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Article

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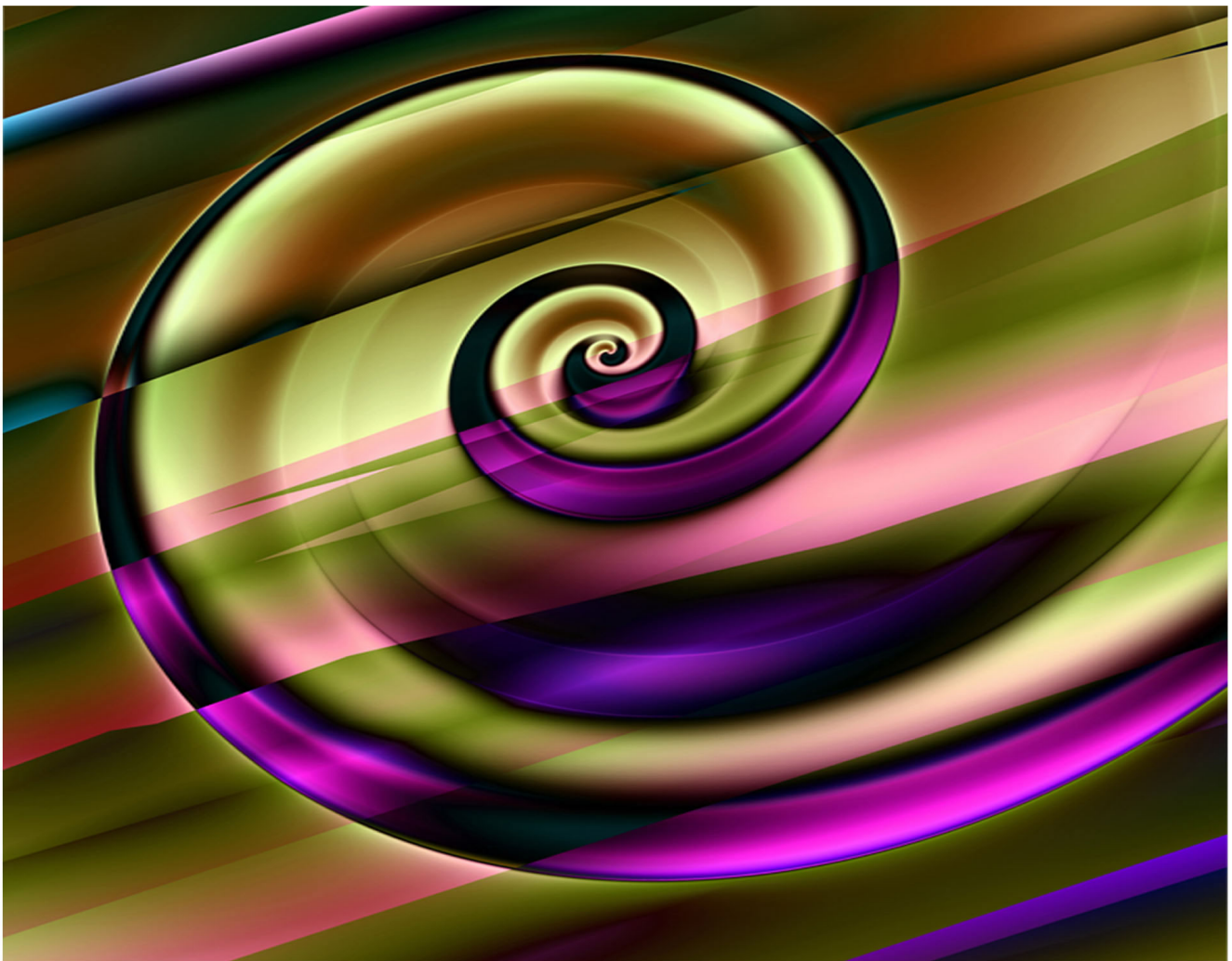
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**International classification of accounting systems
And effects of ifrs adoption**

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Abstract

This paper uses the classification of accounting systems as a guide to explore the impact of new International Financial Reporting Standards (IFRS) reporting rules on corporate financial statements and financial ratios in comparison to their local counterparts in selected European countries. In this study, it was found that the research in different countries on Europe yield different results and the impact of IFRS is not homogeneous due to different country backgrounds and different socio-cultural traditions.

The assumption that the impact of IFRS adoption correlates with membership in a certain group of classification of accounting systems was weakly confirmed.

It had been found that the impact of these changes on financial ratios is more pronounced in Southern Europe: Greece, Italy, Spain, and Portugal and to a lesser extent in Turkey. The impact is less pronounced in the countries of Northern and Central Europe: Germany, Poland, Finland and Sweden. The impact was significant and negative in Hungary.

These findings are to an extent supported by the classification of National accounting systems by Nobes 1983 and 1989. However, a new research on classification needs to be performed because of recent developments, the significant impact of the global financial crisis and also because it has been awhile since the original classification was developed.

Key words: Classification of accounting systems, financial statements, financial ratios, IFRS, international comparison

JEL Classification: M41, M40, M14

1. Introduction

According to the European Union (EU) Regulation No. 1606/2002 on the Application of international accounting standards (IAS), the companies that are trading their securities on an organized market are required to adhere to the standards of IFRS and IAS in their reporting. The International Accounting Standards/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) are to be applied starting from January 1, 2005 onwards. This decision was aimed at enhancing the competitiveness of the European capital markets by establishing a single set of homogeneous, “investor oriented” and internationally recognized accounting standards. The standards should ensure the “high quality, transparent and comparable information in financial statements”. This measure was a reply to the demands of users of financial statements. The main role of financial reports is connected with investment decisions and investors’ decision making.

Apart from this mandatory adoption, IFRS were more frequently and voluntarily used by other firms. The ability to provides comparable financial information for decision making of international investors is not the only reason for using IFRS, some firms face the need of being a part of international holding that is doing business on international scale or for the requirements of business partners. This voluntarily adoption of IFRS is usually accompanied by mandatory compliance of the national accounting standards (usually for the tax purposes) and preparing the second set of financial statements.

The transition to IFRS in every EU country has led to many substantial changes in the approach to corporate reporting of companies. Such transition is often a reason for many differences in various aspects and levels. These new results, whether intended or not, reveal further dimensions of financial reporting. The period since 2005 allows the research community an opportunity to verify whether the established goals of the set of standards have been achieved and whether they have brought the intended results. This situation also allows the analyse the factors are affecting the results, and are the reasons or the issues of concern. The research of the effects of IFRS adoption has many streams and has focused on many aspects of the process (Baker and Balbu, 2007). A common conclusion of these studies is that the harmonisation results across countries are much more influenced by the country’s previous history, specifics of culture and local economies, that are formed not only by the specific legal environment and tax regulation but also by the custom, common thinking of the accountant profession as well as managers, regulators etc. (Albu and Albu, 2010).

One of important and “final” influences of the IFRS implementation are the changes in value of some important items in company’s financial statements. These new standards may result in the change in the whole picture of the financial conditions of the firms concerned. These changes result not only in different classification, valuation and pricing of assets and liabilities as compared to the former regional and national GAAPs, but also in real conditions of the companies. These changes are reflected in the ways on how the statements are set up and also in the thinking of their preparers – accountants, who bring in their previous experience, ways of thinking and past practices as well as the experience and many other factors they have. These factors are usually captured by a general term “cultural

characteristics” and includes differences that differentiate one national accounting system from another. These characteristics create the basis of one of the international classification of accounting systems, which distinguishes in Europe into two groups of the national accounting systems: the accounting system of North and Central European countries and accounting systems of South European with that in South American countries (except of the UK and CEE countries), see Nobes and Parker (2008).

The main goal of the accounting harmonization is the comparability of financial statement, used by many users for making economic decisions. Usually, the data straight from the statements are not used for decision making. This data is usually an entry for calculation of a broad spectrum of indicators created by financial analysis. The key financial indicators such as ROE, ROA, debt ratio, financial leverage and other significant characteristics are used for assessment and comparison of the financial conditions and efficiency of firms and are calculated based on data of financial statements. These indicators play an important role in investment decision making on industrial companies and on their valuation, but they are also closely linked to financial management, financial planning, financial decision-makings (Prochazka, 2010). The ratios are thus targeted not only to investors, but also to managers and partners of the firms (suppliers, clients or bankers). The consequences of the IFRS implementation were identified as unintended and unexpected effects by Brügemann, Hitz and Sellborn (2010). Thus these broader effects are also one of the reasons for increasing research interest in this area.

This study aims to identify which changes in the financial indicators are caused by the IFRS adoption in the Czech firms. First, the study will provide an overview of the previous studies on the effects of recently introduced accounting harmonization through adoption of IFRS in different countries, then compare their approach and assess their results. Most of the previous studies investigate the impact of IFRS adoption on financial indicators in national conditions of EU member states (as a consequences of both compulsory and voluntarily adoption of IFRS) – e.g. Finland, Sweden, Turkey, Poland, Hungary, Portugal, Germany and the Czech Republic. Most of these studies deal with this problem while analysing some other issues, usually with the capital markets reaction on the IFRS adoption either in the area of book value or in the area of cost of equity.

As stipulated, the aim of this paper is to provide an overview of the research studies dealing with the changes in financial indicators in the above mentioned intention. The focus is on research studies which investigate the changes in financial indicators, regardless the method used for evaluation of the changes. Most of these research studies were conducted after the mandatory adoption of IFRS for the listed companies in 2005, when in the financial statements were available data characterised the same period based on the national and on the IFRS bases. Such research was conducted in Finland, Sweden, Turkey, Poland, Hungary, Portugal, and Germany. The results of the analysis and comparison provide a very interesting conclusion – the changes in the financial indicators differ in various countries and the differences are very similar to the classification of national accounting systems.

The structure of paper is as follows: Part 1 contains the introduction. Part 2 provides a brief summary the research goals and purposes of accounting harmonization. Part 3 deals with the characteristics of

research papers on the impact of IFRS adoption on key financial ratios in response to accounting classification and provides detailed comparison of the research studies on the IFRS impact. Part 4 provides summary and findings with respect to the significance of the impact of IFRS on reported accounting results in selected European countries. Part 5 concludes and summarises future challenges.

2. Research on the goals and purposes of accounting harmonization and its link to accounting classification

There is a growing pool of research aimed at the evaluation of the transition to the International Financial Reporting Standards (IFRS) and its effects on various areas. One stream is looking into intended and unintended effects of IFRS adoption (Burggemann et al., 2010). Another part of the research concentrates on the issues associated with capital market effects, including the increase in the stock's market value, increase in market liquidity, decrease of the cost of capital (Daske et al., 2008; Li, 2010). A different stream, frequently followed by capital market analysts, concentrates on the effect of IFRS on earnings per share and other market indicators (Beke, 2011; Silva, Medeiros do Couto, Cordeiro, 2009). The next group of researches found that the widespread adoption of IFRS does not lead to adequate and consistent changes in quality and comparability of accounting information, especially with regard to the national environment, existing accounting practices, and actual form of the accounting regulation including the link to the tax system (Klimczak, 2011). In the last few years, the attention of researchers have turned to the impact of the IFRS adoption on the managerial use of the financial statements and its effects on financial management and decision-making (Procházka, 2010; Beke, 2011). This point of view is linked with the issue of change of financial indicators called for by the change of regulations under the IFRS.

These analyses, although they have the same objective of examining changes in indicators of financial analysis, differ in the use of indicators, in the methods used for assessing the changes and in the way results were interpreted. Hence, comparison of the results in these conditions is difficult.

2.1 Data source

To investigate the change of national standards in the perspective of financial conditions and efficiency it is appropriate to use two sets of financial statements that describe one accounting unit in the same period in both ways, i.e. according to two sets of accounting standards. From this perspective, it is appropriate to use the year of the mandatory transition to IFRS – a statutory recognition of differences arising during this transition between the former national GAAP and IFRS. Most of researchers draw from these data sources, which were publicly available. For those firms that adopted IFRS voluntarily, It is still obligatory to prepare the financial statement for the tax purposes according to national GAAP.

This creates an additional data source for the analysis. The only obstacle is that the local statement may not be publicly available.

2.2 Classification of accounting systems

As part of the preparation and creation of international accounting standards (IFRS), extensive work was carried out in the identification of differences between national accounting systems and, in this context, on their classification. Classification of such a complex phenomenon as the financial system has led to a number of different taxonomy systems according to different dominating criteria. This has then led to different groups being defined. One of the classification approaches to accounting systems is understanding them as part of the cultural and social environment, resulting from the values, traditions and customs recognized as a result of socio-economic development of particular area (Kovanicová et al, 1999; Nobes, 1983). This approach leads to definition of 10 groups in which national accounting systems were classified according to four criteria:

- a) Professional accounting degree of dependence on the state regulation (whether the accounting officer is tied to the accounting regulations of the country or whether he is governed only by general principles and has some flexibility in their implementation).
- b) The degree of flexibility of an accounting system (whether the resulting statements can be adapted to the needs of individual companies or whether they are uniform and fixed).
- c) The degree of conservatism (whether the financial system are able to adapt to new information needs of economic development based on experience).
- d) The extent of openness of information (whether or to what extent they are the rules understandable and accounting data clear normal for user).

The outcome of classification according to these criteria results in the definition of the following groups, to which the accounting systems of different countries are assigned as illustrated in Table 1

Table 1. Classification of the accounting systems based on the socio-cultural criteria

Group	Country
Anglo-Saxon	United Kingdom, Ireland, USA, Canada, Australia, N. Zealand, South Africa
Germanic	Germany, Austria, Switzerland, Israel
Nordic	Denmark, Finland, Sweden, Norway, Netherlands
Developed Latin	France, Belgium, Italy, Spain, Brazil, Argentina
Developing Latin	Portugal, Mexico, Costa Rica, Guatemala, El Salvador, Panama, Venezuela, Colombia, Peru, Ecuador, Uruguay, Chile
The Middle East	Arab states, Turkey, the former Yugoslavia, Greece
Developed Asian	Japan
Developing Asian	Indonesia, Pakistan, Taiwan, Thailand, India, Malaysia, Philippines
Colonial Asian	Hong Kong, Singapore
African	countries of East Africa, West Africa

Source: Kovanicová, D. et al., Financial accounting in the context of world development (Finanční účetnictví v kontextu světového vývoje), Praha: Polygon 1999, ISBN 80-85967-98-7, s. 4-9.

Later on, the classification was simplified and on the basis of the most frequent and common features and five distinctive models of accounting systems were specified:

- 1) UK: Great Britain, Australia, Ireland, Netherlands, New Zealand, South Africa, Bahamas, Jamaica, Iran, and others,

- 2) Latin American and southern Europe: Brazil, Peru, Uruguay, Panama, Argentina, Bolivia, Greece, Italy, Pakistan, Colombia, and others,
- 3) North and Central Europe: Austria, Belgium, Denmark, France, Germany, Norway, Sweden, Switzerland, and others,
- 4) Spheres of influence of the U.S.: the U.S., Canada, Japan, Mexico, and others,
- 5) Separate group: Chile.

After 1989 and the transition of Central and Eastern European countries to market economy, this classification further aggregated into three models: the Anglo-Saxon, Continental, South American) and supplemented by a new group of accounting systems, made up the mixed model. This is the label for accounting systems in member countries of the former Soviet Union and Eastern and Central Europe. These accounting systems were not recognized in more detailed characteristics into the former classification. Characteristics of these countries are aimed to construct the economy on the market base. The objectives and these conditions should be adapted the reconstruction of the accounting system. But this effort has been under the growing influence of international accounting harmonization. Transforming accountancy under market economy conditions, transition of the investors needs required by differently oriented accounting system as well as creation of a reliable information source for private firms and their shareholders. The information can be then used for managers and it represents a great deal of issues and tasks, which – together with the effects of historical experience and stray routines, and the new social environment – can be solved only very gradually. Related problems include: the relationship between tax and accounting, the education and organization of the accounting profession, accounting control system, etc.

A significant point of these classifications is that in Europe it defines different groups of accounting systems, which are comprehensively reflected in the accounting system and reporting. It does not allow classification, which is currently the most used and which distinguishes four models of accounting (Anglo-Saxon, Continental, mixed and South America) – within Europe, there are no differences between countries considered (Nobes, 1998; Nobes and Parker, 2008)

The new formulated was the mixed model because of its special characteristics and subsequent inclusion into the general classification, which does not affect the originally used classification criteria, that we add to the classification according to the cultural-social criteria. It should be noted that even though this is one group that has many common features, it is not a coherent group. According to Nobes and Parker (2008) and Albu and Albu (2010) different subgroups can be identified even amongst the accounting systems of the CEE countries, which share common features of the group to varying degrees (Poland, Romania, and Ukraine).

2.3 Research purpose and research method

In this article, the researchers want to provide an overview of studies concerning this issue in the EU countries, compare their approach and characterise their main results. The focus is on research, which investigates the changes in financial indicators, using different choice of methods to evaluate the changes. Most of these research studies were conducted after the mandatory adoption of IFRS of the listed companies in 2005, when in the financial statements were available data characterised the same period based on the national and on the IFRS bases. Such research was conducted in Finland, Sweden, Turkey, Poland, Hungary, Portugal, and Germany. This paper wants to add to this research stream by analysing the conditions in the Czech Republic

3. Characteristics of research papers on the impact of ifrs adoption on key financial indicators

A great number of research papers investigate the impact of IFRS adoption on financial indicators as a result of mandatory adoption of IFRS in 2005. Mandatory compliance was applied in firms registered on regulated capital markets. In these research studies, the impact of IFRS adoption on the financial indicators is usually considered together with some other aspect accompanying the adoption IFRS in specific national conditions. The following papers fall in this category.

To limit the size and scope of this investigation to a reasonable number of research works, the authors have selected only one or two recent papers per country. Although these papers investigate the same issue, there are many differences in the concept and method of research process.

Table 2 below characterises the papers according the following criteria:

Author	Year	Country	Aim/purpose of the analyse	Data source	Analysed period	Sample extent	Results
Agca Ahmet, Aktas Rafet	2007	Turkey	Investigate the extent of differences between the results of financial ratios calculated on financial statements according to IAS/IFRS and those according to the Turkish standards	Balance sheets and income statements (first time adoption)	2004, 2005	147 listed firms other than financial sector,	Statistically significant changes only in two indicators (Current Ratio, T/O of Assets), no information if positive or negative
Susana Callao, José I. Jarne, José A. Laínez	2007	Spain	Seek significant differences between accounting figures and financial ratios on the basis of Spanish and international accounting standards with the focus on the investors	6-monthly information reported by the firms to the Spanish National Securities Market Commission	2004, 2005	35 firms eliminated financial institutions and insurance companies	The image of listed Spanish firms differs significantly, no information of whether positive or negative
Lantto, Anna-Maija; Sahlström, Petri	2009	Finland	Investigace the impact of IFRS adoption on key financial ratios, i.e. how key financial ratios change after the conversion from domestic accounting standards to IFRS in Finland, and the factors of these changes.	The transition reports of Finnish entities, data collected from firms' press releases transition reports,	Mostly 2004 and 2005	91 listed firms - all industries and all sizes	Increase in profitability and gearing ratios and considerably decreasing the PE, equity and quick ratios
Francisco José Ferreira Silva, Gualter Manuel Medeiros do Couto, Ruben Mota Cordeiro	2009	Portugal	Measure the impact of the application of IFRS to financial information of Portuguese public companies - changes in items in the financial statements and in some economic and financial ratios (gearing ratio, price earnings ratio, the earnings per share)	The financial reports (consolidated accounts of the firms) in the official stock market of Lisbon, ,	2004, 2005	39 listed corporations	Equity is reduced, liabilities increased, total assets increased, a decrease in the firms' growth potential and an increase in risk level – the impact was negative
Tsalavoutas, Ioannis; Evans, Lisa	2010	Greece	Explore the impact of the transition to IFRS on Greek listed companies' financial statements, on financial position and reported performance as well as on gearing and liquidity ratios	The published financial statements of the Greek listed companies acquired from the Athens Stock Exchange	2005, 2006	238 listed companies - mainly small companies	Impact on shareholders' equity and net income was positive. Impact on gearing and liquidity was negative
Beke, Jenő.	2011	Hungary	Value and analyze effects of the IFRS on the business decisions and on the level of earnings management and enhances the value relevance of international methods-based accounting numbers, especially in business performances.	Financial data are from published accounting statements in Budapest Exchange Trade and Hungarian Business Information database	2007, 2008	65 listed companies who adopted IFRS from 2007 and 260 firms who used local rules	The IFRS adoption had an influence on decreasing income, net profit value, ROE, ROA, negative impact , especially in solvency and prosperity, but there was identify higher quality and value relevant of information
Hellman, Niclas	2011	Sweden	Investigate the impact of the hard IFRS adoption on net profits and balance sheet numbers - in three ways: a) on net profit and shareholders' equity numbers b) on the tax alignment of the financial reporting. c) on the interaction the international accounting standards with the local conditions.	The annual reports, in some cases interim reports or a separate IFRS transition documents	2004, 2005	132 listed companies	Both positive and negative impact (compared soft and hard adoption of IFRS) – increased shareholders' equity, decreased net profit. The interaction with the local standards was confirmed.

Klimczak, Karol Marek	2011	Poland	Analyse the effects of mandatory IFRS adoption - impact of IFRS on balance sheet items, profit and loss statement items (revenue, operating profit or earnings) - how investors react to financial statement publication in accordance with IFRS	Year-firm observations of Polish companies listed at the Warsaw Stock Exchange, from a regional data provider	the period from 2000 to 2008	159 listed firms, excluded banks, financial intermediaries and insurers,	Impact of IFRS adoption was relatively small on average.
Csebfalvi, Gyorgy.	2012	Hungary	Evaluate and analyse effects of the international standards adoption on the shifting business environment and examine how Hungarian enterprises have been affected in terms of business performance by IFRS and how they have adjusted over time	The accounts published on the Budapest Stock Exchange and in the Hungarian Business Information database	pre-adoption period 2004- 2006 and the post-adoption 2008-2010.	65 listed companies adopted IFRSs and 260 firms using local accounting rules, excluded banks, insurances, pensions and brokerages	Balance Sheet indices and Income statement deteriorated in comparison with domestic standards. IFRS provided higher quality and value relevant, more clear and transparent information.
Fülbier R. U., Silva J. L. and Pferdehirt M. H.	2009	Germany	Investigate general lease capitalization and its potential consequences on the financial statements of a set of listed German companies and on key financial ratios.	Data from consolidated balance sheet and income statement items from Datastream/Worldscope of the largest German listed companies from the financial year-end closing dates in 2004	In the years 2003 and 2004.	90 companies belonging to the three major German indices DAX 30, MDAX, and SDAX	A significant impact of IFRS adoption was indentified. All ratios are considerably affected by the capitalization procedure; the impact on valuation is low, due to only small changes in profitability ratios and valuation multiples.
Cordazzo, Michaela	2009	Italy	Investigate total and individual differences between Italian GAAP and IFRS, identify and quantify changes of net income and equity of companies listed on Borsa Italiana	all industrial and services companies listed on <i>Borsa Italiana</i>	Financial statements of the firms at 31. 10. 2006	194 firms listed firms on Borsa Italiana	The ROE under IFRS is on average significantly lower than that calculated under Italian GAAP (9.47%) (negative impact), a significant positive impact on IFRS net income

3.1 Detailed characteristics of selected studies

Turkey

Agca and Aktas (2007) investigated the extent of differences between the value of financial ratios gathered from financial statements prepared according to IAS/IFRS and in accordance with the Turkish accounting standards in the same period. They used a sample of 147 firms listed on Istanbul Stock Exchange, data of which they gathered from the balance sheets and income statements presented in the year 2004 and 2005, when they were obliged to prepare two sets of them according to the two sets of standards. In their investigation they analysed the changes caused by using the IFRS in the following ratios:

1. Current Ratio (CurR), 2. Acid Test Ratio (ATR), 3. Cash Ratio (CR), 4. Inventory Turnover (IT), 5. Receivables Turnover (RT), 6. Assets Turnover (AT), 7. Total Liability Ratio (TLR) 8. Long Term Liability Ratio (LTLR), 9. Profit Margin (PM), 10. Return on Assets (ROA), 11. Return on Equity (ROE), 12. Equity Factor (EF): Assets/Shareholders' Equity (FL).

The specific feature of this research was that it identified both the changes in the whole sample of firms and in individual industrial sectors in which the firms were included.

To analyse the changes between the two sets of ratios calculated from the balance sheet and income statements prepared in accordance with IFRS and according to previous (Turkish) standards, they used the t-Test to verify the statistical significance. The results showed that the differences were significant in both the whole sample and in the sectors only in some of the examined ratios: cash ratio, inventory turnover ratio, asset turnover, return on equity and total liability ratio in sectors, and in cash ratio and asset turnover in the sample as a whole.

Spain

Callao, Jarne and Laínez (2007) in their study, focused on two objectives: (1) to establish whether the financial statements of Spanish firms are comparable, when some apply IFRS and others continue to use Spanish standards and (2) to determine the effect of the adoption of IFRS on the relevance of financial

reporting in Spain, measured by the quantitative impact of the application of IFRS on financial figures and ratios.

The authors focused on the same issue as above, i.e. on the effects of IFRS' adoption seeking significant differences between the value of financial ratios based on the two sets of financial statements, one prepared according to Spanish accounting standards, and the second according to IFRS. Through this analysis they also checked whether the IFRS methods make financial reporting more relevant for decision-making on capital markets.

The research sample included 35 firms listed on the Spanish stock market, with the exclusion of financial institutions and insurance companies. The data was obtained from the half-yearly information reported by the firms to the Spanish National Securities Market Commission in the first half of 2004 and 2005. The indicators, values of which were compared, were as follows:

1. current ratio, 2. acid test, 3. cash ratio, 4. solvency, 5. indebtedness, 6. return on assets per operating income, 7. return on assets per ordinary income, 8. return on equity per ordinary income, 9. return on equity per net income, 10. book-to-market ratio.

The analysis of the change in financial ratios was based on testing the statistical significance of differences between the value of indicators based on the Spanish standards and IFRS.

The results of this research can be summarized as follows::

a) Comparability of the financial statements has worsened when applying the IFRS, which was explained as an effect if both IFRS and local accounting standards were applied in the same company at the same time. There was no improvement in the relevance of financial reporting to local stock market because of the gap between book and market values became wider when applying IFRS.

b) Results of the item and indicator change analysis indicate the following conclusions:

- Increases in cash and cash equivalents, long-term and total liabilities and in the cash ratio, indebtedness and return on equity.
- Decreases in debtors, equity, operating income and the solvency ratio and return on assets (measured in terms of the operating income).

c) The evolution of the market value of Spanish firms is not in line with their book value in the period analyzed, regardless of the rules applied by the firms to prepare their financial information.

Finland

Lantto and Sahlström (2009) investigated the changes of key financial ratios under IFRS adoption in order to fill the gap in the research of economic consequences of IFRS adoption in Finland. Their study has the only aim, to identify how key financial ratios change after the conversion from DAS to IFRS in Finland, and to show that the adoption of fair value accounting rules and stricter requirements on certain accounting issues cause the changes observed in accounting figures and financial ratios.

The authors have analysed a sample of 91 firms. The data was collected from the transition reports of Finnish entities and from the firms' press releases (transition reports) in the years 2004 and 2005. They analysed and measured the changes of the following indicators characterising three different key economic dimensions of firms (profitability, leverage and liquidity): 1. operating profit margin (OPM), 2. return on equity (ROE), 3. return on invested capital (ROIC), 4. equity ratio (ER), 5. gearing ratio (GR), 6. current ratio (CR), 7. quick ratio (QR), and 8. price to earnings ratio (PE).

The results of this study indicate that that most of the FAS-based and IFRS-based balance sheets and income statements differ significantly (at the 5 per cent level), that the adoption of IFRS changes the magnitude of the key accounting ratios of Finnish companies by considerably increasing the profitability ratios and gearing ratio moderately, and considerably decreasing the PE ratio and equity and quick ratios slightly. The authors have also identified the standards that are the main reason of the indicators changes. The changes in the ratios characterise the increase in OPM (12%), in ROE (19%), in ROIC (9%), in GR (2.9%), and the decrease in PE (11%), ER (0.7%), liquidity ratios QR and CR (0.1%, 0.2%).

As for the data analysis, the authors calculated the differences between financial statement items and indicators before and after the conversion and tested the statistical significance of the differences (to analyse both the differences and the standard as the reason of the differences).

Portugal

Silva, do Couto and Cordeiro (2009) aimed their study on measuring the impact of IFRS application on financial information of Portuguese public companies to evaluate the impact of implementing the IFRS on the consolidated accounts (Balance Sheet, and Profit and Loss Accounting) of Portuguese firms (with

the exception of financial institutions and sporting institutions). The next goal was to quantify the differences between some economic items and financial ratios, namely:

- A) financial statements items: 1. intangible assets, 2. fixed tangible assets, 3. investments, 4. deferred taxes, 5. goods and merchandise, 6. cash, 7. profit after tax, 8. minority interest, and 9. loans and provisions;
- B) financial ratios: 1. gearing ratio, 2. price earnings ratio (PER), 3. the earnings per share (EPS), 4. price earnings ratio (PER), and 5. earnings per share (EPS).

The sample of firms comprised 39 firms listed in the stock market in Lisbon, which had to prepare their accounting statements according to the European regulations. The data was obtained from financial reports (consolidated accounts of the firms on the stock market) from 2006, which contained the information to the end of 2004 and to the end of 2005 both in IFRS and in POC.

The methods used for this analysis were descriptive statistics, ratio cluster analysis and linear regression models.

The results of the analysis were summarized in three levels:

- All of the items from the Balance Sheet and the Profit and Loss Statements registered important and statistically significant variations, that as increasing in general.
- The ratios PER and EPS suggest depreciation.
- Gearing ratios show an average decrease, i.e. signalling a greater risk perception of investors in these firms.

Germany

Fülbier, Silva and Pferdehirt (2009) analysed consolidated statement of 90 companies belonging to the three major German indices DAX 30, MDAX, and SDAX in years 2003 and 2004.

The goal of their study was to examine the potential effects of accounting treatment for operating leases (in a manner similar to today's financial leasing) on financial statement positions and key financial ratios.

The ratios examined were: 1. intensity of investment (NCA/TA), 2. equity to assets (E/A), 3. debt to equity (D/E), 4. profit margin (PM), 5. return on assets (ROA), 6. return on capital employed (ROCE), 7. return on equity (ROE), 8. times interest earned (TIE), 9. turnover capital employed (TCE), 10. earnings per share (EPS), 11. price-earnings (P/E), and the book to market ratio (B/M).

The results showed a material capitalization impact on a considerable number of companies, especially for the fashion and retail industry groups; where all ratios are considerably affected by the capitalization procedure either at the numerator or denominator level, or both.

Greece

Tsalavoutas and Evans (2010) analysed 238 listed Greek companies from years 2005 and 2006 listed on the ASE. The sample consisted mainly of small companies. The goal of the study was to explore the impact of the transition to IFRS on financial statements of Greek listed companies. Furthermore, the study concentrated on financial position and reported performance and also on gearing and liquidity ratios. The ratios and absolute numbers under examination were as follows:

1. shareholders' equity, 2. net profit, 3. gearing: total long-term liabilities/net assets; 4. liquidity: current assets/current liabilities.

The results have shown that implementation of IFRS did indeed have a significant impact on companies' financial position and reported performance as well as on gearing and liquidity ratios. The impact on shareholders' equity and net income were positive (immaterial and material, respectively). With regard to gearing and liquidity, the impact was negative (on average material and immaterial, respectively).

The authors have used a specific method for this examination Gray's comparability index (the equity (or other) as reconciled to IFRS, the denominator was equity (or other), according to IFRS).

Sweden

Hellman (2011) analysed 132 Swedish-listed companies to investigate the impact of the hard (EU-regulated) IFRS adoption on net profits and balance sheet numbers – in three ways:

a) Net profit and shareholders' equity numbers.

- b) Swedish accounting is highly influence by government and tax regulation, but the country has become more capital market-oriented over time. Sweden would now be considerably less influenced by tax alignment and more by capital market forces.
- c) Understanding how the adoption of international accounting standards interacts with the conditions that apply in a particular context.

The data was used to analyse the reconciliations between Swedish GAAP and IFRS. The study examined the impact of individual standards IAS/IFRS measured by comparability index.

The absolute value of special items of statements, namely 1. Net profit, 2. Equity, 3. Liabilities, and 4. Asset.

The data were hand-collected – the best data source was typically the 2005 annual report, but in some cases interim reports, the annual report 2004, or a separate IFRS transition document turned out to be a better source.

Poland

Klimczak (2011) used a sample of 159 firms, excluding banks, financial intermediaries and insurers. The research used year-firm observations of Polish companies listed at the Warsaw Stock Exchange over the period from 2000 to 2008. The data was provided by a regional provider Notoria Serwis,

The author analysed balance sheet items, net earnings and used the unexpected returns model by Dobija-Klimczak which assumes that investors expect each firm to follow the market. The author has found that IFRS affected mostly balance sheet items, especially tangible fixed assets and investments, net earnings did not change by more than 12%. There is no evidence of an abnormal reaction, or a surprise effect, at the time of first IFRS statement publication. It was concluded that the average impact of IFRS adoption can be even in a transition economy relatively small.

Hungary

Beke (2011) analysed the situation on Hungarian market looking into 65 IFRS adopting firms and 260 local firms on Hungarian market. The data were from published accounting statements in BET and Hungarian Business Information database. The companies' compulsory adopted international financial reporting standards in Hungary, from year 2007.

The goal of the study was measuring the differences between the national rules and the international methods. The study concentrated on the valuation analyzing effects of the IFRS on the business decisions. The question was whether IFRS adoption reduces the level of earnings management and enhances the value relevance of international methods – based accounting numbers, especially in business performances.

The study analysed the following ratios: 1. net asset value per share, 2. reserves to shareholders' funds, 3. dividend cover, 4. dividend per share, 5. dividend yield, 6. market value to book value, 7. earnings per share, 8. net profit margin, 9. ROCE, 10. cash flow margin, 11. current ratio, 12. operating cash flow scaled by total assets, 14. quick ratio, 15. working capital ratio, 16. debt to equity, 17. debt to shareholders' funds, 18. capital gearing.

The authors used logistic regression models I. a II. The result showed an unpleasant picture regarding solvency and profitability of the examined companies. The IFRS adoption had an influence on decreasing income of leaders/managers, on the other hand the policy and requirements became gradually more transparent, so has become the application of the standards and the implementation process became more user friendly.

The second study on Hungarian market by Csebfalvi (2012) focused on measuring the differences between national rules and the international standards, evaluating and on analyzing their effects on the shifting business environment.

The author used 65 companies, which adopted IFRSs, and 260 Hungarian firms which were using local accounting rules, i.e. a total of 325 firms. The sample excluded banks, insurance companies, pensions and brokerages and the data are taken from accounts published on the Budapest Stock Exchange and in the Hungarian Business Information database.

The study measured the following indicators: 1. average indices measuring solvency (OCF, CUR, and CFM) and leverage were higher in DAS (NAR) than the others; 2. the return on equity (ROE) and the average return on capital employed (ROCE) gave better results for National Accounting Rules (NAR) users; and 3. the leverage indices (DEBTE, CGEAR, DSFU) were better than in those companies which had adopted IFRS.

The author has used regression model for examinations. The study has revealed that the average index of dividend per share (from earnings after tax) was higher at companies which had already adopted IFRS than in those under local standards. Those earn more than double (5,8152) in terms of growth (measured by market value to historical value of assets) than do other firms. (In this sense the IFRS-adopting companies' average index was much lower.)

After examination it has been found that the Balance Sheet indices on average deteriorated after the adoption of IFRS.

Italy

Cordazzo (2009) investigated total and individual differences between Italian GAAP and IFRS, identify and quantify changes of net income and equity of companies listed on Borsa Italiana.

The data source was composed of all industrial and services companies listed on Borsa Italiana – total of 194 companies.

Financial statements of the firms were dated as of October 31, 2006. The results suggest that The ROE under IFRS is on average significantly lower than as calculated under Italian GAAP (9.47%) (negative impact) but the transition had a significant positive impact on IFRS net income.

4. Summary and findings

The results of the impact of IFRS adoption on the whole picture of financial situation of individual firms in various countries under examination are summarized in Table 3. The countries in which the analysis was conducted are assigned to groups of accounting systems defined by different cultural and social characteristics. Here we try to identify similar results inside the groups. In our table the signs + / - / x mean positive, negative and no effects of IFRS adoption respectively.

Table 3. Changes of financial indicators under the influence of IFRS adoption in countries classified according to socio-cultural characteristics

Group Country Change Changes of Indicators and the picture of financial condition of the firms

Latin American and Southern Europe Greece

+/- On average impact on shareholders' equity and net income was positive, gearing and liquidity indicators decreasing, the impact was negative

Italy

+/- The ROE under IFRS was on average significantly lower than that calculated under Italian GAAP (negative impact); net income was higher (positive impact).

Turkey

x Statistically significant only changes of two indicators (Current Ratio, Turnover of Assets), no information if positive or negative

Spain

x The image of listed Spanish firms differs significantly

when IFRS was used. Significant variations were found in operating income, liability, equity. Cash, solvency and indebtedness ratios, as well as the return on assets and return on equity varied significantly as a result of the changes in the balance sheet and income statement. No information if positive or negative.

Portugal

- Equity is reduced, liabilities increased, total assets increased, a decrease in the firms' growth potential and an increase in risk level – the impact was negative

North and Central Europe Germany

x A significant impact of IFRS procedures was identified for a considerable number of companies. All ratios are affected by the capitalization procedure, but the impact is low, due to only small changes in profitability ratios and valuation multiples.

Finland

+/- Increasing the profitability ratios and gearing ratio and considerably decreasing the PE ratio and equity and quick ratios slightly – positive and negative impact.

Sweden

+/- Both positive and negative impact (compared soft and hard adoption of IFRS) – increased shareholders' equity, decreased net profit.

Mixed model

Poland

x Average impact of IFRS adoption was relatively small.

Hungary

- The IFRS adoption had an influence on Balance Sheet indices deterioration, decreasing income, net profit value and indicators ROE, ROA and solvency – negative impact. But there was identify higher quality and value relevant of information.

Source: own research

As can be seen in most of the studies, there were revealed both positive and negative impacts of IFRS adoption on financial indicators. In a few cases, the final assessment of impact was missing but there were statements of a higher or lower variability of financial indicators in the group of investigated companies.

The assumption that the impact of IFRS adoption correlates with belonging to a certain group in classification of accounting systems was not confirmed. More accurate results would provide further comparative analysis of more similar studies and accompanied by both quantitative and qualitative analysis.

5. Conclusion

This paper uses the classification of accounting systems as a guide to explore the impact of new IFRS reporting rules on corporate financial statements and financial ratios in comparison with their local

counterparts in selected European countries. The selection of the countries is as follows (in alphabetical order): Finland, Germany, Greece, Hungary, Italy, Norway, Poland, Portugal, Sweden, Spain and Turkey. There is a waste body of literature on the problems of IFRS adoption in European countries. Our article draws mainly from the comparison of relevant studies characterising this subject in different European countries. Most of the studies have used the data from early years of compulsory adoption; there fore the results are probably influenced by the lack of experience in transforming local statements to IFRS format.

Some studies concentrate on the way of adoption and problems of comparability. In the selected studies, mixed evidence was found about the significance of differences in financial ratios and other examined indicators.

On the basis of analysis performed, the researchers have learned that the research in different countries on Europe generates different results and the impact of IFRS is not homogeneous due to different countries background and different socio-cultural traditions. It can be confirm that there are very different approaches in various European countries.

It has been found that the impact of these changes on value of financial ratios is more pronounced in Southern Europe: Greece, Italy, Spain, and Portugal and to lesser extent in Turkey. The impact is less pronounced in the countries of Northern and Central Europe: Germany, Poland, Finland and Sweden, however there is a significant and negative impact of IFRS adoption in Hungary.

These findings are to an extent supported by the classification of National accounting systems by Nobes 1983 and 1989, however, a new research both quantitative and qualitative needs to be performed, because of recent developments and significant impact of financial crisis and also because it is some time when the original classification was established.

The findings are challenging and more accurate results would provide further comparative analysis accompanied by both quantitative and qualitative studies.

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