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ACCOUNTING QUALITY AND INTERNATIONAL ACCOUNTING CONVERGENCE

Much attention has recently been focused on international accounting convergence and the possible consequences of adopting IFRS. All European Union (EU) countries, Canada, many Asia-Pacific countries, Australia, and New Zealand have required or allowed the adoption of IFRS. An increasing number of countries have been considering adopting or converging with IFRS. Prior studies have provided advantages and disadvantages of accounting convergence. Some researchers believe that accounting convergence enhances comparability of financial statements, and some opponents state that a single set of accounting standards cannot satisfy the information needs of a diverse global environment. Therefore, accounting convergence and the impact of convergence are empirical issues.

The purpose of this paper is to explore the functional relationship between earnings quality and convergence. This study investigates: (1) whether cross-country accounting differences, reflected in differences in earnings multiples, are reduced over time; and (2) whether quality of accounting is positively related with accounting

convergence. Cross-country accounting differences are reduced over time in most of the sample countries and accounting convergence is a prevalent accounting trend in the world. However, we do not find significant evidence of a positive relation between accounting convergence and improvement in accounting quality. The panel regression results show that persistence and smoothness are significantly and negatively related to accounting convergence. Predictability and relevance have the right signs, and accrual quality, reliability, timeliness, and conservatism have the wrong signs, but they are not statistically significant. Thus, the we conclude that the association between accounting standards convergence and earnings attributes is mixed and not significant. The results are unchanged in sensitivity tests.

Regression analyses with data of converged countries also show that there is little evidence of a significant positive association between accounting convergence and accounting quality. Predictability is significantly and positively related to accounting convergence, and persistence and smoothness are significantly and negatively related to accounting convergence. Accrual quality, reliability, and relevance have the right signs, while timeliness and conservatism have the wrong signs, but they are not statistically significant. Therefore, accounting convergence alone does not necessarily improve accounting quality. In addition, no evidence is found that a country's investor protection and legal system and the level of economic development have an impact on the relation between accounting convergence and improvement in accounting quality.

There are several possible reasons to explain the results. First, it is possible that the earnings multiple approach used in this study for measuring accounting convergence is wrong or not appropriate to measure the degree of accounting convergence. Furthermore, mean-adjusted earnings multiple is a measurement of financial reporting convergence, not a measurement of accounting standards convergence. The hypothesis is based on the assertion that accounting standards convergence enhances comparability of financial statements, therefore leads to high quality accounting.

Financial reporting convergence may not be related to accounting standards convergence. In addition, the annual variations of change in accounting convergence are small and fluctuate year by year, thus it is difficult to define significantly converged countries. Converged countries determined by different approaches used in this dissertation are mixed, therefore test results driven with the mixture of converged and non-converged countries are likely to aggregate and wash out the net impact of convergence on quality improvement.

At the end, because of the scarce amount of empirical research examining the impact of accounting standards convergence on accounting quality, more theoretical work on this association between accounting convergence and quality, and development of stronger models to examine this relation could be another avenue for future research.