IJCBM International Journal of Commerce and Business Management
e ISSN–0976–7940 Volume **9** | Issue 2 | October, 2016 | 148-155
DOI: 10.15740/HAS/IJCBM/9.2/148-155
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RESEARCH PAPER

International financial reporting standards (IFRS): A study of opinion of practitioners in Ludhiana city

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Received : *25.05.2016;* **Revised :** *17.08.2016;* **Accepted :** *04.09.2016*

ABSTRACT

IFRS refers to the guidelines and rules that companies and organizations are required to follow while preparing and presenting their financial statements. Present paper attempts to study and analyse the opinion of practitioners with respect to the importance of IFRS, the need for IFRS, the adoption of IFRS and the implementation concerns. For the purpose of the study a sample of 120 respondents was selected from the list of practitioners working in Ludhiana city. These practitioners included the experts who are well versed with the preparation of annual reports such as chartered accountants, cost and works accountants, chartered financial analysts, companies secretaries, chief financial officers etc. It was found that there exists a positive relationship between the importance of IFRS and need for IFRS, importance of IFRS and adoption of IFRS, need for IFRS and adoption of IFRS. Based on factor analysis of the statements related to IFRS, the four major factor components were extracted *i.e.* comparability, problems, lowering costs and efficiency. Significant correlation was found between the work experience of the practitioners and comparability. It can be concluded that the importance of IFRS has increased all over the world.

KEY WORDS : IFRS, Factor analysis, Factor components

How to cite this paper : Sharma, Sarishma (2016). International financial reporting standards (IFRS): A study of opinion of practitioners in Ludhiana city. *Internat. J. Com. & Bus. Manage,* **9**(2) : 148-155. **DOI: 10.15740/HAS/IJCBM/9.2/148-155**.

International financial reporting standards (IFRS) has been developed by International accounting standard board (IASB). As per IASB "IFRS refers to a set of international accounting standard stating how particular type of transactions and other events should be reported in financial statement". IFRS refers to the guidelines and rules that companies and organizations are required to follow while preparing and presenting their financial statements. IFRS formerly known as International accounting standards (IAS) are the standards, Interpretations and framework for the preparation and presentation of financial statements adopted by the International Accounting standards board (IASB). IAS was issued in 1973 and 2001 by the board of the Internal accounting standards committee (IASC). On 1st April 2001, the new IASB took over from the IASC the responsibility for setting International accounting standards.

In July 2007, the council of the institute of chartered accountants of India set a target of adopting International financial reporting standards (IFRS) for all listed, public interest and large-sized entities from accounting periods beginning on or after 1 April 2011.

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Need for IFRS :

With the advent of globalisation and liberalisation the organisations are expanding their businesses across the local boundaries. The companies having worldwide operations are required to prepare their accounts as per the accounting standards of the country in which the organisation is operating its business. It leads to duplication of efforts as the accounts were prepared following different standards as per the requirements of the particular country. It was also a tedious and time consuming task. There was felt a need for common standard which could be adopted all over the world. The introduction of IFRS would lead to easy access to international capital markets without having to go through the cumbersome conversion and filing process. The introduction of common standards would provide a single financial reporting financial platform which would bring more transparency in the operations of the businesses.

Importance of IFRS :

The introduction of IFRS has several benefits. It would help in lowering the cost of raising funds form the capital markets and reduce companies' costs of capital by providing investors with better information on corporate performance. IFRS would also help the firms to prepare consolidated financial statements when conducting business in different parts of the world. A single financial reporting platform would lead to the compliance with increasing corporate awareness. The quality of information is improved when accounts are prepared according to the international standards. As the companies would be preparing the financial statements according to international accounting standards it would lead to transparency in the operations of the business and would attract more investments from potential investors.

Problems in adoption of IFRS :

While there are several benefits from the adoption of international financial reporting standards there are certain problems which are faced by the corporations. The staff of the organisations is not well equipped with the international financial standards. The internal systems of the organisations are not efficient to adopt the international standards. Lack of effective communication in an organisation also hinders the adoption of international financial reporting standards. Moreover, the adoption of international financial reporting standards is not an easy task as the accounts, standards and policies of the organisations cannot be changed swiftly. Keeping in view the problems faced by the organisations in adopting the international standards it was felt that the provision of convergence should be provided. The convergence of standards means that the organisations are not required to fully adopt the international standards but they can change their accounting standards partly. The developing countries are moving towards convergence of accounting standards but the developed countries are fully adopting the international standards.

Keeping in view the increasing importance of IFRS across the countries a study was undertaken to fulfil the following objectives which are as follows:

- To study the opinion of practitioners with respect to the importance of IFRS adoption.
- To study the relationship between the experience of practitioners and the Importance of IFRS, the need for IFRS, adoption of IFRS and implementation concerns.

Eccher and Healy (2000) examined the usefulness of International accounting standards (IAS) in China. It was concluded that information produced using IAS is no more useful than that prepared using Chinese standards.

Soderstrom and Sun (2001) provided a review of the literature on adoption of different GAAPs. It was concluded that cross-country differences in accounting quality are likely to remain following IFRS adoption because accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides.

Palea (2002) studied the effects of the IAS/IFRS adoption in Europe on the cost of equity capital relative to the bank industry. It was found that the increase in the level of disclosure provided by the adoption of the IAS/IFRS in the European Union has led to a lower cost of capital.

Cordeiro *et al.* (2003) studied the impact of the application of IFRS to financial information of Portuguese public companies. It was found that the balance sheet and income statement structures of the firms suffered relevant accounting conversions in the process of compliance but no clear pattern for accounting variations was observed.

Ball (2005) studied the pros and cons of International financial reporting standards for the investors and it was found that extraordinary success has been achieved in developing a comprehensive set of high quality IFRS standards and in obtaining convergence in standards with important non-adopters. It was also found that the cons are with fair value accounting and there were substantial differences among countries in implementation of IFRS.

Barth *et al.* (2007) examined whether application of International accounting standards is associated with higher accounting quality. It was found that firms applying IAS generally evidence less earnings management, more timely loss recognition, and more value relevance of accounting amounts than do a matched sample of firms applying non-US domestic standards. It was also found that firms applying IAS generally evidence an improvement in accounting quality between the pre- and post-adoption periods.

Horton and Serafeim (2008) investigated whether there is market reaction to and value-relevance of information contained in the mandatory transitional documents required by IFRS 1. It was found that firms report lower earnings under IFRS as compared to UK GAAP and share based payments, goodwill amortization, deferred taxes, financial instruments and employee benefits were the components which were causing differences between IFRS and UK GAAP earnings. It was also found that the positive adjustments were value relevant both before and after disclosure while negative adjustments were value relevant only post disclosure.

Paananen and Parmar (2008) examined whether investors' shift their focus from earnings to book value of shareholders' equity after the adoption of IFRS in the United Kingdom. They found that investors seem to rely more on the book value of shareholders' equity and less on earnings information after the adoption of IFRS and also there was no change in the overall increase in accounting information's ability to predict future equity values.

Armstrong *et al.* (2009) examined European stock market reactions with the adoption of IFRS. It was found that there was an incrementally positive reaction for firms with lower quality pre-adoption information. It was also found that there was an incrementally negative reaction for firms domiciled in code law countries.

Fosbre *et al.* (2009) examined the implications of the SEC decision to allow foreign companies to use IFRS in financial reporting without reconciliation to US GAAP on investors, multinational corporations, and global financial reporting. It was found that it was necessary to converge and harmonize IFRS and US GAAP into a single set of Global accounting standards. It was also found that it would lead to a more stabilized and prosperous world economy and it would help to resolve many of the world's financial reporting problems.

Ramanna and Sletten (2009) studied variations in the decision to adopt IFRS. It was found that more powerful countries are less likely to adopt IFRS. It was also found that IFRS adoption at first increases and then decreases in the quality of countries' domestic governance institutions. It was concluded that IFRS lowers information costs in more globalized economies.

Chen *et al.* (2010) compared the accounting quality of publicly listed companies in European Union before and after the full adoption of IFRS. It was found that the majority of accounting quality indicators improved after IFRS adoption in the European Union. It was also found that firms engage in more earnings smoothing and recognize large losses in a less timely manner in post-IFRS periods. Verriest *et al.* (2011) investigated the association between corporate governance strength and EU listed firms' choices with respect to IFRS adoption. It was found that the firms exhibit heterogeneity in both compliance and disclosure quality. It was also found that stronger governance firms disclose more information than less governance firms.

Florou and Pope (2012) examined whether the mandatory introduction of International financial reporting standards leads to an increase in institutional investor demand for equities. It was found that institutional holdings increase for mandatory IFRS adopters. It was also found that increased institutional holdings are concentrated in countries where enforcement and reporting incentives are strongest, and where the differences between local GAAP and IFRS are relatively high.

Horton *et al.* (2013) examined the effect of mandatory IFRS adoption on firms' information environment. It was found that after mandatory IFRS adoption consensus forecast errors decrease for firms that mandatorily adopt IFRS relative to forecast errors of other firms. It was also found that there was decreasing forecast errors for voluntary adopters, but this effect was smaller and not robust.

METHODOLOGY

A list of 350 practitioners in Ludhiana city was prepared. The practitioners included were the experts who are well versed with the preparation of annual reports such as chartered accountants, cost and works accountants and companies secretaries. The target for the sample was met by selecting the practitioners from the list using simple random sampling. A structured questionnaire was prepared covering various issues related to importance of IFRS, the need for IFRS, the adoption of IFRS and the implementation concerns of IFRS. The questionnaires were electronically mailed to the practitioners. Out of 350 practitioners, responses from 120 practitioners were received. The research was conducted in the year 2014. The data collected was analysed using suitable statistical tools such as descriptive statistics, correlation analysis and factor analysis. Mean and Standard deviation was used for analysing data related to importance, need, adoption and implementation concerns of IFRS. Factor analysis was used to extract the relevant factor components and correlation analysis was used to find the correlation between the extracted factor components and the experience of the practitioners.

ANALYSIS AND DISCUSSION

This section deals with the analysis of the data collected through questionnaire on International financial reporting standards (IFRS): A study of opinion of practitioners in Ludhiana city. This section is divided into three subsections. The first section deals with the Importance of IFRS, the need for IFRS, the adoption of IFRS and the implementation concerns of IFRS. The second section deals with the factor analysis of the statements related to IFRS and the third section deals with the correlation relationship between factor components and work experience of the practitioners.

International financial reporting standards :

In this section the descriptive statistics related to the importance of IFRS, the need for IFRS, the adoption of IFRS and the implementation concerns of IFRS has been discussed.

Importance of IFRS :

The data related to the importance of IFRS has been discussed in this section. The data collected from the practitioners has been analysed using descriptive statistics which has been discussed below.

Figures in Table 1 represent the mean and standard deviation of the data collected through questionnaire. The mean of the statement 1 highest *i.e.*5.30 which represents that the major respondents agree that IFRS would enable the entities to have access to international capital markets. The second significant factor which has been considered important by the practitioners is that IFRS leads to more transparent financial reporting. The mean of statement 2 is 4.95 which represents that average number of respondents agrees to the fact that IFRS would help in lowering the cost of raising funds in capital markets. The mean of statement 11 is 5.23 which represents that IFRS leads to more transparent financial reporting. The standard deviation of the responses varies from .10 to .15 which shows that the variance of the responses is less.

Need for IFRS :

The data related to the need of IFRS has been discussed in this section. The data collected from the practitioners has been analysed using descriptive statistics which has been discussed below.

Figures in Table 2 represent the mean and standard deviation of the data collected through questionnaire

Table 1: Importance of IFRS (n=120)

Statement	Mean	Standard deviation
IF 1: IFRS would enable the entities to have access to international capital markets	5.30	0.11
IF2: IFRS would help in lowering the cost of raising funds in capital markets.	4.95	0.12
IF6: IFRS reduce information costs to an economy.	4.51	0.13
IF10: IFRS increases comparability among different sectors.	4.40	0.15
IF11: IFRS leads to more transparent financial reporting.	5.23	0.10
IF15: IFRS would help to increase market efficiency.	4.83	0.11
IF16: IFRS would help in removing barriers to cross-border acquisitions and divestitures.	4.81	0.13

(Source: Primary data collected from the respondents) related to statement 3, 4, 9, 13 and 14. The mean of the statement 3 is 5.66 which represents that the major respondents agree that IFRS would provide a single financial reporting platform. The mean of statement 4 is 5.09 which represents that major of respondents agree to the fact that IFRS would provide better quality of information. The mean of statement 9, 13 and 14 is 4.23, 4.62 and 4.96 which represents that IFRS lead to a reduction in firms cost of equity capital, IFRS in the preparation of corporate financial statements will facilitate international comparability from different countries and Finance professionals will become more mobile because of IFRS. The standard deviation of the responses varies from .09 to .16 which shows that the variance of the responses is less.

Adoption of IFRS :

The data related to the adoption of IFRS has been discussed in this section. The data collected from the practitioners has been analysed using descriptive statistics which has been discussed below.

Figures in Table 3 represent the mean and standard deviation of the data collected through questionnaire related to statement 7, 17 and 18. The mean of the statement 7 is 4.84 which represents that the average respondents agree that the decision to adopt IFRS is influenced by the internal politics of the companies. The mean of statement 17 and statement 18 is 4.68 and 4.03 which represents that major no of respondents agree to the fact that IFRS would provide better quality of information. The mean of statement 9, 13 and 14 is 4.23, 4.62 and 4.96 which represents that Globalization has set an impetus for IFRS and Implementation of IFRS would not be a smooth process. The standard deviation of the responses varies from .13 to .15 which shows that the variance of the responses is less.

Table 2: Need for IFRS (n=120)

Statement	Mean	Standard deviation
IF3: IFRS would provide a single financial reporting platform.	5.66	0.09
IF4: IFRS would provide better quality of information.	5.09	0.10
IF9: IFRS lead to a reduction in firms cost of equity capital.	4.23	0.16
IF13: IFRS in the preparation of corporate financial statements will facilitate international comparability from different countries.	4.62	0.13
IF14: Finance professionals will become more mobile because of IFRS.	4.96	0.11

(Source: Primary data collected from the respondents)

Table 3: Adoption of IFRS (n=120)

Statement	Mean	Standard deviation
IF7: The decision to adopt IFRS is influenced by the internal politics of the companies.	4.84	0.13
IF17: Globalization has set an impetus for IFRS.	4.68	0.15
IF18: Implementation of IFRS would be a smooth process.	4.03	0.15

(Source: Primary data collected from the respondents)

Table 4: Implementation concerns (n=120)

Statement	Mean	Standard deviation
IF5: Indian tax laws do not recognize the accounting standards.	4.31	0.18
IF8: There is lack of adequate skills amongst the preparers and users of financial statements to apply IFRSs.	4.23	0.16
IF12: Effective change management policies are important to converge to IFRS.	4.74	0.11

(Source: Primary data collected from the respondents)

Table 5 : KMO and Bartlett's test

Kaiser-Meyer-Olkin measure of sampling adequacy		.649
Bartlett's test of sphericity	Approx. Chi-square	258.418
	Df	66
	Sig.	.000

(Source: Primary data collected from the respondents)

Implementation concerns :

The data related to the Implementation concerns have been discussed in this section. The data collected from the practitioners has been analysed using descriptive statistics which has been discussed below.

Figures in Table 4 represent the mean and standard deviation of the data collected through questionnaire related to statement 5, 8 and 12. The mean of the statement 5, 8 and 12 is 4.31, 4.23 and 4.74 which represents that the respondents do not agree that the Indian tax laws do not recognize the accounting standards, There is lack of adequate skills amongst the preparers and users of financial statements to apply IFRSs and effective change management policies are important to converge to IFRS. The standard deviation of the responses varies from .11 to .18 which shows that the variance of the responses is less.

Factor analysis :

In this section the data related to the IFRS was analysed using factor analysis. The results of factor analysis have been discussed below.

The value of Kaiser-Meyer-Olkin measure of sampling adequacy came out to be .649 which means that the sample size is adequate as KMO value more than .5 indicates that sample size is adequate.

Table 6 : Total variance explained

Component	Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	2.641	22.006	22.006	2.641	22.006	22.006	2.132	17.766	17.766
2	2.020	16.834	38.840	2.020	16.834	38.840	1.776	14.797	32.563
3	1.338	11.154	49.993	1.338	11.154	49.993	1.691	14.088	46.652
4	1.107	9.224	59.218	1.107	9.224	59.218	1.508	12.566	59.218
5	.896	7.463	66.681						
6	.812	6.770	73.450						
7	.770	6.414	79.864						
8	.645	5.374	85.238						
9	.509	4.238	89.476						
10	.490	4.085	93.561						
11	.442	3.683	97.244						
12	.331	2.756	100.000						

(Extraction Method: Principal component analysis) (Source: Primary data collected from the respondents)

Table 7 : Component matrix

	Component			
	1	2	3	4
IF2: IFRS would help in lowering the cost of raising funds in capital markets.	.081	.530	.629	.148
IF3: IFRS would provide a single financial reporting platform	.690	.072	.175	-.084
IF4: IFRS would provide better quality of information.	.663	-.257	.449	-.027
IF5: Indian tax laws do not recognize the accounting standards.	-.225	.657	.029	.109
IF6: IFRS reduce information costs to an economy.	.506	.320	-.224	-.439
IF7: The decision to adopt IFRS is influenced by the internal politics of the companies	.094	.617	.124	-.133
IF11: IFRS leads to more transparent financial reporting.	.562	-.248	-.508	-.089
IF13: IFRS in the preparation of corporate financial statements will facilitate international comparability from different countries	.567	-.447	.390	.244
IF14: Finance professionals will become more mobile because of IFRS.	.374	.342	-.094	.491
IF15: IFRS would help to increase market efficiency.	.180	.378	-.391	.547
IF16: IFRS would help in removing barriers to cross-border acquisitions and divestitures	.656	.014	-.263	.206
IF18: Implementation of IFRS would be a smooth process	.403	.482	-.048	-.453

(Extraction method: Principal component analysis) (Source: Primary data collected from the respondents)

From Table 6 it was found that four components would be extracted using principal component analysis. The components selected were those having initial eigenvalue of more than one. These four factors explain 59.218 per cent variance in the data.

From Table 7 it was found that under factor 1 the maximum loading is from the component IF3 having factor loading of .690, IF4 having factor loading of .663, IF6 having factor loading of .562, IF13 having factor loading of .567, and IF16 having factor loading of .656. Under factor 2 the maximum loading came from the component IF5 having factor loading of .657 followed by IF7 having factor loading of .617 and IF18 having factor loading of .482. Under factor 3 the maximum loading came from the component IF2 having factor loading of .629. Under factor 4 the maximum loading came from the component IF14 having factor loading of .491 and IF15 having factor loading of .547.

The factor definitions of the extracted factors have been described below:

Comparability :

This factor includes that IFRS provides better quality of information, provide single financial reporting platform, and reduces information costs to an economy, more transparent financial reporting, comparability of financial statements and removing barriers.

Problems :

This factor deals with the statements that Indian tax laws do not recognise the accounting standards, adoption of IFRS is influenced by the internal politics of the company and implementation problems of IFRS.

Lowering costs :

This factor deals with the statement that IFRS help in reducing costs of raising funds in capital markets.

Efficiency :

This factor deals with the statements that IFRS would help to increase market efficiency and finance professionals will become more mobile because of IFRS.

Relationship between factor components and work experience of the practitioners :

In this section the relationship between the factor components and work experience of the practitioners was studied. The relationship was studied using correlation analysis. While studying the relationship between factor components and Work experience of the practitioners it was found that the correlation was found to be significant at 0.05 level of significance, which shows that there was positive relationship between the factor components and work experience of the practitioners.

Conclusion :

With the liberalisation and globalisation the companies had felt the need to concentrate more in international markets. The need for the common standards was felt and thus, International financial standards came into picture. The study was conducted to study the opinion of practitioners towards IFRS. Data was collected from the practitioners using structured questionnaire. The data was analysed using descriptive statistics, correlation analysis and factor analysis. It was found that the practitioners felt that IFRS would enable the enterprises to have access to international capital markets and leads to more transparent financial reporting thereby improving the quality of information. The practitioners felt the need for IFRS because it would provide single financial reporting platform and makes the financial statements comparable across the local boundaries of the corporates. The practitioners also believe that the decision to adopt IFRS is influenced by the internal politics of the companies but they do not believe that implementation of IFRS would be a smooth process. Based on factor analysis of the statements related to IFRS, the four major factor components were extracted *i.e.* comparability, problems, lowering costs and efficiency. Significant correlation was found between the work experience of the practitioners and comparability. It can be concluded that the importance of IFRS has increased all over the world and the organisations are moving towards adopting these standards. The implementation would be not a smooth process because lack of skills among the preparers and users of financial information hinders the adoption process. There is a need to create awareness among the preparers and users of the financial information to adopt the global standards. Also there is a need to improve the internal structure of the organisations to implement global standards with constructive results.

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