Chapter 3
Consequences of IFRS Adoption: A Myth or a Reality – Selected Cases of Adoption Effects

Erick R. Outa
Strathmore University, Kenya

ABSTRACT
The purpose of this chapter is to review the consequences of IFRS adoption by reviewing circumstances under which the benefits and costs accrue to firms, countries and the world. Notwithstanding, all issues raised about the consequences, IFRS adoption has had positive consequences and no wonder nearly 120 countries around the world and significant markets have adopted it. The chapter contributes to our understanding of the importance of IFRS and its effects and it is important to regulators and parties involved with world economic stability.

INTRODUCTION
This chapter outlines the arguments for the claimed consequences of International Financial Reporting Standards (IFRS) adoption and the extent to which research has vetted the consequences. IFRS or IAS are a set of standards stating how particular types of transactions and other events should be reflected in financial statements, issued by the International Accounting Standards Committee (IASC-IAS) and its successor the International Accounting Standards Board (IASB-IAS and IFRS). The goal of IFRS is to provide a global framework on how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements rather than set rules. This has led to the notion that IFRS has beneficial consequences in spite of the controversies, country differences, modes of adoption and the quality of the standards themselves. European Union (EU) Regulation No. 1606/2002 requires firms listed in the EU to prepare their consolidated accounts according to IFRS to help ensure a high degree of transparency and comparability of financial statements and, thus, improve the efficient functioning of the EU capital market. According to ICAEW\(^2\) (2014), the regulation’s objectives are to improve transparency and comparability, better functioning of the internal market, the efficient and cost-effective functioning of the capital market, the protection of investors and maintenance of
confidence in capital markets and help the EU companies compete on an equal footing for capital within the EU and on world capital markets. Nearly 120 countries around the world have also adopted IFRS or converged with IFRS or are in the process of doing so for the same reasons as the EU and also for other varied reasons. Other countries especially developing countries partly adopted IFRS as it was costly for them to produce their own standards. The widespread use of IFRS has seen academics, managers, regulators, policy makers and politicians wage in this murky debate of its consequences. Albrecht (2010) indicates that accounting theory are clear on three issues namely, accounting standards do not equally benefit all affected parties, they all have economic consequences and that they are not universal truth. Extant literature including Daske et al. (2008), Armstrong et al. (2010), Byard et al. (2011), regulators and many others alleges the consequences of IFRS as transparency, comparability, reduction in cost of capital and cost savings.

The purpose of this chapter is to review the debates about the consequences of adoption by applying descriptive analysis. The chapter starts off by looking at how we got to IFRS and why and from there on reviews the study approaches which have given rise to the consequences under analysis. It then looks at other IFRS consequences before analyzing country level consequences such as Tax, Foreign Direct Investment (FDI) and finally reviews IFRS adoption impacts on the environment.

Brüggemann et al. (2013) split the consequences into intended and unintended consequences. Intended consequences can be reconciled with the IFRS regulations which emphasize capital market as well as macroeconomic effects resulting from enhanced reporting transparency and cross-country comparability. On the other hand, unintended consequences are the effects absent from the IFRS regulation’s explicitly stated objectives and relate to the contracting uses of IFRS such as compensation schemes, lending agreements, dividend payouts, taxation, and other regulatory restrictions and have received little research attention.

While a lot of research has taken place in various parts of the world, Herbert et al. (2013) in a Nigerian study found that despite the spate of research on IFRS, the question about the economic consequences of its adoption for developing countries has hardly been investigated and therefore remains a matter of empirical concern. They argue that developing countries joined the IFRS bandwagon in quest for global competitiveness and aspiration to mitigate the prevalence of poverty. The pressure of global bodies such as the World Trade Organization (WTO) and the World Bank (WB) may have also pushed them to adoption. This perhaps explains why the literature on the economic consequences of IFRS adoption is sparse, particularly in developing countries. Up to the end of 2014, studies in Africa attempting to look at the impact of IFRS adoption has been Elbanan (2011) Egypt and Outa (2011) Kenya. Efobi et al. (2014) based in Nigeria has also generated interesting findings on IFRS so the Africa situation is improving.

Overall, it appears from the studies that transparency (effects are market liquidity, cost of capital and value relevance), comparability, FDI and economic development, Tax and Environmental impact are associated with adoption of IFRS.

The next section reviews the background to IFRS and notes how we got there. It also looks at the approaches applied in IFRS studies and the impact of politics.
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