ATLANTIS PRESS
Advances in Social Science, Education and Humanities Research, volume 307
1st Social and Humaniora Research Symposium (SoRes 2018)

Factors that Influence Countries in Fully Adopting International Financial Reporting Standards (IFRS)

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***Abstract*—This research aims to examine the factors that influence a country in fully adopting IFRS. The factors being tested are Economic Growth and Foreign Direct Investment. The samples in this study are 65 countries consisting of 37 countries fully adopting IFRS and 28 countries not fully adopting/not adopting IFRS. Hypothesis testing uses Logistic Regression test to determine the effect of each independent variable on the dependent variable. Logistic Regression test results in the first hypothesis prove that economic growth has a positive effect on the decision of the countries in fully adopting IFRS, which mean the first hypothesis is supported. Testing the second hypothesis proves that foreign direct investment does not affect the decision of the countries in fully adopting IFRS, which mean the second hypothesis is not supported.**

Keywords—GDP; FDI; IFRS

I. INTRODUCTION

As the times developed, accounting standards also experienced development. In 2000 the International Accounting Standards Committee (IASC) was changed to International Accounting Standards Board (IASB), and produced International Accounting Standards (IAS) which changed to International Financial Reporting Standards (IFRS). From these changes, countries are trying to change their accounting standards to IFRS. The issue of adopting IFRS was initiated by the European Union in June 2000 and requires that from 2005 companies listed on the European stock exchange compile financial statements based on IFRS.

There are several countries that fully adopt IFRS and there are also some countries that do not adopt fully or do not adopt IFRS. The United States (USA) is the most difficult country to receive IFRS, because US-GAAP is far more complex and comprehensive. At the urging of the market and demands of globalization, the USA was forced to acknowledge the existence of IFRS [1]. Data from the official IFRS website recorded 111 out of 164 countries have fully adopted IFRS, while 53 other countries did not fully adopt/did not adopt IFRS.

Zeghal and Mhedhbi [2] conduct research to research the factors that influence developing countries in making decisions to adopt IFRS. The results of his research prove that economic growth, education, culture, and the existence of capital market affect the decisions of developing countries in adopting IFRS, while Foreign Direct Investment (FDI) does not affect the decision to adopt IFRS. On the other hand, Zehri and Abdelbaki [3] continued the research conducted by Zeghal and Mhedhbi [2]. The results of research by Zehri and Abdelbaki [3] prove that developing countries that have high economic growth, higher education levels, Foreign Direct Investment, and general law based on the legal system are easier to adopt IFRS.

This study developed the research of Zeghal and Mhedhbi [2] and the research of Zehri and Abdelbaki [3] using a sample of developed and developing countries. The purpose of this study is to examine the factors that influence the country's decision to fully adopting IFRS. The variables tested in this study are Economic Growth (EG) and Foreign Direct Investment (FDI).

A. *Research question*

Based on the background, the following research questions are formulated:

- Does a country's Economic Growth affect the decision of the country in fully adopting IFRS?
- Does a country's Foreign Direct Investment affect the decision of the State in fully adopting IFRS?

II. LITERATURE REVIEW AND HYPOTHESES

A. *International Financial Reporting Standrads*

IFRS formed by the IASB is designed to be a quality international accounting standard. Initially, IFRS was designed for companies listed on the capital market, but over time many countries adopted that standard [4].

Increased IFRS adopters due to increasing interest in global harmonization of accounting [5]. A country in adopting IFRS can be done in 3 ways, namely convergence, wholesale, or endorsement [6].

In the adoption of convergence, countries that use GAAP are incorporated into IFRS, countries that are convergence like Indonesia and India. Wholesale adoption is the adoption of IFRS by means of a country leaving its domestic GAAP for IFRS without amendments for various reasons such as lack of labor, comfort, or economic reasons. Endorsement adoption is the adoption of IFRS by means of IFRS being studied carefully before being made into law in the country [6].

B. Economic Growth

Economic growth is closely related to the accounting system [2]. The main factor of a country in adopting international accounting standards is the economic situation. Baruni and Sentosa's [7] study proves that a country's economic growth has a positive influence on the development of accounting practices and systems. Ball [8] states that financial reporting is one of the most important things in economic growth.

Economic development of a low country shows that economic, commercial, and industrial activities can be simple and limited. In the other hand, if a country's economic development is high so economic, commercial, and industrial activities also increase. Therefore, the accounting system in a country needs to be adjusted to economic development to meet new needs for decision making [9]. Based on the above statement, the following hypothesis is formulated:

H1: Economic growth affects on the decision of the country in fully adopting IFRS.

C. Foreign Direct Investmen (FDI)

Chen et al. [10] identified two reasons why the adoption of IFRS resulted in inclusion in FDI inflow. The first reason is the application of IFRS removes barriers to comparing financial information between countries and reduces information asymmetry between local and foreign investors. The second reason is that IFRS has certain features that investors want, compared to national accounting standards. For example, IFRS emphasizes a more detailed explanation of accounting entries, which fosters transparency and will be relevant for investors in making investment decisions.

FDI plays an important role in economic development and influences fiscal revenues [11]. Gordon et al. [12] argue that financial reporting using IFRS can increase reporting transparency therefore IFRS can increasing the investment capacity of foreign countries. Based on the statement above, the following hypothesis is formulated:

H2: FDI has a positive effect on the decision of the country in fully adopting IFRS.

III. Research Methods

This research is quantitative research. The data in this study are secondary data obtained from the official website of IFRS and the World Bank.

The sampling method used purposive sampling. According to Hartono [13] purposive sampling is carried out by taking samples from the population based on certain criteria. The criteria used are based on certain considerations. These criteria are countries listed on the IFRS and their EG and FDI listed on the world bank websites. The population of this study is all countries in the world while the sample in this study are 65 countries listed in table 1.

TABLE I. Research Samples

Fully adopted		Not fully/not adopted	
Albania	Kazakhtan	Afghanistan	Paraguay
Argentina	Kenya	Belize	Peru
Armenia	Malaysia	Bhutan	Suriname
Australia	Mongolia	Bolivia	Switzerland
Austria	Nepal	Canada	Thailand
Bahrain	Netherland	Chile	Timor Leste
Bangladesh	Philiphines	Egypt	USA
Botswana	Poland	Ghana	Vietnam
Brazil	Romania	Guatemala	
Bulgaria	Rwanda	Honduras	
China	Singapore	India	
Croatia	Spain	Indonesia	
Czech	Srilanka	Israel	
El Savador	Turkey	Japan	
Fiji	UK	Kosovo	
France	Uruguay	Lesotho	
Germany	Zambia	Mexico	
Hungary		Myanmar	
Ireland		Nicaragua	
Italy		Panama	

A. Variable Measurement

1) IFRS: Data from the countries that adopt IFRS are obtained from the official website of IFRS. The data is classified into 2 main categories. The first category is the countries that fully adopting IFRS are given the number 1. The second category is the countries that do not adopt or do not fully adopting IFRS are given the number 0.

2) EG: EG data was obtained from the official website of the World Bank using GDP (Gross Domestic Product) data from several countries sampled in this study in 2017.

3) FDI: Openness to the outside world is measured using the value of FDI. FDI data is obtained from the official website of the World Bank in 2017 in each country.

4) Hypothesis testing: Hypothesis testing using logistic regression test. According to Ghozali [14], logistic regression can be used to test whether the probability of the occurrence of a dependent variable can be predicted by its independent variable. The requirements for using logistic regression are the dependent variable is dichotomous and the independent variable does not have to have the same diversity between groups of variables.

IV. Discussion

A. Descriptive Statistics

Table 2 describes the descriptive statistics of EG, FDI, and IFRS adoption variables. EG has a value between -8.00 to 8.50 and a mean value of 3.85, and a standard deviation of 2.51. FDI has a value between -14,834.41 to 348,674.00 and a mean value of 24,057.40, and a deviation standard of 61,637.95. Whereas IFRS has a value between 0 to 100 and a mean value of 0.60 and a standard deviation of 0.49.

TABLE II. DESCRIPTIVE STATISTICS

	EG	FDI	IFRS
N	65	65	65
Min	-8.00	-14,834.41	0
Max	8.50	348,674.00	1
Mean	3.85	24,057.40	0.60
Std. Dev	2.51	61,637.95	0.49

B. *Hypothesis Testing Results*

Table 3 describes the classification of countries that fully and not fully adopting IFRS. There are 26 countries that not fully/not adopting IFRS, and 39 countries are fully adopting. The number of samples was 65, so the overall percentage value before the independent variable was put into the model by 60%.

TABLE III. CLASSIFICATION TABLE

Observed	Not Fully adopted	Fully adopted	Percentage Correct
Not fully adopted	0	26	0
Fully adopted	0	39	100
Overall percentage			60

Table 4 describes the affect of independent variables on the dependent variable partially. The first hypothesis in this study which states that EG affects on the decision of the country in fully adopting IFRS, is supported. This can be seen from EG having sig values amounting to 0.049 <0.05.

The second hypothesis in this study which states that FDI has a positive effect on the decision of the country in fully adopting IFRS, is not supported. This can be seen from FDI that has a sig value amounting to 0.692 <0.05.

Sig value Hosmer and Lemeshow are 0.182 so they accept Ho, which means the model is acceptable and can be continued to test the hypothesis. Negelkerke R square value is 0.098 which shows that the decision of the country in adopting IFRS in full can be explained by the EG variable of 9.8% and the remaining 90.2% is explained by the variables outside this study.

TABLE IV. HYPOTHESIS TEST RESULTS

Variables	Coefficients	Sig
EG	0.251	0.049
FDI	0.000	0.692
Model Statistics	Hosmer and Lemeshow (sig) = 0.182 Nagelkerke R square = 0.098	

V. CONCLUSION

This study examines two factors that influence a country in adopting IFRS. These two factors are EG and FDI. The number of countries sampled in this study was 65 countries. Secondary data was obtained from the official website of IFRS and the World Bank.

Based on the results of hypothesis testing, the first hypothesis is supported, in other words EG has a positive effect on the decision of the state in adopting IFRS in full. The results of this study support the research of Zeghal and Mhedhbi [2].

The second hypothesis in this study is not supported, in other words FDI does not affect the adoption of IFRS. The results of this study do not support Zeghal and Mhedhbi [2] research which states that a country with high FDI will be easier to adopt IFRS. A country's FDI does not affect the country's decision to adopt IFRS in full.

This study has several limitations, namely: first, this study does not cover all the factors that might affect the full adoption of IFRS in a country. Second, this research does not examine in depth the reasons why a country adopts IFRS in full, is not full, or does not adopt.

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