

# The Impact of International Financial Reporting Standards (IFRS) on Earnings Management: A Review of Empirical Evidence

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**Abstract** The International Financial Reporting Standards (IFRS), the best breed, high quality and principle based reporting standards removes many allowable accounting alternatives [15]. It is therefore, consequently expected to limit the management's discretion and lessen practices on earnings management [14]. Quite the opposite, some researchers squabble, that liveness instinctive in IFRS and its fair value pre-eminence might afford greater opportunities for firms to manage earnings [17,21]. It is this incongruity which incited and aggravated the conduct of this study. This study applies a desktop review to investigate the worldwide existing empirical research evidence on the impact of IFRS on earnings management post- IFRS adoption and in relation to other reporting standards and reports whether the results are indistinguishable between developed and developing economies. The findings reveal that the existing empirical crams and conclusions there on are mixed, inconsistent and difficult to generalise. This indicates the pressing need for country specific empirically tested studies of this nature. The study further, stumbles on the fact that IFRS can indistinctly benefit both developing and developed markets when coupled with appropriate effective enforcement machinery. Substantially, the results entail that IFRS is a critical determinant for quality reporting but not a 'prima facie' guarantor for quality reporting.

**Keywords:** IFRS, earnings management, discretionary accruals (DACC)

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## 1. Introduction

Quality of reporting is predominantly measured vide value relevance and reduced earnings management [1, 2]. Some empirical researches (such as by [2,3,4,5,6] for example use earnings management magnitude as a proxy for quality reporting. It is interpreted that the lower the earnings management magnitude the higher the quality of financial information reported by entities and vice-versa. The issue of earnings management has recently gained attention in financial reporting studies particularly after the introduction of global reporting standards, the International Financial Reporting Standards (IFRS). This tags on the fact that the underlying reporting standards on which firm's financial reports are based determines the quality of its information content [7]. Previous researches are in agreement that quality of underlying reporting standards significantly influences the quality of accounting information [8,9] although it not the only determinant [10]. In the same lines it is reported that IFRS, high quality standards [1,11] are developed and meant to improve quality of reporting through global acceptance. This follows [3]; who posit that IFRS have been developed and adopted in major capital markets to harmonize corporate accounting practice and quench the

thirsty for quality reporting. It is thus expected accounting quality to be higher after the adoption of IFRS [[7], pg.38] across countries. This is because the adoption of IFRS and its subsequent application will restrict the management's opportunistic behave and improve earnings quality and henceforth quality and reliability of reported information.

Consequently proponents of IFRS remark that IFRS are high quality principle based standards more than local standards [e.g., [1,12]] hence expected to reduce the earning management in listed companies. The reasons for this are; first, they require greater financial disclosures than most local standards [13], hence restricts discretionary reporting and information asymmetry between managers, owners and other users of financial reports [2]. Second, IFRS are more capital oriented and hence useful to investors and reduces accounting choices, thereby constraining the managerial discretion [1]. Third, IFRS are principles based hence reduce opportunistic behaviors by managers [14]. In effect [15] contend that, "the IFRS high quality reporting standards removes many allowable accounting alternatives and expected to limit the management's discretion to manipulate earnings, thereby improving earnings quality". In this regard widespread adoption and application of high quality standards, the IFRS, are expected to improve accounting quality mainly, via reduced earnings management and value relevance.

Squabbling the assertions by the proponents of IFRS; a range of studies documents that, IFRS are considered more discretionary and flexible [16,17] and embrace fair value measurement [9,18,19,20]. Accordingly; they are likely to provide greater opportunities for firms to manage earnings and increase earnings management magnitude [21], pg.12, 17]. For example [22]; posit that “under IFRS managers tend to have more degrees of freedom to manage their earnings”. This is due to the fact that firms use discretions in accounting policies and underlying accounting standards to manage the accounting reports [2]. In fact it is evident that managers can and do at least in particular circumstances manage their earnings [22] through choices of accounting methods. These arguments is supported by [10,23]; who argue that adopting high quality standards might be a necessary condition for high quality information but not necessarily a sufficient one. As such the impact of IFRS on quality of financial information (earnings management) is highly dependent on its actual implementations which vary across countries. Some factors for example can influence quality of accounting information even more than a reporting regime in use. It is notably reported in literature for example that factors such as strong governance structures; sound and strong legal and institutional regulatory framework [24,25,26]; national reporting culture [27,28]; development status of economy and capital market; the complexity of business and political lobbying; audit quality [3]; accounting and tax systems and firms' reporting incentives<sup>1</sup> [23] do affect the enforcement and conformance with standards and therefore affect the reporting quality. In fact no one set of standard can be relevant for all countries in availing quality accounting information [[29], pg.142] due to different legal, cultural, economical and institutional settings.

It is observant above that accounting standards determines the degree of discretion on measurement, recognition and disclosures of financial events, thereby affecting the ability of entities to manage reporting. However, whether IFRS reduces earnings management is still a conflicting contest and studies do not show particular direction. Inquisitively; what does available empirical evidences tell on these controversial connotations? Does the IFRS reduce earnings management or otherwise? What do the results in developed countries relative to developing economies inform? On these grounds, adoption and subsequent application of IFRS offers a wide opportunity for researchers to investigate and document whether the principle based accounting standards affect degree of earning management uniformly around the world. This is where I, drive the motivation for this present empirical literature based study.

This paper is therefore designed to make retrospective review of existing empirical literature on the impact of IFRS on the earnings management around the globe. It in addition documents whether the results are indistinguishable between developed and emerging capital markets. The paper throws in existing contest about IFRS economic usefulness especially in developing countries with seemingly weak enforcement mechanisms [26] and where relevance

of IFRS is questionable and doubtful [16,30]. Towards this end the author conducted a rigorous review of literature and documentary information germane to the subject matter. The paper is thus purely based on desktop and library research methodology. In this regard articles selected from top accounting journals, research papers, diagnostic study reports have been surveyed in making this study. The documents reviewed are substantially related to the incremental and relative IFRS impact on the earnings management magnitude. The rest of this paper is organized as follows; section 2 present empirical studies on IFRS and earnings management; section 3 discussions of results and lastly, conclusion and implication.

## 2. Empirical Studies on IFRS and Earnings Management

The empirical studies of this nature examine whether the IFRS high quality deemed reporting standards deter or minimise the opportunistic behavior through decreased earnings management. They determine whether the earnings management magnitude is reduced post-IFRS application or relative to other reporting regimes. The reduced earnings management is normally measured by the way discretionary accruals [2,3,4,5,6]. These studies are either country specific or international comparative studies and they are observed to have concentrated on developed capital markets [[31], pg.63] with little but increasing attention on emerging stock markets. Accordingly, [32] document that most existing studies on earnings quality and IFRS have been conducted using data from US and European countries and that there are limited studies that associate IFRS and earnings management in developing countries [2]. This would mean an entry point for future empirical studies in developing countries context and Africa in particular.

The studies in this area estimate level for earnings management based on the model by [33] and its subsequent refinement by [34]; other studies apply [35,36] and industry model [34]. However, a modified version model of Jones 1991 [34] is highly preferred and considered powerful, appropriate and stronger test of earnings management [[37], pg. 401]. Reference [38] report that results of empirical works in this area are mixed and imprecise such that, no single direction on whether IFRS is sufficient to override managers' incentives to engage in earnings management. This is indicative of the need for further empirical exploration on the Impact of IFRS on earnings management which is of interest to standard setters, regulators and academia. This section in addition to discussing the earnings management concept, related measurement and interpretation, it reviews and hold discussion of existing empirical results on the impact of IFRS on level of earnings management worldwide. The results are categorically presented as; international studies; developed world studies and developing capital market studies.

### 2.1. Earnings Management ‘an explication measurement and interpretation’

The level of earning management is amongst aspects (measures) of reporting quality of a firm. It is inferred that

<sup>1</sup> The financial reporting incentives include; financial market development, capital structure, tax systems, firm size, leverage, firm growth, disclosure level, profitability and audit quality.

lower earnings management entails better reporting quality [39] and the opposite is also true. Earnings management is defined as a strategy of generating accounting earnings which is accomplished through managerial discretion over accounting choices and operating cash flows [40]. Although earnings management is the issue of concern for reliability of published accounting reports, there is no universally accepted definition but that by [[41], pg. 368] is most cited and states that:

Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers.

On a further note, the early study by [42], describe earnings management as a “purposeful intervention in the external disclosure process, having the intention of obtaining some private gain”. It thus involves deliberate actions to influence reported earnings and interpretation thereon. However, [[43], pg. 32] point two ways through which executives can manage earnings, one being manipulation of accounting decisions through accruals (accounting earnings management) or manipulation of real business decisions via cash-flows (real earnings management). This is consistent to [43] who document that earnings management occurs when management uses either its reporting discretion (accruals) or its influence over operating, investing or financing decisions (real activities) to achieve a desired reporting outcome. In fact the choices of particular accounting methods could be driven by opportunistic behaviors of managers or firm value maximizing motive.

Following descriptions by [2,40,41,42,44]; it is vividly deduced that earnings management can amount into fraudulent financial reporting although it is practices within boundaries of reporting standards. This is because it involves ‘intentional decisions to mislead’ and ‘privately benefit managers’ and erodes value relevance and quality of earnings for decision making. It is on this ground [45] comment that there is a thin line between earnings management and fraud. Correspondingly [46] opine that the purpose of earnings management practices is to mislead performance based companies’ stakeholders; and can considerably be detrimental, deceives investors and reduces reliability of financial reporting [47].

Based on prior definitions, in this paper I describe earnings management as “ the malpractice use of reporting standards ‘allowance for management’s discretion and judgments for financial events measurement, recognition and disclosure or insider information advantage to fraudulently show impressive earnings or otherwise, depending on the pre-determined purpose and known reasons to intentionally benefit the management or entity and mislead or misguide those who base their decisions on primary financial reports such as statement of profit or loss and other comprehensive income. It is an active manipulation of earnings (recording entries without justification or failure to record a transaction) towards predetermined target to mislead some stakeholders about underlying economic performance of the entity”.

Reference [[48], pg.163] points out reasons and determinants of earnings management to include; strength of true financial and economic performance of the firm especially poorly performing entities; avoidance of debt covenants; the earnings based management contracts and poor corporate governance and internal controls. As such earnings management involves the use of the flexibilities in reporting frameworks (the underlying reporting standards) to manage the accounts in order arrive or attain a predetermined profit or achieve a specific objective. In this case entities use discretion in accounting policies or underlying accounting standards to manage the reported earnings and thence accounting reports. Consequently, the more flexible and discretionary accounting standards are the more earnings management is anticipated. It is of note that managers have incentives to adjust earnings to maximize firm’s and/managers wealth [[49], pg.5] especially when the compensation is based on performance or profitability. In fact the incentive of managers to alter or ‘cook’ the reported earnings is well explained by agency theory which is able-bodied related with conflicting interest between managers (to whom recourses are entrusted) and the owners of the firm.

Notwithstanding, the level of earnings management (EM) is widely captured and measured through discretionary accruals which is the difference between the levels of total and non-discretionary (normal) accruals. Accruals capture earnings management levels because they reflect manager’s accounting estimates and choices [34]. In this stance the discretionary accruals (absolute or percentage) is used as indicator of the level of earnings management [See for example, [2,22,14,33,37,43,49,50,51]. It is documented that a higher magnitude of absolute accruals corresponds to a greater level of earnings management or lower accounting quality and vice-versa [52].

It is important to note that discretionary accrual is estimated using the statistical models. Frequently models applied to measure earnings management practices is [33] and its subsequent refinement, Modified Jones [34]. Accordingly; some researches use cross-sectional version of [33] model which expresses normal accruals as a function of the change in revenues and the level of property plant and equipments; see for example [3,49,51]. Another group of researchers such as [[2,37], pg.403, [46,50], pg.79, 53] use Modified Jones model or Dechow et al., [34] to estimate discretionary accruals. It is further noted that Modified Jones model is more appropriate and stronger test to investigate earnings management [[37], pg.401] thus widely recommended. The discretionary accruals as proxy for earnings management is used in this study owing to its wide applicability in earnings management studies [2,14,51].

## 2.2. International Studies on IFRS and Earning Management

These studies examine and present results regarding incremental or relative impact of IFRS on earnings management in view of multiple countries reporting milieu. They make it possible to internationally contrast on whether the IFRS reduces the earnings management level and consequently improve the earnings quality post adoption or relative to other reporting standards. International studies are important in that they are in a



position to explain the role of country specific institutional factors in explaining quality of reporting in addition to reporting standards. Mostly, studies of this nature use Discretionary Accruals (DACC) to measure level of earnings management which is statistically estimated via [33] or Modified Jones model [34]; see for example, [3,54].

Correspondingly, [1] sets a precedence and general conviction, that IFRS reduces earnings management. In this research authors, without specifying results for individual jurisdiction find aggregate evidence that the IFRS led to a reduced level of earnings management of across 21 countries and therefore improves quality of earnings. A contradictory results to that of [1]; is reported by a research by [54] who had examined the effect of IFRS implementation on earnings management using sample of 160 financial reports of German and Swiss companies. The result suggests that earnings management had increased with the implementation of IFRS. The authors associate the results with incentive to manage IFRS effect on earnings and its increased subjectivity. Their result asserts general belief that IFRS are flexible and allow substantial use of management discretions which is likely to increase accounting manipulation.

Using a sample of listed companies from three countries [52] came out with three different results of earnings management after IFRS adoption in UK, German and France. The results evidence lower, higher and moderate level of earnings management in three countries respectively. The result confirm findings from literature which indicate that even after IFRS adoption, the differences in the institutional environment and enforcement machinery may result into varying levels of earnings management practice in the listed firms across countries. In akin to [52,55] investigate the effect of mandatory implementation of IFRS on earnings management in three first time adopters (Australia, France and the United Kingdom). The results show that the level of earnings management does not decline after the adoption of IFRS. The study surprisingly records an increase of earnings management in France.

Equally, [56] examined the effect of investor's protection and IFRS on the quality of accounting earnings for 46 countries around the world. The result evidences that IFRS adoption per se does not lead to increased earnings quality via reduced earnings management but depends on other factors such as investor's protection. The result highlights the fact that quality of earnings improve for IFRS adopting countries with stronger investor's protection. This relates to institutional environment associated in results by [52] and upholds a conclusion by [[47], pg.10] that focusing on accounting standards alone is misleading and incomplete.

Of late, [57] examined the impact of IFRS on the earning management, pre and post adoption periods using a sample of EU countries. The result report mixed conclusions in that some countries exhibited reduced earnings management, others showed increased earnings management and others no effect detected on earnings management. This is contrary to the IASB expectation that IFRS improves quality of reporting but throws a lesson on the role of dysfunctional legal and institutional reporting environment on quality of reporting (See also, [52,56]. In another empirical cram in EU reporting context, [22]

examined the earnings management in public listed companies within 15 EU members and two non-EU, Switzerland and Norway. The results suggest that companies that opted for the IFRS managed earnings to lesser extent than firms choosing domestic accounting standards. To be more precisely the study reveal lower earnings management in firms adopting IFRS compared to firms applying local GAAP.

Notwithstanding, an international comparative study on IFRS impact on earnings management by [15] finds that the earnings management has been recently decreasing following the adoption of IFRS in over 32 countries. The study reports that countries with strong enforcements have relatively less earnings management. This brings back in contest, an emphasis that the quality and effectiveness of IFRS enforcement mechanisms plays a pivotal role in improving quality of reporting. This substantiates other international comparative studies such as; [52,56,57].

The empirical evidences from international studies presented in this section report mixed conclusions. Some report that IFRS improves earnings quality via reduced earnings magnitude than local reporting GAAP [1,15,22]; others report otherwise [54,55] mainly associated to increased discretionary and principle nature of IFRS [16]. Grippingly mixed results are observed from the same study using the same methods in different countries during the same period, such that in some countries IFRS is observed to reduce earnings management, others found otherwise and in other countries no effect on earnings management post IFRS adoption was noticed; see for example; [52,56,57]. These results can be associated with the fact that reporting regime is not the only determinant of quality of reporting information. It as such appreciates the role of other factors that determine the quality of reporting such as effective and strong institutional and reporting enforcement machinery [15,52,75] and investor's protection [56]. This corroborates [[16], pg. 20, 58] who agree that differences in legal and institutional enforcement mechanisms, leads to divergences and inconsistent application of IFRSs hence uneven usefulness of IFRS in various capital markets. In fact the IFRS is not a prima facie factor and cannot sufficiently alone explain the quality of accounting information [10,24,25,59].

### 2.3. Developed World Studies on IFRS and Earnings Management

This section is designed and presents empirical studies on IFRS and earnings management in developed countries with supposedly strong legal and enforcement mechanisms and investors protection [26] such as U.S., U.K., Germany, France, Australia, and Japan [58]. In this reporting scene the studies of this nature are copious due to its market orientation and the fact that IFRS reporting regime is considered more relevant to developed countries [26, 60]. The preceding studies generally show that accounting standards (IFRS) add value to accounting information in the developed economy [61] likely due to among others presence of strong enforcement mechanisms.

Accordingly; in (2005) reference [3] investigated the impact of IFRS and German GAAPs on earnings management as a proxy for quality reporting for German listed companies. Their results find no difference between IFRS and German GAAP on earnings management behavior. It

thus document that IFRS doesn't reduce level of earnings management in German. Likewise, IFRS doesn't influence the quality of accounting information measured by reduced earnings management. The results imply that high quality accounting standards are not sufficient or effective in countries with weak investor protection. Contradicting the results reported by [3] and [54] in German; [51] study in the same country report that the IFRS reduced the earnings management relative to German GAAP. The result of [51] is consistent with the construal that high quality reporting standards reduces the level of earnings management and therefore enhances quality of reported information [2,6].

In an Italian context [62] found evidence that IFRS reduces the earnings management and so improved earning quality and consequently lead to superior quality of reporting. The results by [62] corroborate the findings in French scene by [43] who examined the impact of IFRS adoption on the earnings management using the sample of 124 listed companies between 1999 and 2011. The results indicated that the absolute value of discretionary accruals is significantly reduced six years after mandatory adoption of IFRS. The findings imply increase in quality of earnings over that period which is associated with consequent adoption and application of the IFRS. In the same reporting environment (France) using absolute value of discretionary accruals, same as [43]; [14] to examine the impact of mandatory IFRS adoption on income smoothing and earnings management for French firms between 2000 and 2009. The result consistent to [43] shows that implementation of IFRS is attributed to less smoothing and earnings management compared to local accounting standards. The results entail improved quality and higher levels of reliability of accounting information under IFRS regime.

Another study by [44] does not find evidence that IFRS as compared to US GAAP leads to greater likelihood of earnings management. However, the results maintain that moving to more principles-based reporting standards (like IFRS) in the U.S. may encourage a shift from real earnings management methods to accounting (accrual) earnings management methods. The result disagrees with that of [63] in Greece context which report that adoption of IFRS can be associated with less earnings management. This supports an earlier result by [38] which indicate that owing to greater flexibility in IFRS, there is an increase in earnings management from pre to post IFRS adoption. The results uphold [64] who find an increase in earnings management for mandatory adopters of IFRS.

A research in Italian context by [48] examined whether the principle based IFRS by Spanish companies has decreased or increased the discretionary accounting practices-earnings management. The findings suggest that there is variation in earnings management which is attributable to some room for manipulation under IFRS compared to local standards. The result of [48] supports [65] who find evidence of an increase in earnings management when adopting IFRS in a place of domestic standards. The authors attribute the findings with higher flexibility [16] and subjectivity associate with IFRS primacy to fair value approach [9,20]. Reference [66] find a decrease in earnings management for the early adopters, but a modest increase in earnings management (smoothing) for mandatory adopters of IFRS in Germany. The study

involved analysis of German firms with a sample of 310 comprising early adopters (pre-2005) and post mandatory period adopters (post 2005). The results contradict that of [67] who found that firms which had mandatorily adopted IFRS reporting regime in Australia exhibit less earnings management.

The studies presented in this section are from developed countries where we would expect IFRS to improve quality of earnings through reduced earnings management [61]. However, it is observed that the results are mixed and incoherent and it is difficult to have a general conclusion whether the IFRS improves the quality of reported earnings through reduced earnings management magnitude in this context. The mixed result support the explanation by [68] that loose standards can lead to a decline in accounting quality even in strong enforcement countries like German [3]. We learn from these results that reporting standard is not a prima facie factor and cannot sufficiently alone explain the quality of accounting information [10,24,47,59] In fact [69] document that preparer's incentive and institutional framework affect the quality of financial reporting more than accounting standard.

#### 2.4. Developing World Studies on IFRS and Earnings Management

This section presents the results from empirical studies that assess the impact of IFRSs on the level of earnings management in developing countries reporting context. The number of these studies is fairly good but limited in African context. The magnitude of earnings management is measured by discretionary accruals which is determined through [33] and subsequent refinement. In a Brazilian reporting environment, for example, [53] examined the impact of IFRS on earnings management. Their results suggest that the level of earnings management was not affected by IFRS adoption. The results are refuted by research findings by [32] in Malaysian context which show that IFRS adoption is associated with low levels of earnings management.

An empirical results in Chinese reporting scene indicate that accounting quality measured by decreased earnings management improved post IFRS adoption since 2007 [70]. This result is contested by [4] who suggests that, no strong evidence that the IFRS improved the quality of reporting via reduce earning management as compared to China GAAP. As such, IFRS implementation doesn't seem to deter earnings management in China. In fact [71] evidenced that Chinese firms do more earnings management after IFRS adoption than before IFRS adoption period. The results by [4] and [71] contradict the findings by [72] who find that the earning management reduced post-IFRS adoption period for Budapest Stock exchange (BSE) listed companies in Hungary.

Another study in China by [73] examined the effect of IFRS adoption on earnings management in Chinese listed companies. The results evidence the increase in degree of earnings after adoption of IFRS. The results corroborate the argument that IFRS allow more flexibility to managers and likely to encourage opportunistic behaviors. In Contrast to [73]; the study by [74] reveals that IFRS implementation in Indonesia improved earnings quality by reduced earnings management magnitude. Correspondingly,

[75] using a sample of Chinese firms examines the earnings management pre and post IFRS adoption. Their results indicate higher earnings management and lower earnings informativeness are associated with application of more principle based accounting standards (IFRS) for firms with weak monitoring and scrutiny.

Notwithstanding; a study in Indonesia, refute the results of [75] and show that IFRS adoption in does not have effect on earnings management level [13]. Consistent to [13,76] examined whether the adoption of IFRS in Mexico improved quality of accounting, via reduced earning management. The results indicate that IFRS is not associated with low levels of discretionary accruals (less earnings management). However [31] examined the impact of IFRS on earnings management in two developing countries South Africa and Turkey. Their results document that IFRS is not associated with a reduction in earnings management towards small practice profits in emerging market. The results seem to support the contest by [29] that the standards promulgated by developed countries may not be relevant to participants in developing countries.

Reference [47] concludes that the IFRS adoption doesn't reduce earnings management for Indian firms. They associate the results with the argument by [21] that IFRS have primacy to fair value which may encourage opportunistic behavior especially where no liquid data. In Contrast to [47], the study by [2] using a sample of 23 banks examined the impact of IFRS on earnings management in Malaysia and Nigeria. The results, suggest that the accruals and earnings quality improved post IFRS period. They suggest and recommend global use of IFRS for reporting since improves quality of accounting information. Of late [39] examined the earnings management behavior of Sri Lankan firms following mandatory adoption of IFRS/SLFRS. The results of this study reveal that Sri Lankan firms exhibit higher level of earnings smoothing post- mandatory adoption of IFRS/SLFRS and thereby indicative of higher level of earnings management.

The results from empirical researches in this context on whether the IFRS is associated with improved quality of earnings are mixed and inconclusive. Quite a number of empirical studies presented in this section report that earnings management magnitude was reduced post-IFRS adoption and relative to local reporting regimes [2,54,70]; others do not find strong evidence that IFRS reduces earnings management [4]. These results repudiate the argument that IFRSs are not relevant to developing countries [16,29] and uphold [77] assertion that IFRS can benefit even reporting scenes considered unfavorable. However, others report that earnings management magnitude increases with IFRS application e.g. [47,75,76]. The nature of these results pinpoints the fact that reporting standard is an important determinant of earnings quality but not the final one and that IFRS can be beneficial to developing countries well.

### 3. Discussions of Results from the Review

Nearly all empirical studies reviewed in this paper employ discretionary accrual as a proxy for earnings management. The discretionary accrual is residuals from total accruals estimated using statistical model of [33] or

its subsequent modifications [[34], pg.223]<sup>2</sup> which provides the most powerful test of earnings management. Nevertheless literature review indicate that accounting studies provides mixed and inconclusive evidence on the reduced level of earnings management and so reliability of reported earnings post IFRS and relative to national GAAP. This affirmation is supported by quite a number of studies e.g., [[38,48], pg.162, [57,73], pg.124]. In fact just as [47], pg.10] put it that focusing on reporting standards alone on quality of accounting information is misleading and incomplete.

It is observable and presented in section two (2.2, 2.3 and 2.4) above, that some studies find IFRS to reduce earnings management level than Local GAAP; See e.g., [1,2,22,14]. Other studies find to be otherwise, e.g., [32,38,47,48,75]. Furthermore, some studies finds there is no significant differences on earnings management magnitude between IFRS and Local GAAP; see, for example, [3,13,31,44,53,76]. The nature of results reported here, support the tinge by [[78], pg.227] that no consistent empirical findings whether the adoption of IFRS produces information quality superior to other accounting standards. It is on this view that [79] avow that studies of specific and different developing countries are essential if the issue of relevance of IFRS is to be further explored evocatively.

Albeit, reference [[80], pg.4445] document that countries' institutional and market setting can significantly shape its financial reporting such that IFRS is insufficient in improving earnings quality in absence of strong institutions. In fact [38] argue that country specific institutions, beyond accounting standards affect characteristics of financial reporting and associated information quality. This is evident from reviewed studies among which some indicate that IFRS reduce earnings management for countries with strong enforcement mechanisms and/strong investors protection (See for example; [38,52,56,57]. No wonder [26,47] show that, IFRS application has been more beneficial in countries with more developed stock markets and better institutional framework than in countries without these attributes. From this it is expected that IFRS would be more beneficial to developed capital markets than in emerging countries through lowered earnings management. In contrast from reviewed literature, some studies, such as by [2,70,74] found IFRS to be associated with reduced earnings management in developing economies. These results increase inconsistency and even more contradiction in studies of this nature. In fact the results support the assertion by [[48], pg.162]] who document that the impact of implementing the IFRS on quality of accounting information is not clear across research. In this stance, specific jurisdiction empirical

$$\frac{TACC_{it}}{TA_{it-1}} = \alpha_1 \left( \frac{1}{TA_{it-1}} \right) + \alpha_2 \left( \frac{\Delta Rev_{it} - \Delta Rec_{it}}{TA_{it-1}} \right) + \alpha_3 \left( \frac{PPE}{TA_{it-1}} \right) + \varepsilon_{it}$$

Where; TACC is Total accruals for sample firm *i* in year *t*; TA is total assets for sample firm *i* at the beginning of year *t*;  $\Delta Rev$  is the change in net revenues for sample firm *i*;  $\Delta Rec$  is the change in receivables for sample firm *i*; PPE is gross property, plant and equipment and the subscript *i,t* is the firm and year index and  $\varepsilon_{it}$  error term for sample firm *i* for year *t*.

studies are inescapably indispensable especially in developing countries and Africa in particular where they are insufficiently observed. This is because so far no general conclusion can be drawn from existing empirical works neither in developed countries nor emerging capital markets regarding the impact of IFRS on earnings management magnitude.

#### 4. Conclusion and Implications

This study applies a desktop and library review to investigate the worldwide existing empirical research evidence on the impact of IFRS on earnings management post- IFRS adoption and in relation to other reporting standards. Three streams of literature is examined; the international studies; studies in developed markets and those on emerging capital markets. The review reveal that most studies have been conducted using data from developed markets especially European countries and United State of America(USA) and few in emerging market with very few in African contexts but with an increasing interest in these areas. Results from the review further find that empirical evidence report mixed and inconclusive results from both developed and developing scene and are therefore difficult to generalise. This is indicative of the fact that the results are indistinguishable between these two reporting contexts such that the IFRS can be beneficial in either. The results signify that IFRS is an important determinant for quality reporting but not a 'prima facie' guarantee for quality reporting. It insists on fact that effective legal, institutional reporting regulatory framework matter for quality reports. As such efficacy enforcement mechanisms coupled with quality reporting framework, such as IFRS, can negatively influence level of earnings management.

Following controversial empirical results and limited studies in emerging markets reported in this paper. There is a pressing need for country specific studies especially in developing markets, which report empirically tested results on IFRS usefulness and its impact on the earnings management magnitude. The study therefore highly recommends for country specific studies on IFRS, impact on the earnings management magnitude, with particular consideration in developing capital markets.

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