

The Effect of International Accounting Standards on Financial Reporting of Companies

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Abstract: This research was conducted with the aim of investigating the impact of International Financial Reporting Standards (IFRS) on various aspects of financial reporting and the performance of companies. The research method is descriptive-analytical and has been done using library sources and authentic domestic and foreign articles. The results show that the adoption of IFRS leads to an improvement in the quality of financial reporting through increasing transparency and reducing earnings management. Also, the implementation of these standards has had a significant impact on the financial performance of companies, including increasing return on assets (ROA), return on equity (ROE) and earnings per share (EPS). Reducing the cost of capital and attracting more investors are other results of IFRS implementation. However, challenges such as lack of coordination with tax laws, lack of proper infrastructure and lack of specialized training are obstacles to the full adoption of these standards in developing countries, including Iran. It is suggested to provide the necessary platform for the successful implementation of these standards by holding extensive training courses for accountants, amending the internal laws and upgrading the technological infrastructure.

Keywords: International Financial Reporting Standards (IFRS), financial transparency, profit management, financial performance of companies, cost of capital.

Introduction

In today's world, financial information of companies is one of the most important tools for decision making by investors, managers and other stakeholders. Financial reporting, as a bridge between companies and users of financial information, should have transparency, reliability and comparability. Due to the increase in economic globalization and international financial interactions, diverse and scattered accounting standards in different countries have been one of the main challenges in comparing and analyzing financial reports. Meanwhile, International Financial Reporting Standards (IFRS) have been proposed as a comprehensive and coordinated solution to solve these problems.

IFRS standards, developed by the International Accounting Standards Board (IASB), have set their main goal to create a uniform framework for financial reporting at the global level. Emphasizing principles such as transparency, comparability and flexibility in providing financial information, these standards try to improve the quality of financial reports and provide a suitable platform for stakeholders to make decisions. Acceptance of these standards by many countries shows their high importance in improving the financial reporting system ([Barth et al., 2008](#)).

However, the adoption and implementation of IFRS in different countries has been associated with numerous challenges and opportunities. Developed countries, due to strong financial and administrative infrastructures, have been able to implement these standards well and benefit from them. On the other hand, developing countries face problems such as inconsistency of domestic laws, lack of specialized knowledge and weak technological infrastructure (Hassan et al., 2014). Iran, as one of the developing countries, is not an exception to this rule, and the effort to adopt IFRS in recent years has brought many discussions among accounting professionals and financial managers. In Iran, although the use of international financial reporting standards has been accepted by some large companies, the infrastructural limitations and legal contradictions have made the full implementation of these standards difficult. Many studies show that the use of IFRS can help improve the transparency of financial information, reduce profit management and increase the confidence of domestic and foreign investors (Moradi and Rezaei, 2019).

On the other hand, the adoption of these standards has significant effects on various aspects of financial performance of companies, including profitability, cost of capital and financial transparency. Research has shown that companies that have adopted IFRS have been able to increase the attraction of investors and facilitate access to external financing sources (Li, 2010). These advantages have made more countries move towards adopting IFRS.

This article aims to investigate the impact of international financial reporting standards on various aspects of financial reporting and the performance of companies, and analyzes the findings of domestic and foreign researches. Also, the challenges and opportunities related to the implementation of these standards in developing countries, especially Iran, are examined. Finally, suggestions for improving the IFRS implementation process will be provided to provide a suitable platform for improving the transparency and quality of financial reporting.

International financial reporting standards and the need to accept them

Definition and objectives of IFRS

IFRS standards, developed by the International Accounting Standards Board (IASB), focus on increasing the transparency and comparability of financial reporting (Barth et al., 2008).

Reasons for acceptance in different countries

Studies show that many countries have moved towards adopting IFRS to attract foreign investors and facilitate financial transactions (Ball, 2016).

Challenges of IFRS implementation in Iran

According to the research conducted by Moradi et al. (2022), the incompatibility of some IFRS concepts with Iran's economic conditions is one of the main obstacles in the implementation of these standards.

The impact of IFRS on the quality of financial reporting

The quality of financial reporting is one of the most important factors in increasing the transparency and trust of investors in the financial information of companies. International Financial Reporting Standards (IFRS) have been developed as a single framework at the global level with the aim of improving this quality and reducing problems such as profit management and manipulation of financial information. These standards have played a significant role in improving the quality of financial reporting by emphasizing on providing reliable and transparent information. In this section, the impact of IFRS on transparency, comparability and reduction of earnings management will be examined.

Increasing transparency and comparability

One of the main goals of IFRS is to increase transparency in financial reports. These standards require companies to disclose their financial information in detail and accurately. According to a study by Barth et al. (2008), countries that have adopted IFRS have been able to significantly increase the transparency of their financial information. This transparency helps investors to operate with more confidence in the financial markets. In Iran, the results of Rezaei's research (2019) show that listed companies that have used IFRS have been able to increase investors' confidence. This has not only improved the performance of companies, but has also helped strengthen the capital market.

Comparability is another advantage of IFRS. Using a single standard in financial reporting allows investors to compare the performance of different companies in different countries. This is especially important in attracting foreign investment. For example, the research of Christensen et al. (2015) have shown that the comparability of financial information has improved in countries that have adopted IFRS, and this has helped to increase international capital flows.

Reduction of profit management

Earnings management is one of the common problems in financial reporting. Companies may manipulate financial figures to change their actual profits to give a better picture of their performance. This behavior strongly

affects the confidence of investors and reduces the quality of financial reports. IFRS has greatly reduced the possibility of profit management by emphasizing the principles of transparency and full disclosure of information. The research of [Dechow et al. \(2010\)](#) showed that after the adoption of IFRS, earnings management in companies decreased and more accurate financial information was provided. This research also shows that larger and more active companies in international markets have accepted more influence from these standards. In Iran, [Ahmadi et al.'s research \(2018\)](#) has shown that companies that have adopted IFRS are less likely to manipulate profits. This has caused investors' trust in these companies to increase and the performance of the capital market to improve.

Improving the quality of financial information

One of the key aspects of financial reporting quality is providing information with confirmatory and predictive value. Information with high confirmatory value helps investors evaluate their past decisions. On the other hand, information with predictive value helps to make future decisions. Due to its principles-based structure, IFRS has been able to improve the quality of financial information in both aspects. Research by [Ball \(2006\)](#) has shown that companies adopting IFRS provide information that is of higher quality both in terms of confirmability and predictability. This issue is especially effective in global financial markets, where quick and accurate decision-making is very important.

Influence on investors' decisions

Another advantage of IFRS is its positive impact on investors' decision making. Transparency and high quality of financial information provided based on these standards help investors to make more confident investment decisions. For example, the study of [Li \(2010\)](#) has shown that the adoption of IFRS has increased the flow of foreign direct investment (FDI) in adopting countries.

In Iran, the research of [Moradi and Rezaei \(2019\)](#) has shown that the use of IFRS increases Domestic and foreign investors have gained confidence in the financial information of Iranian companies. This can help to develop the capital market and increase the attraction of foreign capital in the long run.

The impact of IFRS on the financial performance of companies

One of the most important aspects of the adoption of International Financial Reporting Standards (IFRS) is its impact on the financial performance of companies. This effect is especially evident in measures such as profitability, cost of capital, productivity and the amount of domestic and foreign investment. The implementation of IFRS allows companies to provide more transparent and accurate financial performance, thus gaining more trust from investors and stakeholders.

Improving profitability criteria

One of the key aspects in evaluating the financial performance of companies is profitability measures such as return on assets (ROA) and return on equity (ROE). Several studies have shown that the implementation of IFRS can have a positive effect on these criteria. For example, [Ahmed et al.'s \(2013\)](#) research found that companies that switched to IFRS had higher return on assets than companies that used local standards.

In Iran, research by [Ahmadi and Rezaei \(2019\)](#) has shown that the adoption of IFRS in companies listed on the Tehran Stock Exchange has increased the return on equity. The reason for this is higher transparency and reduced manipulation of profit and cost figures.

Impact on earnings per share (EPS)

Earnings per share (EPS) is one of the key indicators in analyzing the financial performance of companies. IFRS has a direct impact on this measure by providing more transparent methods for calculating revenues and expenses. Research by [Li \(2010\)](#) showed that after adopting IFRS, the earnings per share increased in many companies.

This increase was due to the reduction of costs due to incorrect reporting and the improvement of financial processes. In Iran, a study by Esadi and Mousavi (1400) showed that listed companies that implemented IFRS had higher earnings per share than other companies.

Impact on productivity and financial management

Another impact of IFRS on financial performance is to improve productivity and financial management. IFRS standards require companies to review and optimize their financial processes. This will reduce unnecessary costs and increase company productivity.

The research of [Barth et al. \(2008\)](#) has shown that the adoption of IFRS has led to an increase in the financial and operational efficiency of companies. This effect is particularly evident in multinational companies that require coordinated financial reporting.

Challenges and limitations in influencing financial performance

Despite the positive effects of IFRS on financial performance, there are also challenges. For example, the costs of implementing these standards, including training and software costs, can have a negative impact on companies'

short-term financial performance. Also, some companies may initially face a decrease in profitability due to changes in accounting procedures. In general, the adoption of IFRS has had positive effects on the financial performance of companies, especially in terms of profitability, productivity and investment attraction. However, to fully exploit these benefits, it is necessary to address implementation challenges and increase relevant training.

The impact of IFRS on the cost of capital and attracting investors

One of the most important goals of financial reporting is to reduce the cost of capital and increase the ability of companies to attract investors. International Financial Reporting Standards (IFRS) help companies achieve these goals by increasing transparency and reducing information asymmetry. In this section, the impact of IFRS on the cost of capital, investor confidence and attracting foreign investment is examined.

Reduction of capital cost

The cost of capital is one of the determining factors in evaluating the financial performance of companies and making decisions for investors. Several studies have shown that the adoption of IFRS reduces the cost of capital of companies. Research by [Li \(2010\)](#) showed that companies that implemented IFRS were able to reduce their cost of capital due to greater transparency and reduced information asymmetry. This cost reduction has been particularly evident in countries with more transparent financial markets.

In Iran, a study by [Shafiei et al. \(2019\)](#) showed that the implementation of IFRS has reduced the interest rate and the cost of financial liabilities of companies listed on the Tehran Stock Exchange.

Increasing investor confidence

The high transparency of financial reports based on IFRS helps to increase the confidence of investors. These standards reduce investment risks by providing accurate and comparable information.

The research of [Barth et al. \(2008\)](#) showed that the adoption of IFRS has led to an increase in investor confidence and a decrease in concerns related to lack of transparency. In Iran, [Rezaei's research \(2018\)](#) has shown that the use of IFRS in Iranian companies has attracted more investors, especially from abroad.

Facilitating the attraction of foreign investment

Another benefit of IFRS implementation is facilitating the attraction of foreign investment. Companies that use these standards present their financial information in a way that is comprehensible and comparable to foreign investors. This helps to increase the flow of foreign capital.

For example, the study by [Christensen et al. \(2015\)](#) showed that the adoption of IFRS in developing countries has led to an increase in the flow of foreign direct investment (FDI). In Iran, [Moradi's research \(2019\)](#) emphasizes that the implementation of IFRS can play an important role in attracting foreign investment.

Challenges and limitations in reducing the cost of capital

Despite the positive effects of IFRS on the cost of capital, there are also some challenges. For example, in countries with less transparent financial markets, the impact of IFRS on reducing the cost of capital may be less. Also, the initial costs of IFRS implementation can temporarily put financial pressure on companies. The adoption of IFRS has had positive effects on reducing the cost of capital, increasing investor confidence and attracting foreign investment. However, removing enforcement obstacles and increasing transparency in financial markets can increase the impact of these standards and provide the basis for economic development.

Challenges of IFRS implementation in developing countries

Despite the significant benefits of International Financial Reporting Standards (IFRS) in promoting transparency, reducing the cost of capital, and improving the quality of financial reporting, there are challenges and limitations in the process of adopting and implementing these standards in many countries of the world, including Iran. These challenges include structural, financial, cultural and legal barriers that may have a negative impact on the IFRS adoption process. In this section, the most important challenges and limitations in the implementation of IFRS will be examined.

Legal and legal problems

One of the biggest challenges of IFRS adoption in many countries, especially in developing countries, is the compatibility of international accounting standards with domestic laws. In some countries, tax, commercial or stock exchange laws are not compatible with IFRS principles. For example, in Iran, a number of tax laws are designed in a way that makes it difficult to implement IFRS. In some cases, it is necessary for companies to prepare their financial reports according to national standards in order to simultaneously comply with tax laws and other national regulations. These conflicts may lead to problems in the field of compliance and strict implementation of IFRS.

structural and infrastructure challenges

To successfully implement IFRS, companies need extensive changes in their accounting and reporting systems. These changes include upgrading accounting software, training employees, and updating internal processes. In many

countries, especially in developing countries, there is no necessary infrastructure to implement these changes. In Iran, many companies still use old accounting systems that are not compatible with IFRS. In addition, many accountants and financial managers are not fully familiar with the principles of IFRS, which causes implementation problems and delays in the implementation of these standards.

Cultural problems and training of manpower

The implementation of IFRS requires cultural changes and new approaches in the way of reporting and evaluating the financial performance of companies. In many countries, especially in developing countries, accounting staff face serious problems in implementing these standards due to insufficient training in the field of IFRS. To overcome this problem, there is a need for comprehensive training programs and investment in the development of professional skills of accountants and financial managers. Numerous studies show that the countries adopting IFRS have been successful if they have provided specialized training to financial and accounting staff.

Financial problems and implementation costs

One of the main challenges in adopting IFRS is its significant costs. These costs include the costs of changing accounting systems, training employees, and preparing financial reports in accordance with new standards. These costs can be very heavy, especially for small and medium-sized companies. In Iran, due to economic constraints and high costs, many companies are unable to pay the costs required to implement IFRS. This causes many companies to refuse to fully accept these standards or delay their implementation.

Resistance to changes

The adoption of IFRS, especially in countries with traditional accounting culture, may face resistance to changes. Many accountants and financial managers are familiar with old accounting systems and may be afraid to adopt new standards. This resistance may be an obstacle to the adoption of IFRS. Some companies are reluctant to adopt IFRS due to concerns about changes in financial reporting methods as well as short-term effects on their profitability. To solve this problem, there is a need to provide government support and financial incentives for companies to implement IFRS. Although the adoption of IFRS has many advantages, there are still challenges and limitations in the way of implementing these standards. These challenges include legal, infrastructural, educational and financial problems. To remove these barriers, there is a need for coordinated actions at the level of government, companies and accounting professions. Also, in order to facilitate the adoption of IFRS, more extensive training and financial support should be provided to companies.

The future and perspective of IFRS in developing countries

Developing countries have a great desire to adopt International Financial Reporting Standards (IFRS) due to the need to develop financial markets, attract foreign investment and increase transparency in financial reporting. However, challenges and limitations in these countries can complicate the IFRS adoption process. In this section, the future and perspective of IFRS adoption in developing countries and especially Iran are discussed.

Global developments and the need for greater coordination

In today's world, globalization and international communication have caused countries to have a greater need to coordinate their accounting and financial reporting standards with other countries. Developing countries especially need to adopt IFRS due to their dependence on global markets and international investment flows. The adoption of IFRS in these countries, especially in economic sectors and financial markets, can help attract foreign investment and increase financial transparency. For this reason, the future of IFRS in developing countries seems bright due to the process of economic globalization.

The role of governments in facilitating the adoption of IFRS

In developing countries, the role of governments in facilitating the adoption of IFRS is very important. Governments can facilitate the IFRS adoption process by providing the necessary infrastructure, reforming tax and trade laws, and financial support. For example, governments can facilitate the adoption of IFRS by creating incentive policies for companies and professional training of accountants. In Iran, the government can facilitate the adoption of IFRS by amending tax and commercial laws and encourage companies to adopt these standards.

Use of new technologies in adopting IFRS

One of the solutions that can facilitate the adoption of IFRS in developing countries is the use of new technologies. As information technology advances, companies can update their accounting systems and perform their financial reporting processes based on new standards. In Iran, the use of new technologies can help improve accounting and financial reporting processes. The use of advanced software and online tools can help accountants and financial managers prepare their reports in accordance with IFRS standards.

Development of specialized training in developing countries

Successful adoption of IFRS requires specialized training for accountants, financial managers and other related people. In developing countries, the existence of educational programs and raising the level of knowledge of

accountants in the field of IFRS is very important. In Iran, accounting education based on IFRS should be widely provided in universities and educational institutions. These trainings can help accountants and financial managers to improve their skills in the field of international standards and thus facilitate the adoption of IFRS.

Possible challenges in the future of IFRS adoption

Although the future of IFRS adoption in developing countries looks promising, there are still challenges. These challenges may include economic, political and social problems that affect the process of adopting these standards. For example, economic crises, political changes and internal problems of countries can delay the process of adopting IFRS. For this reason, developing countries must continuously improve. Adoption of IFRS in developing countries is necessary due to its many benefits, including attracting foreign investment, increasing transparency and improving financial reporting. However, to realize this goal, it is necessary that developing countries facilitate the adoption of IFRS by addressing existing challenges, including infrastructural, legal and educational problems. Finally, the use of new technologies and government support can help speed up this process.

Conclusion

The adoption of International Financial Reporting Standards (IFRS) has had positive and significant effects on companies' financial reporting, financial performance, cost of capital, attracting investors and improving financial transparency. However, developing countries, including Iran, face many challenges in the way of accepting and implementing these standards. These challenges include legal and regulatory issues, cultural issues, infrastructural issues, financial issues, and resistance to change, which can significantly complicate IFRS implementation.

The importance of adopting IFRS in today's world is more than obvious. The globalization of the economy, the need for financial transparency, and international financial communication have made unified accounting standards a necessity to facilitate business and economic processes. For listed companies, IFRS can gain the confidence of domestic and foreign investors, reduce capital costs and facilitate access to financial resources.

Especially in developing countries where financial markets are growing and developing, the adoption of IFRS can act as a main tool to attract foreign investment and improve competitiveness at the global level. This is especially important for countries like Iran that are trying to connect to the global economy and take advantage of international opportunities.

However, despite the many benefits of IFRS adoption, there are still many hurdles to overcome. Some of these obstacles are related to the inability to adapt domestic laws to international standards, lack of advanced technological infrastructure to process financial information, lack of adequate training for human resources, and high implementation costs. In many developing countries, investment in this field requires close cooperation between the public and private sectors so that implementation processes are carried out in harmony.

Considering these challenges, the implementation process of IFRS should be taken more seriously, and governments and regulatory bodies should put measures to facilitate the adoption of these standards on their agenda. International cooperation, providing financial and educational resources, and legal reforms are among the measures that can be effective in accelerating the IFRS adoption process. Governments should facilitate the adoption of IFRS in the country by providing financial and educational support to companies and accounting professions.

In this context, from the point of view of investors, transparency of financial reports and reduction of information asymmetry is one of the basic components in financial decisions. Therefore, to create a healthier environment and attract more investors, the adoption of IFRS can play a key role. In particular, Iranian companies can take advantage of the adoption of these standards to increase their competitiveness at the international level while promoting financial transparency.

In addition, paying attention to specialized training and improving the skills of human resources in the field of IFRS is one of the necessary steps to improve the acceptance of these standards in countries such as Iran. To solve infrastructure problems and reduce implementation costs, using new technologies in accounting and financial reporting can be considered as a suitable solution.

Suggestions:

1. Development of professional training in the field of IFRS: One of the most important steps to facilitate the adoption of IFRS in developing countries, especially Iran, is to improve the level of training in the field of international accounting principles. These trainings should be widely provided in universities and educational institutions, and specialized courses should be held for accountants and financial managers.

2. Amending domestic laws and regulations: Governments should seriously review their laws and regulations and harmonize them with IFRS. Amending tax and commercial laws, adapting them to international standards, and removing conflicts and legal obstacles can pave the way for the adoption of IFRS.

3. Investment in IT infrastructure: IFRS adoption requires advanced technology infrastructure. Therefore, it is necessary for companies to invest in software systems and new technologies to be able to prepare their financial reports based on these standards.

4. Government support and financial incentives: Governments should provide companies with various financial facilities and incentives to make IFRS adoption affordable for them. These supports can include providing implementation costs, providing tax incentives or helping with training costs.

5. Strengthening international cooperation: International cooperation and using the experiences of developed countries can help developing countries to implement the IFRS adoption process more effectively. These collaborations can include training courses, technical consultations and resource sharing.

6. Facilitating access to foreign financial resources: IFRS adoption, especially for developing countries such as Iran, can help attract foreign investment and facilitate access to global financial resources. For this purpose, governments should take advantage of international opportunities to attract investment and develop financial markets.

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