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A Study of Early and Late Adopters of International Financial Reporting Standards in New Zealand

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ABSTRACT

This study investigates accounting choice relating to the timing of adoption of International Financial Reporting Standards (IFRS) in New Zealand i.e., the choice to voluntarily early adopt IFRS or to defer adoption of IFRS until it became mandatory. Results for 40 early adopters are measured against those of a control group of 40 late adopters. The study includes an examination of the impact of IFRS on financial information (IFRS differences), as well as analyses of qualitative information obtained from discretionary narratives in annual reports, questionnaires and interviews.

Significant *IFRS differences* are found for most financial statement elements and ratios for both early and late adopters. However, when IFRS differences for early adopters are compared to those for late adopters, the difference-in-differences are not found to be significant. Hence, IFRS differences result in incentives which may influence adoption timing, but these incentives are not significantly different for early and late adopters. Content analysis of discretionary narratives in annual reports reveals significant differences for all four of the measures used to assess the *extent* of disclosures, with early adopters providing typically twice as much disclosure as late adopters. Further analysis relating to the *nature* of disclosures reveals three major themes: ‘informing of importance’, ‘potency’ and ‘evaluative’. For the first two of these themes, significant differences are found and early adoption persists as a significant explanatory variable, after controlling for other incentives for voluntary disclosure, such as firm size, auditor and industry. ‘Evaluative’ disclosures are made by relatively few firms; are predominantly negative regarding IFRS adoption and no significant differences between early and late adopters are found for this theme. Disclosure findings reflect that early adopters attach a higher level of importance to IFRS adoption than late adopters. Survey data reveals significant differences for one of six measures of costs of IFRS as well as for a constructed ‘overall benefits’ score and three of nine individual benefits assessed. Also, three further themes emerge from content analysis of responses regarding motivations for adoption timing, namely ‘activity’, ‘manageability’ and ‘accounting choice’.

Overall, the findings triangulate to suggest that ‘accounting choice’ has less explanatory power, with regard to adoption timing decisions, than ‘other factors’ which are unrelated to the impact of IFRS on accounting information. Examples of such ‘other factors’ include the level of importance which firms attach to IFRS adoption; evaluations of the consequences of IFRS (predominantly neutral or negative) and perceptions as to the manageability of IFRS adoption (unexpected factors influence deferral). Adoption timing decisions of both early and late adopters are found to be predominantly ‘dynamic’ (proactive) rather than ‘static’ (passive) activity.

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Approval for the research was obtained from the Massey University Human Ethics Committee: Northern, Application MUHECN 07/008. Any concerns relating to the conduct of the research may be directed to Associate Professor Ann Dupuis, Acting Chair, Massey University Human Ethics Committee: Northern, telephone 09 414 0800 x9054, email humanethicsnorth@massey.ac.nz.

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LIST OF ABBREVIATIONS

ASRB	-	Accounting Standards Review Board
EA	-	Early Adopters of IFRS
EU	-	European Union
FMA	-	Financial Markets Authority
FRSB	-	Financial Reporting Standards Board
GAAP	-	Generally Accepted Accounting Practice
GPFR	-	General Purpose Financial Reports
IAS	-	International Accounting Standards
IFRS	-	International Financial Reporting Standards
IFRS for SMEs	-	IFRS for Small to Medium Enterprises
IOSCO	-	International Organisation of Securities Commissions
IPSAS	-	International Public Sector Accounting Standards
LA	-	Late Adopters of IFRS
MED	-	Ministry of Economic Development
NZ	-	New Zealand
UK	-	United Kingdom
US	-	United States
XRB	-	External Reporting Board