section Two reviews the relevant international accounting literature, discussing the environmental relativity of accounting standards, the moves to adopt IFRS and the potential costs and benefits of such moves for companies. Section Two concludes with an examination of the various sources of evidence available in support of the anecdote and conjecture concerning the costs and benefits of IFRS adoption. Section Three outlines the methodology used for the purposes of the study and, in particular, the development and administration of the survey. 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

2.1. Introduction

Traditionally, different countries have developed their own unique accounting standards with different prescribed bases of measurement, disclosure requirements, financial statement formats and account recognition criteria (Lawson, 1992). In attempting to explain this diversity, the environmental relativity of accounting standards has been highlighted. Accounting standards are a "product of [their] environment" (Mathews and Perera, 1996, p.221), having evolved to meet needs of the various taxation, business, economic, inflationary, legal, political, educational, and cultural environments in which they are applied (Perera 1994; Choi, Frost and Meek 2002; Nobes and Parker 2002; Radebaugh, Gray and Black 2006). While the relationship of many environmental factors on accounting standards have been examined, research has frequently used the Hofstede-Gray framework (Hofstede, 1984; Gray, 1988) to explore the potential influence of culture [3].

Following the accelerated globalisation trend of recent decades, through the mechanisms of the International Accounting Standards Board (IASB), there has been growing momentum to develop a single set of International Accounting Standards (IAS) (Murphy, 2000; Garrido, Leon and Zorio, 2002; Lehman, 2005; Daske and Gerbhardt, 2006). Calls to develop a body of IAS are not new, with Gbenedio, Benson and Omolehinwa (1998) and Shrives (1998) identifying that discussions about the possibility of developing IAS were first held in St. Louis, Missouri, in 1904. As of 1 January 2008, along with its *Framework for the Preparation of Financial Statements*, the IASB had 37 accounting standards – eight IFRS and 29 IAS)[4].

Throughout their history, IFRS have been used in a variety of ways. Kropp and Johnston (1996), Pacter (1998) and Sharpe (1999) discuss how IFRS have been adopted or adapted by domestic accounting standard setters; referred to by domestic standard setters when developing their own standards; accepted by regulatory agencies as an alternative to domestic accounting standards; and voluntarily adopted by companies. While developing nations have historically been strong supporters of the IASB (Agars, 1996; Chamisa, 2000)[5], developed nations have been typically unwilling to accept changes to their domestic accounting

standards. In recent years, though, particularly 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". Appendix 1 summarises the use of IFRS at 1 January 2008 amongst the 40 most developed nations by Gross Domestic Product (GDP) using information provided by Central Intelligence Agency (CIA) (CIA, 2007) and Deloitte Touche Tohmatsu (2008). Notably, of the 30 countries for which information on the use of IFRS was available, only three (10%) ruled out the use of IFRS entirely.

In 1996, the Australian Accounting Standards Board (AASB) began a process of harmonisation with IFRS. In doing so, it was regarded the first major standard setter to commit to a formal harmonisation program (Humphry, 1997; Collett, Godfrey and Hrasky, 1998; Sharpe, 1999; Parker and Morris, 2001). Despite the initial concerns about the verbatim adoption of IFRS in the late 1990's (see for example, Collett *et al.,* 1998; Zeff, 1998; Dunk and Kilgore, 1999; Warrell, 1999; Brown and 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).

There are many potential benefits of IFRS adoption for companies. Overall, it is felt that IFRS adoption will create significant cost savings and efficiency improvements for companies and provide further impetus for the global business trend (see for example, Longstreth, 1994; Joshi, 1998; Murphy, 2000; Brown and Tarca, 2001; Garrido *et al.*, 2002). As Warrell (1999, p.307) summarised:

> Capital markets have already become international: the basis for reporting to them has not. As a result, the efficiency of the international trade market is impaired and the lack of comparability of information available discourages the level of participation which is necessary for the efficient allocation of resources in the world economy.

Not everyone, however, is convinced of the desirability of IFRS adoption. Those critical of IFRS adoption have cited the potentially significant transition costs and argued that companies are able to cope with diversity in accounting standards. Such sentiments are typified by Choi and Levich (1991, p.2):

> Some might take the case for accounting harmony to be irrefutable. Like apple pie and motherhood, harmony and coordination of national accounting policies, they argue, can only promote economic welfare … this view does, however, miss several critical points.

These arguments for and against the adoption of IFRS are explored in the following sections.

2.3. The potential benefits associated with IFRS adoption

One aspect of the globalisation trend has been an increase in the number of companies listing on foreign stock exchanges[6]. The potential benefits of such listings are widely documented (see for example, Biddle and Saudagaran, 1991; Bancel and Mittoo, 2001; Yamori and Baba, 2001; Houston and Jones, 2002). Tarca (1997) (cited in Brown and Howieson, 1998), in analysing the reporting requirements of various international stock exchanges, observed that while some stock exchanges allow foreign companies to use their domestic accounting standards to meet reporting requirements, others are not so lenient. For example, while the London Stock Exchange (LSE) allows Australian firms to use Australian accounting

standards, those listed on the New York Stock Exchange (NYSE) are required to complete Form-20F reconciliation's to United States (US) Generally Accepted Accounting Principals (GAAP).

The process of preparing foreign GAAP reconciliations is frequently observed as potentially costly and confusing (see for example, Biddle and Saudagaran, 1989, 1992, 1995; Adhikari, Coffman and Tondkar, 1991; Gould, 1995; Lorena, 1996; Haller and Eierle, 2004; Jermakowicz, 2004). Biddle and Saudagaran (1991, p.72) offered the insights provided by a prominent investment banker who estimated that "the cost of converting to US accounting standards is at least $US1 Million for a Japanese or British company". Collett *et al.* (1998) and Howieson (1998) noted that the potential benefits from the elimination of the need to prepare foreign GAAP reconciliations are widely raised by the proponents of IFRS adoption.

In contrast to these arguments, many have held that companies only need to deal with a small number of differences when preparing foreign GAAP reconciliations and that these differences are easily handled (Bhushan and Lessard, 1992; Anderson, 1993; Gould, 1995; Collett *et al.*, 1998; Sharpe, 1999). Others have identified numerous other foreign stock exchange listing barriers[7] that would not automatically disappear following the adoption of IFRS and which may be more significant to listing decisions (Ngassam, 2001; Tarca, 2002). In any case, Howieson (1998, p.7), observed that $US1 Million for the preparation of a foreign GAAP reconciliation "may be close to immaterial for many major multinational corporations".

Proponents of IFRS adoption hold that diversity in accounting standards creates uncertainty for investors as they attempt to evaluate and compare financial statements prepared under different accounting standards. Pacter (1998, p.14), for instance, commented that differences in accounting standards can "completely obscure comparisons of equity values between countries, between sectors, even between companies in the same industry". While investors might acquire the necessary skills to evaluate financial statements prepared under different accounting standards, this is not without potential cost (Howieson, 1998). This uncertainty and confusion and need to acquire knowledge of multiple sets of accounting standards may result in investors being less willing to invest in foreign companies[8]. Alternatively, if they are going to invest, they may require a higher rate of return. Companies might also need to devote resources to familiarising foreign investors with their accounting standards (Longstreth, 1994; Roach, 1996; Murphy, 2000; Glaum, 2000; Bradshaw, Bushee and Miller, 2003).

Just as some have argued that the need to prepare foreign GAAP reconciliations is not a significant burden, it has been suggested that diversity in accounting standards does not impede investor decisions (see for example, Goeltz, 1991; Tang, 1994; Brown and Clinch, 1998; Howieson, 1998; Joshi, 1998). Investors may have become accustomed to dealing with diversity and, after factoring in the diversity, are able to comprehend the economic substance of a firm's transactions (Goeltz, 1991; Brown and Clinch, 1998; Howieson, 1998; Pacter 1998). A chief assumption associated with the realisation of benefits from IFRS adoption for investors is that the move will involve gravitating towards the accounting standards of the highest quality. This assumption has also been frequently challenged and as Daske and Gerbhardt (2006, p.462) argued, "there is still considerable debate about the expected quality of financial statements prepared under IFRS". Among other things, IFRS have been described as being written based upon an international compromise, allowing too many options, less rigorous than other accounting standards, overly reliant on historical cost accounting, overly

complicated, internally inconsistent, and as lacking sufficient implementation guidance (see for example, Carlson, 1997; Humphry, 1997; Collett *et al.,* 1998; Saudagaran and Diga, 1998; Warrell, 1999; Jones and Wolnizer, 2003).

Beyond listing on foreign stock exchanges and selling their shares to foreign investors, there are many other ways in which companies have become increasingly exposed to international business activities. They, themselves, have been investing in foreign companies and obtaining control of foreign subsidiaries[9]. They have been forming partnerships with foreign companies, using overseas suppliers and service providers, and selling their own products and services to overseas customers. Should an investment in a foreign company result in the formation of a parent-subsidiary relationship, the subsidiary would likely continue their local accounting standards (Holtzblatt and Fox, 1983; Twist, 1986; Walton, 1992). Because of diversity in accounting standards, these financial statements are likely to be inconsistent with those of the parent, requiring potentially time consuming adjustments on consolidation[10](Walton, 1992; Agars, 1996; Joshi, 1998). Divergent parent-subsidiary reporting might also complicate resource allocation and management compensation decisions (Holtzblatt and Fox, 1983). In regards to relationships with foreign suppliers, Walton (1992) questioned how a firm could evaluate the appropriateness of a foreign supplier for a long-term contract if the supplier prepared accounts in accordance with unfamiliar accounting standards. Anderson (1993), Hamilton (1998) and Humphry (1997) further identified the potential problems diversity in accounting standards could create in the establishment of joint venture partnerships with foreign companies or in the management of foreign client debts.

2.4. The potential costs associated with IFRS adoption

Despite Australia's harmonisation policy since the mid 1990's, the FRC's decision to adopt IFRS by 2005 resulted in a number of significant changes to Australia's accounting standards[11]. While these changes are likely to have both positive and negative impacts on a firm's apparent financial position and performance, to the extent that financial statement ratios and bank covenants are adversely affected or that new relevant information is disclosed, the ability of firms to obtain finance could be affected (Picker, 1998, 2003; Tower, Hancock and Taplin, 1999; Buffini and Fenton-Jones, 2004). There could also be a potential share price impact should a firm's retained earnings balances fall and its ability to pay dividends be restricted (Tabakoff, 1999; Picker, 2003; Ravlic, 2003b; Buffini and Fenton-Jones, 2004; Kohler, 2004).

Probably the most obvious work required by IFRS conversion will be associated with ensuring comparative and opening balances are in compliance with IFRS (Ravlic, 2002). The preparation of these balances is likely to consume significant staff time and firms may need to employ additional staff to help with the additional workload. Firms may also need to obtain outside technical advice on areas of uncertainty. Such costs are likely to be ongoing because of the complexity of IFRS in comparison with prior standards (Warrell, 1999; Ravlic, 2003a). Should budgets and performance evaluation measures be reliant on financial accounting information, firms will also need to consider the potential impacts of IFRS adoption on their management accounting systems (Walters, 2003; Williamson, 2003).

To enable their employees to operate under the new standards, companies may need to devote significant resources to staff training (Macek, 2003; Gerhardy, 2004; Haller and Eierle, 2004). These costs could include the cost of sending staff to workshops, acquiring and distributing IFRS training material, or obtaining the services of consultants to provide in-house training. Also in relation to staff training and development, Haller and Eierle (2004) commented that

the lack of expertise of accountants in applying IFRS could reduce the quality of accounting information in the first few IFRS reporting periods. Beyond ensuring their employees are capable of applying the new standards, companies may need to upgrade their AIS hardware, software and protocols to ensure that they are capable of handling the changed reporting requirements (Buffini, 2002a; Alfredson, 2003; Macek, 2003; Walters, 2003; Gerhardy, 2004).

Companies may also need to devote significant resources to financial statement user education. This education would enable investors and creditors to distinguish changes in a firm's financial statements caused by IFRS adoption from those caused by ordinary business fluctuations (Buffini, 2002a; Holgate and Gaull, 2002; Walters, 2003; Williamson, 2003; Gerhardy, 2004). Holgate and Gaull (2002) and Buffini (2002b) stressed that ensuring financial statement users are briefed on the impacts of IFRS is important to ensure that the market is not surprised following the release of the first IFRS compliant accounts.

It may be that the costs associated with converting to IFRS, as with other information processing costs, have a fixed component with large firms being able to spread this fixed component over more units. Thus, the costs of IFRS adoption are likely to impose a larger relative burden on small firms (Kirby, 2001; Cuijpers, Buijink and Maijoor, 2002; Haswell and McKinnon, 2003; Howieson and Langfield-Smith, 2003; Haller and Eierle, 2004). Smaller firms are also unlikely to have significant exposure to international business activities and would therefore be unlikely to receive any benefits against which to offset these costs.

2.5. Further concerns about IFRS adoption

A number of other concerns regarding IFRS adoption have been identified. Some have questioned the applicability of IFRS in all environments and whether IFRS adoption will produce harmonised accounting practices. Others have asserted that it is still premature to adopt IFRS and that the verbatim adoption of IFRS is inappropriate. Others still, have discussed the potential problems created as countries scale back their domestic standards setters. These other concerns will now be explored.

Given the different environments in which accounting standards have evolved, the appropriateness for all countries to adopt IFRS has been widely debated. It may be that financial statement users of companies operating in environments in which IFRS were not suited would be provided with information that was not relevant or reliable (Cochrane, 1992; Agars, 1996; Shrives, 1998; Tarca, 1998; Parker and Morris, 2001; Doupnik and Tsakumis, 2004). This issue has been widely discussed in relation to developing nations (see for example, Perera, 1989; Hove, 1990; Larson and Kenny, 1998; Nobes, 1998; Mir and Rahaman, 2005). Furthermore, should the other reasons for diversity in accounting practices – beyond accounting standards diversity – be ignored, the use of similar accounting standards by firms from different environments may produce a false sense of comparability (Choi, 1989; Cochrane, 1992; Walton, 1992; Joshi, 1998). Support for such arguments is provided by research conducted by Choi *et al.* (1983) and Lessard (1990, cited in Longstreth, 1994).

While formal harmonisation – harmonisation of standards – will be an important factor in efforts to achieve material harmonisation – harmonisation of accounting practices – achieving formal harmonisation alone will not be enough to ensure material harmonisation (Tay and Parker, 1990; Tarca, 1998; Garrido *et al.,* 2002). Specifically, formal harmonisation will be pointless unless the harmonised standards are enforced and audited consistently, allow little room for choice and professional judgement, and are applied by accountants trained and

educated to a consistent level (Collett *et al.,* 1998; Sharpe, 1998; Tarca, 1998; Tower *et al.,* 1999; Brown and Tarca, 2005, 2007). In relation to the international consistency of enforcement mechanisms, Brown and Tarca (2005) highlighted that diversity in financial regulation will challenge the effectiveness of IFRS enforcement in Europe. Also in relation to Europe, Vellam (2004) discussed the results of interviews with accountants from seven listed Polish companies in relation to the implementation of IFRS. The ability of respondents to apply IFRS confidently was questioned given that many of them had been trained under the communist regime. The quality of audits of financial information was also questioned, with Vellam (2004, p. 159) commenting that interviewees indicated that auditors "largely [endorse] the information produced by accountants rather than [engage] in any meaningful discussions". Evans (2004, p. 210) further discussed the potential for misinterpretation as a single set of accounting standards are translated into multiple languages:

> Full equivalence in translation is rare… the risk of misunderstanding is exacerbated when technical terms are translated into another language. If international negotiators and national implementers wrongly believe that their understanding of an accounting or legal term is equivalent to the way it is understood in locations with different languages and cultures, and if the language and terminology used indeed affect the way we think, international and / or standardisation of financial reporting will be severely hindered.

In exploring these concerns, several studies have examined the level of material harmonisation with IFRS or US GAAP following their acceptance (see for example, Tower *et al.*, 1999; Murphy, 2000; Bradshaw and Miller, 2008). The results of such studies have largely been indifferent.

The full adoption of IFRS has been described as premature given that IFRS are currently undergoing significant changes and have not been finalised (Larson and Street, 2004); that tax authorities will most likely not accept tax returns prepared under IFRS (Falloon, 1998); and the prior reluctance of the US to accepted IFRS for either its domestic firms or for use by foreign listed entities (Warrell, 1999; Heathcote, 2002; Stensholt, 2003). Others have questioned the verbatim adoption of IFRS, despite a particular IFRS or part of an IFRS not being up to the level of a country's existing accounting standards (Sharpe, 1999; Warrell, 1999).

Concerns have also been raised about the potential scaling back of domestic standard setters following the adoption of IFRS. Some of these concerns have included that opportunities for innovation and research could be lost and the diversity of ideas and inputs in the development of IFRS reduced. Countries would also potentially lose a powerful mechanism of expressing their needs and views in the development of IFRS (Humphry, 1997; Brown and Tarca, 2001; Howieson and Langfield-Smith, 2003; Gerhardy, 2004; De Lange and Howieson, 2004). In addition to cost savings associated with the maintenance of their own standard setting bureaucracies, the adoption of IFRS may enable governments to distance themselves from the accounting profession. This ability is seen as being particularly attractive in the event of criticism of the accounting profession following any significant corporate collapse. Thus, governments may have a vested interested in pursuing IFRS adoption (Haswell and McKinnon, 2003; Howieson and Langfield-Smith, 2003).

2.6. Conclusion

A number of sources of evidence concerning the potential costs and benefits of IFRS adoption are available. These sources of evidence, along with their contributions and findings, are examined in Pawsey (2008) and summarised in Appendix 2. While there is a wide variety of

evidence, overall, it is impossible to reach any definitive conclusions on the costs and benefits of IFRS adoption for companies. As the following quotes typify, this conclusion is well supported and has been repeated continuously throughout the IFRS adoption and harmonisation:

> In the absence of evidence bearing on the economic effects of such differences, however, the quest for global accounting uniformity would appear premature. What is needed is research aimed at identifying whether differences in national accounting treatments, as well as accounting changes, do indeed affect economic decisions… the issue of international accounting and reporting standards is in dire need of research attention (Choi, 1989, p.106).

> The economic consequences of a lack of harmonisation have not been well researched, documented and understood… the cost of restating financial statements to meet the accounting requirements of regulators and lenders in other countries is uncalculated (Agars, 1991, pp.4-5).

> The evidence in favour of harmonisation is not yet in… Substantially more research is needed if the harmonisation debate is to progress toward more certain outcomes (Brown and Clinch, 1998, p. 27).

> The governments reform thrust appears to be motivated almost entirely by anecdotal evidence… a case for reform has not been developed rigorously or systematically… there is a lack of evidence indicating how costly the accounting conversions are at present for firms seeking to list overseas… Similarly, there is no evidence to indicate that capital flows to Australia would be facilitated (Collett *et al.,* 1998, p.10/13).

> The purported benefits of pursuing accounting harmonisation … are not as manifest as most of the normative and policy orientated accounting literature would assume … the evidence supporting these supposed benefits is, at best, scanty and incomplete (Saudagaran and Diga, 1998, p.25).

> …the specific costs and benefits associated with firms' voluntary adoptions of IAS remain unclear (Ashbaugh and Pincus, 2001, p.418).

3. Methodology

In an attempt to address this knowledge gap regarding the potential costs and benefits of IFRS adoption for firms, a survey was developed and administered. Following a pre-test phase, the questionnaire was initially distributed to company CFO's from the Top 400 ASX listed Australian companies in October 2005[13]. In an attempt to enhance the overall response rate, two follow-up reminders were mailed to research participants during November and December 2005. The survey captured both qualitative and quantitative data and questions appearing in the in survey were developed based on an analysis of the key themes identified in the Section 2. A copy of questions appearing in the survey is provided in Appendix 3.

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. The descriptive statistics relating to the closed-ended survey items are presented in Appendix 4. Each respondent was given a unique identifier (eg. R1, R75) and these identifiers are used in the discussion of the results of the data analysis. The qualitative data analysis primarily involved working through the open-ended responses attempting to identify common themes and patterns. Where some insights on an issue were provided by prior literature, these insights were used in the development of an initial coding scheme. The coding scheme was expanded as new, unexpected, themes emerged (see, Miles and Huberman, 1994; Cavana, Delahaye and Sekaran, 2001; Patton, 2002).

4. Results

4.1. Respondent characteristics

In total, 107 useable responses were received, producing a usable response rate of 27.79%[14]. The majority of respondents (61.32%) were either their company's CFO or Deputy CFO or their company's Financial Controller or Manager. The respondent company industry and industry sector breakdowns are presented in Tables 4.1 and 4.2. Table 4.3 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 breakdown

Industry (n 107)	Frequency	Percentage
Energy, utilities and mining	23	21.50%
Finance, insurance and real estate	22	20.56%
Manufacturing and construction	18	16.82%
Business / Consumer Services	15	14.02%
Information technology, telecommunications and media	8	7.48%
Retail Trade	8	7.48%
Other[15]	13	12.15%

Table 4.2 Respondent industry sector breakdown

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

Table 4.3 Respondent company size

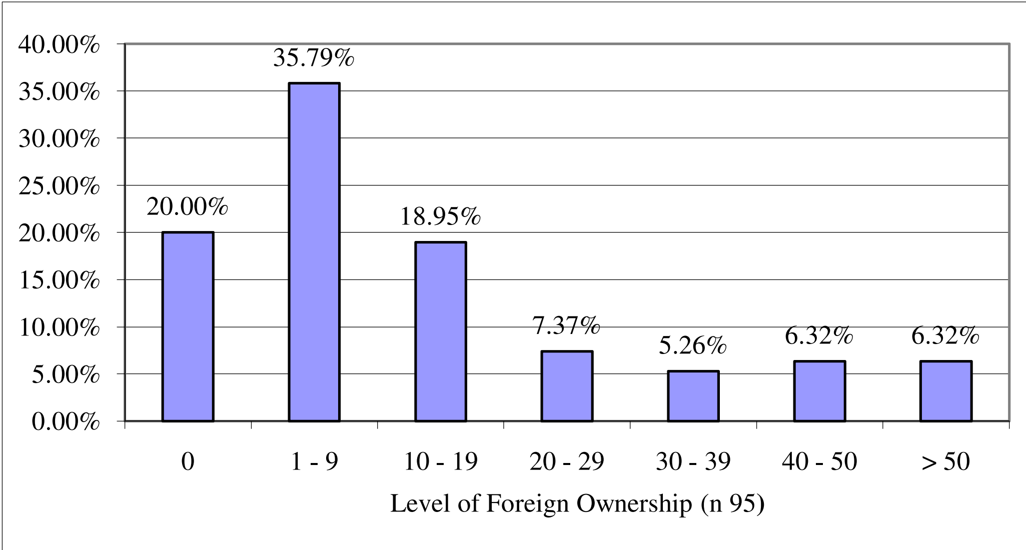
	n	Min.	Max.	*Median* (Q^2)	$\bar{x}$	SD
Sales turnover ($000)	106	3,000	12,000,000	355,000	1,240,107	2,119,391
Total employees	106	6	38,000	905	3,322	6,256
Accounting personnel	105	1	700	15	59	106

The results of survey items pertaining to the level of involvement of the respondent companies in various international business activities are identified in Table 4.4. While only 5.61% and 11.21% of respondents were controlled by a foreign parent and listed on foreign stock exchanges, over 30% of respondents raised debt outside of Australia (37.38%) and were involved in business partnerships with foreign companies (39.25%). Furthermore, the majority of respondent firms were involved in investment in foreign companies (53.27%) and controlled foreign subsidiaries (66.36%). Respondents were also asked to indicate the estimated percentage of their firms' shares owned by foreign investors. As presented in Figure 4.1, just under a majority of firms (44.22%) had greater than 10% foreign ownership.

Table 4.4 Respondent company involvement in international business activities

Activity	n	Yes		No	
		Frequency	Percentage	Frequency	Percentage
Foreign parent	107	6	5.61%	101	94.39%
Investment in foreign companies	107	57	53.27%	50	46.73%
Debt finance raised outside of Australia	107	40	37.38%	67	62.62%
Business partnerships with foreign companies	107	42	39.25%	65	60.75%
Foreign stock exchange listing	107	12	11.21%	95	88.79%
Foreign subsidiaries controlled	107	71	66.36%	36	33.64%

Figure 4.1 Level of foreign ownership



Of the 71 respondent companies which controlled foreign subsidiaries, most (84.50%) provided an estimate of the number of foreign subsidiaries controlled and the median number of subsidiaries controlled was five. Those which controlled foreign subsidiaries were further asked to describe the basis upon which such subsidiaries maintain their accounts. The majority of foreign subsidiaries (69.81%) maintained their accounts in accordance with their local accounting requirements. Only a limited number of respondents (20.75%) disclosed that their firms' foreign subsidiaries comply with Australian accounting standards and three (5.66%) respondents noted that their firms' foreign subsidiaries complied simultaneously with both local and Australian accounting requirements.

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[16] for selected survey questions were conducted. As summarised in Appendix 5, no significant differences were detected with the characteristics of the respondents appearing reasonably consistent with those of the population.

4.2. The perceived benefits of IFRS adoption

Section B of the survey contained a range of closed and open-ended questions concerning the perceived benefits of IFRS adoption. Item 11(a) from Section D further prompted respondents to indicate their overall level of agreement to the statement that IFRS adoption would result in significant benefits for their firms. Responses were overwhelmingly negative with the majority of the medians for these items being below 4.00 (*Neutral*). Only 14.95% of respondents agreed that IFRS adoption had produced significant benefits for their firms.

In relation to foreign GAAP reconciliations, participants were prompted to indicate (i) whether their firms had prepared any foreign GAAP reconciliation's prior to 2005, and (ii) if possible, provide an estimate of the cost or time associated with their preparation. Approximately three quarters of respondent companies had prepared no foreign GAAP reconciliation's prior to 2005 (75.70%). Descriptive statistics regarding the estimated cost or time associated with the preparation of foreign GAAP reconciliations are identified in Table 4.5 with medians of $100,000 and 56.50 hours being identified. *T*-tests and Chi-square procedures failed to detect any significant association between the preparation of prior foreign GAAP reconciliation's and firm size (t 1.32, p 0.19), industry (X^2 4.31, df 6, p 0.64) or

industry sector (X^2 3.31, df 2, p 0.19). Chi-square procedures also failed to detect a significant relationship between the preparation of prior foreign GAAP reconciliation's and foreign stock exchange listings (X^2 0.60, df 1, p 0.44). A significant relationship was, however, detected between the preparation of foreign GAAP reconciliations and firm involvement in foreign debt rising (X^2 8.56, df 1, p 0.00).

Table 4.5 Foreign GAAP reconciliations: Estimated cost/time of preparation

Type of estimate	n	Min.	Max.	Q^2	$\bar{x}$	SD
Overall cost ($)	9	10,000	120,000	70,277.78	100,000	44,166.67
Total staff time (hours)	8	2.00	200.00	64.38	56.50	61.67

Survey item 1(a) prompted respondents to indicate their level of agreement to a statement that IFRS adoption would produce significant cost savings from the elimination of the need to prepare foreign GAAP reconciliations. Item 1(b) further captured respondent perceptions towards the position that IFRS adoption would significantly reduce management confusion as their firms would no longer need to simultaneously report in accordance with multiple sets of accounting standards. Respondents were generally negative towards both items 1(a) and 1(b) with these items achieving medians of 2.00 (Strongly Disagree) and 3.00 (Disagree), respectively, and only 7.90% and 19.18% agreeing with the statements.

A number of survey items – items 1(c), 1(d), 1(e), 1(f) and 1(m) – captured the perceptions of respondents towards the benefits IFRS adoption in relation to their firms investment in foreign entities and partnerships with foreign parents, subsidiaries and other business partners. Items 1(c), 1(d), 1(e) and 1(m) all received medians of 4.00 (Neutral). These items prompted respondents to indicate their level of agreement to statements that IFRS adoption would significantly improve their firms' ability to compare and evaluate foreign company financial statements, communicate and coordinate activities with a foreign parent or foreign subsidiaries, and establish and coordinate partnerships with foreign companies. Respondents were even less supportive of item 1(f) and the benefit of improved efficiency of the consolidation of foreign subsidiary accounts and achieved a median of 3.00 (Disagree). For only one of these items did the number of respondents in agreement outweigh those in disagreement to the item. The exception was item 1(c) with slightly more respondents agreeing (42.53%) than disagreeing (34.48%) that IFRS adoption would significantly improve their firms' ability to compare and evaluate foreign company financial statements. Despite these indifferent responses, the means for items 1(c) ($\bar{x}$ 3.77), 1(d) ($\bar{x}$ 3.59) and 1(e) ($\bar{x}$ 3.47) ranked inside the top five for all closed-ended benefit survey items. Thus, difficulties caused by international diversity in accounting associated with comparing and evaluating foreign company financial statements and coordinating activities with a potential foreign parent or foreign subsidiaries represented some of the most pressing issues for respondents.

The exposure of firms to foreign investors and creditors was identified in Table 4.4 and Figure 4.1. Approximately 40% of respondents were exposed to foreign creditors (37.38%) and had greater than 10% foreign ownership (44.22%). Survey item's 1(g), 1(h), 1(i), 1(j) and 1(k) captured data on perceptions towards the benefits of IFRS adoption associated with firm dealings with these and other foreign financial statement users. Medians of 4.00 (Neutral) were achieved for both items 1(g) and 1(h). These items related to respondent perceptions towards positions that IFRS adoption would significantly reduce confusion and uncertainty amongst their firms' foreign financial statement users and increase the perceived quality of financial statement amongst these users. While the means for 1(g) ($\bar{x}$ 3.57) and 1(h) ($\bar{x}$ 3.91) were both low, they ranked inside the top five of all benefit questionnaire items with item 1(h) ranking first. Furthermore, while more respondents disagreed (44.30%) than agreed (30.37%)

that IFRS adoption would significantly reduce confusion and uncertainty amongst foreign financial statement users, slightly more respondents agreed (37.65%) than disagreed (32.94%) that IFRS adoption would increase the perceived level of quality of their firms' financial statements amongst foreign financial statement users. A paired-sample *t*-test was used to further explore the difference between the responses to items 1(g) and 1(h). A significant difference was identified (t -3.18, p 0.00) suggesting that prior to the adoption of IFRS, foreign financial statement users were not so much confused and uncertain about Australian company financial statements ($\bar{x}$ 3.56) than they were unsure about the quality of the financial statements ($\bar{x}$ 3.94).

Questionnaire items 1(i), 1(j) and 1(k) prompted respondents to indicate their level of agreement to the positions that IFRS adoption would result in significant cost savings associated with dealing with foreign financial statement user queries, promote the demand for their firms' stock, and result in a decrease in their firms' cost of capital internationally. Consistent with the generally negative responses concerning the benefits associated with improved perceptions of financial statement users towards the quality of financial statements and reduced uncertainty and confusion amongst these users, low medians of 3.00 (Disagree) were achieved for items 1(i), 1(j) and 1(k). Only 12.94% and 16.13% of respondents were in agreement with items 1(i) and 1(j) that IFRS adoption would either result in significant cost savings associated with dealing with foreign financial statement user queries or promote the demand of their companies' stock internationally. Even less (4.49%), agreed with item 1(k) that IFRS adoption would reduce their firms' cost of capital.

Four survey items directly captured evidence on respondent perceptions towards the quality of IFRS in comparison with prior Australian rules. This included items 1(l) and 6(g) – which prompted respondents to identify their level of agreement to positions that either IFRS adoption had resulted in an improvement or decline in the quality of their firms' financial reporting – and items 3 and 8 – which asked respondents to identify specific standards they had felt had either been an improvement or decline in quality on existing standards. The means of 3.00 (*disagree*) and 4.00 (*neutral*) achieved on items 1(l) and 6(g) 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 items 1(l) and 6(g) (*t* -2.14, *p* 0.04). Respondents were more supportive of item 6(g) and the position that IFRS adoption has resulted in a decline in the quality of their firms' financial reporting ($\bar{x}$ 3.74) than for item 1(l) and that adoption has resulted in an improvement in the quality of their firms' financial reporting ($\bar{x}$ 3.24).

Some 37 (36.27%) respondents identified at least one specific standard/area to have improved in quality and 47 (47.00%) identified at least one specific standard/area to have declined in quality. A further eleven respondents, while not identifying a specific area to have declined in quality, provided generalist comments about how IFRS were more complex and time consuming to interpret and comply, lacked descriptive guidance and definitions, were inapplicable to their companies' 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.

Chi-square procedures failed to identify any significant relationship between the identification of a specific standard/area to have either improved or declined in quality according to company industry or industry sector. The specific standards identified by respondents as being either an improvement or decline in quality on existing standards are identified in Table 4.6. Notably, the five standards/areas most cited as being an improvement in quality – AASB 132 / 139, AASB 2, AASB 136, AASB 138 and AASB 137 – were also the five standards/areas most cited as being a decline in quality on existing accounting standards. Overall, it would seem that the adoption of IFRS has "solved some issues, [and] created issues in others" (R106).

Table 4.6 Specific standards to have improved or declined in quality

Area's of Improvement		Area's of Reduced Quality	
Standard / Area	Times Cited	Standard / Area	Times Cited
Financial instruments (i.e. AASB 132 /139)	13	Financial instruments (i.e. AASB 132 /139)	20
AASB 2	11	AASB 2	11
AASB 136	10	AASB 136	7
AASB 138	6	AASB 138	6
AASB 137	3	AASB 137	5
AASB 3	2	AASB 101	4
AASB 112	2	Extractive Industries	4
AASB 116	2	AASB 119	3
AASB 117	2	AASB 3	3
AASB 4	1	AASB 124	2
AASB 5	1	AASB 127	2
AASB 6	1	AASB 112	2
AASB 111	1	AASB 111	1
AASB 119	1	AASB 117	1
AASB 120	1	AASB 131	1
AASB 121	1	AASB 133	1

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 would bring consistency and improved the information available in areas which had not been adequately addressed in the past. For example, R141 commented that while AASB 132 and 139 were "complex, they [brought] standardisation to areas that were open to multiple treatments". In relation to AASB 138, R37 noted the "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.

Respondents who identified specific standards to have declined in quality were, at times, very passionate in their attitudes, describing the new standards as "byzantine" (R89), "nonsense" (R21), "ridiculous" (R104; R103), "illogical" (R129), and "a mess" (R113). Broad criticisms of the new standards included that they are overly complicated and confusing to both preparers and financial statement users, overly reliant on assumptions and approximations, less specific when compared to previous standards, overly restrictive or onerous, require more effort and time to apply, and/or produce misleading results that do not provide a true and fair view of a company's position and performance. As one respondent argued, they saw:

> … little benefit from IFRS, more confusion and misunderstanding from shareholders, and more importantly broking analysts don't understand it and think it is ridiculous (R104).

Further to exploring the benefits of IFRS adoption relating to their current involvement in international business activities, the survey captured data on whether IFRS adoption was likely to provide impetus for firms to become more involved in such activities. Specifically, items 1(n)(i), 1(n)(ii) and 1(n)(iii) prompted respondents to indicate their level of agreement with statements that IFRS adoption would provide impetus for their companies to become more involved in foreign stock exchange listings, invest in foreign companies and business partnerships with foreign companies. Respondents were generally negative about the prospect for IFRS adoption to encourage their firms to become more involved in these activities, with items 1(n)(i), 1(n)(ii) and 1(n)(iii) respectively achieving medians of 3.00 (*Disagree*), 3.50 (*Neutral*), and 4.00 (*Neutral*). Only 16.67% and 17.21% of respondents agreed that IFRS adoption would encourage their companies to become more involved in foreign stock exchange listings or business partnerships with foreign companies. Even fewer (13.83%), agreed that IFRS adoption would encourage their firms to become more involved in investment in foreign companies.

ANOVA procedures failed to detect any significant relationship between firm size and the perceived benefits of IFRS adoption. The existence of a foreign parent and investment in foreign subsidiaries, did however, offer some explanatory power. Those with foreign parents ($\bar{x}$ 4.20) and which controlled foreign subsidiaries ($\bar{x}$ 3.08) were significantly more positive about the benefit of reduced management confusion associated with dealing with diversity accounting standards (t 3.56, p 0.01; t 2.23, p 0.03) than those with no foreign parent ($\bar{x}$ 2.71) or foreign subsidiaries ($\bar{x}$ 2.13). Firms controlled by foreign parents ($\bar{x}$ 4.67; $\bar{x}$ 4.33; $\bar{x}$ 3.67) were also significantly more positive about the benefits of (i) an improved ability to compare and evaluate foreign company financial statements (t 2.56, p 0.03); (ii) reduced confusion and uncertainty amongst foreign financial statement user (t 2.99, p 0.01); and (iii) a reduction in their firms' cost of capital (t 3.25, p 0.01) than those with no foreign parents ($\bar{x}$ 3.70; $\bar{x}$ 3.51; $\bar{x}$ 2.86). ANOVA procedures also documented a significant relationship between industry sector and some of the perceived benefits. Specifically, Scheffe post-hoc tests found that (i) primary sector firms ($\bar{x}$ 4.72) were significantly more positive (p 0.01) than those from the tertiary sector ($\bar{x}$ 3.56) about the benefit of an increase in the perceived quality of financial reporting amongst foreign financial statement users; (ii) secondary sector firms ($\bar{x}$ 4.20) were significantly more positive (p 0.02) than those from the tertiary sector ($\bar{x}$ 3.10) about the benefit of an improved ability to effectively establish and coordinate partnerships with foreign companies; (iii) secondary sector firms ($\bar{x}$ 3.87) were significantly more positive (p 0.04) than those from the tertiary sector ($\bar{x}$ 2.95) about the benefit of an increased impetus to become more involved in investment in foreign companies; and (iv) primary sector firms ($\bar{x}$ 3.86) were significantly more positive (p 0.04) than those from the tertiary sector ($\bar{x}$ 3.02) about the benefit of an increased impetus to become more involved in partnerships with foreign companies.

Item 4 gave respondents the opportunity to identify other benefits from IFRS adoption, beyond those already identified in the survey. The survey appeared reasonably comprehensive in that a significant majority of respondents (90.53%) were unable to identify any other benefits from IFRS adoption. The predominant other benefit identified by respondents was an increase in profits because of reduced amortisation from elimination of compulsory goodwill

amortisation and/or from the write off of previously recognised internally generated intangible assets. Other notable comments included those provided R20 who highlighted that their company had benefited from the chance to review their "accounting policies and in many instances, confirming that what [they] had done was correct". Similarly, R90 felt that IFRS adoption had enabled their company to develop an "improved audit trail" and "systems for hedge transactions". R64 further noted that IFRS conversion had "provided an opportunity for the insurance industry to work together".

4.3. The perceived costs of IFRS adoption

Section C of the survey included multiple closed and open-ended questions collecting evidence on the perceived costs of IFRS adoption. Medians for the closed-ended items included in Section C ranged from 4.00 (*Neutral*) to 6.00 (*Strongly Agree*) with the majority of median responses being 5.00 (*Agree*) or greater. Item 11(b) from Section D of the survey, further captured perceptions to the overall costs of IFRS adoption. This item achieved a median of 5.00 (*Agree*) with 70.09% of respondents agreeing that IFRS adoption had involved significant costs for their firms. Such perceptions appeared consistent across firms of different sizes and from different industries with ANOVA procedures failing to detect any significant relationships between the perceived costs of IFRS adoption and firm size, industry or industry sector. The perceived costs of IFRS adoption are analysed and discussed in more detail in the following sections.

Survey item 6(a) explored whether IFRS adoption had had a significant negative impact of firm financial statements. This item received a median of 4.00 (Neutral) with more respondents disagreeing (42.06%) than agreeing (33.64%) that adoption had had a significant negative impact on their firms' financial statements. Further information would, however, be needed before it could be determined whether these losses have affected the firms' ability to pay dividends or to obtain finance.

The median results of 5.00 (*Agree*) and 6.00 (*Strongly Agree*) achieved for 6(b) and 6(f) provided support for the position that IFRS adoption had required significant AIS upgrades and significant time being devoted to preparation of comparative and opening balance figures in compliance with IFRS. With the majority of respondents (50.47%) agreeing that IFRS adoption had required significant time and money for AIS upgrades, it would seem that for many respondents, their firms' existing AIS's were not capable of handling some IFRS reporting requirements. Almost all respondents (96.26%) agreed with the position that significant time was required to ensure that their firms' comparative and opening balance figures were in compliance with IFRS. The mean for item 6(f) ($\bar{x}$ 5.81) was the highest of all of the items regarding the costs of IFRS adoption. Thus, the costs associated with comparative and opening balance figure adjustments was perceived as being the most significant IFRS transition cost.

A number of survey items captured data on the perceived costs associated with financial statement user and staff education and training. The median of 4.00 (*Neutral*) for item 6(d) suggested that, on the whole, respondents were indifferent about the level of time needed to be devoted to creditor education and possible renegotiation of debt covenants. Items 6(c) and 6(e) both achieved medians of 5.00 (*Agree*) and the majority of respondents (76.67%; 61.68%) agreed that their firms had been required to devote significant time and/or money to staff training and development and to the education of their other financial statement users. The results of a paired-sample *t*-test, comparing the means of items 6(c) and 6(e), confirmed that respondents perceived that their firms had to devote significantly less time (t -9.57, p

0.00) to the education of creditors ($\bar{x}$ 3.48) than they had to the education of other financial statement users ($\bar{x}$ 4.62).

There was very strong support for item 6(h) (Q_2 6.00 - *Agree*) with 95.33% of respondents agreeing that IFRS adoption would create additional work in the future because of the increased complexity of accounting standards. Thus, for the large majority of respondents, the move to IFRS is perceived as resulting in a significant increase in work, both during the transition period, and also in future years. This result directly parallels the negative comments provided by respondents in relation to the complexity of certain IFRS.

In order to obtain a more complete picture of the perceived costs of IFRS adoption, in Section C of the questionnaire, respondents further indicated (i) the start and completion date of their firms' conversion projects; (ii) the sources of external assistance used during conversion; (iii) the estimated cost of conversion; and (iv) whether any additional costs, beyond those identified in the questionnaire, were incurred by their firms.

The majority of respondents (80.95%) were able to provide both the start date and actual/expected completion dates of their firms' conversion projects. A limited number of other respondents (18.10%), whose firms had yet to complete conversion, also provided their IFRS conversion project start dates but were unable to identify an estimated completion date. While there was over two years difference between the earliest (Quarter 1 2003) and latest (Quarter 3 2005) conversion start dates, most respondents (60.58%) commenced conversion during 2004. While the latest estimated completion date provided was for the fourth quarter of 2006, the majority of firms (78.82%) had completed or expected to complete conversion by the end of 2005. ANOVA procedures identified a significant relationship (F 5.13, p 0.01) between firm size and the year in which firms commenced IFRS conversion (i.e. 2003, 2004 or 2005). Scheffe post-hoc tests revealed that companies which commenced IFRS conversion in 2003 ($\bar{x}$ $2,237 Million) were significantly larger (0.01) than those which commenced in 2005 ($\bar{x}$ $274 Million). Based on a comparison of their IFRS conversion project start and actual/estimated completion dates, the total time of the firms' IFRS conversion projects was calculated. With the minimum total time of conversion being one month and the maximum being 36 months, it is clear that the length of time taken to move to IFRS has varied significantly across firms. On average, though, conversion took approximately one and a half years (16.85 months) with the total time taken to convert being significantly positively correlated with firm size (R 0.24, p 0.03).

All 107 respondents indicated that their companies had used some form of external assistance and over 95% of firms utilised external accountants or auditors. These external accountants and auditors were frequently described as being from 'Big Four' accounting firms. Such firms were used, for example, review firm financial statement adjustments and provide technical advice on issues such as financial instruments and intangible assets. To illustrate, R119 highlighted that their firm's "auditors were involved in [their] project and reviewed the opening balance sheet prior to the first IFRS compliant accounts". For most firms, the use of external auditors or accountants appeared sufficient, with only 15.24% of firms utilising external training sessions, workshops or publications; 9.52% utilising external valuers or actuaries; 6.67% employing additional temporary staff; and 3.81% using other sources of external assistance, including lawyers and financial risk managers.

The large majority of respondents (80.20%) were able to quantify the cost of at least some component of their firms' IFRS conversion projects. The median overall estimated cost of

IFRS adoption was $200,000 with such estimates being more than $100,000 for the majority of respondents (64.18%). Estimates excluding internal time appeared somewhat lower with a median of $100,000 being identified for such estimates. For most respondents (71.43%), however, the estimated cost of IFRS adoption excluding internal time was more than $50,000. Both estimates of the overall cost of IFRS conversion and the cost of conversion, excluding internal time, were significantly positively correlated with firm size (R 0.46, p 0.00; R 0.84, p 0.00). These results are summarised in Table 4.7.

Table 4.7 Estimated cost of IFRS conversion

	Overall Cost of IFRS Conversion ($)	Cost of IFRS Conversion (excluding internal time) ($)
n	67	14
$\bar{x}$	517,649	469,643
Q^2	200,000	100,000
Min.	15,000	15,000
Max.	9,500,000	5,000,000
SD	1,226,707	1,308,017

The other perceived costs of IFRS adoption identified by respondents are presented in Table 4.8. An ongoing increase in audit costs and other external fees was the most frequently identified other costs. Those which argued that IFRS adoption would result in ongoing increases in audit costs generally felt that audits would take longer in future years because of the increased complexity of accounting standards and resulting financial disclosures. R94, for example, argued that “audits will take longer… because of the more onerous nature of the standards”. Ongoing increases in other external fees cited by respondents included those for actuarial and valuation experts, other consultants and those in relation to the outsourcing of hedge accounting. The four respondents which highlighted that IFRS adoption would lead to ongoing increased systems costs all attributed the increase to the more rigorous financial instrument requirements. To illustrate, R19 commented that their firm “now contracts a product to assist with cash flow hedge accounting”. The limited number of respondents which felt that IFRS adoption would result in ongoing increased printing and postage costs highlighted that their firms’ financial reports were now larger due to increased disclosure requirements. R106, for instance, noted that their firm’s half year report was more than 5 pages longer than it had been in previous years. Most notable of the responses included in the ‘other’ category documented in Table 4.8, was the statement provided by R105 that IFRS adoption had “[restricted their firm’s] ability to pay dividends to shareholders due to negative retained earnings”.

Table 4.8 Other perceived costs of IFRS adoption

Other costs of IFRS adoption	Time Cited
Ongoing increased audit costs	12
Ongoing increased other external fees	10
Ongoing increased accounting information systems costs	4
Ongoing increased financial report printing and postage costs	2
Other	5

4.4. Was IFRS adoption viewed as being cost-beneficial?

Survey item 11(c) prompted respondents to indicate their overall level of agreement to the statement that IFRS adoption would be cost-beneficial for their firms. Respondents were further given the opportunity to discuss, in their own words, whether IFRS adoption would be cost-beneficial for their firms in item 12. Responses to item 11(c) were largely negative with the item achieving a median of only 3.00 (*Disagree*). Correspondingly, when respondents discussed in their own words whether IFRS adoption was cost-beneficial, only nine

respondents (9.09%) expressed that it would be. ANOVA and Chi-square procedures failed to detect any significant relationships between the responses to items 11(c) and 12 and firm size, industry or industry sector. A *t*-tests did, however, identify that those with foreign subsidiaries ($\bar{x}$ 3.07) were significantly more positive (t 2.38, p 0.02) in their responses to item 11(c) than those with no such subsidiaries ($\bar{x}$ 2.56). Chi-square procedures also detected a significant relationship between firm involvement in foreign debt rising and the relative breakdown of responses to item 12 (X^2 7.79, p 0.02).

A range of issues were raised by the nine respondents which perceived that IFRS would be cost-beneficial for their firms. These predominately related to issues discussed in other sections of the survey. R74, for instance, noted benefits in relation to improved consistency of reporting with their foreign subsidiaries:

> If all countries adopt IFRS, then there will be a benefit because our overseas subsidiaries will not have to prepare IFRS and local GAAP accounts.

Many of the respondents who perceived that IFRS adoption would not be cost-beneficial for their firms simply stated "no" in their response. Others, however, provided more detailed justifications of their positions. These more detailed responses frequently included statements that the respondents' firm had simply experienced no benefits from the adoption of IFRS. Alternatively, where there had been some benefits, they were simply outweighed by the initial and/or ongoing costs associated with adoption. R9, for example, argued that IFRS adoption "will not provide any direct or indirect benefits". A limited number of respondents further highlighted that IFRS adoption was not perceived cost-beneficial because of their firms' lack of involvement in international business activities.

Other respondents, in critiquing the adoption of IFRS, identified some fundamental issues which questioned whether the use of Australian accounting standards has really imposed a significant burden on firms. Some respondents noted that international investors accepted Australian accounting standards in the past without any concerns:

> 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).

R7 further argued that diversity in accounting standards has not been an issue for institutional investors. This was because they felt that such investors "seek to understand the underlying cash flows derived from businesses" and argued "IFRS, in its implementation, confuses this view and… does nothing to improve visibility in this area". In a similar vein, R92 held that "Australian standards and GAAP reconciliations worked", going on to contend that "the impetus [for IFRS adoption] was from out of touch technicians". R92 was not alone in questioning the underlining drivers of IFRS adoption, with R86 describing the move as being a "waste of time" and a "revenue generating [exercise] for Big Four Accounting firms". R86 further described the decision to adopt IFRS as being "made by people who haven't prepared financial statements for years or understand the needs of [financial statement] users".

A limited number of respondents commented on how EU and AASB modifications and exceptions to IFRS limited the extent to which the benefits associated with improved consistency and comparability would materialise. As R92 argued, "with… the continuing exceptions from Europe, no consistency is achieved anyway". Other factors perceived as

inhibiting the realisation of benefits associated comparability of reporting included the lack of IFRS interpretation guidance. As 101 argued, "it [will] take some years for interpretations to be settled generating consistency in reporting and comparability".

A number of respondents further discussed the complexity of IFRS and reduced reliability and relevance of financial information producing increased compliance costs and uncertainty for financial statement users. As R121 argued that the additional costs associated with complying with IFRS "result in information that is no more relevant or accurate than the information provided under [Australian accounting standards]". 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". R18 further asserted 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.

4.5. Other notable comments

The final questionnaire item provided respondents with the opportunity to provide any other comments they wished to make about the adoption of IFRS. Just less than one quarter (22.43%) of respondents used this opportunity. While all the respondents that provided additional comments identified at least one negative issue about the adoption of IFRS, only five offset these negative comments with anything positive. Prominent among these discussions were responses which further questioned the underlying drivers of IFRS adoption, highlighting the lack of consultation with the business community by the regulatory bodies in the lead up to adoption, and/or criticising the timing of adoption.

As an exemplar of the cynical view some respondents had in regard to vested interests surrounding the adoption of IFRS, R128 described IFRS as "like masturbation. It's done for the benefit of those manipulating it". In terms of the cynicism directed specifically towards the potential vested interests of large accounting firms in pursing the adoption of IFRS, R136 commented that within their company there is "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 so as 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, there fees have added little or no shareholder value, and have been self serving for the accounting firms.

Those which felt that there was the lack of consultation with the business community during the lead up to IFRS adoption commented, for instance, that the "AASB industry consulting process has not been good" (R64). R30 further described IFRS adoption as:

> … an academic exercise that may be theoretically sound but which has little support from industry or market analysts …. [noting that in their] opinion the adoption IFRS was pushed by regulators and academics and not by preparers and users of financial statements (R30)

Respondents that questioned the timing of the adoption of IFRS did so for a number of grounds. R105, in reflecting on the commitment to adopt IFRS before they were finalised, argued that it was "ludicrous" to "give up control and sovereignty over a key legislative plank in financial reporting, without even seeing the framework that will be adopted". R110 maintained that the costs of adoption could have been reduced if adoption was delayed, enabling precedents and other outstanding issues to be resolved:

> As one of the first trusts to report under AIFRS (1/2 year 30/6/05) we encountered issues that are still being resolved internationally. Our costs were probably higher due to there being no precedents at the time… The accounting firms seemed to spend a lot of time debating the issues and changing their minds which made for a drawn out and costly audit.

5. Summary and conclusions

An analysis of the responses to the questionnaire items relating to the perceived costs of IFRS adoption revealed that a typical IFRS conversion project (i) had commenced by the end of June 2004 and finished by the end of 2005; (ii) took approximately one and half years to complete; (iii) required the assistance from external accountants or auditors; and (iv) cost approximately $200,000 including staff time. While only a limited number of firms indicated that IFRS adoption resulted in a significant negative impact on their firms' financial statements or required significant effort for creditor education. Respondents generally agreed that IFRS adoption had required significant time and money being devoted to AIS upgrades and to the adjustment of comparative and opening balance figures. The majority of respondents agreed that IFRS adoption had required significant time and money for staff training and the education of other financial statement users. The costs associated with IFRS adoption are likely to be ongoing, with the overwhelming majority of respondents identifying that there would be an increase in accounting and related expenses in the future because of the complexity of IFRS.

While a typical IFRS conversion project cost around $200,000, some estimates of the overall cost of IFRS adoption were well in excess of $1 million and up to $9.5 million. This is consistent with the estimates of the costs of adoption provided by the respondents to the ACCA (2003) survey. The key costs identified by the respondents were generally consistent with the key costs of adoption identified by ACCA (2003) and Jermakowicz (2004). ACCA (2003) identified human resource issues, systems upgrades and consulting fees as the primary costs of adoption. Similarly, Jermakowicz (2004) found consulting fees, staff time, and AIS upgrades to be the key challenges associated with adoption.

Despite the costs of IFRS, very few respondents identified that their firm would receive any significant benefits. The estimated costs associated with the preparation of foreign GAAP reconciliations did not appear significant with very few respondents perceiving that the elimination of these reconciliations would produce any significant benefits – cost or otherwise. The estimated costs associated with the preparation of foreign GAAP reconciliations were somewhat below similar estimates available in the literature – for example, the estimate of "at least $US1 million" for a Japanese or British company to convert to US GAAP. It is interesting the note the differences between the findings regarding the significance of the problems associated with the need to prepare foreign GAAP reconciliations with those of Biddle and Saudagaran (1989, 1992, 1995), Mittoo (1992), Fanto and Karmel (1997), Yamori and Baba (2001), Ngassam (2001). Such studies have frequently observed reporting and disclosure requirements as being a significant barrier to foreign stock exchange listings. The findings are, however, consistent with Bancel and Mittoo's (2001) and Durand and Tarca's (2005) indifferent results regarding the perceived

impact of US reporting requirements on the decisions of foreign firms to list on US stock exchanges.

While the benefits associated with the ability of firms to evaluate foreign company financial statements, and the perceived quality of financial statements and uncertainty and confusion amongst foreign financial statement users were some of the most significant benefits of IFRS adoption, there was no overwhelming support in favour of the realisation of these benefits. Very few respondents felt that IFRS adoption would increase the demand for their firms' stock or reduce their firms' cost of capital. The identification of an improved ability to compare and evaluate foreign company financial statements as being one of the most significant benefits of IFRS adoption was consistent with the results of ACCA (2003) and Jermakowicz (2004). It is interesting to note the difference between this finding and that of Glaum (2000) who identified the use of local accounting standards as a major perceived obstacle to the demand for German stocks. A possible explanation for this difference is the relative alignment of traditional Australian accounting practices with IFRS in contrast to German accounting practices (see for example, Gray, 1988; Wines, 1989; Glaum and Mandler, 1996; Glaum, 2000).

Respondents were, at best, indifferent about the prospect for IFRS adoption to significantly improve their ability to communicate and coordinate activities their foreign parents, subsidiaries and/or business partners. Not surprisingly given the apparent negligible effect of accounting diversity on firm operations, only a very limited number of respondents perceived that IFRS adoption would encourage their firms to become more involved in foreign stock exchange listings, investment in foreign firms, or foreign business partnerships. The finding that IFRS adoption is unlikely to provide an impetus for firms to become more involved in foreign stock exchange listings is consistent with Durand and Tarca (2005) who found that only a limited number of companies perceived that a change in the requirements to prepare a US GAAP reconciliation would further encourage them to list on a US stock exchange.

Numerous positive and negative comments were identified in relation to the perceived quality of IFRS. 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. The negative comments by respondents, particularly those concerning the complexity of IFRS, directly parallel those of European corporate managers and regulators identified by Jermakowicz (2004), Larson and Street (2004) and Sucher and Jindrichosvska (2004). The overall negative perceptions towards the quality and complexity of IFRS of respondents also parallel those of Haswell and Langfield-Smith (2008) who identified 57 serious defects in selected IFRS, as applied by Australian entities. 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 Jubb (2005) and Ernst and Young (2005).

With most respondents identifying that IFRS adoption had involved considerable cost for their firms and very few identifying any significant benefits, not surprisingly, the large majority of respondents felt that IFRS adoption would not be cost-beneficial for their firms. Among other things, those which felt that IFRS adoption would not be beneficial for their firms, highlighted that they simply did not perceive any positive outcomes for their firm; highlighted the increase in complexity and uncertainty associated with interpreting and applying accounting standards and resulting financial information; questioned the underlying

need for adoption given their lack of international exposure and investor satisfaction with prior standards; questioned the underlying drivers of the move; and criticised the regulatory bodies for failing to consult the business community in making their decision to commit to IFRS.

Involvement in some international business activities – namely, control by a foreign parent, control of foreign subsidiaries, investment in foreign subsidiaries and foreign debt rising – offered some explanatory power of firm perceptions towards the benefits and overall desirability of IFRS adoption. Industry sector was also significant, with those from the primary and secondary industries appearing to be more positive than those from the tertiary sector about some of the benefits of IFRS adoption. Overall, though, few significant relationships were detected between the firm characteristics and their perceptions towards the costs and benefits of IFRS adoption. The identification of those from the tertiary sector as being less positive about some of the benefits of IFRS adoption might be potentially explained by the different impact the new standards have had on different industries. As Jones and Higgins (2006, p. 634) asserted, "the potential impacts on financial performance of respondent firms might… be a factor influencing" perceptions towards IFRS. In support of their argument, Jones and Higgins (2006) discuss how the changes in financial instrument accounting are likely to have a particularly large impact on those from the financial services sector, with such firms making up a large percentage of the tertiary sector.

The results of this research study should serve as a warning to other countries considering IFRS adoption without fully comprehending the potential impact of the move for their firms. Amongst participants in this study, at least, IFRS adoption has not appeared to have been warranted given the perceived costs and benefits of the move. The use of Australian accounting standards did not appear to have been a significant impediment to the respondent firms' operations. Moreover, the adoption of IFRS has imposed significant transition costs on respondent firms' and resulted in an increase in the perceived complexity and uncertainty associated with financial reporting. The results of this study are particularly significant given the lack of prior research exploring the perceived costs and benefits of IFRS adoption continually highlighted, despite the growing number of countries moving to adopt these standards.

Footnotes

1. For the purposes of this study, 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.
2. The anticipated negligible impact on foreign ASX listed firms was assumed because such firms could already use IFRS to meet their reporting requirements. See ASX (2005) listing rule 4.2A.3 which highlights that "Foreign entities may prepare information in accordance with Australian accounting standards, or other accounting standards acceptable to ASX. ASX will accept, for example, the use of International Accounting Standards".
3. For a review of research examining the validity of the Gray-Hofstede framework see Chanchani and Willett (2004) and Doupnik and Tsakumis (2004).
4. For simplicity, for the purposes of this paper, the term IFRS will be used to encompass all IASB standards.
5. For many developing nations the adoption of IFRS is often out of necessity, with potentially large financial outlays towards the development of accounting standards being untenable. In any case, such countries are likely to lack the necessary experience in determining the type of financial information useful for decision-making (Brown and Clinch 1998; Saudagaran and Diga 1998; Chamisa 2000; Haswell and McKinnon 2003).
6. To illustrate, information provided by the World Federation of Exchanges (WFE 2006) identified that, as of 30 June 2006, there were over 2,700 foreign companies listed on major American, Asian, Pacific, European, African and Middle Eastern stock exchanges.
7. Other potential barriers to a foreign stock exchange listing, beyond the need to prepare foreign GAAP reconciliations include cultural differences; geographic distance; taxation consequences; legal fees, printing costs and registration fees associated with registering and annually re-registering with a foreign stock exchange; the cost of additional audit procedures to meet the requirements of foreign regulatory bodies; foreign government imposed controls; and issues associated with a foreign regulatory agency having jurisdiction over a company's operations (see for example, Biddle and Saudagaran 1989, 1992, 1995; Ngassam 2001; Tarca 2002).
8. The unwillingness of investors to invest in firms outside of their countries has been referred to as the 'home bias' (see for example, Bradshaw et al. 2003; Covrig, Defond and Hung 2007; Lutje and Menkhoff 2007).
9. To illustrate, Ramsay and Stapledon (1998) identified that Australia's Top 500 companies controlled 4,131 foreign subsidiaries, with foreign subsidiaries representing approximately 35% of all the subsidiaries controlled by such companies.
10. In accordance with AASB 127 (par. 29), "if a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing consolidated financial statements".
11. For a detailed discussion of the changes to Australian Accounting standards as a result of IFRS adoption see Curran (1996) and Deloitte Touche Tohmatsu (2004, 2005). Among other things, IFRS adoption has meant that Australian companies are now able to use a presentation currency other than Australian dollars for the first time; required to adopt a different overall format for their financial statements; required to comply with tighter rules in relation to the recognition and revaluation of intangible assets; required to change the way they account for share based payments, with such payments going through the income statement for the first time; and required to change the way they account for any excess or goodwill arising from the establishment of a business combination, with acquired goodwill now being tested annually for impairment and any excess on acquisition now being recognised as income.
12. To control for Type I error, when ANOVA procedures involved more than three groups, an adjusted alpha level was used in accordance with the Bonferroni inequality approach (Hair et al. 1998). For example, where ANOVA procedures were applied to test for a significant difference across industries an adjusted alpha level of 0.002 i.e. 0.05 / 21 – the number of possible comparisons) was used.
13. In constructing the sample frame for the study, the researcher began with the *Huntley's Shareholder 25th edition* list of the Top 500 ASX Listed Companies, by market capitalisation, as at 30 November 2004 (see Aspect Huntley, 2005). The details of the companies included in this list were reviewed so that any foreign firms could be excluded. The researcher further examined whether any companies had changed their names or had been delisted since the publication of the *Huntley's Shareholder 25th edition*. Those companies to have been delisted were excluded and the sample frame was updated to reflect any name changes.
14. In determining the usable response rate, the full population of 400 companies was adjusted for those companies which could not be contacted due to mailing difficulties and for those which had been de-listed or taken over since the construction of the sample frame.

15. Of the thirteen firms included in this category, seven were from the health care industry, five were from the agricultural industry and one was from the forestry industry.
16. This is consistent with the Oppenheim method (see Oppenheim 1966) which assumes that late respondents share similar characteristics of non-respondents.

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Appendix 1. Status of IFRS in the 40 most developed countries

Rank	Country	GDP per Capita ($US)	Status of IFRS at 1 January 2008
1	Luxembourg	71,400	EU member with IFRS required for listed companies and permitted for unlisted companies.
2	Bermuda	69,900	IFRS permitted for listed companies.
3	Jersey	57,000	No information available.
4	Equatorial Guinea	50,200	No information available.
5	United Arab Emirates	49,700	IFRS required for all listed companies and unlisted banks.
6	Norway	46,300	EU member with IFRS required for listed companies and permitted for unlisted companies.
7	Guernsey	44,600	No information available.
8	Ireland	44,500	EU member with IFRS required for listed companies and permitted for unlisted companies.
9	Cayman Islands	43,800	IFRS permitted for listed companies.
10	United States	43,800	IFRS permitted for foreign issuers from March 2008. IFRS not permitted for domestic firms. For further commentary on the moves by the US towards IFRS see Moody (2007), Jopson (2007), Gupta, Linthicum and Noland (2007), Dzinkowski (2007), Page (2007), Larson and Street (2006), and Street and Linthicum (2007)).
11	Andorra	38,800	No information available.
12	British Virgin Islands	38,500	No information available.
13	Iceland	38,000	No information available.
14	Hong Kong	37,300	IFRS required for all listed companies and permitted for unlisted companies.
15	Denmark	37,100	EU member with IFRS required for listed companies and permitted for unlisted companies.
16	Canada	35,700	IFRS not permitted.
17	Isle of Man	35,000	No information available.
18	Austria	34,700	EU member with IFRS required for listed companies and permitted for unlisted companies (permitted only for consolidated financial statements).
19	San Marino	34,100	No information available.
20	Switzerland	34,000	IFRS permitted for listed companies.
21	Finland	33,500	EU member with IFRS required for listed companies and permitted for unlisted companies.
22	Australia	33,300	IFRS required for all reporting entities.
23	Japan	33,100	IFRS not permitted.
24	Belgium	33,000	EU member with IFRS required for all listed companies and unlisted credit providers and permitted for other unlisted companies (permitted only for consolidated financial statements).
25	Sweden	32,200	EU member with IFRS required for listed companies and permitted for unlisted companies (permitted only for consolidated financial statements).
26	Netherlands	32,100	EU member with IFRS required for listed companies and permitted for unlisted companies.
27	Germany	31,900	EU member with IFRS required for listed companies and permitted for unlisted companies.
28	United Kingdom	31,800	EU member with IFRS required for listed companies and permitted for unlisted companies.

29	Singapore	31,400	IFRS required for all companies.
30	France	31,200	EU member with IFRS required for listed companies and unlisted credit providers and permitted for other unlisted companies (permitted only for consolidated financial statements).
31	Faroe Islands	31,000	No information available.
32	Italy	30,200	EU member with IFRS required for listed companies and permitted for unlisted companies (not permitted for very small companies, those from the insurance industry and some regulated companies).
33	Monaco	30,000	No information available.
34	Qatar	29,800	IFRS required for all listed companies.
35	Taiwan	29,600	IFRS not permitted.
36	Gibraltar	27,900	IFRS permitted for listed companies and some non-listed regulated companies.
37	Spain	27,400	EU member with IFRS required for listed companies and permitted for unlisted companies (permitted only for consolidated financial statements).
38	Israel	26,800	IFRS permitted for listed companies only.
39	New Zealand	26,200	IFRS required for all listed and large unlisted companies and permitted for others.
40	Bahrain	25,600	IFRS required for all companies.
(CIA 2007)			(Deloitte Touche Tohmatsu 2008)

Appendix 2. Costs and benefits of IFRS adoption: Summary of the evidence

Source	Contribution	Key Findings	Examples
Reviews of the apparent and perceived barriers to foreign stock exchange listings	Provides evidence on whether companies view preparing reconciliations or restatements to a foreign set of accounting standards as a significant barrier to foreign stock exchange listings.	Strong support for the position that reporting requirements, including the need to prepare financial statement reconciliations and restatements, are perceived by company managers as being a major barrier to foreign stock exchange listings. However, such research has also identified numerous other barriers that would not automatically disappear following IFRS adoption.	Choi and Stonehill 1982; Biddle and Saudagaran 1989 Saudagaran and Biddle 1992, Saudagaran and Biddle 1995b; Mittoo 1992; Fanto and Karmel 1997; Bancel and Mittoo 2001; Yamori and Baba 2001; Ngassam 2001; Houston and Jones 2002; Durand and Tarca 2005.
Survey research with company executives concerning the perceived costs and/or benefits of IFRS adoption	Illuminates the potential costs and/or benefits of accounting harmonisation and whether companies perceive a move to IFRS to be cost beneficial.	Large corporate groups typically face situations in which the members of their group adopt multiple accounting standards and that elimination of this diversity could result in significant cost savings. While this research has shown that firms perceive the costs associated with preparing financial statement reconciliation and restatements as being potentially significant, such research has raised doubt as to whether the elimination of such restatements and reconciliations would increase foreign stock exchange listings. Such research has provided further doubt about the benefits of IFRS adoption given the reluctance of taxation authorities to recognise IFRS. Finally, this research has identified human resource issues as potentially being the most significant cost associated with IFRS adoption and that the costs of conversion could exceed AUS$1 million for some firms.	Cecchini, Catinat and Jacquemin 1988; Choi and Levich 1991; Collett et al. 1998; Glaum 2000; Oliverio and Newman 2002; ACCA 2003; Jermakowicz 2004; Sucher and Jindrichosvska 2004; Durand and Tarca 2005; Jones and Higgins 2006.
Research into the apparent impacts of accounting diversity on investor decisions	Provides evidence on whether the elimination of accounting diversity facilitates investor decisions and provides impetus for increased levels of investment in foreign companies.	Diversity in accounting standards is only one reason for diversity in accounting results and that the use of a common set of accounting standards could result in investor misinterpretation. This research has also identified a tendency for investors to invest in those companies which adopt familiar accounting standards and that the use of IFRS can improve the quality of information available to investors.	Choi and Levich 1991; Bhushan and Lessard 1992; Bradshaw et al. 2003; Amir, Harris and Venuti 1993; Ashbaugh and Pincus 2001; Rawashdeh 2003; PriceWaterhouse Coopers 2006.
Reviews of the level of voluntary adoption of IFRS amongst companies	Provide evidence on whether companies are likely to perceive IFRS adoption to be cost-beneficial and the characteristics of those companies which do so.	Firms are willing to adopt IFRS when they are an allowable alternative to domestic GAAP, but few do in other instances.	Cuijpers et al. 2002; Dumontier and Raffournier 1998.
Reviews of the impact of IFRS adoption on company financial statements	Provide evidence on whether adoption is likely to involve significant changes and financial statement losses.	IFRS adoption could, in some instances, have a significant negative impact on company financial statements.	Salmon Smith and Barney cited in Stensholt 2003; Bearns Stearns and CS First Bost (cited in Anderson 1995); EY cited in (Tabakoff 1999); Jubb 2005; Ernst and Young 2005.

Appendix 3. Survey Questions

Section A: Demographic Information

A. Your firm's industry.
B. Your firm's estimated annual sales turnover.
C. Estimated number of employees employed by your firm.
D. Estimated number of accounting personnel employed by your firm
E. Your current position.
F. Estimated percentage of your firm's shares owned by foreign companies or individuals.
G. Is your firm controlled by a foreign parent?
H. Is your firm involved in investment in foreign companies?
I. Does your firm raise any of its debt finance outside Australia?
J. Is your firm involved in business partnerships with foreign companies?
K. Prior to 2005, did your firm prepare any financial statement reconciliations or restatements?
L. Does your firm have any foreign stock exchange listings? *If yes, please specify the location of your firm's foreign stock exchange listings in the space provided).*
M. Does your firm have any foreign subsidiaries? *If yes, please provide an estimate of the number of foreign subsidiaries and the basis upon which they maintain their accounts in the space below).*

Section B: The Benefits of the Adoption of IFRS

1. Below are a number of statements concerning the possible benefits of the adoption of IFRS by your firm assuming IFRS become accepted internationally).

From your firm's perspective, the adoption of IFRS assuming IFRS become accepted internationally) will:	**VSA**	**SA**	**A**	**N**	**D**	**SD**	**VSD**	**NA**
a) Result in significant cost savings as your firm will no longer need to prepare financial statement reconciliations or restatements.	☐	☐	☐	☐	☐	☐	☐	☐
b) Reduce management confusion as they will no longer need to deal with situations in which your firm simultaneously reports results under different sets of accounting standards.	☐	☐	☐	☐	☐	☐	☐	☐
c) Significantly improve your ability to effectively compare and evaluate foreign company financial statements.	☐	☐	☐	☐	☐	☐	☐	☐
d) Significantly improve your ability to effectively communicate and coordinate activities with your foreign parent.	☐	☐	☐	☐	☐	☐	☐	☐
e) Significantly improve your ability to effectively communicate and coordinate activities with your foreign subsidiaries.	☐	☐	☐	☐	☐	☐	☐	☐
f) Significantly reduce the time and cost needed to combine your foreign subsidiaries financial statements and prepare your consolidated group financial statements.	☐	☐	☐	☐	☐	☐	☐	☐
g) Significantly reduce confusion and uncertainty amongst your foreign financial statement users.	☐	☐	☐	☐	☐	☐	☐	☐
h) Significantly increase the perceived quality of your financial statements amongst foreign financial statement users.	☐	☐	☐	☐	☐	☐	☐	☐
i) Result in significant cost savings associated with foreign financial statement user queries regarding divergent accounting standards.	☐	☐	☐	☐	☐	☐	☐	☐
j) Promote the demand for your stock internationally.	☐	☐	☐	☐	☐	☐	☐	☐
k) Result in a decrease in your cost of capital internationally.	☐	☐	☐	☐	☐	☐	☐	☐
l) Improve the quality of your financial reporting.	☐	☐	☐	☐	☐	☐	☐	☐
m) Significantly improve your ability to effectively establish and coordinate business partnerships with foreign companies.	☐	☐	☐	☐	☐	☐	☐	☐
n) Provide impetus for your firm to be more involved in:								
i. Foreign stock exchange listings.	☐	☐	☐	☐	☐	☐	☐	☐
ii. Investment in foreign companies.	☐	☐	☐	☐	☐	☐	☐	☐
iii. Business partnerships with foreign companies.	☐	☐	☐	☐	☐	☐	☐	☐

2. Is it possible to estimate the cost of preparing a financial statement reconciliation or restatement in either:

- monetary terms, or
- in terms of accounting personnel time? *If yes, please provide an estimate in the space provided).*

3. In your opinion has the quality of any specific accounting standards increased as a result of the adoption of IFRS? *If yes, please discuss in the space provided).*
4. Will your firm derive any other benefits from the adoption of IFRS that have not already been mentioned assuming IFRS become accepted internationally)? *If yes, please discuss in the space provided).*

Section C: The Costs of the Adoption of IFRS

5. What was the start and completion date of your firm's IFRS conversion project?
6. Below are a number of statements concerning the possible costs of the adoption of IFRS by your firm.

From your firm's perspective, the adoption of IFRS will result in:	**VSA**	**SA**	**A**	**N**	**D**	**SD**	**VSD**
a) A significant negative impact on your financial statements.	☐	☐	☐	☐	☐	☐	☐
b) Significant time and money being devoted to accounting information system upgrades.	☐	☐	☐	☐	☐	☐	☐
c) Significant time and money being devoted to staff training and development.	☐	☐	☐	☐	☐	☐	☐
d) Significant time being devoted to ensure your creditors are aware of the changes to your financial statements as a result of IFRS adoption and possible renegotiation of debt covenants.	☐	☐	☐	☐	☐	☐	☐
e) Significant time being devoted to ensure your other financial statement users are aware of the changes to your financial statements as a result of IFRS adoption.	☐	☐	☐	☐	☐	☐	☐
f) Significant time being devoted to ensure your comparative figures and opening balance figures are in compliance with IFRS.	☐	☐	☐	☐	☐	☐	☐
g) A decline in the quality of your financial reporting.	☐	☐	☐	☐	☐	☐	☐
h) Additional work being devoted to financial reporting as some of the new standards are more onerous than existing standards.	☐	☐	☐	☐	☐	☐	☐

7. Were any sources of external assistance used in your firm's IFRS conversion project? *If yes, please specify in the space provided).*
8. In your opinion has the quality of any specific accounting standards declined as a result of the adoption of IFRS? *If yes, please discuss in the space provided).*
9. Will the adoption of IFRS result in any other costs for your firm that have not already been mentioned? *If yes, please discuss in the space provided).*
10. Is it possible to provide an estimate of the total cost of your firm's IFRS conversion project, or any part of that project? *If yes, please provide an estimate in the space provided).*

Section D: Concluding Questions

11. Below are a number of statements concerning the overall benefits and costs of the adoption of IFRS by your firm assuming IFRS become accepted internationally).

Overall, from your firm's perspective the adoption of IFRS assuming IFRS become accepted internationally) will:	**VSA**	**SA**	**A**	**N**	**D**	**SD**	**VSD**
a) Result in significant benefits.	☐	☐	☐	☐	☐	☐	☐
b) Result in significant costs.	☐	☐	☐	☐	☐	☐	☐
c) Be cost beneficial.	☐	☐	☐	☐	☐	☐	☐

12. Overall, from your firm's perspective, will the adoption of IFRS be cost beneficial assuming IFRS become accepted internationally)? *Please discuss in the space provided).*
13. Would you be interested in participating in any further study? *If yes, please provide your contact details in the space below).*
14. Do you have any additional comments? *If yes, please provide them in the space below).*

Appendix 4. Survey data: Descriptive statistics

Survey item	n	$\bar{x}$	Q_2	SD
1. a)	76	2.30	2.00	1.41
1. b)	73	2.81	3.00	1.58
1. c)	87	3.77	4.00	1.54
1. d)	17	3.59	4.00	1.33
1. e)	60	3.47	4.00	1.44
1. f)	62	2.76	3.00	1.30
1. g)	79	3.57	4.00	1.49
1. h)	85	3.91	4.00	1.44
1. i)	85	2.95	3.00	1.35
1. j)	93	3.14	3.00	1.36
1. k)	89	2.91	3.00	1.18
1. l)	104	3.24	3.00	1.42
1. m)	90	3.46	4.00	1.35
1. n) i.	84	3.21	3.00	1.34
1. n) ii.	94	3.27	3.50	1.30
1. n) iii.	93	3.34	4.00	1.33
6a)	107	3.84	4.00	1.43
6b)	107	4.23	5.00	1.35
6c)	107	4.85	5.00	1.27
6d)	107	3.48	4.00	1.11
6e)	107	4.62	5.00	1.39
6f)	107	5.81	6.00	0.90
6g)	107	3.72	4.00	1.37
6h)	107	5.68	6.00	0.83
11. a)	107	3.14	3.00	1.29
11b)	107	4.79	5.00	1.12
11 c)	107	2.90	3.00	1.08

Appendix 5. Results of non-response bias testing

Test	Variables	Result
Chi-square	Actual respondent industry breakdown and expected industry breakdown.	No significant difference: X^2 8.66, p 0.19)
Chi-square	Actual respondent industry sector breakdown and expected industry sector breakdown.	No significant difference: X^2 0.78, p 0.68)
t-test	Average respondent sales turnover $\bar{x}$ $1.24 Billion) and population sales turnover μ $1.47 Billion).	No significant difference: t 0.51, p 0.61)
t-test	Average on time $\bar{x}$ 2.07) and late $\bar{x}$ 2.20) international business activity scores.	No significant difference: t -0.43, p 0.67)
t-test	Average on time $\bar{x}$ 3.04) and late $\bar{x}$ 3.26) responses to survey item 11a) - Will IFRS adoption result in significant benefits?	No significant difference: t -0.90, p 0.37)
t-test	Average on time $\bar{x}$ 4.68) and late $\bar{x}$ 4.92) responses to survey item 11b) - Will IFRS adoption result in significant costs?	No significant difference: t –1.09, p 0.28)
t-test	Average on time $\bar{x}$ 2.84) and late $\bar{x}$ 2.96) responses to survey item 11c) - Is IFRS adoption cost-beneficial?	No significant difference: t -0.56, p 0.58)