World Wide Journal of Multidisciplinary Research and Development

WWJMRD 2017; 3(1): 25-30
www.wwjmrd.com
Impact Factor MJIF: 4.25
e-ISSN: 2454-6615

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Effect of international financial reporting standards (IFRS) on corporate performance: A case study of Jordan Telecom

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Abstract
International Financial Reporting Standards (IFRS) are body of prescriptive rules and guidelines which provide guidance on proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting in a globalised world. But, the failure by the firm to adopt IFRS may bring inconsistencies, lack of accountability and transparency, distortion in financial reports, which in turn results into poor financial reporting practices and dissemination of accounting information which subsequently lead to business failure. The IFRS adoption is an issue of global relevance among various countries of the world due to the quest for understandability, reliability, reliability, timeliness, neutrality, verifiability and comparability of financial statements. The present research has been undertaken to explore the effect of International Financial Reporting Standards (IFRS) adoption on the performance of Jordan Telecom Company with the application of linear regression.

Keywords: International Financial Reporting Standards (IFRS), liquidity, profitability, regression, debt, leverage

Introduction

Globalization has removed the geographical boundaries and made the world a global village and therefore the activities of companies and investors are not limited to geographical boundaries. Companies raise capital in foreign countries and are involved in diversification, investment and cross-border mergers. Funds move across borders of many countries and if companies report as per the rules prescribed by the local regulatory bodies, investors would have to study the accounting standards across various countries before investing. The economic differences within each country may hamper the comparison between countries with huge economic differences. It becomes mandatory to harmonize accounting system and financial reporting in a uniform way to have a single language of financial reporting which can give consistent comparability across countries. In this backdrop, IFRS was developed by the International Accounting Standards Board (IASB) which operates under the oversight of the IFRS Foundation.

International Financial Reporting Standards (IFRS) are body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting. Failure on the part of the firm to apply the requirements of IFRS would result in inconsistencies, lack of accountability and transparency, distortion in financial reports, which in turn results into poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users. This is because the preparation and presentation of financial statements will be bereft of objectivity, reliability, credibility and comparability, and thus results in fraudulent business practices which lead to business failure. However, adopting a single global accounting language will ensure relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and bring a qualitative change in the accounting information reports. It will strengthen the confidence and empower investors and other users of accounting information around the world. It will also help acquirers to assess the actual worth of the target companies in cross border deals and thereby furthering the economic growth and search and help researcher in deter business expansion globally.

International Financial Reporting Standards (IFRS) have gained momentum all around the globe. International reporting convergence is becoming a recent and important topic for regulators, professional bodies, global investors, government and all other stakeholders who use financial information of public companies. The goal of IFRS Foundation is to develop a single set of global financial reporting standards that bring transparency, accountability, comparability, efficiency, and quality of financial reporting, to financial markets around the world. These standards serve the public interest by fostering trust, growth, and long-term financial stability in the global economy. In the year 2002, the European Union compelled the listed companies in Europe to adopt IFRS for consolidated financial statements. More than 8,000 companies across 30 countries, including UK, France, Spain, Germany, Australia, Hong Kong, New Zealand, Philippines, and Singapore adopted IFRS in the year 2005. However, USA and Japan are the major exceptions as they still require their entities to prepare financial statements as per their national accounting standards (Iwata, 2010).

List of IFRS

IFRS 1: First-time Adoption of International Financial Reporting Standards
IFRS 2: Share-based Payment
IFRS 3: Business Combinations
IFRS 4: Insurance Contracts
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
IFRS 6: Exploration for and Evaluation of Mineral Assets
IFRS 7: Financial Instruments: Disclosures
IFRS 8: Operating Segments
IFRS 9: Financial Instruments

Review of Literature

Harris and Muller (1999) investigated the market valuation of earnings and the book values of financial statements in accordance with IFRS and US-GAAP. It has been found that IFRS earnings per share amounts were highly associated with prices per share than US-GAAP earnings per share amounts. However, US-GAAP-based values were found to be more associated with values of securities than IFRS-based values. Arce and Mora (2002) investigated the value relevance of alternative accounting measures (earnings and book values) under different accounting systems in Europe. Listed companies in Belgium, France, Germany, Italy, the Netherlands, Switzerland, Spain and the UK were selected in the study to examine the value relevance between these companies' earnings, book values, and market values. The results of t-test highlighted that the relationship between the earnings and book values was statistically significant. Hung and Subramanyam (2007) in the research paper entitled, *"Financial Statement Effects of Adopting International Accounting Standards: The Case of Germany"* studied the impact of IFRS adoption on value relevance and financial reports and found that book value (net income) plays a greater (lesser) valuation role under IFRS than under local GAAP. The researchers discovered that while the IFRS adjustments to book value were generally value relevant, the adjustments to income were generally value irrelevant. Agca and Aktas (2007) in the research paper entitled, *"First Time Application of IFRS and Its Impact on Financial Ratios: A Study on Turkish Listed Firms"* analyzed the results of financial ratios prepared in accordance with IFRS and the financial statements prepared according to the local regulations. The financial statements were obtained from the CMB and they were analyzed to identify the extent of differences of these two regulations. Companies from 5 different industries were included in their study and the authors gathered different number of observations in each sector. As a result of the study, they found that some selected variables were statistically significant. Callao et al. (2007) in the research paper entitled, *"Adoption of IFRS in Spain: Effect on the comparability and relevance of financial reporting"* investigated the impact of IFRS harmonization on the financial statements and their comparability in IBEX-35 companies in Spain. The relationship between financial ratios and accounting figures was examined according to local GAAP and IFRS and statistically significant relationship was found according to two different standards. Besides, it was found that total liabilities, long-term liabilities, cash and cash equivalents and shareholder's equity were affected significantly from the transition to IFRS. The study further highlighted that the book values differed significantly from the market values under IFRS and under Spanish standards. Kabir et al. (2010) in the research paper entitled, *"Impact of IFRS in New Zealand on Accounts and Earnings Quality"* evaluated the impact of IFRS adoption on accounts and earning's quality of New Zealander companies. It has been found that total assets, total liabilities and net profit figures were higher in IFRS-based financial statements. They also determined that IFRS-based adjustments increased goodwill, other intangible assets and investment property amounts. On the other hand, these adjustments caused decreases in employee benefits and share-based payments.

Objective of the study

The Objective of the present study is to investigate the impact of IFRS adoption on financial activities of Jordan Telecom.

Hypotheses of the study

H_{01}: There is no improvement in liquidity after adoption of IFRS.

H_{a1}: There is improvement in liquidity after adoption of IFRS.

H_{02}: There is no improvement in profitability after adoption of IFRS.

H_{a2}: There is improvement in profitability after adoption of IFRS.

H_{03}: There is no improvement in leverage after adoption of IFRS.

H_{a3}: There is improvement in leverage after adoption of IFRS.

H_{04}: There is no increase in investment activities after adoption of IFRS.

H_{a4}: There is increase in investment activities after adoption of IFRS.

H_{05}: There is no increase in sales after adoption of IFRS.

H_{a5}: There is increase in sales after adoption of IFRS.

H_{06}: There is no change in debt to capital ratio after adoption of IFRS.

H_{a6}: There is change in debt to capital ratio after adoption of IFRS.

H_{07}: There is no change in interest coverage ratio after adoption of IFRS.

H_{a7}: There is change in interest coverage ratio after adoption of IFRS.

Methodology

The study is quantitative in nature. It attempts to evaluate the impact of IFRS adoption on the financial activities of Jordan Telecom. The scope of the study is restricted to Jordan Telecom for seven financial years 2009-10 to 2015-16. Besides, the study has taken measured financial performance on the variables: financial risks, investing activities, operating activities and debt covenants.

Hypotheses Testing

H_{01}: There is no improvement in liquidity after adoption of IFRS.

H_{a1}: There is improvement in liquidity after adoption of IFRS.

Regression analysis is used to explore the improvement in liquidity position of Jordan Telecom after adoption of IFRS. The null hypothesis is that there is no improvement in liquidity position after adoption of IFRS and the alternate states that there is improvement in liquidity after adoption of IFRS. Liquidity is taken as dependent variable and IFRS is taken as independent variable.

Table 1: Regression Analysis of IFRS and Liquidity

Model-1	Adjusted R Square	ANOVA Model Fitness	Beta Coefficient	t value	P Value
	0.846	0.000	0.597	12.451	0.000

Source: Output of SPSS_20 version

Table 1 shows the results of linear regression. The value of adjusted R square is 0.846. It means 84.6 percent variation in liquidity is explained by IFRS and the rest of the variation ($1-R^2$) is an unexplained variation due to variables that has not been considered in this model. ANOVA shows the model fitness. It shows that both the variables exactly fulfilled the criteria of model accuracy. Besides, the value of unstandardized beta coefficient is 0.597 which means that one unit change in IFRS brings 0.597 units change in liquidity of Jordan Telecom. The p value is 0.000 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is improvement in liquidity position of Jordan Telecom after adoption of IFRS.

H_{02}: There is no improvement in profitability after adoption of IFRS.

H_{a2}: There is improvement in profitability after adoption of IFRS.

Regression analysis is used to examine the improvement in profitability position of Jordan Telecom after adoption of IFRS. The null hypothesis is that there is no improvement in profitability after adoption of IFRS and the alternate states that there is improvement in profitability after adoption of IFRS. Profitability is dependent variable whereas IFRS is taken as independent variable.

Table 2: Regression Analysis of IFRS and Profitability

Model-2	Adjusted R Square	ANOVA Model Fitness	Beta Coefficient	t value	P Value
	0.806	0.005	0.444	18.483	0.005

Source: Output of SPSS_20 version

Table 2 shows the results of linear regression. The value of adjusted R square is 0.806. It means 80.6 percent variation in profitability is explained by IFRS and the rest of the variation ($1-R^2$) is an unexplained variation due to variables that has not been considered in this model. ANOVA shows the model fitness. It means that both the variables exactly fulfilled the criteria of model accuracy. Besides, the value of unstandardized beta coefficient is 0.444 which means that one unit change in IFRS brings 0.444 units change in profitability of Jordan Telecom. The p value is 0.005 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is improvement in profitability of Jordan Telecom after adoption of IFRS.

H_{03}: There is no improvement in leverage after adoption of IFRS.

H_{03}: There is improvement in leverage after adoption of IFRS.

Regression analysis is used to examine the improvement in leverage after adoption of IFRS. The null hypothesis is that there is no improvement in leverage after adoption of IFRS and the alternate states that is improvement in leverage after adoption of IFRS. Besides, IFRS is taken as independent variable whereas leverage is dependent variable.

Table 3: Regression Analysis of IFRS and Leverage

Model-3	Adjusted R Square	ANOVA Model Fitness	Beta Coefficient	t value	P Value
	0.722	0.009	0.391	27.476	0.009

Source: Output of SPSS_20 version

Table 3 shows the results of linear regression. The value of adjusted R square is 0.722. It means 72.2 percent variation in leverage is explained by IFRS and the rest of the variation ($1-R^2$) is an unexplained variation due to variables that has not been considered in this model. ANOVA shows the model fitness. It means that both the variables exactly fulfilled the criteria of model accuracy. Besides, the value of unstandardized beta coefficient is 0.391 which means that one unit change in IFRS brings 0.391 units change in leverage of Jordan Telecom. The p value is 0.009 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is improvement in leverage of Jordan Telecom after adoption of IFRS.

***H_{04}*: There is no increase in investment activities after adoption of IFRS.**

***H_{a4}*: There is increase in investment activities after adoption of IFRS.**

Regression analysis is used to find the impact of IFRS on investment activities in Jordan Telecom. The null hypothesis is that there is no increase in investment activities after adoption of IFRS and the alternate states that is increase in investment activities after adoption of IFRS. IFRS is considered as independent variable while investment activities as dependent variable.

Table 4: Regression Analysis of IFRS and Investment activities

Model-4	Adjusted R Square	ANOVA Model Fitness	Beta Coefficient	t value	P Value
	0.789	0.000	0.496	33.412	0.000

Source: Output of SPSS_20 version

The results of linear regression has been shown in table 4. It shows the value of adjusted R square is 0.789. It means 78.9 percent variation in investment activities is explained by IFRS and the rest of the variation ($1-R^2$) is an unexplained variation due to variables that has not been considered in this model. ANOVA shows the model fitness. It means that both the variables exactly fulfilled the criteria of model accuracy. Besides, the value of unstandardized beta coefficient is 0.496 which means that one unit change in IFRS brings 0.496 units change in investment activities of Jordan Telecom. The p value is 0.000 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is increase in investment activities of Jordan Telecom after adoption of IFRS.

***H_{05}*: There is no increase in sales after adoption of IFRS.**

***H_{a5}*: There is increase in sales after adoption of IFRS.**

Regression analysis is used to evaluate the impact of IFRS on sales in Jordan Telecom. The null hypothesis is that there is no increase in sales and the alternate states that is increase in sales after adoption of IFRS. Besides, IFRS is considered as independent variable while sales as dependent variable.

Table 5: Regression Analysis of IFRS and Sales

Model-5	Adjusted R Square	ANOVA Model Fitness	Beta Coefficient	t value	P Value
	0.684	0.002	0.407	-3.409	0.002

Source: Output of SPSS_20 version

Table 5 shows the results of linear regression. The value of adjusted R square is 0.684. It means 68.4 percent variation in sales is explained by IFRS and the rest of the variation ($1-R^2$) is an unexplained variation due to variables that has not been considered in this model. ANOVA shows the model fitness. It shows that both the variables exactly fulfilled the criteria of model accuracy. Besides, the value of unstandardized beta coefficient is 0.407 which means that one unit change in IFRS brings 0.407 units change in sales of Jordan Telecom. The p value is 0.002 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is a significant increase in sales after adoption of IFRS in Jordan Telecom.

***H_{06}*: There is no change in debt to capital ratio after adoption of IFRS in Jordan Telecom.**

***H_{a6}*: There is change in debt to capital ratio after adoption of IFRS in Jordan Telecom.**

Regression analysis is used to examine the change in debt to capital ratio after adoption of IFRS. The null hypothesis is that there is no change in debt to capital ratio after adoption of IFRS and the alternate states that there is change in debt to capital ratio after adoption of IFRS. IFRS is considered as independent variable while debt to capital ratio as dependent variable.

Table 6: Regression Analysis of IFRS and Debt to Capital Ratio

Model-6	Adjusted R Square	ANOVA Model Fitness	Beta Coefficient	t value	P Value
	0.047	0.677	0.036	-17.451	0.912

Source: Output of SPSS_20 version

Table 6 shows the results of linear regression. The value of adjusted R square is 0.047. It means 4.7 percent variation in debt to capital ratio is explained by IFRS and the rest of the variation ($1-R^2$) is an unexplained variation due to variables that has not been considered in this model. ANOVA shows the model fitness. It shows that both the variables do not fulfilled the criteria of model accuracy. Besides, the value of unstandardized beta coefficient is 0.036 which means that one unit change in IFRS brings 0.036 units change in debt to capital ratio. The p value is 0.912 which is more than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands accepted and it can be said that there is a there is no change in debt to capital ratio after adoption of IFRS in Jordan Telecom.

***H_{07}*: There is no change in interest coverage ratio after adoption of IFRS in Jordan Telecom.**

***H_{a7}*: There is change in interest coverage ratio after adoption of IFRS in Jordan Telecom.**

Table 7: Regression Analysis of IFRS and Interest Coverage Ratio

Model-7	Adjusted R Square	ANOVA Model Fitness	Beta Coefficient	t value	P Value
	0.089	0.841	0.044	32.207	0.953

Source: Output of SPSS_20 version

Regression analysis is used to check the impact of IFRS (independent variable) on operational risks (dependent variable). Table 7 shows that the value of adjusted R square is 0.089. It means 08.9 percent variation in operational risks is explained by IFRS and the rest of the variation ($1-R^2$) is an unexplained variation due to variables that has not been considered in this model. ANOVA shows the model fitness. It shows that both the variables do not fulfilled the criteria of model accuracy. Besides, the value of unstandardized beta coefficient is 0.044 which means that one unit change in IFRS brings 0.044 units change in operational risks of Jordan Telecom. The p value is 0.953 which is more than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands accepted and it can be said that there is a there is no change in interest coverage ratio after adoption of IFRS in Jordan Telecom.

Conclusion

Globalization has made the world a global village and therefore the activities of companies and investors are not limited to geographical boundaries. Companies raise capital in foreign countries and funds move across borders of many countries. If companies report as per the rules prescribed by each country, investors would have to study the accounting standards across various countries which may hamper their growth. It becomes mandatory to harmonize accounting system and financial reporting in a uniform way to have a single language of financial reporting which can give consistent comparability across countries. In this backdrop, IFRS was developed by the International Accounting Standards Board (IASB) which operates under the oversight of the IFRS Foundation. International Financial Reporting Standards (IFRS) are body of prescriptive rules and guidelines which provide guidance on proper record keeping, transparency, uniformity, understandability, reliability, reliability, timeliness, neutrality, verifiability and comparability of financial statements and enhancing public confidence in financial reporting in a globalised world. In the present research, an attempt has been made to explore the effect of International Financial Reporting Standards (IFRS) adoption on the performance of Jordan Telecom Company with the application of linear regression. The results revealed that there is no improvement in liquidity, profitability, leverage, investment activities, sales, after adoption of IFRS in Jordan Telecom Company. However, the company has not found any change in debt to capital ratio and interest coverage ratio.

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