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THE FINANCIAL CONSEQUENCES OF ADOPTING IFRS (EVIDENCE FROM DEVELOPED AND EMERGING COUNTRIES): A REVIEW

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Abstract:

Previous literature on reliance on IFRS has been accompanied by its gradual spread and impact on various accounting dimensions, starting with developed countries such as Western European countries and Australia and later reaching emerging countries. Therefore, using the inductive approach, our research aims to present the most important previous research that dealt with two financial periods, including a period before and after adopting the (IFRS), to demonstrate its negative and positive impact in various parts of the world.

Keywords: IFRS standards - financial consequences

INTRODUCTION:

As a result of the tremendous economic developments, the emergence and spread of multinational international business organizations, the intensification of competition between different countries to attract international investments, and the globalization of the capital market have led to an increased demand for unified standards (Okpala 2016, 2012, Vidal-Garcia et al) that work to standardize applications. The accounting procedures for preparing financial reports and the method of presenting them prompted the International Accounting Standards Board in the year (2001) to issue the International Financial Reporting Standards to replace the standards.

The accounting literature has focused greatly on the benefits of adopting international financial reporting standards as global standards. These benefits include less variation in financial reports across national borders, enhanced comparability, better explanatory power as a performance indicator for the company, lower costs, increased transparency, and decreased asymmetry. It was indicated that information would improve the caliber of financial reports while also providing management with a fantastic chance to cut down on fraudulent activities related to projections and earnings management techniques (Philip et al., 2014; Bruce et al., 2014; Joanne et al., 2013), International Financial Reporting Standards have been implemented by 166 states thus far (Foundation, IFRS,2022). In addition, IFRS are more flexible than local principles-based standards (Ball & Shivakumar, 2015).

Adopting financial reporting standards can cause variation in financial consequences according to the specific circumstances of each country. These consequences may be positive or negative for companies and investors. Therefore, the problem of our research revolves around identifying these consequences by answering the following question: What financial effects does the adoption of international financial reporting and accounting standards have?

2.The concept of International Financial Reporting Standards (IFRS)

It is a set of IFRS created by the (IASB), globally recognized under the trade name (IFRS) and adopted by many countries (Ray, 2011). This concept indicates that they are general models and guidelines that lead to directing and rationalizing the practical practice of accounting, reviewing and auditing, and aim to know the foundations and the correct way to measure, identify and display data. In addition, it seeks to support users of financial information and investors in international financial markets in making sound financial decisions by providing high-quality, comparable and transparent information in financial statements and other financial reports. The impact of the adoption of IFRS on the importance of value varies between countries, According on for research's. It is generally considered that the standardization and acceptance of financial reporting globally is possible with the help of IFRS, which is seen as an effective tool (Abdul & Abdullah, 2022).

2.Financial consequences of adopting international financial reporting standards:

The implementation of IFRS standards is the largest global financial reform in accounting history (Daske et al., 2008). These guidelines primarily aim to facilitate international investment and increase the transparency and reliability of global financial reporting among states. Because of this global dimension, the adoption of accounting standards by

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additional countries with diverse levels of development has made it more difficult and important to ascertain the economic effects of these standards as part of financial regulatory reforms (Zeff, 2012).

Van Tendeloo & Vanstraelen (2005) investigated the four benefits of using IFRS. The standards help, first and foremost, improve investors' ability to evaluate the financial situation and performance of various countries and make informed financial judgments. Eliminating misunderstandings resulting from disparate approaches can lower the cost of financing companies and reduce investor risk. Secondly, it will reduce the expenses associated with preparing financial statements according to several standards. Third, this will also lead to more incentives for foreign investment. Fourth, it will make it possible to distribute financial resources more wisely around the world.

According to Ball (2016), there are multiple benefits that an IFRS-based accounting system can bring compared to accounting systems affected by political and financial challenges, such as those that were prevalent in Europe by 2005. The IFRS-based approach, which emphasizes the economic substance of the transaction over its legal structure, quickly and appropriately captures financial economic gains and losses. This technique provides greater accounting information, reduces discretion, and increases the usefulness of the results. Officials can inflate profits by hiding losses, building reserves, and manipulating judgment thanks to Europe's traditional accounting system.

Al-janabi et al., (2021) added that the primary grounds and arguments for implementing IFRS are the application of measurement and recognition standards that give a collection of data and accurately reflect the economic realities of businesses. This set of guidelines facilitates the collection of more accurate data. A better means of facilitating financial reporting comparability is the widespread application of IFRS. It is anticipated that the advantages of implementing IFRS will exceed the costs connected with this kind of reporting, as well as that the advantages of adopting these standards will outweigh the costs of such reports. Finally, the adoption of these IFRSs would enhance investors' ability to make wise financial judgments, enhance financing conditions, and distribute funds efficiently globally. Despite all the advantages that come with using IFRS, there is still controversy about the consequences of using these standards (Hail & Wysocki, 2010). Below is Table No. (1) showing that the most Literature that dealt with two financial periods before and after adopting International Financial Reporting Standards.

Table (1): Literature review

No.	Authors	Year	Country	purpose	Results
1	*(Pazarskis ,et al.,)*	*2011*	*Greece*	Their study aimed to demonstrate the impact of reliance on IFRS in Greece by applying it to the information technology sector. The sample included three years before adoption, including the period (2002-2004), and three years after adoption of IFRS (2005-2007).with additional analysis and comparison between the years (2002) and (2005) in order to accurately estimate the impact of reliance on IFRS.	The results show that (EBITDA margin) out of the 20 accounting ratios had a statistically significant change and a positive impact due to the adoption of standards.
2	*(Karğın)*	*2013*	*Türkiye*	His study examined the importance of the value of accounting information in the periods before and after the application of the (IFRS) for listed Turkish companies in the period (1998-2004) before the standards and the period	His results showed that the value importance of accounting information has improved in the post-IFRS period.

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				(2005-2011) after the standards.	
3	*(Sanjaya ,et al.,)*	*2017*	*Indonesia*	The aim of their study was to analyze and compare the cost of capital before and after the adoption of IFRS on the Statement of Standard Financial Instruments for Financial Accounting (PSAK) for banks listed on the Indonesian financial market. The period of their study was (2008-2009) for pre-adoption and (2013 -2014) until after adoption .	Their results showed that the cost of capital was lower after adopting the standards than before adopting them for banks listed in the Indonesian market. This means that adopting IFRS can reduce the cost of capital. This, in turn, has led to a decrease in non-performing loans, an increase in the loan-to-deposit ratio, and an increase in the net interest margin.
4	*(Habib ,et al.,)*	*2019*	*Australia*	This study aimed to demonstrate the impact of adopting the International Financial Reporting Standards (IFRS) on the quality of financial reports and the cost of capital, using the period (2001-2005) as the pre-adoption stage and (2006-2012) as the post-adoption stage of international standards in listed Australian companies.	The study found a decrease in the quality of financial reports and an increase in the cost of capital based on international financial reporting standards in mature companies. The quality of financial reporting in the post-standards period increased the cost of capital. Finally, the study found that mature companies benefited from implementing IFRS.
5	*(Eluyela et al.,)*	*2019*	*Nigeria*	This study examined Nigerian listed SMEs' financial reporting both before and after IFRS-based rules were implemented. based on small and medium-sized businesses that are listed on the Nigerian market and submitted annual financial reports for the years (2012–2015).	Their findings show that for small firms, financial reporting based on Norwegian GAAP and financial reporting based on IFRS do not differ significantly in terms of profitability and leverage ratios. The basic conclusion of the study is that the market ratio is significantly affected by IFRS. The application of the fair value and asset impairment index under IFRS is the reason for this.
				Their study aimed to determine the potential effects of applying mandatory financial	The results showed that applying the standards did not have any impact on stock market returns or

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6	*(Naji , et al.,)*	*2019*	*Iraq*	reporting standards on a sample of Iraqi commercial banks listed in the Iraqi financial market. By considering the impact of applying these standards on stock market results. And in the financial decisions made by investors. Three years were allocated for the study period (2011-2013), and another three years (2016-2018) were used to implement the standards.	investors' financial decisions.
7	*(Nwaogwugwu)*	*2020*	*Nigeria*	This study, which was based on the IFRS standards for the after adoption for period (2012-2015) and the pre-IFRS period (2008-2011), sought to show the effects of applying the International Financial Reporting Standards on the financial performance and value of banks in Nigeria for a sample of 5 banks over an 8-year period.	According to their findings, Nigeria's adoption of the International Financial Reporting Standards had no positive impact on the valuation or performance of the banks in the research sample. In summary, the study's findings are critical to financial analysts, policy makers, and other key stakeholders in order to guarantee that all companies use IFRS and facilitate straightforward comparisons. This will make it possible to provide the capital market with accurate and trustworthy financial data so that investors may decide on the best course of action.
8	*(Yim)*	*2020*	*Various European countries*	His study aimed to show how the mandatory application of International Financial Reporting Standards (IFRS) in European countries affected the cost of bank shares for the period (1995-2004) as a period before adoption and (2005-2009) as a period after adoption. Belgium, Germany, Denmark, Spain, Finland, France, , Greece ,Netherlands, Ireland, ,	The findings indicated that in nations with offices closely associated with banks, the price of bank shares rose following the implementation of IFRS. Strong legal protection and more disclosure requirements also contribute to lowering the costs of equity borne by banks; yet, pre-IFRS differences in local accounting standards and regulatory standards

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				Poland, , Sweden, and the United Kingdom were among the twelve nations that were represented.	contribute to raising the costs of equity borne by banks.
9	*De Moura et al.,*	*2020*	*Latin American countries*	This study examines whether the mandatory adoption of IFRS standards might have an impact on the long-term cost of equity and debt for a sample of companies in Latin America that includes four countries (Argentina, Brazil, Mexico, and Chile). For the period (2005-2015), since Compared to developed countries these are the places where standards and investor protection measures are not strictly enforced. Pre- and post-accreditations were covered.	Their findings showed that when norms were adhered to, the cost of equity dropped. Adoption led to a sharp decline in debt costs. Furthermore, the research sample's businesses experienced positive economic benefits and a reduction in information asymmetry as a result of enhanced disclosure and comparability brought about by international standards as contrasted to previous local accounting regulations.
10	*(Big-Alabo & Ibanichuka)*	*2021*	*Nigeria*	Their study examined the impact of reliance on international financial reporting standards on the financial performance of large companies in Nigeria. While the pre-IFRS periods included 5 years (2007-2011), the post-IFRS periods also covered 5 years (2012-2016).	The results showed that the performance indicators of the study sample after applying accounting and financial reporting standards were negative, with the exception of earnings per share if they increased after adoption, which indicates that applying the standards had a positive impact on the companies' performance.
11	*(Hameedi, et al.,)*	*2021*	*Iraq*	Their study aimed to demonstrate the impact of relying on (IFRS) on the financial performance of Iraqi commercial banks. Using a group of banks listed on the Iraq Stock Exchange over three years of not adopting financial reporting standards (2011-2013) and three years of adopting them (2016-2018).	The results showed that the components of financial performance (EPS and BVS) are related to stock returns. The application of the standards has a significant positive impact on the importance of the value of (BVS), while the application of the standards for preparing financial reports does not have a significant impact

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					on the importance of the value of earnings per share disclosed by Iraqi banks. Moreover, their results showed that the bank's market value increases significantly with enhanced financial performance reports. In addition, the implementation of standards (IFRS) has a significant impact on financial performance measures and the importance of the value of financial reports in the banking sector in Iraq.
12	*(Nepal& Deb)*	*2024*	*India*	Their research, which covered the financial years 2014–2016 as the pre–IFRS period and 2017–2020 as the post–adoption period, sought to assess the effect of the convergence of International Financial Reporting Standards (IFRS) on the performance of industrial companies in the Indian financial market.	Their results indicated that adoption of Indian accounting standards is likely to bring about better regulation. It agreed on the policy implications that full adoption rather than convergence could reap the benefits of IFRS.
13	*(Chouaibi& Mutar)*	*2024*	*Iraq*	Their study aimed to determine the extent of the impact of International Financial Reporting Standards (IFRS) on a sample of banks listed on the Iraqi Stock Exchange, amounting to 15 banks out of a total of 46 banks listed on the market in terms of the value and importance of accounting information for the years (2012-2021), which included (2012 - 2015) before accreditation and (2015-2021) after accreditation.	Their study concluded that the value of published accounting information and the use of International Financial Reporting Standards (IFRS) have a positive and significant relationship. This means that the value and importance of accounting information increases with the trend towards adopting international financial reporting standards.
14	*(Srivastava et al,.)*	*2024*	*India*	Their research sought to determine how the effect of applying International	The results of the study showed that the financial reporting environment

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	Financial Reporting Standards over a five-year period—two years prior to the standards' mandatory implementation for the (2014–2015) period and three years following the application for the (2016–2018) period—on the explanatory power of earnings and book value on the market price in India, an emerging economy.	improved after the introduction of the standards, which was reflected in the correlation between the market price and the variables of profits and book value. However, the results also indicate that earnings were a stronger and more important predictor of market prices after applying the standards than book values, which showed a negative correlation with the market price and decreased after applying the standards.

Source*: was prepared by the authors based on previous literature*

4. CONCLUSIONS AND RECOMMENDATIONS:

Previous Literature covered 23 countries (Greece, Turkey, Indonesia, Australia, Nigeria, Belgium, Peru, Brazil, Chile, Mexico, Germany, Argentina Finland, France, Denmark, Netherlands, Poland, Spain, Ireland, Sweden, United Kingdom, Iraq, India). The results resulting from what was discussed showed that relying on International Financial Reporting Standards (IFRS) has different financial consequences. These consequences depend on the implementation environment in the country concerned. Strong implementation leads to more clear positive and negative consequences, while weak implementation leads to less clear consequences. The consequences of adopting IFRS include increased comparability, reduced cost of capital, improved information value and financial performance of companies, improved financial ratios, reduced information asymmetry, lower explanatory power of earnings, Lower loans, higher loan-to-deposit ratio, higher interest margin, and enhanced stock returns, while studies have indicated that reliance on standards leads to a lower quality of financial reports and an increase in the cost of capital. The researchers recommend the need for companies to educate investors about the importance of international financial reporting standards and the benefits of applying them by taking advantage of the literature that studied two periods before and after adopting international accounting and financial reporting standards. They must also explain and to investors the terminology and calculations used in financial reports prepared in accordance with those standards by holding workshops and courses

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