

# IFRS and Information Quality Cases of CAC 40 Companies

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## Abstract

The objective of this work is to study the quality of countable information before and after the adoption of standards IFRS. Precisely, through the exposure of the positive theory of the accountancy which insists on the importance of information of quality for the investors in order to enable them to make the adequate decisions of investments. We tested over one period being spread out of 1998 to 2008, the relation between the quality of the information measured by Proxy accruals quality and standards IFRS in the context of the companies of CAC 40. The results obtained show that the adoption of standards IFRS makes improves quality of countable information. In particular, standards IFRS contribute improved quality information to diffuse it with the public and to increase his transparency, which makes it possible to attenuate asymmetries of information and the costs of agency.

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**Index terms**— Quality - Information - Standards IFRS - CAC 40.

## 1 Introduction

We have seen in recent decades to mutations that characterize the European Union countries (EU) and those found by the commitment in the race for the standardization of accounting language. All Member States are taxed to adopt international accounting standards IFRS from January, 1, 2005 and that the publication of the regulation 1606/2002, 19/07/2002.

The preparation of these countries specifically France and this obligation requires more effort because of the wide divergence between international standards for accounting and France. Moreover, France is in a system of governance-oriented networks which explains the importance of stakeholders and to accelerate the internationalization and globalization, these are the phenomena experienced by the economy over the years.

In particular, the IFRS have become a solution for economic actors to be able to properly compare and compete on the world market without regard to financial rules and accounting discrepancies.

Besides there many differences that highlighted the need to find a solution that harmonize accounting standards, the proliferation of corporate scandals such as Enron, Worldcom, has disturbed the confidence of investors. Thus, in order to reduce the differences between national accounting standards, professional accounting and auditing, from several countries, namely the U.S. and France in June 1973 created a committee known as private IASC name whose objectives were to establish and publish accounting standards acceptable to national plans. Companies will thus force to reorganize and oblige to publish relevant information and minimize the power of the executive.

Through voluntary disclosures of information, the manager will present to stakeholders, the future course of the firm and its financial (Skinner, 1994), and also provides an explanation of the accounting methods used. The disclosure of accounting information on a voluntary basis will reduce the asymmetric information and improve communication between managers, shareholders and lenders (Conover, Miller, and Szakmary, 2008).

Subsequently, changes in the transition to IFRS, and a significant influence on the quality of financial reporting and the conduct of the officer. In behaving this way, the leaders put their own interests above those of employees and donors, contributing to losses incurred by various stakeholders (Culpan and Trussel, 2005). The recent scandals illustrate the managerial misconduct and unethical behavior in business (Culpan and Trussel, 2005,

Chih et al., 2008), which is likely to challenge the systems of corporate governance and financial information disclosure.

In this perspective, he wants to characterize the quality of information through IFRS. First we present, and successively the contribution of international standards in the business environment and the relationship between managerial behavior and quality of information. Then, the methodological approach and an explanation of empirical results found will be exposed.

## 2 II.

Background Literature and Hypothese a) International standards Contribution in the economic environment IFRS are issued by the International Accounting Standards (IASB), formerly known as International Accounting Standards Committee (IASC). Their main objective is to develop a common accounting language, high quality, understandable and enforceable. Indeed, the international accounting standards require high quality, transparent and comparable information in financial statements and other reports to help participants in the capital of enterprises in all global markets and other users make economic decisions (Epstein and Mirza, 1999).

The implementation of IFRS reduces information asymmetry between informed investors and uninformed people. For example, IAS 1 "Presentation of Financial Statements requires sensitive information, such as management judgments and assumptions while forming the entity's accounting policies and sources of estimation uncertainty that have a significant impact on the financial statements of the entity. This information must be disclosed and reported as appropriate in the annual reporting.

Thus, such information could be a key decision. The reduction information asymmetry limits communication between managers and other stakeholders of the company, as shareholders, creditors, supervisors, analysts... b) IFRS and corporate culture i.

## 3 American context

International accounting standards are an Anglo-Saxon this explains some differences in many areas of practice called Continental. Therefore it is necessary to clarify the main principles underlying the IAS / IFRS. This preliminary step is essential to identify correctly the transition to IAS / IFRS.

In companies with dispersed ownership and where the wealth manager is limited to its share of human capital (and sometimes of limited participation, and not diverse), there is a decrease of handling information obtained and used the interest of all shareholders.

Following the performance of IFRS, studies have shown that 32% of U.S. companies found that IFRS are more intelligible than U.S. GAAP in terms of decision making. This has encouraged developed countries to establish plans that allow them to apply these standards. Notably, this case is presented in the European Union countries in 2001. Encouragement to apply these standards eventually becomes mandatory in 2005.

ii.

## 4 European context

In Europe, the CEO is risk averse because it holds a majority stake. This highlights the problem of information asymmetry. Because IFRS became mandatory in the European context, this regulation of the firm that the net result is more important for both current and potential shareholders. In this same axis, Beaver et al. (1980) have stated that of all the information the result gets the most attention for all stakeholders. Hence the adoption of standards will change the traditions of European societies.

## 5 c) IFRS and providing informational

The adoption of IFRS in Europe is a change in the business world that has better readability and comparability of accounts of listed companies between them, while facilitating access to international capital markets. This requires an adequate margin of reliability of accounting data published. Thus, (Dumontier and Marghraoui, 2007) have attributed to improved information content of accounting data to the stricter rules and publishing more detailed information.

IAS / IFRS have intended to apply to all businesses large and engaged in financial statements, and give some advantages for investors since they promote the emergence of today's financial markets and increase space investment. Through the different rules imposed by IFRS and their considerable contributions in the business world, the international standard setters (IASB) recently published an exposure draft on IFRS for SMEs (IFRS for Small and Medium-sized Entities). The relevance of accounting information as the international benchmark seems to justify the extensive use of financial statements as recommended media in the translation of economic and financial reality.

Traditional accounting principles were based on historical cost accounting and their principle of prudence, which influences the quality of accounting information and decreases its intrinsic value. A real change in the accounting philosophy turned to the only use of the concept of fair value that is different from traditional reference this leads to a change affecting the management structure.

The development of accounting standards has resulted in a significant change in the value and quality of information and the nature of business management. The goal is to improve information provided to investors to

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help them understand the situation of enterprises and assist them in making right decision in their investments.  
i.

## 6 Portion of historical cost to fair value

The historical cost principle has the merit of simplicity: "the date of entry into the corporate heritage assets acquired for consideration is recorded at their acquisition cost."

Casta and Colasse, (2001) showed that the original value is based on the reality of a transaction and allows a single value. However, the historical cost principle has limits and impairs the ability to compare companies in similar economic level but with some strategic choices or different accounting, such as internal growth, the revaluation of property, or that of external growth.

IFRS therefore propose to abandon the principle of cost and value of assets and liabilities at fair value. This concept can be understood by the market value for a tradable asset in one market or the value of cash flows (cash flow) for a future non-marketable asset in a market. Unlike the previous principle, the concept of fair value made by the international benchmark was the subject of several studies. Some authors show that the concept of fair value will reflect the economic reality, comparability and transparency of company reports in relation to historical cost accounting will reduce handling ??Barth et al. 2008; ??olthausen and Watts, 1983).

Similarly, Ouvrard (2006) stated that the use of a measure of sales amount based on the concept of fair value leads to an increase in earnings volatility. This variation is considered an incentive for accounting manipulation. In the same vein, the notion of fair value will affect the stability of firm performance measured in accounting and a heavy reliance on performance management to reduce the volatility of this variability ??Barth et al., 1994).

However, the surplus of IFRS, in the economic and financial is considered as causes of the financial crisis in 2008 (Ghosh and Olsen, 2009).

ii.

## 7 Primacy of economic reality on the legal appearance

IFRS retain the primacy of economic reality on the legal appearance. A transaction or a contract is accounted for and disclosed in financial statements in accordance with its economic reality that allows users to receive quality information.

The economic substance approach rejects the assessment based on the Convention or on the appearance and gives himself intended to better reflect the economic reality of the business, these two new concepts are transforming the very purpose of the income statement and the balance sheet. Indeed, the income statement contains topics that we show the profitability of the company and stock based on market values, including intangible assets of the company becomes the central element of the disclosure of business and reflect the economic weight of the firm.

Given the importance of accounting, international accounting standards emphasize the relevance of the information published. This is explained by many previous studies that showed that accounting records evaluated under IFRS are relevant and realistic which gives them superior to local standards.

Achieving the reliability of the information cannot be if managers and specifically the manager will adopt the constraints imposed by the environment (Daska et al., 2008) and modified to satisfy all stakeholders.

The flexibility of IFRS will allow the officer to employ several strategies to deal with these changes to increase manipulate the results and affect information. Similarly, accounting accruals are several problems at the time of acceleration of income which can help make a disclosure of private information to investors (Healy and Palepu, 2001). Christie and Zimmerman (1994) have studied the problem of information asymmetry between the leader, who is regarded as opportunistic, and stakeholders who lack more information. The officer may make a discretion that is not observable because it has complied with all rules and standards. But the flexibility of IFRS will increase the power of auditors to detect such accounting manipulation.

However, the behavior of managers is associated with contractual arrangements, such as compensation, pension and loan agreements and asset prices, asymmetric information, agency and political costs (Francis et al., 2005; Lambert, 2001).

## 8 d) Managerial behavior and information quality

The preparation of financial statements often requires an exercise trial (Jensen and Meckling, 1976). This requirement means that accounting standards contain a space for managers and auditors. In combination with the flexibility in financial reporting which gives businesses some flexibility in the implementation of accounting regulations? However, it can however be situations opportunistic ??Healy, 1985, Dechow and Sloan, 1991;Dye, 1998). Such situations should be dealt with by monitoring the actions of managers and the use of financial analysts' forecasts of future performance of companies.

However, the monitoring process can be expensive and in some cases not feasible (Lamont, 1997). The use of borrowing will lead to lower agency costs because companies must meet certain interest payments and debt agreements, then they will be monitored by banks, financial institutions, rating agencies.

Managers have used accounting discretion in order to improve the company including financial results and earnings (Christie and Zimmerman, 1994;. It follows, therefore, that the timing of gains and loss of recognition

is important (Balsam et al., 1995). In some cases, managers structure their choice of accounting method to transfer earnings from "good" accounting period to "bad years".

However, companies defer recognition of revenue over future accounting periods to reduce the tax charge for the current period. Similarly, companies are generally more willing to communicate the right information, and then they tend to delay the announcement of bad information (Aboody and Kaznik, 2000).

Managers who are entitled to stock options or incentive schemes tend to use discretionary accounting methods to increase the value of their compensation and future periods (and Vanstraelen Tendeloo, 2005).

Indeed, the influences of the gains of the company and the achievement of desirable goals will lead to a timetable for the disclosure of good news and bad information.

Managers have also arranged to manage the accounting data reported to influence the behavior or the response of others, such as market authorities, regulatory bodies, shareholders, lenders, also to avoid being subjected to control (Schatt et al., 2009). This would aim to give positive signals to market participants and to smooth the relationship between business and stakeholders (Easton and Harris, 1991).

The above considerations tend to be more intense for large companies that are financially visible and easily observable in the market (Jiraporn et al. 2008a). On the other hand, Jiraporn et al. (2008b) have shown that improving the financial situation of a company could also be achieved through diversification of businesses. Their results show in particular a negative relationship between a combination of industrial diversification and management of corporate earnings.

Accounting measures are closely associated with stock returns because they express the corporate financial performance, this is explained by the reaction of the market and price sensitive views to publish information (Kothari, 2005).

### 9 e) IFRS and information sources

The information quality is a fertile ground after the adoption of IFRS, which are often referred to as a revolution or a paradigm shift in not only accounting and finance but also in operational decisions.

Many companies adopt IFRS on a voluntary basis since their standards have advantages compared with local standards. These companies justify this choice by the fact that these standards reflect unparalleled reliability with those already mentioned at the relevance of accounting information and then deliver information more economical and allow for greater comparability.

A fact that, the decision-making and role playing by the individual and for the quality of accounting information and financial companies have found themselves attracted to apply these standards (Mazars, 2007). i.

### 10 Assets Valuation

The concept of fair value is not new but is the basis of international standards as named by (Mistral, 2003), the cornerstone of the work of IFRS. However, it has limited scope. Casta and Colasse (2001) showed that the relatively wide scope in terms of issues and multiple problems that have raised the application of that concept.

The IASB rejected the idea that all assets and liabilities are measured at fair value under the fair value method. It limited the scope of the fair value assets and liabilities for which there was a prior market, some financial assets and liabilities and some assets.

For liquidity, it is at the heart of recent work because it represents a need for investors. Where the assumption that markets would not work in theory, they would, for instance by lack of liquidity, substitutes for the market value, including a utility value (value in use) obtained Using actuarial models that have been proposed (Christopher et al., 2010).

ii.

### 11 Earning management and financial communication

After the adoption of IFRS in Europe, handling accounts represents a vast field of investigation because the asymmetry of information has become very important for all stakeholders and specifically the shareholders. Accounting information is used in decisions to grant bank loans to finance the operating cycle or business investment.

These decisions are generally made after an analysis of accounting data of the company (Charreaux, 2000). Thus, leaders may be tempted to present a favorable financial situation is to show an ability to repay the loan, and a low risk to financial cost. Such manipulation will also allow a transfer of wealth from banks to corporate shareholders.

The lower cost of debt financing is very attractive to shareholders for at least two reasons: The first is the existence of leverage, so a return on invested capital greater, provided that the economic return exceeds the cost of debt. The second reason lies in the preservation of private benefits for controlling shareholders in case of debt financing.

Researchers who are interested in handling the relationship between accounting and debt have primarily examined whether the companies financed by bond manipulate the accounts to meet certain contractual clauses, called bond covenants we quote Labelle (1990).

iii. Accounting choices and disclosure Understanding of accounting options after the transition to international standards poses several problems. Thus, the international standard for preparers of accounts allowed the possibility of applying two different treatments for the same economic transaction. The description and explanation of the position of French groups within this discretion is particularly interesting to understand the application of IAS / IFRS. Indeed, these choices have a strategic dimension since their effects with no doubt mark the structure of financial statements for many years. Thus, revalue the assets or estate affect actuarial equity choices are structuring the balance sheet for the future.

Accounting choices are even more strategic they are considered definitive because of the multiple choices that influence the quality of information disclosed. We also note that international standards are increasing the geographic area of investment for investors, which highlights the role of information when faced with multiple accounting choices. ??007) found that companies with a commitment to transparency of the experience of the financial statements have greater market liquidity and low cost of capital.

However, ??arth et al. (2008) explored whether international accounting standards (IAS) applied by non-US companies are comparable to the U.S. PCG applied by U.S. firms in terms of relevance value.

Indeed, the document shows that PCG U.S. generally has a higher level of relevance that the value of non-US firms applying IAS. Researchers have also addressed the quality of earnings before and after the transition to IFRS. They showed that performance management is less after the adoption of IFRS.

Recent studies have analyzed the association between the voluntary adoption of IFRS and the role of accounting earnings in assessing internal performance. They found that IFRS is a better tool for evaluating the performance of domestic firms. Regarding the transition to IFRS, several studies have examined the importance of disclosure of the reconciliation of local GAAP standards and IFRS.

Hung and Subramanyam (2007) studied the impact of transition to IFRS for companies that voluntarily adopt IFRS in Germany and show that the book value of equity seems to be a relevant value and generates considerable gains. Horton and Serafeim, (2009) show that the market reacts to IFRS reconciliations in the United Kingdom made this information must be disclosed by the documents required by the transitional IFRS. v. IFRS is a means of growth Christensen et al. ??2008) found that market reactions are similar to the harmony of the data, and resume the adoption of IFRS for companies in the UK affects business growth. Skinner and Sloan (2001) showed that growing business and an unreliable result influence the reaction of stock markets in the period from the publication of results. The application of IFRS to listed companies can present a unique set of financial documents accepted by all financial centers.

These standards have made a real change in accounting introducing two new concepts: the fair value and economic substance. The integration of the fair value and primacy of the economic substance were strongly desired by the financial markets who found that the records produced by listed companies were too remote from economic reality. The leader with the resources of the companies can change prices of assets that make the function very difficult to control by investors.

vi.

## 12 Information is an instrument of knowledge and communication

Access to information is a problem with the size of the firm and the amount of information disclosed. Thus, the information is used as a means to influence the environment positively or negatively.

But she did not have the same weight to invest in SMEs than in large firms this explains in large enterprises, it is publicly available and could be achieved with lower costs than in small enterprises (Dargenidou et al., 2009).

The information poses a problem for small investors because large investors are sophisticated and able to detect the result of management on their priorities and their knowledge of the reliability of the information.

To adopt IFRS, the phenomenon of management result remained a concern for researchers. Lo (2008) found it necessary to define the scope, understand the specifics and give attention to major changes.

The quality of accounting results in a more general economic environment, but the quality of financial statements is therefore very attractive to various users such as deciding on the objectives of debt the development of ethics in business is also a factor likely to improve the transparency of accounting information.

The scope of the potential impact of IFRS is not limited to the financial statements, but also includes data on business management in relation to key indicators of performance, information management and remuneration based on performance.

Therefore, we formulate our hypothesis as follows: IFRS ensure the credibility of financial information.

## 13 III.

## 14 Research Method a) Data collection

The sample consists of 36 listed French companies (CAC40 companies). Four companies are excluded, because they have a specific accounting (financial firms). For the sake of uniformity, we will ensure that companies in our sample are industrial but operating in various sectors of activity (industry, pharmaceutical, food ?). b) Variables  
i. Dependent variable AQ : Accruals Quality Numerous studies show that earnings management accountant is

proxy for the quality of accounting information. It will be measured by the concept of total accruals. To do this we will first define and then we calculate accruals from each firms  $i$  and Year year  $t$ . by definition, accruals reflect all adjustment that allow accountants to move from accruals to cash accounting.

To determine discretionary accruals we will adopt the model of Kothari et al. (2005) who suggest that firms manage their results by taking into consideration the current and past performances of the firm. This model is as follows:

ii.

## 15 Independent variables

Table ?? : Independent Variables.

iii.

## 16 Model specification

The following regression model summarizes the variables in this study :IV.

## 17 Results

## 18 Descriptive statistics

Tableau 2 : Statistiques descriptive.

This table shows that all variables except the average positive accruals quality variable (dependent variable) has a negative mean and a standard deviation lower. This proves that this variable is low volatility. The other variables have low standard deviations. We note that dependent variable total accruals are negatively correlated with two variables: variation in earnings and firm size. In contrast, IFRS variables, growth and debt are positively correlated with total accruals. But it should be noted that this table gives us an idea about the signs of correlation coefficients between the dependent and independent variables.

## 19 Analysis of the results of econometric estimation

To test this question we are faced with three methods of estimation: The method of least squares (OLS) is generally used for individual data (cross section) or temporal data. But for our study, this method is insufficient because it is ignorant of double dimension. And the method of estimation with random effects or fixed effects. To allow the choice between these different estimation methods, three tests were performed :

Stationary test Augmented Dickey-Fuller (ADF) Before estimating our model, we need to test stationary of the variables, since in this test; the probability is zero in first difference. For our sample we have performed the first difference.

## 20 Hausman test

This test is designed to make the choice between the estimated fixed effect (fixed effect model) and the estimated random effects (random effect model). The first model takes into account the heterogeneity of the sample and we introduce a dummy variable for each firm captures the transition form to another. While in these condition, we consider the risk of heterogeneity in behavior and this leads us to decompose the error term into components. The Hausman test follows a  $\chi^2$  that takes the value of 9.84 with a probability of 0.0798. This test is therefore significant at 10%. We will apply the fixed effects specification for our sample Lagrange multiplier test:

We conducted the lagrange multiplication test to demonstrate the presence of random heterogeneity in our sample .this test is not significant (chi -square is 0. 16) indicating that the presence of a non -random effect. Ultimately we choose the estimate with fixed effects. Table ?? : Regression results of quality information and IFRS. \*\*\*significativité à 1% \*\* significativité à 5% \* significativité à 10% From this table we can notice that there is a significant negative relationship between the variable IFRS and total accruals at the 5% this indicates that the use of international standards improves the quality of accounting information released. This result proved not confirm those found by ??ung and Subramanyan, (2007) and ??apointe and al. (2006).

Firm size has a positive and significant relationship with total accruals at the 1%. This shows that large size firms applying IFRS and publishes quality information, which is not coherent with the results found in the study of Iatridis (2008a) and corroborates the findings of ??ung and Subramanyan (2007).

The coefficient on growth is positive and significant at 1%. This suggests that companies are growing their turnovers are also posted the highest total accruals. Indeed the growth of turnover usually results in an increase in working capital and therefore an increase in total accruals ??Hung and Subramanyan, 2007).

The coefficient on growth is positive and significant at 1%. This suggests that companies are growing their turnovers are also posted the highest total accruals. Indeed the growth of turnover usually results in an increase in working capital and therefore an increase in total accruals ??Hung and Subramanyan, 2007).

In addition, the variation in earnings has a positive in earnings has a positive and significant with total accruals at the 10% which shows that firms using IFRS results achieved by increasing the reliability of the information disseminated. This result corroborates those reached in studies of ??echow and al.(1994) and ??iong,(2006).

Summarily concluded from the results, our hypothesis is confirmed: IFRS ensure the credibility of financial information.  
V.

## 21 Conclusion

The purpose of this paper is to study the impact of the adoption of international standards (IFRS) on the quality of accounting and financial firms CAC 40.

We presented the first positive accounting theory that stresses the importance of quality information for investors to enable them to take appropriate decisions for investment. Then, we presented a synthesis of empirical studies testing the relationship between information quality measured by Proxy "accruals quality" and IFRS.

The ??1994) and ??iong (2006). They show that the adoption of IFRS increases the quality of published information and ensure its reliability. This allows us to conclude that the adoption of IFRS has a positive impact on the transparency of information which increases the growth and variation in earnings.

In fact, the CAC 40 companies are characterized by the preparation of consolidated financial statements, indicating that accounting has an important role in the functioning of financial markets. Changes after the adoption of IFRS will broaden the scope of the leaders and eventually their decisionmaking powers.

## 22 Global



Figure 1: Global

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Figure 2: Table 3 :

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Figure 3: Table 4 :

	AQ	Coefficient	Std. Error	t-Statistic	Prob
	CROI	0.055668***	0.006461	8.61	0.000
	IFRS	-0.036007**	0.016830	-2.13	0.0333
	Size	0.461891***	0.052808	8.74	0.0000
	Debt	-0.017897	0.34323	-0.52	0.6025
	?BN	0.04005*	0.020438	1.96	0.072
	Cons	0.006739	0.005856	1.15	0.2509
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Figure 4:



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