Assessment of Social, Economic and Political Impact of Adopting International Accounting Standards in Iran

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Abstract: Nowadays, the issue of national standards compliance with international accounting standards is much debated as more than 120 countries accepted to comply International Accounting Standards. However, the aim of this study is to assess social, economic and political impact of adopting international accounting standards in Iran. To do so, a sample of 288 people of financial accountant, auditors and accounting professors is selected and survey questionnaire is distributed to them. Using ANOVA and LSD, results show that international accounting standards adaptation has a significant social, economic and political effect in Iran from financial accountant, auditors and accounting professors perception. In addition, the results indicate that there is no significant difference among financial accountant, auditors and accounting professors perception about economic effects but this is not hold for social and political impact.

Key Words: Social • Economic and Political Impact • International Accounting Standards adaptation and National Standards

INTRODUCTION

The globalization of capital markets has greatly affected the harmonization of accounting standards. The International Accounting Standards Committee (IASC) has a great role in the harmonization of accounting standards by issuing the International Accounting Standards (IAS). The International Accounting Standard Board (IASB) committed in 2001 to achieve full convergence to a single set of high-quality global accounting standards [1]. The efficiency and competitiveness of global capital markets depends on the ability of financial statement preparers to communicate effectively with investors through financial reports. Kimura and Ogawa (2007) argue that while the IASB established IAS of high quality, both understandable and enforceable, the international harmonization of accounting or the convergence of accounting standards is still a much-debated issue in accounting research. Over the last few years there has been a significant increase in the acceptance of International Financial Reporting Standards (IFRSs) [2]. In the year 2010, more than 120 countries have permitted the use of International Financial Reporting Standards (IFRS) in their jurisdictions [3]. Nonetheless, Rezaee et al. [4] argue that IFRS is not universally perceived as a panacea because convergence is a very complex process influenced by political, cultural and regulatory differences that often generate significant uncertainty and resistance. They show this concern by their words as: Accounting has been regarded as “the language of business,” and the question that has been recently the center of attention is, “Can all accountants worldwide speak the same language?” In other words, “Is a set of globally accepted accounting standards feasible through an effective convergence?” Another concern in word of Whittington [5] is:

While the IASB has achieved great success in extending the adoption of international financial reporting standards, but it has also encountered
opposition at national and regional levels. Some of this opposition arises from differences in national accounting cultures, which are embedded in the market structures and institutional and legal frameworks within which business entities operate. These issues are particularly apparent in the debate on the IASB’s revision of its conceptual framework, which expresses its own vision of an international accounting culture. An important example is the issue of whether stewardship should be a distinct fundamental objective of financial reporting [5].

On the other hand, Carmona and Trombetta [6] propose that as precondition for harmonization, accounting education should move from teaching ever temporary rules to emphasize the economic and strategic underpinnings of accounting transactions, which will ultimately let participants in accounting programs cope with IAS/IFRS adoption and any other future regulatory environment [6]. Chua and Taylor [7] note three popular economic rationales for the spread of IFRS namely transparency, quality and comparability. They note about transparency that periodic financial statements are just one component of the information set used to evaluate the performance of publicly traded firms but somewhat ignored since. In addition, they assert that the most important source of demand for financial reporting is the contracting role of accounting, rather than as a primary means of investment evaluation by external investors. They also note about improved quality that the quality of the financial reporting process has more to do with the way in which standards are enforced than variation in the standards themselves and it is difficult to design powerful tests of the effect of a change in accounting standards if the change is not mandatory. Finally, as to comparability, they argue that results reported under different accounting regimes lack comparability [7].

After much debates in Iran at scholars and authorizes level and after big financial scandal in banking system, as in tandem with other countries which have adapted IFRS namely the US, recently (2012) Tehran Stock Exchange (TSE) committee permitted the use of IFRS by TSE firms in financial reporting which have raised attentions to standards internationalization and show that IFRS adoption is not related with its corresponding economic benefits because countries’ need to be socially accepted by global community is very paramount that the decision to adopt IFRS might not be triggered by the need to compete economically. He also reveal that countries are social entities that seek legitimacy and have been influenced by international organizations, uncertain
situations and their own cognitive base to accept IFRS for noneconomic reasons [3]. Haverty [12] investigated as to whether IFRS and U.S. GAAP converging or not. Their evidence shows that lack of comparability, caused largely by the revaluations of property, plant and equipment permitted under IFRS, but not permitted under U.S. GAAP. There is, however, substantial evidence of convergence over time [12]. Chand and Patel [2] investigated the relationship between country-specific characteristics and the selection of the appropriate approach used for the adoption of IFRSs. The country-specific attributes that they found to influence convergence are (1) “the set of accounting standards that was prevailing in the country at the time when the selection was made, (2) the availability and experience of professional accountants, (3) the relevant education and professional training, (4) “the presence of the Big 4 accounting firms and (5) the accounting regulatory framework”. Their results suggest that complete comparability in financial reporting may be difficult to achieve across all countries even after adopting the IFRSs [2]. Iatridis [13] studied to determine whether IFRS adoption leads to higher quality accounting numbers by examining company accounting measures reported under the UK GAAP and IFRSs. Their results indicate that the implementation of IFRSs generally reinforces accounting quality. In addition, they show that the implementation of IFRSs reduces the scope for earnings management which lead to the disclosure of informative and higher quality accounting information and therefore assist investors in making informed and unbiased judgments [13]. Jeanjean and Stolowy [14] analyzed earnings management before and after IFRS adoption and find that the pervasiveness of earnings management did not decline after the introduction of IFRS and in fact increased in France. Their findings confirm that sharing rules is not a sufficient condition to create a common business language and that management incentives and national institutional factors play an important role in framing financial reporting characteristics. They suggest that the IASB, the SEC and the European Commission should devote their efforts to harmonizing incentives and institutional factors rather than harmonizing accounting standards [14]. Using the 1999 and 2002 annual reports of 79 Chinese listed firms, Peng and Tondkar [15] studied as to whether convergence of accounting standards lead to the convergence of accounting practices and find improvement in both compliance with IFRS and in the consistency of the accounting methods used in annual reports prepared under Chinese GAAP and IFRS. They also find a reduction in the earnings gap from 1999 to 2002. Further, they indicate that Chinese listed firms' compliance with IFRS is significantly lower than their compliance with Chinese GAAP [15]. Stecher and Suijs [16] in a survey find that the use of a harmonized accounting standard, such as the IFRS, increase the information available to markets only if institutional differences across countries using the harmonized standard are insignificant and, in all other cases, harmonization of reporting standards destroys information rather than increasing it [16].

Hypotheses Development:

H$_1$: IFRSs adaptation has a political effect in Iran economic environment.
H$_2$: IFRSs adaptation has a social effect in Iran economic environment.
H$_3$: IFRSs adaptation has an economic effect in Iran economic environment.
H$_4$: there is a significant difference between accountant, auditors and accounting professors perception as to political effect of IFRSs adaptation.
H$_5$: there is a significant difference between accountant, auditors and accounting professors perception as to social effect of IFRSs adaptation.
H$_6$: there is a significant difference between accountant, auditors and accounting professors perception as to economic effect of IFRSs adaptation.

MATERIALS AND METHOD

This survey is descriptive and applied research based on filed study. This survey is descriptive because only describes nature, conditions and component elements without making judgment about them. In addition, it is applied research because the results can be used by verity of users. The method of data collection is documental for developing conceptual framework and survey literature and filed method for collecting financial and certified accountants, auditors and university professors’ perception. In filed method, an author-developed questionnaire with five-level Likert item is developed to obtain financial and certified accountants, auditors and university professor’s view and comments. In the beginning, 20 questionnaires are distributed to survey sample to obtain their comments on possible errors of questionnaire and to eliminate opaque questions. Firstly, to test the reliability of the questionnaire,
Corenbach Alpha is performed for 32 questionnaires. The results of Corenbach Alpha (0.94) proved its reliability. In addition, in developing questionnaire, scalars and professors comments on questions is obtained. After transferring questionnaires data into Excel software sheets, one independent sample t test, ANOVA and LSD tests are applied to analyze the data.

**Population and Sample:** The survey population consists of all financial and certified accountants, auditors and university professors. Following formula is used for sampling purpose:

\[
(n = \frac{Z_{\alpha^2} \cdot pq}{\alpha^2})
\]

where:

- \( p = 5/0 \)
- \( q = 5/0 \)
- \( D = \text{Possible optimal preciseness}=0.1 \)
- \( \alpha = 0.05 \)
- \( Z_{\alpha/2} = 1.96 \)

After fitting the formula, our final sample included 288 people (96 people for each group).

**Variables Measurement Methods**

**Economic Effect of IFRS Adaptation:** To test this issue, 11 questions are presented and respondents asked to answer the questions by selecting one of these choices: strongly disagree, disagree, neither agree nor disagree, agree and strongly agree. These questions are as followings:

- IFRS adaptation increases comparability between financial reporting of domestic and foreign firms which is in favor of Iranian investors.
- IFRS adaptation encourages the society to achieve economic goals.
- IFRS adaptation develops foreign economic relationships.
- IFRS adaptation prepares Iranian firms to develop their operations in free international economy.
- IFRS adaptation encourages multinational firms to develop their operations in Iran.
- IFRS adaptation encourages multinational firms to invest in Iranian firms.
- IFRS adaptation causes to develop country economic.
- IFRS adaptation encourages Iranian firms to incorporate firm branches which makes them international firm.
- IFRS adaptation increases government currency savings.
- IFRS adaptation increases country’s exports.
- IFRS adaptation causes to develop job occupations leading to decrease unemployment in Iran.

**Political Effect of IFRS Adaptation:**

- IFRS adaptation causes that developed countries dictate their political wishes to developing ones.
- IFRS adaptation develops foreign relationships with developed countries.
- IFRS adaptation makes Iran one of subsets of international environment.
- IFRS adaptation is a part of globalization process and applies globalization concepts.
- Encouraging developing countries to adapt IFRS is a start for developed countries governance.
- IFRS adaptation is a political tool for controlling developing countries economic.
- IFRS adaptation dictates political issue by lobbies influence on standard setting.
- IFRS adaptation satisfies all countries needs even developing ones.
- IFRS adaptation is a type of following some international groups.
- Though professional role of IFRS, adaptation of these standards have political effect.
- IFRS standards are set to comply political, social and economic aims of specific countries.

**Social Effect of IFRS Adaptation:**

- IFRS adaptation encourages firms to increase employee’s education efforts and make them active elements in society development.
- IFRS adaptation gives firms an incentive to disclose their operations environmental negative and positive effects.
- IFRS adaptation gives firms an incentive to prepare social statements.
- When IFRS is adapted, social role of firms is more highlighted.
- IFRS adaptation gives firms an incentive to accept social accounting.
- IFRS adaptation mitigates conservative behavior of investors.
• IFRS adaptation gives firms an incentive to take part in the development of social institutions.
• IFRS adaptation commits firms to employ people from different classes which is a type of social justice.
• IFRS adaptation improves the social relationships between accountants, auditors and scholars.
• IFRS adaptation gives firms an incentive to have more corporate social responsibility among firm’s stakeholders.

Empirical Results: Firstly, to test normality of variables distribution, Kolmogrov-Smirnov test is used which is shown in Table 1.

According to Table 1, significance of all variable is more than 5 percent so all variables are normal which justifies using parametric tests.

First Hypothesis Test: IFRS adaptation has a political effect in Iran economic environment. The results of this hypothesis are indicated in Table 2.

According to the results of Table 2, significance level is less than 5 percent for all three groups which shows that IFRS adaptation has a political effect in Iran economic environment.

Second Hypothesis Test: IFRS adaptation has a social effect in Iran economic environment. The results of this hypothesis are indicated in Table 3.

According to the results of Table 3, significance level is less than 5 percent for all three groups which shows that IFRS adaptation has a social effect in Iran economic environment.

Third Hypothesis Test: IFRS adaptation has an economic effect in Iran economic environment. The results of this hypothesis are indicated in Table 4.

According to the results of Table 4, significance level is less than 5 percent for all three groups which shows that IFRS adaptation has an economic effect in Iran economic environment.

Fourth Hypothesis Test: There is a significant difference between accountant, auditors and accounting professors perception as to political effect of IFRSs adaptation. The results of this hypothesis are indicated in Table 5.

To test this hypothesis, Anova and Least significant difference are used. As we considered whether mean index of economic effect in different groups is the same or not. The results are shown in Table 4.

According to the results of Table 5, significance level is more than 5 percent which shows that there is not a difference between accountant, auditors and accounting professors perception as to political effect of IFRSs adaptation.
Fifth Hypothesis Test: There is a significant difference between accountant, auditors and accounting professors perception as to social effect of IFRSs adaptation. The results of this hypothesis are indicated in Table 5.

To test this hypothesis, Anova and Least significant difference are used. As we considered whether mean index of economic effect in different groups is the same or not. The results are shown in Table 5.

According to the results of Table 5, significance level is less than 5 percent which shows that there is a difference between accountant, auditors and accounting professors perception as to social effect of IFRSs adaptation.

Sixth Hypothesis Test: There is a significant difference between accountant, auditors and accounting professors perception as to economic effect of IFRSs adaptation. The results of this hypothesis are indicated in Table 6.

To test this hypothesis, Anova and Least significant difference are used. As we considered whether mean index of economic effect in different groups is the same or not. The results are shown in Table 6.

According to the results of Table 6, significance level is less than 5 percent which shows that there is a difference between accountant, auditors and accounting professors perception as to economic effect of IFRSs adaptation.

DISCUSSION AND CONCLUSION

The aim of this study was to assess of social, economic and political impact of adopting international accounting standards in Iran. To do so, a sample of 288 people of financial accountant, auditors and accounting professors were selected and survey questionnaire is distributed to them. Using ANOVA and LSD, results show that international accounting standards adaptation has a significant social, economic and political impact in Iran from financial accountant, auditors and accounting professors view. In addition, the results indicate that there is no significant difference among financial accountant, auditors and accounting professors view in relation with economic effects but this is not hold for social, economic and political impact. However, despite TSE permission to provide financial statements under IFRS, as Irvine [17] manifests emerging and developing nations will face particular challenges relating to their culture, political and regulatory systems, as they implement IFRS at an organizational field level and in individual organizations, since international standards have not been developed with the needs, culture and regulatory infrastructure of unique countries in mind [13]. Therefore, it would be better to consider all issues before IFRS adaptation even educational points as Carmona and Trombetta [6] propose that as precondition for harmonization, accounting education should move from teaching ever temporary
rules to emphasize the economic and strategic underpinnings of accounting transactions [6]. As Rezaee et al. [4] suggested convergence in accounting standards can require extensive and possibly costly changes to the standard setting infrastructure and enforcement process and will also require proper training for management, auditors and investors. It may be confidently said that fully IFRS adaptation in accounting system of Iran may not be reached. Apart from some obstacles in this regard which have been mentioned in literature review, Iran economy characterized with very high inflation that causes to prohibit some accounting methods in Iran (such as LIFO). It seems that accounting system of Iran needs national standards more than any country in the world. However, the question is “could Iranians scholars set their fully own standards considering its specific condition while at the time it is embedded on IASB or FASB? To tie up the loose ends, taking the results of the study which shows that international accounting standards adaptation has a significant social, economic and political impact in Iran, it is suggested to all involved parties in this process that satisfy social, economic and political preconditions of international accounting standards adaptation and its pros and cons before go through.

REFERENCES