ABSTRACT

This study aimed to analyze the influence of international accounting convergence in the level of earnings management in both Brazilian and Chilean companies. The sample was composed by the Brazilian and Chilean firms listed in Thomson ONE Banker database and presenting the data needed for the research. The study period was that between 2004 and 2012. Descriptive, document and quantitative research was conducted, with the application of the KS Model, t Test for independent samples and panel analysis. In Chilean companies, it was found that the greater the variation of revenue, the greater the tendency to use discretionary accruals. In Brazilian companies, it became clear that the larger the firm, the higher the earnings management. It was concluded that the adoption of IFRS by Brazilian and Chilean firms contributed to the reduction of discretionary accruals and, therefore, earnings management, although this effect was significant only in Chilean companies.

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Influence of International Accounting Convergence on the Level of Earnings Management

INTRODUCTION

The globalization of markets has brought the need for reliable and comparable accounting information to meet the demands of users from different countries. In this sense, international accounting standards issued by the International Accounting Standards Board (IASB) are related to economic benefits by attracting more investors. It is noteworthy that the greater the transparency, clarity and comprehensibility of financial information, the greater the investor’s confidence in the business and the smaller the required return for investment, bringing benefits such as the reduction of the capital cost (Antunes, Antunes, & Penteado, 2007).

The process of accounting convergence to International Financial Reporting Standards (IFRS) in Brazil was made possible by Law 11,638/07, which also occurred in over 100 countries by the creation of specific laws (Santos and Calixto 2010). In Chile, for example, the Technical Committee on Accounting Principles and Standards produced a convergence plan, stating that, in 2009, companies should apply the new accounting standards converged with the international ones (Morales 2010).

According to Souza and Coutinho Filho (2007), the accounting convergence with the international accounting standards was required in order to have an accounting standard to measure and disclose the performance of companies in different countries, increasing external users’ safety, mainly on disclosed information.

The process of preparation of financial statements requires estimates and judgment, which influence the company’s results. Thus, the investors’ concern is that the company does not use its estimates and judgments in a timely manner, manipulating the results, which is known as earnings management (Grecco, 2013).

The earnings management is not framed as a fraud. However, it can conceal important results for decision-making, both for external and internal users (Martinez 2008). For that reason, the following problem question was formulated: What is the influence of international accounting convergence in earnings management level of Brazilian and Chilean firms? To answer that question, the study aims to analyze the influence of international accounting convergence in earnings management level of both Brazilian and Chilean companies.

Some international studies have examined the relationship between earnings management or accounting information quality, in a broader sense, and the adoption of international accounting standards such as: Cai Rahman and Courtenay (2008); Barth, Landsman and Lang (2008); Liu, Yao, Hu and Liu (2011); and Müller (2014).

Cai et al. (2008), analyzing the effect of the implementation of international accounting standards in countries with IFRS adoption found a decreasing pattern of earnings management in most countries.

Barth et al. (2008) found that the application of international accounting standards was related to higher quality of financial statements. The results showed that companies applying IFRS generally have presented lower earnings management. In the same way, Liu et al. (2011) found that earnings management in China declined after the adoption of IFRS. Muller (2014) investigated the impact the adoption of IFRS had on the quality of financial information, in the period between 2003 and 2008, in companies listed on stock exchanges in London Paris and Frankfurt. They revealed that the adoption of IFRS has increased the quality of financial statements.

National studies, such as Klann (2011), on the effect of IFRS adoption in Brazil (2007-2009) and in England (2002-2009), points out that in British companies earnings management decreased after using IFRS while in Brazilian companies the result was reversed, with increased practice of income smoothing.
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