AUSTRALIAN PREPARER PERCEPTIONS TOWARDS THE QUALITY AND COMPLEXITY OF IFRS

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ABSTRACT

Despite concerns about their quality and complexity, in recent years there has been a rapid global uptake of IFRS. Following Australia's 2005 adoption of IFRS, this paper documents the results of a study which utilised mail surveys and explored the perceived quality and complexity of these standards amongst CFOs from large, ASX listed Australian firms. A number of respondents acknowledged that IFRS adoption had provided tighter guidance on key issues that had not been adequately addressed in the past. Despite this, numerous faults with IFRS were identified. Furthermore, there was strong support for the position that, when compared to compliance with prior AASB standards, IFRS reporting is more complex, time consuming and results in greater financial statement user confusion and higher audit and external consultancy fees. Some respondents were very passionate in their critique of IFRS describing the standards as “utterly stupid”, “ridiculous”, “nonsense” and “a mess”. IFRS most commonly singled out for both praise and criticism included those in relation to financial instruments, share-based payments, impairment and intangible assets.

KEY WORDS: Chief Financial Officers; International Accounting and Globalisation; Listed Australian Companies; Quality and Complexity of Accounting Standards; Surveys

FIELD OF RESEARCH: International Accounting and Globalisation

1. INTRODUCTION

Recent years have seen a rapid growth in the number of countries moving to adopt the International Accounting Standards Board's (IASB) body of International Financial Reporting Standards (IFRS) [1]. Following the lead of the European Union (EU), the Australian Accounting Standards Board (AASB) was committed by the Financial Reporting Council (FRC) to the 2005 adoption of IFRS (FRC, 2002)[2]. As typified by the changes relating to intangible assets and financial instruments, this move had a significant impact on the accounting practices applied by Australian firms. The decision of Australia and other countries to adopt IFRS was a surprise to many given the prior concerns about the quality and complexity of IFRS. Indeed, much of the conjecture concerning the quality and complexity of IFRS has been far less than complementary. As identified in Table 1.1, there are a number of sources of evidence available in exploring the conjecture concerning the quality and complexity of IFRS [3].

Table 1.1. Evidence Concerning the Quality and Complexity of IFRS

Source	Examples
Empirical studies exploring the relevance and reliability of information prepared under IFRS and apparent financial statement user accounting standards preferences.	Leuz and Verrecchia, 2000; Ashbaugh and Pincus, 2001; Young and Guenther, 2003; Ahearne *et al.*, 2004; Cuijpers and Buijink, 2005; Daske, 2006; Covrig *et al.*, 2007; Barth *et al.*, 2008; Morais and Curto, 2009; Pannanen and Lin, 2009; Preiato and Tarca, 2009.
Academic and practitioner reviews of the quality and complexity of IFRS.	Haswell and McKinnon, 2003; Jones and Wolnizer, 2003; Haswell, 2006; Bradbury, 2008; Haswell and Langfield-Smith, 2008; Nobes, 2008; FRC, 2009.
Reviews of the perceived quality and complexity of IFRS amongst financial report preparers.	Jermakowicz, 2004; Sucher and Jindrichosvska, 2004; Jones and Higgins, 2006.

The current study contributes to this growing body of evidence. Through the use of two mail surveys completed by Chief Financial Officers (CFOs) from large, Australian Stock Exchange (ASX) listed Australian firms, the study evaluates preparer perceptions towards the quality and complexity of IFRS. The first survey was conducted in late 2005 as most firms were finalising their IFRS conversion projects. The second survey was conducted in late 2008 by which time the ongoing impact of IFRS adoption would be largely appreciated. Total useable response rates of 28.2% and 21.6%, respectively, were achieved by the two surveys.

Amongst respondents to the 2005 survey, there was significantly more support for the position that IFRS adoption had resulted in a decline in the quality of financial reporting, than for the position that it had resulted in an improvement in quality. Over time, the level of positivity towards the quality of IFRS has improved with 2008 survey respondents being significantly more positive than respondents to the 2005 survey.

When discussing specific instances in which they felt IFRS were an improvement on prior AASB standards, respondents generally commented on those instances in which IFRS provided more specific rules, improved comparability between firms and increased relevance/reliability of information for financial statement users. Respondents were significantly more willing to identify and discuss instances in which they felt that IFRS adoption had resulted in a decline in quality. Broad criticisms of IFRS included that they were too reliant on assumptions, too restrictive, lacked specificity, and in some instances do not provide a true and fair view of an entity's financial position and performance. Not surprisingly, given the magnitude of differences between IFRS and prior AASB standards, most of the participants' discussion (both positive and negative) focused on financial instruments, share-based payments, impairment and intangible assets.

The large majority of respondents were concerned about the complexity of IFRS. The preparation of financial statements is now viewed as being more complex and time consuming and as requiring higher audit and other external consultant fees. Financial statement users are also now perceived as being more confused. Finally, the IASB has not necessarily been moving in the right direction, with 2008 survey respondents appearing generally indifferent towards any post-2005 IFRS changes.

The evidence provided by this study is likely to be relevant to other countries or firms considering the adoption of IFRS. It is also likely to be of interest to those parties and bodies interested in the development and refinement of IFRS to maximise the benefits from their global adoption. These parties and groups would, for example, include the IASB and other standards setters, professional accounting associations, public accounting firms, and financial statement preparers.

This paper is organised as follows. Section Two reviews the relevant background literature, and in particular, the moves to adopt IFRS and the evidence and conjecture concerning their quality and complexity. Section Three identifies the research questions explored in the paper and data collection procedures used in the analysis of these questions. The results of the analysis of responses to the surveys are documented in Section Four and the overall conclusions regarding these results are presented in Section Five.

2. LITERATURE REVIEW

2.1. INTRODUCTION

While developing nations have historically been strong supporters of the IASB (see for example, Agars, 1996; Chamisa, 2000), developed nations have been typically unwilling to accept changes to their domestic accounting standards. Jacob and Madu (2004, p. 358, cited in Irvine, 2008) observed that up until the 1990's, the IASB had no "meaningful relationships" with standard setters from any major industrial economies. In more years, however, driven by the accelerated global business trend and the endorsement of the IASB's core standards by the International Organisation of Securities Commissions (IOSCO), developed nations have been more willing to consider IFRS adoption (Garrido *et al.*, 2002; Lehman, 2005; Daske and Gerbhardt, 2006; Baker and Barbu, 2007; Wu and Zhang, 2009). The IASB "has become more of a force" (Zeff, 2007, p. 301) with the International Accounting Standards Committee Foundation (IASCF) (IASCF, 2010b) observing that "more than 100 countries now require or permit the use of IFRSs or are converging with the IASB standards".

In 1996, the AASB began a process of harmonisation with IFRS. In doing so, it was regarded as the first major standard setter to commit to a formal harmonisation program (Humphry, 1997; Collett *et al.*, 1998; Sharpe, 1999; Parker and Morris, 2001). Somewhat surprisingly, given the initial concerns about the verbatim adoption of IFRS (see for example, Zeff, 1998; Dunk and Kilgore, 1999; Humphry, 1997; Warrell, 1999; Brown and Tarca, 2001), on 28 June 2002, the FRC announced that it would require the AASB to adopt IFRS by 1 January 2005 (FRC, 2002).

2.2. IMPACT OF IFRS ADOPTION ON AUSTRALIAN ACCOUNTING PRACTICES

Despite Australia's harmonisation policy since the mid 1990's, and despite the relative alignment of traditional Australian accounting practices with IFRS (see for example, Gray, 1988; Wines, 1989), at the time of IFRS adoption there were a number of significant differences between IFRS and AASB standards. These differences included both instances of "divergence" (i.e. Australian and international rules covered the same topic but prescribed different methods) and "absence" (i.e. Australian rules did not cover an accounting issued regulated by IFRS) (Ding *et al.*, 2005, p. 326). As summarised in Table 2.1, the significance of the impact of IFRS adoption on Australian accounting practices was particularly evident by changes in relation to intangible assets, share-based payments and financial instruments.

Table 2.1. Impact of IFRS Adoption on Australian Accounting Practices

Area	Prior Australian treatment	IFRS treatment
Research costs	No distinction between research and development costs. Both could be capitalised so long as they were recoverable beyond a reasonable doubt.	The research phase is explicitly separated from the development phase. Research costs must be expensed when incurred. Development costs can be capitalised subject to some restrictions.
Goodwill	Goodwill amortised over a maximum period of 20 years.	No compulsory goodwill amortisation, however, goodwill is subject to tests of impairment.
Other internally generated intangible assets	Beyond internally generated goodwill, there was no explicit restriction on the recognition of internally generated intangible assets. Internally generated intangible assets could be revalued so long as their fair value could be determined reliably.	Internally generated intangible assets such as brands, mastheads, customer lists are explicitly prohibited from recognition as an asset. Internally generated intangible assets can only be revalued when an active market exists for the asset.
Share based payments	No requirement to recognise share based payments to employees as an expense.	The value of the services received as part of share based payments is recognised as an expense.
Financial instruments	Limited specific guidance was available in regards to many issues surrounding financial instruments.	Explicit requirements, for example, regarding the disclosure of financial assets and liabilities on the balance sheet; the measurement and revaluation of financial assets to fair value and recognition of gains in profit; and hedge effectiveness.

(Curran, 1996; Deloitte Touche Tohmatsu 2004; Deegan, 2005)

Differences between accounting standards, such as the ones presented above, can "impact how entities present themselves to others" (Tokar, 2005, p. 293) and affect financial statement ratios and the volatility of earnings (Tower *et al.*, 1999). Evidence on the financial impact of IFRS adoption on Australian financial statements is provided by studies conducted by Jubb (2005), Ernst and Young (2005) and Jones and Higgins (2006). The results of these studies are summarised below.

In accordance with AASB 1047, Australian companies were required to provide estimates of the potential impact of IFRS adoption on their accounts. Jubb (2005) reviewed the AASB 1047 disclosures filed with the ASX for annual and half year reporting periods ending 30 June 2004 for a sample of 808 listed companies. In her review, Jubb (2005, p.10) identified six key areas of change, namely, income tax, asset impairment, share based payments, financial instruments, goodwill, and intangible assets.

Adopting a similar methodology to Jubb (2005), Ernst and Young (2005) examined the 2005 annual report disclosures provided by 78 Top 100 Australian companies regarding the impact of IFRS adoption. The study found that, on average, transition to IFRS was expected to increase profit by 6% in the first comparative year. The key areas of change affecting profit included accounting for investment properties, goodwill and financial instruments. The study further highlighted that the transition to IFRS was expected to decrease equity by an average of 15%. Changes in the accounting for financial instruments, intangible assets and income taxes were the primary factors contributing to this decrease.

Jones and Higgins (2006) discuss the results of 60 telephone surveys with senior finance personnel which explored the impact of IFRS adoption on Australia's Top 200 companies. The majority of respondents (52%; 62%) agreed/strongly agreed that IFRS adoption would have a significant impact on their financial position and performance. In exploring the standards which had the most significant impact, Jones and Higgins (2006, p. 642) noted that "IFRS will have their greatest reporting impact in areas where there are currently no existing Australian standards", including those relating to financial instruments and intangible assets.

2.3. THE QUALITY AND COMPLEXITY OF IFRS

Whittington (2005, p.133) commented that the process of converging accounting standards "is intended to lead to the adoption of the best practices currently available". Indeed, many of the potential benefits of IFRS adoption are dependent on the quality of IFRS (Preiato and Tarca, 2009). Whether IFRS constitute best practice has been subject to much debate. Among other things, IFRS have been described as being based upon an international compromise, less rigorous than other accounting standards, overly complicated and increasingly rules-based, internally inconsistent, lacking guidance, and as allowing too many choices or options (see for example, Sharpe, 1999; Warrell, 1999; Godfrey and Langfield-Smith, 2005; Haswell and McKinnon, 2003). Recent criticisms have focused on IFRS fair value or mark-to-market requirements. Opponents of fair value accounting are adamant that the techniques have contributed to and exacerbated the severity of the Global Financial Crisis (GFC) and have questioned the reliability of fair value measures (see for example, Whittington, 2008; Arnold, 2009; Laux and Leuz, 2009).

Overall, as Haswell and Langfield-Smith (2008, p. 47) argued, "the long history of the IASB, commencing in 1973, has been of difficulty in convincing domestic regulatory authorities that its products were up to scratch". Significant International Accounting Standards Committee (IASC) initiatives, aimed at addressing concerns regarding the quality and complexity of IFRS, have included the completion of the Comparability and Improvements Project in 1993 and the preparation of the core standards for IOSCO review in 1998 (see for example, Soderstrom and Un, 2007). Further improvement projects continued when the IASB took over from the IASC in 2001. Since this takeover, "only 31 of the 41 IASs remained in effect as of January 2005. In addition, by this time, the IASB has issued eight new IFRS" (Pannanen and Lin, 2009, p. 32). Post-2005 activities have included a move to a Statement of Comprehensive Income, changes to business combination accounting (see for example, Leo *et al.*, 2009) and the establishment of the joint IASB and Financial Accounting Standards Board (FASB) Financial Crisis Advisory Group (FCAG) (see for example, IASCF, 2010a).

As illustrated below, there are a number of sources of evidence available in exploring the conjecture concerning the quality and complexity of IFRS.

Firstly, there have been a number of empirical studies which have studied the relevance and reliability of information prepared under IFRS and apparent financial statement user accounting standard preferences. To illustrate, Young and Guenther (2003), Ahearne *et al.* (2004), Cuijpers and Buijink (2005) and Covrig *et al.* (2007) found a positive association between IFRS use and the level of foreign ownership. Other studies have identified that IFRS use appears to be associated with an improvement in various proxies for accounting quality including analyst earnings forecast error, earnings management, timeliness of loss recognition, and the value relevance of earnings (see for example, Ashbaugh and Pincus, 2001; Barth *et al.*, 2008; Morais and Curto, 2009; Preiato and Tarca, 2009). Not all empirical studies, however, have found a positive association between IFRS use and accounting quality. To illustrate, Pannanen and Lin (2009) found that the quality of German reporting under IFRS has deteriorated over time. Other studies have reached conflicting conclusions regarding the use of IFRS and firms' cost of capital (see for example, Leuz and Verrecchia, 2000; Daske, 2006).

Secondly, there have been a number of published academic and practitioner reviews of the quality and complexity of IFRS. Haswell and Langfield-Smith's (2008) review of the drafting and consistency in the application of the rules and principles of 36 Australian equivalent IFRS used by most financial statement preparers exemplify such reviews. Their review identified "57 serious defects", although they acknowledge "a longer paper would capture many more" (p. 47). Among other things, Haswell and Langfield-Smith (2008) criticised the over-complexity of IFRS, describing the terminology for financial instruments as "nearly incomprehensible" (p. 50). Haswell and Langfield-Smith's (2008) review prompted heated responses from Bradbury (2008) and Nobes (2008). Bradbury (2008) asserted that Haswell and Langfield-Smith (2008) were selective in their criticism and lacked evidence in support of their claims and described the "57 serious defects" as "personal assertions" (p. 293). Similarly, Nobes (2008) felt that Haswell and Langfield-Smith (2008) had "exaggerated the defectiveness of IFRS and the comparison with previous Australian standards" and questioned whether the defects were really 'serious'. Other academic reviews of the quality and complexity of IFRS, along with their conceptual framework, are provided by Haswell and McKinnon (2003), Haswell (2006) and Jones and Wolnizer (2003).

An example of what could be considered a practitioner review of the quality and complexity of IFRS is the United Kingdom's Financial Report Council's (FRC, 2009) investigation of the complexity and relevance of financial reporting. The investigation – involving interviews, roundtable discussions with financial statement preparers and users, as well as surveys – identified a number of concerns and provided a number of recommendations for improvement. Most preparers felt that financial report preparation was too complex and the standards could be better worded and structured. As an illustration of such concerns, the investigation identified IFRS's use of 30 different probability thresholds. Users questioned the relevance of much of the information disclosed in annual reports. Particularly problematic areas included financial instruments, business combinations, share-based payments and defined-benefit plans. The study further analysed the growing practice of financial statement preparers providing alternative measures of performance because of the perceived disconnect between financial reporting and business reality.

A final body of evidence concerning the quality and complexity of IFRS includes studies which have evaluated the perceptions of financial report preparers. In an Australian context, beyond exploring the impact of IFRS adoption on financial statements, Jones and Higgins (2006) explored the perceptions of senior finance personnel from Australia's Top 200 companies towards the quality of IFRS. Only a very limited number of respondents (21.7%; 33.4%) agreed/strongly agreed that IFRS adoption would either improve the quality of financial reports or that IFRS were more transparent and understandable in comparison with existing AASB standards.

A number of studies have also reviewed the perceptions of European preparers towards IFRS. For example, Jermakowicz (2004) documented the results of a survey of the perceived benefits and challenges of IFRS adoption for financial officers from 11 BEL-20 companies. The majority of respondents identified an increase in the volatility of earnings because of the reliance on fair value accounting, the complex nature of IFRS and the lack of implementation of guidance as key challenges associated with IFRS adoption. IAS 39 and IAS 36 were identified as being particularly complex. Sucher and Jindrichosvska (2004) further used interviews to explore the preparedness for IFRS adoption and general issues with IFRS for 11 representatives from nine Czech Republic firms. Concerns were raised about the complexity and increased information requirements associated with IASB 11, IAS 36, IAS 37 and IAS 39 and about the difficulty and costs associated with fair value accounting. Cynical views were expressed about the potential income to be derived by audit firms in advising on complex IFRS issues. As one interviewee commented:

> The knowledge is kept in the audit company. It is big business [for the audit firm]. You can train companies to do the supporting sheets but the final bit is done by the audit firm (Sucher and Jindrichosvska, 2004, p.132).

3. THE CURRENT INVESTIGATION

This paper documents the results of a study which contributes to the growing body of evidence regarding the quality and complexity of IFRS. The study evaluates the perceptions of large, ASX listed Australian firms towards quality and complexity of IFRS and evaluates the following five research questions:

Research Question 1 *Do Australian firms view IFRS as being an improvement or decline in quality in comparison with prior AASB standards?*

Research Question 2 *What specific IFRS do firms perceive as being an improvement or decline in quality in comparison with prior AASB standards?*

Research Question 3 *How do Australian firms view the complexity of IFRS compliance in comparison with prior AASB standards?*

Research Question 4 *Are Australian firms satisfied with the post-2005 changes to IFRS?*

Research Question 5 *Can any factors explain inter-firm differences in the perceived quality and complexity of IFRS?*

Such evidence is particularly important given that, as previously discussed, the development and adoption IFRS is intended to be one of moving towards best practice (Whittington, 2005). If it is not, then many of the potential benefits of IFRS adoption may go unrealised (Preiato and Tarca, 2009).

Data used for the purposes of this paper consists of the responses received to selected items included in two surveys which explored the overall costs and benefits of IFRS adoption for the Top 400, ASX Listed Australian firms [4]. Following a pre-test phase, the first survey was conducted in late 2005 as most firms were finalising their IFRS conversion projects. The second survey was conducted in late 2008 by which time the ongoing impact of IFRS adoption would be largely appreciated by firms. Follow-up reminders were used to maximise the response rate of both surveys. Prior to the conduct of the 2008 survey, the full listing of 400 firms used for the 2005 survey was adjusted for any company name and/or contact detail changes. This listing was also updated to reflect any firms that had been delisted or taken over since completion of the first survey. These procedures resulted in 2008 survey being mailed to 301 firms. Both surveys were directed, where possible, to firm CFOs. For comparative purposes, both surveys shared a number of identical items.

4. RESULTS

4.1. RESPONSE RATE AND RESPONDENT CHARACTERISTICS

In total, 107(28.2%) useable responses were received to the 2005 survey. The 2008 survey received 59(21.6%) useable responses [5]. All respondents were given a unique identifier (i.e. R8, R40 for 2005 survey respondents and R1008 and R1040 for 2008 survey respondents) and these identifiers are used throughout the discussion of results.

The majority of respondents to both the 2005 and 2008 surveys (61.3%; 78.0%) were either their firms' CFO/Deputy CFO or their firms' Financial Controller/Manager. Because of the anonymity of the respondents, it was not possible to confirm that the participants of the 2008 survey were the same people as those who completed the 2005 survey. In an attempt to ensure the reliability of comparisons between the 2005 and 2008 surveys, respondents to the 2008 survey were asked to identify whether or not they had held their position since the time of the initial survey. Those respondents which had not held their current positions since 2005 were further asked to identify the status of their employment prior to 2005. The results of this analysis of the employment histories of respondents revealed that the majority of the 2008 respondents (52.5%) had been in their position since the time of the initial survey. Furthermore, of those 2008 respondents which had not held their current position since 2005, only a limited number (18.6%) had not been employed in an equivalent position in either their current or similar firm prior to 2005.

Respondent firm industry and industry sectors breakdowns are presented in Tables 4.1 and 4.2. Table 4.3 further provides information on the relative size of the respondent firms. With median sales turnover being A$355 Million and A$450 Million, respectively, respondent firms represent some of Australia's largest. For the purposes of inter-company comparisons, firms were grouped into three, approximately equal, groups. These groups were developed using firm sales turnover and included: (1) small (less than $150 Million), (2) medium ($150 Million to $749 Million), and (3) large ($750 Million or more).

Table 4.1. Firm Industry Breakdown

Industry	2005 Survey (n 107)		2008 Survey (n 59)	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Materials, energy & utilities	29	27.1%	16	27.1%
Finance, insurance & real estate	22	20.6%	18	30.5%
Manufacturing & construction	18	16.8%	13	22.0%
Business / Consumer Services & healthcare	22	20.6%	6	10.2%
Information technology, telecommunications & media	8	7.5%	4	6.8%
Retail Trade	8	7.5%	2	3.4%

(X^2 7.79, d.f. 4, p 0.10)

Table 4.2. Firm Industry Sector Breakdown

Industry sector	2005 Survey (n 107)		2008 Survey (n 59)	
	Frequency	**Percent**	**Frequency**	**Percent**
Primary	24	22.43%	16	27.12%
Secondary	15	14.02%	13	22.03%
Tertiary	68	63.55%	30	50.85%

(X^2 4.79, d.f. 2, p 0.09)

Table 4.3. Firm Size

Size variable	Survey	*n*	Min.	Max.	Median	$\bar{x}$	S.D.	2005 v 2008 comparison
Sales turnover (A$ Millions)	2005	106	3	12,000	355	1,240	2,119	
	2008	59	6	70,381	450	3,394	10,620	U 2,838, p 0.33
Total employees	2005	106	6	38,000	905	3,322	6,256	
	2008	57	7	42,000	1,000	4,688.5	9,906.8	U 2,940, p 0.78
Accounting personnel	2005	105	1	700	15	59	106	
	2008	54	1	1,500	27.5	113.8	275.6	U 2,560, p 0.32

Consistent with Roberts' (1999, p.53) "prescription for rigorous survey research", both (1) respondent/population comparisons for selected characteristics, and (2) comparisons of late and on-time responses for selected survey questions were conducted. The results of these procedures are summarised in Appendix 2 and respondents appeared to be reasonably representative of the wider population of interest.

4.2. THE PERCEIVED QUALITY AND COMPLEXITY OF IFRS

Table 4.4 provides descriptive statistics relating to closed-ended survey items which prompted respondents to identify their level of agreement to various statements concerning the complexity and quality of IFRS. All of these items adopted a seven point Likert-scale: 7: Very Strongly Agree, 6: Strongly Agree, 5: Agree, 4: Neutral, 3: Disagree, 2: Strongly Disagree, 1: Very Strongly Disagree.

Both 2005 and 2008 survey respondents were asked to identify their level of agreement to statements that IFRS adoption would either (1) significantly increase the perceived quality of financial statements amongst their firms' foreign financial statement users; or (2) improve the quality of their firms' financial reporting. For both surveys, the number of respondents in agreement (37.65%; 46.00%) with the statement that IFRS adoption would significantly increase the perceived quality of financial statements amongst their firms' foreign financial statement users marginally outnumbered those in disagreement (32.94%; 30.00%). Responses to this item did not differ significantly between the two surveys (t -0.63, p 0.53). The majority of 2005 survey respondents (52.88%) disagreed with the statement that IFRS adoption would improve the quality of financial reporting. There was, however, significantly more support for this item in 2008 (t -2.48, p 0.01) with the number of 2008 survey respondents in agreement (33.93%) with the item being approximately equal with those in disagreement (32.14%). Firm size appeared significant in explaining 2008 survey responses towards the statement that IFRS adoption would improve the quality of financial reporting (p 0.13). For this item, Scheffé post-hoc tests identified that large firms ($\bar{x}$ 4.41) were significantly more positive than small firms ($\bar{x}$ 3.24)(p 0.03).

2005 survey respondents also provided their level of agreement to the statement that IFRS adoption would result in a decline in the quality of financial reporting. Similarly, 2008 respondents were asked to indicate their level of agreement to the position that IFRS adoption would result in an ongoing decline in the quality of financial reporting. Approximately half of respondents (48.60%; 57.63%) disagreed with these items. Firm size (p 0.01) and industry sector (p 0.05) were significant in regards to 2008 responses to the statement that IFRS adoption would result in an ongoing decline in the quality of financial reporting. Specifically, small firms ($\bar{x}$ 4.16) and firms from the tertiary sector ($\bar{x}$ 3.80) were more supportive that there would be an ongoing decline in quality than large firms ($\bar{x}$ 3.18)(p 0.01) and those from the secondary sector ($\bar{x}$ 2.92)(p 0.05).

Paired t-tests were used to further explore firm perceptions towards the quality of IFRS. These tests involved comparing (1) 2005 survey responses to items that IFRS adoption would result in either an improvement or decline in the quality of financial reporting, and (2) 2008 survey responses to items that IFRS adoption would result in either an improvement or ongoing decline in the quality of financial reporting. The first test, involving 2005 survey data, identified a significant difference with respondents being significantly more supportive of the position that IFRS adoption had resulted in a decline in the quality of their firms' financial reporting ($\bar{x}$ 3.74) than for the position that adoption had resulted in an improvement in the quality ($\bar{x}$ 3.24)(t -2.14, p 0.04). The second test, involving 2008 survey data, however, did not identify a significant difference (t 1.04, p 0.30).

A number of items, also presented in Table 4.4, were used to explore respondent perceptions towards the complexity of IFRS and the impact of this complexity on financial statement users and the preparation of financial statements. Almost all of the 2005 survey respondents (95.33%) agreed with the statement that IFRS adoption would result in additional work being devoted to financial reporting as some of the new standards are more onerous than prior AASB standards. These issues were more thoroughly explored in the 2008 survey. Respondents to this survey were prompted to indicate their level of agreement to statements that IFRS adoption would result in an ongoing increase in the: (1) fees paid to external auditors and other external specialists; (2) level of confusion amongst financial statement users regarding financial statements; (3) work associated with the preparation of financial statements; and (4) complexity of financial reporting practices. For all of these items from the 2008 survey, the number of respondents in agreement (83.05%; 59.32%; 74.58%; 76.27%) far outweighed those in disagreement (10.17%; 18.64%; 11.86%; 10.17%). Responses to all of these items concerning the complexity of IFRS appeared to be unaffected by firm size or industry/industry sector.

Table 4.4. The Perceived Complexity and Quality of IFRS

IFRS adoption will…	Survey	n	Agree	Disagree	$\bar{x}$	Median	SD	Influence of firm size / industry
Significantly increase the perceived quality of financial statements amongst foreign financial statement users.	2005	85	32 (37.65%)	28 (32.94%)	3.91	4.00	1.44	Size: F 2.30, p 0.11 Industry: F 1.26, p 0.29 Sector: F 2.43, p 0.10
	2008	50	23 (46.00%)	15 (30.00%)	4.06	4.00	1.25	Size: F 3.09, p 0.06 Industry: F 0.45, p 0.81 Sector: F 0.68, p 0.51
Improve the quality of financial reporting.	2005	104	22 (21.15%)	55 (52.88%)	3.24	3.00	1.42	Size: F 2.08, p 0.13 Industry: F 1.10, p 0.37 Sector: F 1.35, p 0.26
	2008	56	19 (33.93%)	18 (32.14%)	3.82	4.00	1.39	Size: F 4.01, p 0.02* Industry: F 0.67, p 0.65 Sector: F 1.16, p 0.32
Result in a decline in the quality of financial reporting	2005	107	29 (27.10%)	52 (48.60%)	3.72	4.00	1.37	Size: F 1.66, p 0.20 Industry: F 0.92, p 0.47 Sector: 0.20, p 0.82
Result in an ongoing decline in the quality of financial reporting	2008	59	9 (15.25%)	34 (57.63%)	3.56	3.00	1.09	Size: 5.05, p 0.01** Industry: 1.99, p 0.10 Sector: F 3.22, p 0.05*
Result in additional work being devoted to financial reporting as some of the new standards are more onerous than existing standards.	2005	107	102 (95.33%)	0 (0.00%)	5.68	6.00	0.83	Size: F 0.70, p 0.50 Industry: F 0.95, p 0.45 Sector: F 0.98, p 0.38
Result in an ongoing increase in the fees paid to external auditors and other external specialists.	2008	59	49 (83.05%)	6 (10.17%)	5.27	5.00	1.19	Size: F 0.31, p 0.74 Industry: F 1.67, p 0.16 Sector: F 3.09, p 0.05*[6]
Result in an ongoing increase in the level of confusion amongst financial statement users regarding my firm's financial statements.	2008	59	35 (59.32%)	11 (18.64%)	4.76	5.00	1.22	Size: F 2.56, p 0.09 Industry: F 0.67, p 0.65 Sector: F 0.69, p 0.51
Result in an ongoing increase in the work associated with the preparation of my firm's financial statements.	2008	59	44 (74.58%)	7 (11.86%)	5.32	5.00	1.41	Size: F 0.21, p 0.81 Industry: F 1.24, p 0.30 Sector: F 1.44, p 0.25
Result in an ongoing increase in the complexity of my firm's financial reporting practices.	2008	59	45 (76.27%)	6 (10.17%)	5.42	6.00	1.34	Size: F 0.68, p 0.51 Industry: F 1.60, p 0.18 Sector: F 2.37, p 0.10

In an attempt to quantify by how much IFRS adoption has increased firms' annual accounting and compliance costs, respondents to the 2008 survey were asked to identify whether IFRS adoption had resulted in an ongoing increase in their firms' accounting and compliance costs and, if so, attempt to quantify the increase. Table 4.5 summarises the raw responses to this item with 45 (80.36%) respondents indicating that IFRS adoption increased their firms' annual accounting and compliance costs. The identification of an ongoing increase in accounting and compliance costs did not appear to be related to firm size (U 245.50, p 0.97), industry (χ^2 5.74, p 0.32), or industry sector (χ^2 3.30, p 0.20).

Table 4.5. Increase in Annual Accounting and Compliance Costs?

Increase in accounting and compliance costs? (n 56)	**Frequency**		**Percentage**	
Yes:				
• Dollar estimate provided	11		19.64%	
• Percentage estimate provided	19		33.93%	
• Generalised comments provided	15	45	26.79%	80.36%
No		11		19.64%

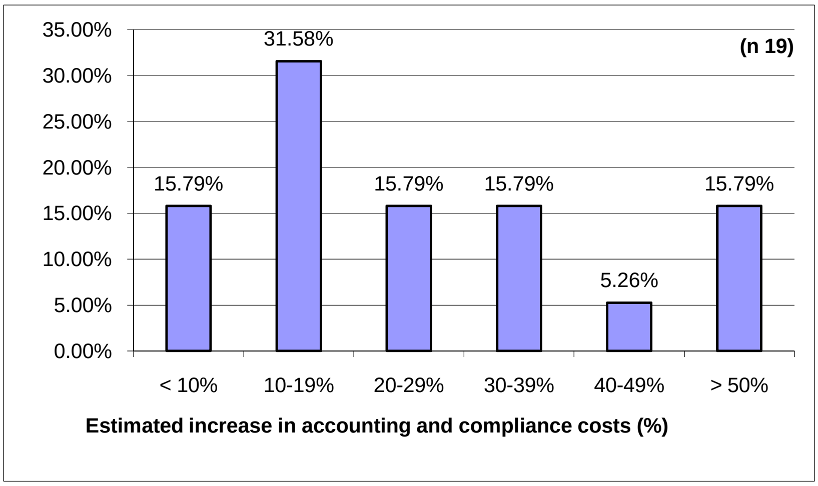
Descriptive statistics relating to the dollar estimates provided by respondents of the annual increase in firms' annual accounting and compliance costs are provided in Table 4.6. Estimates varied widely (from $10,000 to $1,000,000) and the median estimate provided was $200,000. These estimates were significantly positively correlated with firm size (P 0.95, p 0.00).

Table 4.6. Estimated Increase in Annual Accounting and Compliance Costs ($)

n	**Min.**	**Max.**	**Median**	$\bar{x}$	**SD**
11	$10,000	$1,000,000	$200,000	$310,000	$337,609.24

Figure 4.1 displays the relatively frequency of estimates of the post-IFRS adoption annual increase in accounting and compliance costs as expressed by respondents in percentage terms. In the large majority of cases (84.21%), such estimates exceeded 10%. Cross-tabulations and chi-square procedures were used to evaluate whether these estimates were affected by firm size, industry or industry sector. No significant differences were identified (χ^2 0.78, p 0.84; χ^2 7.25, p 0.11; χ^2 3.36, p 0.31).

Figure 4.1. Estimated Increase in Annual Accounting and Compliance Costs (%)



4.3. SPECIFIC AREAS OF IMPROVED AND REDUCED QUALITY

4.3.1. OVERVIEW

Two survey items – included in both surveys – gave respondents the opportunity to identify specific IFRS they felt had been either an improvement or decline in quality on prior AASB practices. The relative breakdown of the responses to these items are summarised in Tables 4.7 and 4.8. Some 37 (35.9%) of the 2005 respondents and 15 (28.9%) of the 2008 respondents identified at least one specific area they felt had been an improvement in quality on existing Australian practices. A further 48 (48.0%) 2005 respondents and 21 (45.7%) 2008 respondents identified at least one specific area of reduced quality. For both surveys, respondents were significantly more willing to identify areas of reduced quality than they were to identify specific areas of improvement (X^2 6.34, p 0.01; X^2 6.33, p 0.01). Statistical procedures also identified that 2008 respondents which identified a significant area of improvement in quality were significantly larger than those which did not (U 120.00, p 0.00).

Table 4.7. Identification of Specific Standards/Areas of Improved Quality

	2005 Survey (n 103)				**2008 Survey (52)**			
Response	**Frequency**		**Percentage**		**Frequency**		**Percentage**	
Yes		37		35.92%		15		28.85%
No:								
• Minimal impact on firm	3		2.91%		2		3.85%	
• Generalised positive comments	3		2.91%		2		3.85%	
• Generalised negative comments	5		4.85%		5		9.62%	
• Other	55	66	53.40%	64.08%	28	37	53.85%	71.15%

(X^2 1.13, d.f. 1, p 0.29)

Table 4.8. Identification of Specific Standards/Areas of Reduced Quality

	2005 Survey (n 100)				**2008 Survey (n 47)**			
Response	**Frequency**		**Percentage**		**Frequency**		**Percentage**	
Yes		49		49.00%		23		48.94%
No:								
• Generalised negative comments	10		10.00%		3		6.38%	
• Other	41	51	41.00%	51.00%	21	24	44.68%	51.06%

(X^2 0.00, d.f. 1, p 0.99)

Of the 2005 and 2008 respondents which did not identify specific areas of improved quality (64.1%; 71.2%) or reduced quality (52.00%; 54.35%), some commented that they had not done so because of the minimal impact of IFRS adoption on their firm. R1031, for example, commented that "the impact of IFRS on our company was minor, therefore no significant change". Others provided either generalised positive comments about the improved comparability of financial statements or generalised negative comments about the increased complexity of financial reporting and subsequent financial statement analysis. The following quotes typify such sentiments:

> I believe some standards have become too complicated and have created a disconnect with practical business solutions (R100).
>
> See little benefit from IFRS, more confusion + misunderstanding by shareholders, + more importantly broking analysts don't understand it and think it is ridiculous (R104).
>
> Focus investors have is operating cash flows. IFRS does the opposite (R72).

> In my opinion, IFRS are less prescriptive than previous AGAAP which tends to result in more ‘vague concepts’ (R1026).

Tables 4.8 and 4.9 identify the specific standards and areas identified by respondents as being either an improvement or decline in quality on previous Australian practices. Many different standards, covering many facets of financial reporting, were identified. Perhaps not surprisingly – given the significance of the differences between IFRS and past AASB standards – standards relating to financial instruments, share based payments, impairment, and intangible assets were both the most frequently cited areas of improvement as well as the most frequently cited areas of reduced quality.

4.8. Specific Standards/Areas of Improved Quality

	Times Cited in 2005		Times Cited in 2008	
Standard / Area	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Financial Instruments (AASB 7, AASB 132 & AASB 139)	13	35.14%	7	46.67%
AASB 2 *Share-based Payment*	11	29.73%	1	6.67%
AASB 136 *Impairment of Assets*	10	27.03%	5	33.33%
AASB 138 *Intangible Assets*	6	16.22%	3	20.00%
AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*	3	8.11%	-	-
Business Combinations and Consolidation (AASB 3 & AASB 127)	2	5.41%	5	33.33%
AASB 112 *Income Taxes*	2	5.41%	-	-
AASB 116 *Property, Plant and Equipment*	2	5.41%	-	-
AASB 117 *Leases*	2	5.41%	-	-
AASB 4 *Insurance Contracts*	1	2.70%	-	-
AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*	1	2.70%	-	-
AASB 6 *Exploration for and Evaluation of Mineral Resources*	1	2.70%	-	-
AASB 111 *Construction Contracts*	1	2.70%	-	-
AASB 119 *Employee Benefits*	1	2.70%	1	6.67%
AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*	1	2.70%	-	-
AASB 121 *The Effects of Changes in Foreign Exchange Rates*	1	2.70%	-	-
AASB 114 *Segment Reporting*	-	-	1	6.67%

4.9. Specific Standards/Areas of Reduced Quality

Standard / Area	Times Cited in 2005 (n 49)		Times Cited in 2008 (n 47)	
	Frequency	**Percentage**	**Frequency**	**Percentage**
Financial Instruments (AASB 7, AASB 132 & AASB 139)	21	42.86%	15	65.22%
AASB 2 *Share-based Payment*	11	22.45%	3	13.04%
AASB 136 *Impairment of Assets*	8	16.33%	1	4.35%
AASB 138 *Intangible Assets*	6	12.24%	1	4.35%
Business Combinations and Consolidation (AASB 3 & AASB 127)	6	12.24%	1	4.35%
AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*	5	10.20%	1	4.35%
AASB 101 *Presentation of Financial Statements*	4	8.16%		
Extractive Industries	4	8.16%	1	4.35%
AASB 119 *Employee Benefits*	3	6.12%	-	-
AASB 124 *Related Party Disclosures*	2	4.08%	-	-
AASB 112 *Income Taxes*	2	4.08%	2	8.70%
AASB 111 *Construction Contracts*	1	2.04%	-	-
AASB 117 *Leases*	1	2.04%	1	4.35%
AASB 131 *Interests in Joint Ventures*	1	2.04%	-	-
AASB 133 *Earnings per Share*	1	2.04%	-	-
AASB 141 *Agriculture*	-	-	3	13.04%
AASB 118 *Revenue*	-	-	1	4.35%
AASB 116 *Property, Plant and Equipment*	-	-	1	4.35%
AASB 119 *Employee Benefits*	-	-	1	4.35%
AASB 114 *Segment Reporting*	-	-	1	4.35%

4.3.2. AREAS OF IMPROVED QUALITY

Frequently, in discussing why they felt a specific standard/area had been an improvement on existing standards, respondents provided general comments about how they felt the changes had addressed areas which had not been adequately addressed in the past. For example, how the new standards provided stricter or more specific rules that resulted in information that was more comparable across companies and more useful or reliable for financial statement users.

Those respondents who felt that AASB 132 and 139 were an improvement commented on how the standards would result in better measurement and disclosure practices. For example, R141 commented that while AASB 132 and 139 were “complex, they [brought] standardisation to areas that were open to multiple treatments”. The improved disclosure practices in relation to financial instruments were largely attributed to the disclosure of derivatives on the balance sheet. As R1042 argued, “I think there is certainly more visibility, e.g. all derivatives are on the balance sheet”.

R19, in relation to the valuation of property, plant and equipment and contingent liabilities, noted that AASB 116 and AASB 137 were an improvement with “amounts now being calculated instead of estimated”. R136, also commenting on AASB 137, felt that the standard had improved the “consistency of accounting treatments for restoration provisions”.

R73 noted that AASB 138 adopted an “improved definition on what can be capitalised” as an intangible asset. Similarly, R139 noted that the adoption of AASB 138 was beneficial because:

> Previously no Australian standard… comprehensively addressed the treatment of intangible assets. The group and other entities applied a number of general accounting standards in order to account for intangible assets.

In further discussing issues surrounding intangible assets, some noted that AASB 136 was beneficial because it "adopted a stricter test for impairment" (R73) and was "more robust" than previous standards (R1015). Not all that identified AASB 136 as a specific area of improvement were absolute in their support of the standard. For example, R73 felt that the "guidance on discount rates could be expanded". While R1016 questioned the need for AASB 136 given that it enforces "what should be a normal business process".

Other respondents which identified AASB 136 as being an improvement on existing rules noted the elimination of compulsory goodwill amortisation. R89, in particular, highlighted that "the removal of goodwill amortisation has made [their company] more comparable with US peers".

Respondents who identified AASB 2 as an improvement noted that they agreed with expensing options and that doing so would be "valuable to shareholders" (R141). R62 further commented that expensing options would "make remuneration committees think more about such policies".

A final notable response was provided by R75, who, in commenting on AASB 112, noted that the adoption of the "balance sheet approach to tax has improved the accuracy of reporting". They did, however, comment that they thought the future tax consequences of accounting transactions were "probably already factored into our share price by the market / analysts".

4.3.3. AREAS OF REDUCED QUALITY

Respondents that identified specific standards or areas as having declined in quality were, at times, very passionate. Some described the new standards as "Byzantine" (R89), "nonsense" (R21), "ridiculous" (R104; R103), "illogical" (R129), "a mess" (R113), and "utterly stupid" (R1036). Broad criticisms of the new standards included that they (1) are overly complicated and confusing to both preparers and financial statement users; (2) are overly reliant on assumptions and approximations; (3) are less specific when compared to previous standards; (4) are overly restrictive or onerous; (5) require more effort and time to apply; and/or (6) produce misleading results that do not provide a true and fair view of a firm's position and performance. As one respondent argued, they saw:

> … little benefit from IFRS, more confusion and misunderstanding from shareholders, and more importantly broking analysts don't understand it and think it is ridiculous (R104).

Largely, respondents who criticised AASB 2 questioned the overall validity of recognising share based payments as an expense. Doing so, R1036 argued, produced "utterly stupid results". Similarly, R92 commented that share-based payments result in "no genuine economic loss" and that they felt the approach adopted by AASB 2 was "more to do with noisy ignorant shareholder lobby groups than good governance". R21 further questioned AASB 2's reliance on approximate values.

In relation to the IFRS treatment of financial instruments, a number of respondents criticised the new hedge effectiveness and documentation rules. In some instances, respondents felt that these documentation requirements have "limited value and are overemphasised" (R142) and can "[tie] up senior staff in non value added work" (R17. One respondent went further to state that AASB 139:

> …completely undermines 'substance over form' concepts by its overemphasis on documentation requirements. Perfectly valid hedges may not be eligible for IFRS hedge accounting solely on documentation grounds (R136).

Other commonly cited criticisms of IFRS financial instrument accounting related to the reliance on fair values or mark-to-market measures. As the following quotes illustrate, a number of respondents felt that these requirements created unnecessary earnings volatility that is not reflective of the underlying business transactions:

> … hedge accounting does not reflect the commercial reality of hedging transactions (R121).

> Sensitivity analysis based on balance sheet values may not be representative of average on future values (R1028).

> AASB 139 creates volatility in results that does not match underlying hedging and risk management (R1013).

One respondent even highlighted that, as a result of the concerns about the volatility introduced by the changes to financial instrument reporting, their firm now provides financial statement users with alternative measures of financial performance:

> Under AGAAP (OLD) accounting, income ~ cash income ~ distributions. Under AIFRS, we now have unrealised revaluations and derivative MTM that added huge volatility to 'earnings' that needs to be 'backed out' in presentations headline earnings reported by financial press (R1041).

Also in relation to fair value requirements relating to financial instruments, R1059 questioned the valuation techniques applied, given the "disconnect between industry valuation techniques and what is required by IFRS".

Further criticisms of the changes to financial instrument accounting were in relation to the overall perceived confusion it creates for financial statement users and the disclosure requirements. As R1052 and R1028 argued, it is now "much harder for users to understand hedge accounting" and the treatments are "now more complex but not necessarily more meaningful". A particularly notable comment relating to financial instrument disclosure requirements was provided by R1014. They felt that these requirements involved the disclosure of sensitive information regarding their firm:

> AASB 7… requires too many disclosures in our financials. Some of the disclosures will adversely affect our competitive advantage in the market due to confidentiality with banks and how we calculate our debt purchased hedges.

R1005's comment that "impairment of assets (particularly goodwill) is not well enough understood by financial statement users" was one of a number of criticisms of the impairment test and cash generating unit concept adopted by AASB 136. R80 further criticised AASB 136's conservative use of fair value accounting, noting that the "half hearted attempt at fair value accounting makes a mockery of the income statement. Either go fair value or not – halfway is meaningless".

Notably, in relation to AASB 137, one respondent argued that the changes had affected the valuation of their firm's interest cost creating confusion amongst financial statement users:

> The treatment of rehabilitation provision creates confusion in that the discount appears in interest. As our debt level is low this creates queries in relation to the cost of our debt, borrowing costs, etc. ratios used by banks / analysts are impacted (R106).

Respondents who criticised AASB 138 commented on the "disparate treatment of generated and acquired intangible assets" (R64), the restrictions of the capitalisation of research costs and the potentially "wide variation in reporting" (R1019). AASB 138, along with AASB 127, was also identified by respondents as being a standard which potentially resulted in information that does not provide a true and fair view of an entity's position and performance. To illustrate, in commenting on AASB 138, R62 said that:

> Internally generated intangibles, particularly in a service industry, not being able to be booked on the balance sheet does not give a true and fair view of the company in question.

In relation to AASB 127, R6 noted that their company was required to consolidate certain benefit funds it controls that it had previously not in the past. They perceived that "the inclusion of these funds assets, liabilities and operations tend to distort the position and results of the corporate entity (i.e. shareholder view)". Similarly, R13, observed that:

> The adoption of IFRS in our case will make us consolidated parts of the group that will make the financial reports look ridiculous and will not make interpretation by shareholders, analysts etc. easier but rather more difficult.

Also in relation to business combination accounting, R1035 criticised the more recently imposed restrictions on the capitalisation of acquisition related costs:

> The standard relating to business acquisitions part 1 July 2009 will result in costs of investment (traditionally treated as capital) being confused with trading results. This will inhibit investment activity and increase the volatility of results.

While some respondents felt that the adoption of tax-effect accounting would provide useful information to financial statement users, others commented on the difficulty of applying the standard and questioned the usefulness of tax disclosures. As R1028 discussed, AASB 112:

> …is not sufficiently clear for companies/audit firms to take a consistent approach with the tax note in annual reports. 99.5% of users could not understand a tax note.

Those who criticised the changes in relation to extractive industries commented on the removal of an existing AASB standard dedicated to this industry:

> [There]… is no equivalent standard now in place (R111).
>
> Australian standards allowed for mining because it is a material business to Australia – this is not the case internationally (R1007).

4.4. SATISFACTION WITH POST-2005 CHANGES

While some of the above comments regarding the quality and complexity of IFRS reflected respondents' thoughts concerning post-2005 IFRS changes, 2008 survey respondents were further provided with the opportunity to indicate their level of satisfaction with these changes.

Descriptive statistics relating to this survey item are provided in Table 4.10. The mean for this item was 3.66 (*Indifferent*) with slightly more respondents being unsatisfied (37.50%) than satisfied (26.79%) with the post-2005 IFRS changes. Size appeared a significant factor in explaining firm responses to this item (F 4.36, p 0.02) and large firms ($\bar{x}$ 4.25) were significantly more satisfied with the changes (p 0.04) than small firms ($\bar{x}$ 3.32).

4.10. Satisfaction with Pos- 2005 IFRS Amendments

n	Satisfied	Unsatisfied	$\bar{x}$	Median	SD
56	15 (26.79%)	21 (37.50%)	3.66	4.00	1.18

7: Extremely Satisfied, 6: Very Satisfied; 5: Satisfied, 4: Indifferent; 3: Unsatisfied; 2: Very Unsatisfied, 1: Extremely Unsatisfied.

2008 survey respondents were also asked, where possible, to provide any specific positive or negative comments they had regarding the post-2005 IFRS changes. Table 4.11 identifies the results of the classification of responses to this item. The 15 (42.86%) responses to this item were overwhelmingly negative with no respondents having anything positive to say.

Those who criticised the post-2005 changes relating to financial instruments were concerned that "the key problems with… [AASB 139] have not been addressed" (R1048) and criticised the potentially "very costly and time consuming" disclosure requirements of AASB 7 (R1034). Also in relation to the recent amendments to AASB 7, R1020 commented that the standard is "overkill for non-financial organisations". One respondent further questioned the overall usefulness of the financial statement note disclosure resulting from the amended AASB 7:

> The reporting standard relating to financial risk management created an enormous amount of work and resulted in a note to the accounts which is 14 pages long and provides little in the way of useful information to financial statement users (R1035).

Specific criticisms directed towards the amended AASB 8 included the increased specificity of the segment disclosures. R1038, for example, contended that "compliance with the depth of reporting disadvantages us... as highly competitive information is included and becomes available to competitors and customers".

More general comments regarding the amendments made to IFRS since 2005 related to the greater emphasis on mark-to-market accounting, overall increased complexity and uncertainty amongst financial statement users. As some respondents commented:

> …every analyst comments on how difficult our financial statements are to understand (R1027).

> [The] IASB seems intent on moving to virtual mark-to-market accounting, with some areas now becoming almost unintelligible to even a sophisticated user. Some IASB members seem to have lost touch with practical reality - so we get an overly complex and highly theoretically pure outcome (R1037).

> Too much additional disclosure requirements rather than value add changes to interpretation and guidance regarding measurement (R1039).

> Overall increased disclosure considered to hinder reading of accounts as now too much disclosure - no one reads a 100 page set of accounts (R1041).

Other respondents appeared frustrated with the perceived constant changes made by the IASB to IFRS since 2005. To illustrate, R1024 and R1020 commented that the IASB "need to set [the] standards and stop changing them" and that the so called "stable platform [is] not stable". R1029 further commented that the:

> Only difficulty is in keeping up to date especially with amendments that may impact 23 standards.

4.11. Comments Regarding Post-2005 IFRS Changes

Response (n 15)	**Frequency**	**Percentage**
General negative comment about complexity/quality	6	40.00%
Negative comment regarding Financial Instruments (AASB 7, AASB 132 & AASB 139)	4	26.67%
Negative comment regarding the unstable platform	4	26.67%
Negative comment regarding AASB 8	2	13.33%
Negative comment regarding AASB 137	1	6.67%

4.5. OTHER COMMENTS

A number of respondents to the 2005 and 2008 surveys further provided comments regarding the quality and complexity of IFRS in sections of the surveys which explored the wider costs and benefits of IFRS adoption. Further comments were, for example, provided when respondents analysed whether factors were inhibiting the realisation of benefits from IFRS adoption and whether IFRS adoption would be cost-beneficial for their firms. Consistent with previously discussed results, these other comments related to:

(1) *The costs and complexity of IFRS compliance*:

> …there is much more work involved in preparing financial statements and having them audited under IFRS (R94)
>
> [IFRS adoption has resulted in]…additional costs stemming from consultants, auditors and actuaries and many more fair value exercises (R107).

(2) *The perceived increase in financial statement user uncertainty*:

> Accounting standards are moving to disclosure for disclosure sake and have move to far creating greater confusion for users. We spend more time explaining meaningless disclosures to analyst whom themselves cannot understand them (R1010).
>
> IFRS is not a user friendly tool if you consider its impact on the rank and file investors in our organisation. Of a population of almost 4,000 investors probably 70 - 100 are institutional with the appropriate skill set. For the bulk of the others, the changes are confusing and excessively complicated (R128).

(3) *The lack of relevance of IFRS compliant financial statements and increased focus on alternative profit measures and cash flow data:*

> Management reporting uses different basis of accounting. IFRS is used solely for external reporting (R1032).
>
> It [IFRS] is not accepted as valid or meaningful outside accounting profession technocrats. Everyone is preparing adjusted PAT [Profit after Tax] results to cope (R1027).
>
> AIFRS involves playing around with the time of costs. Cash flow information will take on more prominence because users of financial statements will drown in the drivel. Only the more technical consultants will understand the statements – the average shareholder, and many analysts, will simply not understand financial statements for a few years until they get used to some of the concepts (R18).
>
> Investors no longer care – cash flow is king (R1058).
>
> Cash and real profit is much more important and going forward we will see greater reliance on cash flows (R30).

(4) *IFRS treatments relating to share-based payments and financial instruments:*

> For our business, like all others, how we finance our company (debt versus equity) is separate from how we run our company. The stock compensation standard conflates these two issues / decisions (R89).
>
> I believe mark to market type impacts will be backed out as they only confuse users … [Furthermore] an unscrupulous preparer of accounting statements could use that confusion to their benefit. The more variables there are to pricing a mark to market items the more opportunity to orchestrate a result. If we look at what went wrong with Enron it was their ability to use mark to market (R30).

Additionally, in discussing the overall cost and benefits of IFRS adoption, some respondents expressed a general desire to move towards a more user-friendly or simplified basis for accounting. As R1037 argued, "IFRS needs to go back to basics". R18 further observed that the accounting profession could benefit from a review of insurance industry's adoption of more user friendly agreements. As they observed:

> The insurance industry went through the agony of making agreements simple English. The accounting profession needs to do likely, i.e. make the standards user friendly.

Others questioned the drivers of IFRS complexity and observed that the complexity was in the interests of accounting firms. This cynicism is illuminated by the following observations:

> We have a jaundiced view that IFRS is being pushed by the big accounting firms for their own benefit and that making the rules complex is in their best interests (R136).
>
> This has been a monumental waste of time and resources which has kept only a handful of technocrats in London happy – along with KPMG, PWC, Deloitte, EY paymasters (R1027).

5. CONCLUSIONS

This study, through the use of two surveys, has explored the perceptions of large, listed Australian firms towards the quality and complexity of IFRS. There was some support for the position that IFRS adoption would enhance the perceived quality of financial statements amongst foreign financial statement users. More broadly, 2005 survey respondents were more supportive of the position that IFRS adoption had reduced the quality of financial reporting than for the position that adoption had provided an improvement in quality. Amongst 2008 survey respondents, however, there was neither strong support for the position that IFRS adoption had improved the quality of reporting nor for the position it had reduced quality.

Numerous specific positive and negative comments were identified in relation to the quality of IFRS. Positive comments focused on those instances in which preparers felt that they now have requirements that are more specific. Negative comments regarding the quality of IFRS significantly outnumbered those praising the standards. Criticisms of IFRS included that they were too reliant on assumptions, too restrictive, lacked specificity, and did not result in the provision of understandable and relevant information for financial statement users. The perceived lack of relevance of IFRS compliant financial statements was particularly evident by comments suggesting an increased propensity for financial statement users to rely on alternative profit measures and cash flow data. Discussion regarding the quality of IFRS – both positive and negative – was focused around those areas of greatest diversity between past AASB standards and IFRS. That is, standards relating to financial instruments, share-based payments, impairment and intangible assets (see for example, Jubb, 2005; Ernst and and Young, 2005).

The large majority of participants in this study agreed that financial reporting under IFRS is more complex than reporting under previous AASB standards. Compared with compliance with previous AASB standards, IFRS reporting is viewed as involving greater uncertainty, being more time consuming, and as requiring higher audit and other external consultancy fees. Amongst some respondents there was a questioning of the underlying drivers of the complexity and a desire to get back to basics. Despite these concerns regarding the quality and complexity of IFRS, the IASB does not appear to be moving in the right direction with respondents being much more willing to criticise than to complement any post-2005 IFRS changes.

Perceptions towards both the quality and complexity of IFRS were generally unaffected by firm size or industry. That is, negative perceptions towards IFRS did not appear confined to smaller firms, less likely to be able to meet the increased reporting requirements, or those from industries most impacted by the reporting changes (see for example, Jones and Higgins, 2006).

The negative comments provided by respondents concerning the complexity of IFRS directly parallel those of prior studies which have explored the perceptions of financial report preparers towards IFRS (see for example, Jermakowicz, 2004; Jones and Higgins, 2006; Sucher and Jindrichosvska, 2004). They also parallel those of prior academic reviews of IFRS including Haswell and Langfield-Smith (2008) who identified 57 serious defects in selected IFRS.

If IFRS adoption does not appear to have improved the quality of Australian financial reporting, compliance with IFRS is complex and time consuming, and the information provided to financial statement users lacks relevance, it is natural to ask why firms were required to go to the cost and effort of adopting the standards in the first place. The results provided by this study are likely to be of interest to other countries or firms considering future IFRS adoption. These results are also likely to be of interest to the IASB and others involved in the development of IFRS as they consider future areas for enhancement.

END-NOTES

[1] The full body of international standards includes both IFRS and International Accounting Standards (IAS). For the purposes of this paper, the term IFRS is used to encompass all IASB standards.

[2] It should be noted that the AASB has not adopted IFRS word for word. In some instances, the AASB has adjusted the wording or added material to IFRS to make them, for example, relevant to non-profit organisations and to align them with the Corporations Act 2001. In other instances, where no IFRS existed for particular issues, the AASB has maintained its existing standards. Hence, the standards currently used in Australia are frequently referred to as Australian equivalents to IFRS (i.e. A-IFRS). Despite this, A-IFRS generally are able to "make an unreserved statement of compliance with IFRS" (Deloitte Touche Tohmatsu, 2005). Deloitte Touche Tohmatsu (2004) provide a detailed comparison between IFRS and A-IFRS. A summary of the AASB standards referred to in this paper, along with their IASB equivalents, is provided in Appendix 1.

[3] AAA (2008) adopt a similar approach to the classification of the sources of evidence concerning the quality of IFRS. AAA (2008) consider four sources of evidence, namely, (1) reviews of the behavioural changes by users and preparers after firms adopt IFRS; (2) value relevance studies which explore the correlation between accounting earnings and stock returns; (3) reviews of the aggregate properties of stock markets which adopt different accounting standards; and (4) reviews of institutional factors in the financial reporting environmental that may affect the implementation of accounting standards.

[4] Consistent with both the ASX and Australian Securities and Investments Commission (ASIC) definitions, Australian companies were defined as those companies formed or incorporated in Australia.

[5] Prior to the calculation of useable response rates, the respective populations were adjusted for those companies that could not be contacted due to mailing difficulties and for those that had been de-listed or taken over since the construction of the sample frame.

[6] While the initial ANOVA procedures identified a significant difference at the 5% level, Scheffé post-hoc comparisons did not identify any significant differences.

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APPENDIX 1. SUMMARY OF KEY STANDARDS REFERRED TO IN PAPER

AASB Standard	Standard Name	IASB Equivalent
AASB 2	Share-based Payment	IFRS 1
AASB 3	Business Combinations	IFRS 3
AASB 4	Insurance Contracts	IFRS 4
AASB 5	Non-current Assets Held for Sale and Discontinued Operations	IFRS 5
AASB 6	Exploration for and Evaluation of Mineral Resources	IFRS 6
AASB 101	Presentation of Financial Statements	IAS 1
AASB 111	Construction Contracts	IAS 11
AASB 112	Income Taxes	IAS 12
AASB 114	Segment Reporting	IAS 14
AASB 116	Property, Plant and Equipment	IAS 16
AASB 117	Leases	IAS 17
AASB 118	Revenue	IAS 18
AASB 119	Employee Benefits	IAS 19
AASB 120	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20
AASB 121	The Effects of Changes in Foreign Exchange Rates	IAS 21
AASB 124	Related Party Disclosures	IAS 24
AASB 127	Consolidated and Separate Financial Statements	IAS 27
AASB 131	Interests in Joint Ventures	IAS 31
AASB 132	Financial Instruments: Presentation	IAS 32
AASB 133	Earnings per Share	IAS 33
AASB 136	Impairment of Assets	IAS 36
AASB 137	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
AASB 138	Intangible Assets	IAS 38
AASB 139	Financial Instruments: Recognition and Measurement	IAS 39
AASB 141	Agriculture	IAS 41

APPENDIX 2. NON-RESPONSE BIAS TESTS

Chi-square goodness of fit tests: Population versus sample industry

Industry	2005 Survey Observed (n)	2005 Survey Expected (n)	2005 Survey Residual	2008 Survey Observed (n)	2008 Survey Expected (n)	2008 Survey Residual
Materials, energy & utilities	29	27.29	1.7	16	13.72	2.3
Finance, insurance & real estate	22	26.48	-4.5	18	15.49	2.5
Manufacturing & construction	18	13.11	4.9	13	7.84	5.2
Business / Consumer Services & healthcare	22	18.73	3.3	6	10.19	-4.2
Information technology, telecommunications & media	8	13.91	-5.9	4	8.04	-4.0
Retail Trade	8	7.49	0.5	2	3.72	-1.7
Chi-square	X^2 5.81, d.f. 5, p 0.33			X^2 8.73, d.f. 5, p 0.12		

Chi-square goodness of fit tests: Population versus sample industry sector

Industry sector	2005 Survey Observed (n)	2005 Survey Expected (n)	2005 Survey Residual	2008 Survey Observed (n)	2008 Survey Expected (n)	2008 Survey Residual
Primary	29	27.29	1.7	16	13.72	2.3
Secondary	18	13.11	4.9	13	7.84	5.2
Tertiary	60	66.61	-6.6	30	37.44	-7.4
Chi-square	χ^2 2.59, df 2; p 0.27			χ^2 5.25, df 2; p 0.07		

Wilcoxon rank sum: Population versus sample sales turnover

Survey	Group	N(n)	Mean Rank	U	p
2005	Population	400	245.69	18,075	0.02*
	Sample	106	282.98		
2008	Population	301	178.65	8,322	0.45
	Sample	59	189.95		

Late versus on-time response comparisons

IFRS adoption will…	Survey	On-time mean	Late-mean	t	p
Significantly increase the perceived quality of financial statements amongst foreign financial statement users.	2005	3.68	4.15	-1.50	0.14
	2008	4.30	3.90	1.11	0.27
Improve the quality of financial reporting.	2005	3.15	3.34	-0.68	0.50
	2008	3.78	3.85	-0.17	0.86
Result in a decline in the quality of financial reporting	2005	3.72	3.72	-0.00	1.00
Result in an ongoing decline in the quality of financial reporting	2008	3.42	3.66	-0.83	0.41
Result in additional work being devoted to financial reporting as some of the new standards are more onerous than existing standards.	2005	5.51	5.88	-2.35	0.02*
Result in an ongoing increase in the fees paid to external auditors and other external specialists.	2008	5.38	5.20	0.55	0.58
Result in an ongoing increase in the level of confusion amongst financial statement users regarding my firm's financial statements.	2008	5.04	4.57	1.47	0.15
Result in an ongoing increase in the work associated with the preparation of my firm's financial statements.	2008	5.38	5.29	0.23	0.81
Result in an ongoing increase in the complexity of my firm's financial reporting practices.	2008	5.42	5.43	-0.03	0.97