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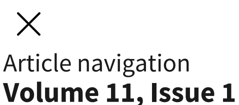

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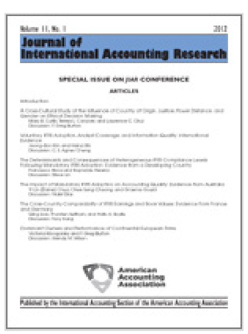

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The Cross-Country Comparability of IFRS Earnings and Book Values: Evidence from France and Germany

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ABSTRACT

Beginning in 2005, the EU began requiring consolidated financial reports of publicly traded firms to be prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRS) in an effort to increase the comparability of financial information across EU Member States. While some expect IFRS reporting to increase the comparability of financial information across the EU, others argue that comparability is unlikely because IFRS implementation will vary conditional on national institutions and culture. We investigate the cross-country comparability of IFRS earnings and book values of French and German firms because these two EU states have well-developed equity markets and use the same currency, while having social-economic and cultural differences that can affect managers' IFRS implementation choices. Our results indicate that French and German IFRS earnings and book values are comparable in the year subsequent to IFRS adoption, but become less comparable in the years that follow. We document differences in accounting estimates, recognition of special items, and other equity reserves between French and German firms that help explain the decrease in comparability over time. Our study adds to the growing literature on the financial statement effects of mandatory IFRS reporting, and points to possible reasons for a sustained lack of cross-country comparability of financial information under a common accounting regime.

JEL Classifications: G12, G14, G38, K22, M41, M42, M48

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IFRS Standards strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS Standards are also of vital importance to regulators around the world. And IFRS Standards contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers Earnings and book value of equity are less value relevant and timely loss recognition is less in post-IFRS compared to pre-IFRS period. KEYWORDS: IFRS, Accounting quality, Earnings management, Value Relevance, Timely loss recognition, INTRODUCTION. This study adopted the cross-sectional field survey [i.e. an examination of companies (or subjects) annual financial reports] of the quasi-experimental research design by examining the interrelationship among a number of variables between pre and post IFRS adoption in Nigeria.. Only firms for which data are available over the entire sample period for all the variables needed to calculate the quality measure are included in the final samples.