

International Comparative Study of International Financial Reporting Standards Adoption and Earnings Quality: Effects of Differences in Accounting Standards, Industry Category, and Country Characteristics

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Abstract : The purpose of this study is to investigate whether firms applying International Financial Reporting Standards (IFRS), provide high-quality and comparable earnings information that is useful for decision making of information users relative to firms applying local Generally Accepted Accounting Principles (GAAP). Focus is placed on the earnings quality of listed firms in several developed countries: Australia, Canada, France, Germany, Japan, the United Kingdom (UK), and the United States (US). Except for Japan and the US, the adoption of IFRS is mandatory for listed firms in these countries. In Japan, the application of IFRS is allowed for specific listed firms. In the US, the foreign firms listed on the US securities market are permitted to apply IFRS but the listed domestic firms are prohibited from doing so. In this paper, the differences in earnings quality are compared between firms applying local GAAP and those applying IFRS in each country and industry category, and the reasons of differences in earnings quality are analyzed using various factors. The results show that, although the earnings quality of firms applying IFRS is higher than that of firms applying local GAAP, this varies with country and industry category. Thus, even if a single set of global accounting standards is used for all listed firms worldwide, it is difficult to establish comparability of financial information among global firms. These findings imply that various circumstances surrounding firms, industries, and countries etc. influence business operations and affect the differences in earnings quality.

Keywords : accruals, earnings quality, IFRS, information comparability

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