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Benefits and costs of adopting international financial reporting standards

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ABSTRACT

The application of international financial reporting standards (IFRS) plays an important role in improving the quality of enterprises' financial statements. At the same time, adopting IFRS makes it easier for companies to access foreign capital. Therefore, the use of IFRS is indispensable for Vietnamese enterprises, especially for companies listed on the stock market. This study was conducted to evaluate the effects of benefits and costs on Vietnamese enterprises' choice to adopt IFRS. The research surveyed 157 companies. The results of regression analysis using Statistical Package for Social Sciences (SPSS) software show that benefits have a positive impact on Vietnamese companies' decision to adopt IFRS. On the other hand, costs have a negative impact on IFRS adoption. Based on the results of this study, the trade-off theory is used to explain the relationship between the costs and benefits of applying IFRS. When businesses find that the costs are too great for the company or are not yet balanced by the benefits, they do not apply IFRS. Therefore, business leaders have a correct understanding of the difficulties and challenges of converting to IFRS and have a scientific, methodical, and clear plan and roadmap for the transformation. The authors also offer some suggestions for improving the application of IFRS.

Contribution/Originality: The main contribution of the paper is to provide a statistical assessment of the costs and benefits of IFRS adoption, which has not previously been empirically tested. The statistical results will assist business leaders in converting to IFRS successfully.

1. INTRODUCTION

In the current period of international integration, international trade and investment activities are developing more and more. This gives businesses the advantage of increased access to foreign partners. However, complying with international standards also forces companies to transform (Key & Kim, 2020; Owolabi & Iyoha, 2012). In particular, the application of international financial reporting standards (IFRS) is becoming popular. Their adoption received a significant boost in 2002 when the European Union (EU) passed a regulation requiring public companies to convert to IFRS starting in 2005. The adoption of IFRS has received acclaim from domestic and foreign managers (Key & Kim, 2020; Owolabi & Iyoha, 2012). With the improved quality of financial statements, readers' needs are better met, enabling improved decision-making (Owolabi & Iyoha, 2012; Spiceland, Sepe, & Tomassini, 2001).

Given the benefits of IFRS, organizations that have an important impact on the world economy, such as the World Bank (World Bank), the International Monetary Fund (IMF), and several other organizations, support the global application of IFRS. The integration trend requires countries like Vietnam to develop a roadmap to apply the IFRS system. On March 16, 2020, the Ministry of Finance issued Decision No. 345/QD-BTC (Decision of the Ministry of Finance), approving the Scheme on the application of financial reporting standards in Vietnam. Accordingly, the application of IFRS is implemented in 3 phases: Phase 1 from 2020 to 2021, Phase 2, which applies voluntarily from 2022 to 2025, and Phase 3, which is mandatory for some subjects after 2025.

Having studied the previous research of domestic and foreign authors on the application of IFRS, the authors identified the following gaps: First, recent studies have only evaluated the application of IFRS from a separate perspective, focusing on the qualitative aspects (Armstrong, Barth, Jagolinzer, & Riedl, 2010; Higgins, 2006; Lantto, 2007; Lasmin, 2011; Mazars, Kotronis, & Ragueneau, 2005; PricewaterhouseCoopers, 2003). No studies have assessed the business perspective of IFRS implementation and shown the benefits and costs in quantitative terms. Second, the available literature on IFRS adoption in Vietnam is very limited. Most articles discuss the general benefits and challenges from many different perspectives, but there is no research on business angles, especially on enterprises listed on the Vietnam stock market. Therefore, this study aimed to determine the effects of the benefits and costs of applying IFRS on Vietnamese listed companies' decision to apply IFRS. The study makes the following contributions: First, it investigates and assesses the perception of the benefits and costs of using IFRS from the perspective of the preparers of financial statements in companies listed on the Vietnamese securities stock market. Second, it offers recommendations for the roadmap to the application of IFRS in Vietnamese enterprises.

2. LITERATURE REVIEW

2.1. International Financial Reporting Standards

IFRS is a set of accounting standards designed and developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB). The goal of IFRS is to provide public companies with an international framework for preparing and presenting financial statements. IFRS focuses on general guidelines and interpretations for preparing financial statements rather than establishing industry-specific reporting rules. IFRS also gives investors and auditors a clear, complete picture of the financials (El-Helaly, Ntim, & Al-Gazzar, 2020). Through the application of IFRS, the Vietnamese economy in general, and Vietnamese enterprises in particular, will reap the benefits of economic integration, such as access to capital, sustainably maintaining competitiveness and development, and developing audit staff. In addition, understanding IFRS will help businesses gain helpful information about other companies in the same industry with similar activity levels in other countries. This will allow companies increased opportunities for international cooperation (Doan, 2020).

According to accounting theory, it is possible to reduce the imbalance of information between stakeholders and corporate managers by providing transparent and timely financial statements (Frankel & Li, 2004; Oppong & Bruce-Amartey, 2022; Soderstrom & Sun, 2007; Tsalavoutas, Tsoligkas, & Evans, 2020). Therefore, new standards of financial reporting quality have also received more attention as they promise to reduce the information imbalance between the parties (Soderstrom & Sun, 2007). The application of IRFS can provide better information and increase the quality of financial reporting. Firms that adopt IFRS are likely to have more loss recognition and higher earnings relevance, both of which are evidence of higher accounting quality (Barth, Landsman, & Lang, 2006).

In addition, the transition to IFRS requires countries to make improvements to achieve high-quality financial reporting (Bedford, Bugeja, & Ma, 2022; Elmghaamez, Attah-Boakye, Adams, & Agyemang, 2022; Soderstrom & Sun, 2007). The accounting system is part of a country's overall regulatory system (Ball, 2001). High-quality reporting depends on the quality of the capital structure (Sun, 2006), tax system (Haw, Hu, Hwang, & Wu, 2004), and establishment owners (Ball & Shivakumar, 2005; Burgstahler, Hail, & Leuz, 2006).

Applying IFRS will help increase companies' ability to reduce costs. This will increase the benefits firms reap (Barth, 2007; Fang, Guo, Mei, & Ye, 2022; Owolabi & Iyoha, 2012). Researchers have shown that applying IFRS increases benefits rather than cost constraints (Owolabi & Iyoha, 2012). Nevertheless, research also indicates that IFRS adoption cannot reflect differences in national business practices arising from institutional and cultural differences. In developing countries, the quality of local governance institutions is low, making them an important determinant of IFRS adoption (Ball, 2006; Ball, Kothari, & Robin, 2000). In these countries, the opportunities and costs associated with switching are lower; therefore, adopting an externally developed accounting standards body is an advantage (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1999; Leuz, Nanda, & Wysocki, 2003; Owolabi & Iyoha, 2012).

In short, the benefits of applying IFRS will increase companies' desire to apply them. However, aside from the benefits that companies enjoy from their application, the cost of switching is a factor that needs to be considered in the decision of whether or not to apply IFRS. When the costs and trade-offs are too high, businesses will hesitate to apply IFRS. Therefore, the research hypotheses are put forward as follows:

H1: The benefits of adopting IFRS have a positive effect on IFRS adoption.

H2: IFRS adoption costs have a negative impact on IFRS adoption.

2.2. Adopting International Financial Reporting Standards in Vietnam

According to PWC, the draft scheme divides the application of IFRS into 3 phases, specifically:

Phase 1 – Preparation phase (from 2019 to 2021): The Ministry of Finance creates the necessary conditions for implementing the Scheme to ensure businesses are supported to start applying IFRS in 2022, for instance, by publishing a Vietnamese translation of IFRS, training human resources, and developing guidelines for IFRS application.

Phase 2 – Pilot phase (from 2022 to 2025): The Ministry of Finance selects several enterprises (parent companies of State economic groups, listed companies, large-scale public companies) to prepare consolidated financial statements using IFRS. Foreign direct investment (FDI) enterprises are allowed to voluntarily apply IFRS to separate financial statements if they provide sufficient information and provide clear and transparent explanations to tax authorities, management, and supervision agencies on their obligations to the State budget.

Phase 3 – Compulsory IFRS application period (after 2025): Companies are required to prepare consolidated financial statements using IFRS, including all parent companies of State-owned economic groups, all listed companies, and all large-scale public companies that are unlisted parent companies. Other enterprises that are parent companies have the right to prepare consolidated financial statements under IFRS voluntarily. Enterprises are also allowed to voluntarily prepare separate financial statements under IFRS if they provide sufficient information and clear explanations and cooperate transparently with tax authorities, management, and supervision agencies to determine their obligations to the State budget.

Currently, the IFRS includes more than 40 standards, of which several new standards have been issued and applied in recent years, such as IFRS 9 – Tool finance, IFRS 15 – Revenue from customer contracts, and IFRS 16 – Leases, while the current 26 Vietnamese Accounting Standards (VAS) were drafted and promulgated between 2001 and 2005. Therefore, there is a huge difference between VAS and IFRS, and to be able to put IFRS into practice in Vietnam, considerable effort is required to fully compile IFRS and application guidance documents in Vietnamese by the state management agency responsible for promulgating standards and regulations on financial reporting and from the units subject to IFRS application at the voluntary and mandatory stages.

The benefits of applying IFRS in Vietnam, as it is in the process of economic integration, include: creating transparency in financial statements, improving accountability, creating conditions in which businesses have a passport to access capital flows in the international market, minimizing capital costs and the cost of preparing and providing reports, and more. At the same time, there are several challenges for Vietnamese enterprises, including the fact that mechanisms and policies for the application of IFRS in Vietnam are still incomplete, the enterprise's internal information connection system and accounting software may not be strong enough, the human resources level in enterprises is not high, and Vietnam does not have a large enough market to determine fair value.

For listed companies in Vietnam, when converting financial statements from VAS to IFRS, difficulties arise in the areas of (i) recognizing fair value, (ii) the legal framework, (iii) information connection systems and accounting software, (iv) professional abilities and foreign language proficiency, (v) competence of users of financial statements, and (vi) professional accounting training institution under the IFRS framework. There is a marked difference in preparing and presenting financial statements under VAS and IFRS.

2.3. Impact of Adopting IFRS on Financial Statements

Many papers and articles have been written about the benefits of applying IFRS. That is also the basis on which the Vietnamese government has developed a project to apply IFRS in Vietnam. However, when preparing the first year's financial statements under IFRS, many businesses need to be prepared to cope with difficulties with their financial statements due to the differences between the current VAS and IFRS.

Loss of property: According to International Accounting Standard No. 36 (IAS 36) Loss of property, if the carrying amount of the assets of a business is higher than the recoverable value of that asset, the enterprise must immediately recognize the provision for loss of assets in the statement of comprehensive income for the period. In Vietnam, there is currently no accounting standard equivalent to IAS 36. As a result, this standard may have negative effects on the first-time IFRS financial statements of businesses that are operating at a loss or have subsidiaries or operating divisions that are losing money, indicators that their property may be damaged.

Leases: Following VAS 06 – Leases, operating leases are not recognized in the balance sheet. Under the provisions of IFRS 16 – Leases, operating leases are recognized immediately in the enterprise's financial position as the right to use the asset and the lease liability. For businesses with leased assets operating with overseas lessors, the lease liability will be treated as a financial liability denominated in a foreign currency in accordance with financial reporting requirements. This foreign currency financial debt will have to be re-evaluated at the actual exchange rate by the enterprise making the financial statement. For businesses operating in the aviation sector, for instance, the application of IFRS 16 will have a huge impact because most of the aircraft in their fleet are leased aircraft operating with lease payments in foreign currencies. Assuming the average balance of an airline's fleet operating lease account in 2023 is USD 1 billion (United States Dollar), and in 2023 VND (Vietnam's national currency) depreciates against USD by 100 VND, this negative movement would cause enterprises to incur a loss of exchange rate difference of VND 100 billion.

3. METHOD

3.1. Measurement Scales

Models and constructs are referenced from previous studies. For example, the benefit and cost factors when applying IFRS are reproduced from the survey of Owolabi and Iyoha (2012), in which the benefit factor is measured through 8 items: (1) Financial statements of enterprises are presented in a transparent manner, increasing comparability; (2) They provide more comprehensive information for investors and creditors when deciding to invest in the entity; (3) IFRS is a suitable tool to perform the administration and control in accordance with the practical situation; (4) The adoption of IFRS changes the management's assessment of the organization's financial position and performance; (5) It greatly improves the ability to compare and evaluate the effectiveness of the financial statements of subsidiaries abroad; (6) It significantly improves the ability to communicate and operate effectively with the parent company abroad; (7) It improves the ability to effectively communicate and coordinate activities with foreign subsidiaries; (8) It results in a significant reduction in the time and costs required to collect financial statements of subsidiaries abroad and prepare the consolidated financial statements. Next, the cost factor is measured using 7 items: (1) Adoption increases the cost of hardware, software, and maintenance of the company's accounting information system; (2) It increases the company's staff training and development costs; (3) It increases the costs payable to auditors and other external experts; (4) It increases the work involved in preparing financial statements; (5) It increases the complexity of the company's financial reporting; (6) The availability of market information for some IFRS requirements (fair value) is challenging; (7) The cost of implementing IFRS outweighs the benefits. Both benefits and costs were measured using a 5-point Likert scale with 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, and 5- strongly agree.

Meanwhile, the decision to adopt IFRS is measured using 1 item: Has your company adopted IFRS? With 1- adopted and 0- not yet.

3.2. Sampling and Data Collection

According to the study of Tabacknick and Fidell (2007), for multivariate analysis, the minimum number of samples is 50+8p. As the study included two independent variables, p = 2. Therefore, the minimum number of samples in this study was 50+8*2 = 76. We distributed 200 survey questionnaires to enterprises listed on the Vietnam stock exchange and received 157 valid responses for analysis. Data was collected using an online form on Google Docs. The authors collected information from chief accountants or accountants working at the relevant enterprises by emailing them and inviting them to fill out the survey form directly via an attached link.

3.3. Measurement Evaluation

The scale's reliability was tested using two criteria: a Cronbach's alpha coefficient greater than 0.7, and a Corrected Item-Total Correlation greater than 0.3 (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). Items with a Corrected Item-Total Correlation of less than 0.3 were removed. The scale reliability test only applied to the two independent variables: benefits and costs (the two factors measured through items). The dependent variable was IFRS adoption, which did not need to be checked for reliability since this variable was binary.

The results of the analysis showed that the benefit factor was reliable when measured through the items (Cronbach's alpha coefficient = 0.938, which is greater than 0.7, and the Corrected Item-Total Correlation was greater than 0.3). The results for each item are provided in Table 1.

Table 1. The reliability test for the benefit factor.

Items	**Corrected item-total correlation**
Financial statements of enterprises are presented in a transparent manner, increasing comparability (BE1)	0.705
They provide more comprehensive information for investors and creditors when deciding to invest in the entity (BE2)	0.711
IFRS is a suitable tool to perform the administration and control in accordance with the practical situation (BE3)	0.806
The adoption of IFRS changes the management's assessment of the organization's financial position and performance (BE4)	0.83
It greatly improves the ability to compare and evaluate the effectiveness of the financial statements of subsidiaries abroad (BE5)	0.848
It significantly improves the ability to communicate and operate effectively with the parent company abroad (BE6)	0.827
It improves the ability to effectively communicate and coordinate activities with foreign subsidiaries (BE7)	0.709
It results in a significant reduction in the time and costs required to collect financial statements of subsidiaries abroad and prepare the consolidated financial statements (BE8)	0.832
Cronbach's alpha = 0.938; N = 8	

For the cost factor, two items, COST1 and COST7, were removed since the Corrected Item-Total Correlation values were less than 0.3. These results are shown in Table 2.

Table 2. The first reliability test for the cost factor.

Items	Corrected item-total correlation
IFRS adoption increases the cost of hardware, software, and maintenance of the company's accounting information system (COST1)	0.265
It increases the company's staff training and development costs (COST2)	0.623
It increases the costs payable to auditors and other external experts (COST3)	0.459
It increases the work involved in preparing financial statements (COST4)	0.624
It increases the complexity of the company's financial reporting (COST5)	0.777
The availability of market information for some IFRS requirements (fair value) is challenging (COST6)	0.771
The cost of implementing IFRS outweighs the benefits (COST7)	0.281
Cronbach's alpha = 0.799; N = 7	

After removing COST1 and COST7, the cost factor was shown to be reliable when measured through 5 items: COST2, COST3, COST4, COST5, and COST6, as the Cronbach's alpha coefficient was 0.85, which is greater than 0.7, and the Corrected Item-Total Correlations were all greater than 0.3, as shown in Table 3.

Table 3. The second reliability test for the cost factor.

Items	Corrected item-total correlation
It increases the company's staff training and development costs (COST2)	0.610
It increases the costs payable to auditors and other external experts (COST3)	0.625
It increases the work involved in preparing financial statements (COST4)	0.692
It increases the complexity of the company's financial reporting (COST5)	0.725
The availability of market information for some IFRS requirements (fair value) is challenging (COST6)	0.728
Cronbach's alpha = 0.85; N = 5	

Because the factors and constructs were all reproduced from previous studies, exploratory factor analysis was not employed in this study. Instead, the next step involved regression analysis.

3.4 Results of Hypothesis Testing

As the dependent variable was binary, receiving the value 1 or 0 – where 1 is applicable, and 0 is not – the logit model was considered appropriate in this study. The results of logistic regression analysis, or the logit model, show that both benefit and cost factors impact enterprises' application of IFRS (p-value is less than 0.05). The benefits of applying IFRS have a positive impact on IFRS adoption (β = 0.602), and the costs have a negative impact on IFRS adoption (β = -0.892). Therefore, hypotheses H1 and H2 are accepted. The detailed results are shown in Table 4. The predictive ability is 60.55%, indicating that the benefit and cost factors can accurately predict the application of IFRS 60.55% of the time. A prediction accuracy greater than 50% can be considered good.

Table 4. Logistic regression.

Adopt IFRS	Beta	S.E.	P-value
Benefits	0.602	0.198	0.002
Costs	-0.892	0.353	0.011
Constant	1.555	1.446	0.282
Percentage correct		60.55%	

The results show that the benefits factor positively affects IFRS adoption, indicating that businesses that are aware of the benefits that IFRS offers will be more motivated to adopt IFRS. This shows that enterprises are aware of the usefulness of applying IFRS to capital investment activities in the international market. In addition, the use of IFRS helps companies give users information on financial statements in an easy-to-understand and complete way. This increases transparency and the ability to communicate information to the report's readers. If the benefits are fully recognized by the business, they are more likely to adopt IFRS.

The cost factor has the opposite effect on IFRS adoption, indicating that costs are a barrier to IFRS adoption. Applying accounting standards requires companies to change their accounting software. This change must not only be made in a single enterprise but must be synchronized across all enterprise units, increasing the costs associated with changing, updating, and synchronizing accounting software, as well as the time and effort to implement the change. In addition, applying IFRS will increase costs associated with investment, personnel training, system maintenance, and auditors and external experts. Therefore, if enterprises assess that the costs are not balanced by the benefits, they will be less likely to adopt IFRS.

4. CONCLUSIONS AND IMPLICATIONS

4.1. Conclusions

The study has explored the important role of IFRS for businesses in the current period of international economic integration. The strengths of IFRS include better investor attraction, diversified information reporting, and ease of exploitation. IFRS adoption will improve the quality of enterprises' financial statements. Therefore, the study built a research model to determine the impact of benefits and costs on IFRS adoption by Vietnamese enterprises. Through a survey of 157 enterprises listed on the Vietnam stock exchange, it has been shown that the benefit factor positively impacts enterprises' IFRS adoption. In addition, the study has shown that costs are a barrier to IFRS adoption. Based on these research results, the authors can provide certain suggestions for improving enterprises' application of IFRS.

4.2. Theoretical Implications

Theoretically, this study has shown the important role of the benefit factor in the decision to adopt IFRS. It can be seen that information theory plays a role in enterprises' decision to adopt IFRS. Information about the benefits businesses receive from applying IFRS, provided by relevant agencies, will help enterprises see the importance of IFRS. This study has also pointed out the barriers that firms face. The trade-off theory explains this relationship well. When businesses find that the costs are too great for the company or are not yet traded off by the benefits, they choose not to apply IFRS.

4.3. Practical Implications

The research results also suggest some practical implications to help improve enterprises' decision to apply IFRS. First, disseminating information about the benefits and usefulness of IFRS will help businesses better understand the important role of IFRS. Second, policies to support initial investment costs and provide experts to train human resources in enterprises applying IFRS will reduce enterprise barriers. Third, appropriate legal documents should be promulgated to gradually popularize the application of IFRS among enterprises in Vietnam.

The transition from Vietnamese accounting standards to IFRS is an important factor in helping businesses in Vietnam to integrate and participate at a higher level with the international financial markets. In addition to the positive effects of IFRS adoption on businesses, many challenges await them. Business leaders need a good understanding of the difficulties and challenges of converting to IFRS and have a scientific, methodical, clear plan and roadmap for the transformation. That will a prerequisite for businesses to gently, smoothly, and effectively adopt IFRS within enterprises and enterprise groups.

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