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Elisabetta Mafrolla

ACCOUNTING RESTATEMENT: A EUROPEAN PERSPECTIVE

G. GIAPPICHELLI EDITORE – TORINO

Preface

Accounting information has a strong political meaning, and cases of accounting failure demonstrate that the regulation and standards are far from saving accountants from making mistakes and auditors from failing to recognize the errors. Financial statements offer guidelines for the proper depiction of an entity, but, in the settlement of the accounting practice, there is still plenty of room for the personal professional opinions of the preparers. Moreover, the controller has a determinant role as long as auditing committees and external auditors bear the power to force preparers to subject the reports to a different interpretation and measurement of the economic reality involving the accounting practices of the firm.

This book is motivated by the long-lasting, although still recent, discussion on how to ensure that accounting numbers, while supported by auditors' favourable opinions, are definitely reliable and eliminate any suspicion that accounting reports could be affected by opportunism, which is documented by the discovery of frequent accounting mistakes.

To give an idea of the relevance of the issue and the advanced involvement of academics and professionals in the up-to-date debate, an anecdotal example, looking at the United Kingdom nowadays, can be adopted. In the aftermath of a recent news release discussing Big 4 auditing companies'waiving of accounting mistakes that were bigger than usual, despite involving huge corporations,[1] some of them announced the decision to

[1] "The British watchdog for audit and accounting [i.e., Financial Reporting Council] said 75% of audits of large U.K. companies conducted in 2018 were good or required no more than limited improvements. That is better than the 73% of audits that met the standard in 2017, but still significantly below the FRC's target of 90% of audits to meet the quality standard. None of the seven firms reviewed in the report, including the Big Four – Deloitte LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP – met the FRC's audit quality target. The regulator examined 260 audits of 2017 financial statements of FTSE350 stock-index companies as part of its annual audit-

change the pay and bonus policy for partners to reduce the feasibility of conflicts of interest reducing the quality of audits.[2] Shortly afterwards, the British authority for auditing and accounting, the Financial Reporting Council, announced its decision to protect the market from a possible reduction in accounting practices that could derive from Brexit: a reduction of potential conflicts of interest held by the partners of auditing companies could be achieved through an improvement in the disclosure of profit by the auditors themselves, who, starting in 2024, should report auditing activity results separately from other types of profits.[3] This switch towards an improvement in the disclosure by the controller aims to introduce a sort of watchdog mechanism, which could de facto ameliorate auditing practice with foreseeable and hopeful consequences for the quality of the accounting of the controlled entities. Restatements were the trigger that started the described process of improvement recently undertaken by the British enforcer.

Nevertheless, fairness is a matter of culture, and, more than the regulatory recommendations, the ethical behaviour and professional scepticism of auditors while conducting their work can achieve a great deal. Huge and complex political interests dominate the world of international accounting regulatory frameworks,[4] and every additional regulatory step towards transparency is welcomed by the public, ensuring better disclosure in the financial markets. Nevertheless, the portrait will not be as fair as expected until ethics dominate the accounting profession because the threshold between fair and unfair accounting evaluations is slim and pale and the regu-

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inspections work". TRENTMANN, N., (2019) (July 9th), *U.K. audits continue to miss quality targets set by regulator*, *The Wall Street Journal*, retrieved online on March 3rd 2020 at: https://www.wsj.com/articles/u-k-audits-continue-to-miss-quality-targets-set-by-regulator-11562713261?mod=article_inline.

[2] E.g., PricewaterhouseCoopers LLP was considering changes to how its U.K. audit partners were remunerated. TRENTMANN, N. (2019) (September 27th), *PwC considers changes to U.K. auditor pay to avoid conflicts of interest*, *The Wall Street Journal*, retrieved online on March 3rd 2020 from: https://www.wsj.com/articles/pwc-considers-changes-to-u-k-auditor-pay-to-avoid-conflicts-of-interest-11569609468.

[3] TRENTMANN, N. (2020) (July 6th), *U.K. Regulator Orders Big Four to Separate Audit Practices by 2024*, *The Wall Street Journal*, retrieved online on March 3rd 2020 from: https://www.wsj.com/articles/u-k-regulator-orders-big-four-to-separate-audit-practices-by-2024-11594070565?cx_testId=3&cx_testVariant=cx_2&cx_artPos=5#cxrecs_s.

[4] RAMANNA, K. (2013), *The international politics of IFRS harmonization*, *Accounting, Economics, and Law: A Convivium*, Vol. 3, No. 2, pp. 1-46.

latory process itself could be dominated by political and economic interests. [5]

This book examines the theory and practice behind restatements, which are one of the most noticeable indicators of accounting malpractices. Restatements occur when an error affects the reliability of one (or more) financial statement, which has (have) already been published and used by stakeholders to make their economic and financial evaluation of the firm. Regulators in national and international contexts are differently disposed towards the need to disclose information when an error affects previously released financial reports. This unpleasant occurrence undermines the reliability of accounting information provided by the restating firms in the financial statements released in the past years; moreover, it casts doubt on the truthfulness of future financial and accounting handouts. As a result, a high risk of losing accounting credibility affects all the participants in the preparation, control and approval of the accounting data that are published and then restated; above all, it reduces the credibility of the corporation releasing the official financial report affected by mistakes.

This book analyses and discusses restatements from both the theoretical and the practical perspective, considering the complex environment in which they may occur and focusing particularly on accounting restatements that have affected European corporations for over a decade since the mandatory adoption of the International Financial Reporting Standards.

Chapter 1 presents the international regulatory framework adopted to deal with the disclosure of an accounting error in subsequent years, showing how the provisions have changed over time and leading to the academic and professional debate about the qualitative and quantitative measurement of the error, that is, the materiality issue.

Chapter 2 and Chapter 3 respectively discuss the antecedents and consequences of the discovery of accounting mistakes. Although all firms could incur a restatement, the literature has documented that there are some systematic characteristics that make some firms more prone to misreporting than others, and the corporate financial and governance conditions in which firms operate might significantly determine the outcome of a serious re-

[5] For a clear explanation of how politics impacts and determines accounting regulation, among others, see: KOTHARI, S.P., RAMANNA, K. and SKINNER, D.J. (2010), *Implications for GAAP from an analysis of positive research in accounting*, *Journal of Accounting and Economics*, Vol. 50, No. 2, pp. 246-286.

statement. Moreover, restatements are not painless for firms as they have to face the consequences occurring in the aftermath of the announcement of the accounting failure. Previous research has documented that the financial markets revise firms' value significantly and persistently on the occurrence of a restatement, with a drop affecting the transaction of equity in value and volume and the debt market, both public and private. Moreover, relevant reputational concerns undermine the executives involved in the accounting procedures and the monitoring boards, like the auditing committees and the external auditors, as shown in Chapter 3. Chapter 2 also presents an empirical analysis of the antecedents of restatements in a sample of restating firms, demonstrating that the context matters as European companies are involved differently in the malpractice from their non-European counterparts.

Finally, Chapter 4 aims to demonstrate that European companies have a different attitude towards restating from corporations located in the United States of America (U.S.) due to the different regulatory frameworks and the peculiarities and difficulties of applying the International Financial Reporting Standards compared with the U.S. Generally Accepted Accounting Practices (GAAP), making errors more likely, as documented through an empirical test described in Chapter 4. As an outcome of the analysis, it could feasibly be assumed that the best way to improve accounting quality, reducing the likelihood of restatements, could be to remove the difficulties in the interpretation and application of the accounting rules.

Lastly, a brief concluding paragraph supports the need to improve ethicality in the leading roles, like those of executives, managers and auditors, as the best path to improving accounting quality and avoiding malpractices, including restatements.

Chapter 1

Accounting restatements: definitions and accounting procedures

RÉSUMÉ: 1.1. Introduction. – 1.2. IAS 8: the scope of the standard. – 1.3. A brief history of the standards for accounting restatements. – 1.4. Definitions and key words. – 1.5. The importance of comparability and consistency in accounting: uniformity under the IFRSs. – 1.6. Accounting policies. – 1.6.1. Changes in accounting policies and the discipline of retrospective application. – 1.7. Accounting estimates. – 1.7.1. Changes in accounting estimates and prospective recognition. – 1.8. Accounting errors according to IAS 8. – 1.8.1. Defining the materiality of the error. – 1.8.2. Correcting an accounting error through a restatement. – 1.9. Concluding remarks.

1.1. Introduction

When material errors regarding previously released financial statements are discovered in a subsequent period, these prior period errors should be corrected in the comparative information presented in the financial statements for that subsequent period, raising an accounting restatement. [1]

Financial statements offer preparers and users the opportunity to show accounting information from different perspectives, allowing various (i.e., more than one) acceptable accounting methodologies for the same information. Although the International Accounting Standards Board (IASB) has recently restricted the range of possible alternative accounting treatments for many economic events and transactions, [2] managers still have some discre-

[1] INTERNATIONAL ACCOUNTING STANDARDS BOARD (2005) (December), *International Accounting Standard No. 8 (IAS 8) – Accounting Policies, Changes in Accounting Estimates and Errors*, London, United Kingdom, par. 41.

[2] The IASB focused some revisions occurred in the early beginning of the millenni-

tionary opportunities in applying standards. Preparers select the methodology that best fits their needs, which should depict the economic reality well, hence giving a true and fair view of the corporate operations that have occurred over the year.[3]

To be able to represent the economic and financial conditions of a firm fairly, accounting reports should be comparable over time and space; hence, consistency in the application of accounting standards is generally required from preparers. Preparers of accounting information are encouraged to apply consistent accounting policies for a certain number of financial years to show the users of the reports a situation and its changes or consistency over time, hence allowing them the opportunity to express an opinion about the actual and feasible performance of the firm. Conclusively, preparers of financial statements are required to try their best to be consistent over time and space in financial reports.[4] Inconsistencies in the application of account-

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um to the aim of reducing discretionary options available to the preparers of financial reports. E.g., "[…] the Board's main objective was a limited revision to reduce alternatives for the measurement of inventories" Last-in-first-out (LIFO) inventory costing was then prohibited under IFRS, and the International Accounting Standard no. 2 on *Inventories* (revised 2001) now allows only first-in-first-out and weighted-average methods to measure the cost of the goods sold. IFRS FOUNDATION, *A guide through IFRS*, Part A, p. 632. Relevant research previously demonstrated some discretionary activity of manipulation of earnings related with LIFO adoption, due to the recognition of LIFO-related tax deferrals. An unexpected consequence of such accounting policies was a consistent depreciation by the financial markets of equity value for those firms benefiting of LIFO reserves, which lead to the conclusions that the LIFO alternative was not a favourable option. A fervent debate is still discussing whether also the US GAAP, and the pronouncement of the Financial Accounting Standard Board (Accounting Standards Codification on Topic 330) on *Inventories* should repeal LIFO inventory, in line with IFRS policy, and at the aim of reducing the feasibility of managerial discretionary adoption of accounting policies. KLEINBARD, E.D., PLESKO, G.A. and GOODMAN, C.M. (2006), "Is it time to liquidate LIFO?", *Tax Notes*, Vol. 113, No. 3, pp. 257-253; HOUMES, R. and CHIRA, I. (2015), *The valuation effect of LIFO's repeal on high pricing power firms*, *Review of Accounting and Finance*, Vol. 14, No. 3, pp. 306-323.

[3] E.g., although the preparers cannot adopt LIFO inventory costing, they would select between FIFO and weighted-average inventory costing. This decision depends on the evaluation about which estimate would offer the most reliable and faithful representation of the firm.

[4] "Thus, it is imperative that, to the maximum extent possible, the same accounting policies be applied from year to year in the preparation of financial statements, and that any necessary departures from this rule be clearly disclosed". This fundamental prerequisite is the basis for the IFRS requirement for restatement of prior period's financial

ing methodologies cause a lack of comparability within an entity over time, which might reduce the usefulness of the accounting information itself. Hence, to reduce the eventuality of inconsistencies in the application of accounting standards, the IASB regulated such an eventuality through the International Accounting Standard No. 8 (IAS 8), named "Accounting Policies, Changes in Accounting Estimates and Errors".[5] Even though there is no way to prevent accounting changes from occurring, the scope of IAS 8 is that changes would result in improved financial reporting and the process of change in accounting policies would be as transparent as possible to the users, allowing them to understand fully the effects of such changes.[6]

1.2. IAS 8: the scope of the standard

The objective of IAS 8 is to guide the selection and change of accounting policies to ensure that the financial reports remain reliable[7] in the aftermath of such a change. IAS 8 covers all the feasible situations of economic reality that may justify a change in accounting estimates or policies. Two main categories of real situations may require the adoption of IAS 8 and the application of an exception towards the principle of consistency in accounting estimates. The first reason is the occurrence of changes, which can be changes in accounting estimates or changes in accounting policies. The second reason is the need to correct errors affecting the reliability of previous financial statements.

When a change in the accounting estimates or policies is introduced, either due to an internal managerial decision or due to an external commit-

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statements for corrections of accounting errors and retrospective application of new accounting policies. PKF, *Wiley Interpretation and Application of IFRS Standards (Wiley Regulatory Reporting) 1st Edition*, p. 131.

[5] International Accounting Standards Board (2005), *op. cit.*

[6] "Whatever the reason for introducing change, and hence the risk of non-comparability, to the financial reporting process, adequate disclosures must be made to achieve transparency in financial reporting so that users of the financial statements are able to comprehend the effects and compensate for them in performing financial analysis". PKF, *op. cit.*, p. 132.

[7] I.e., in line with the "faithful representation", as required in the *Conceptual Framework*, parr. QC12-QC16. International Accounting Standards Board (2010) (September), *Conceptual Framework for Financial Reporting 2010*, IFRS Foundation Publications Department, London, United Kingdom.

ment, and when an error in the application of accounting estimates and policies is detected, IAS 8 is applied to ensure that the quality of disclosure is adequate for the needs of transparency in financial reporting. Notwithstanding the lack of consistency in accounting principles'application over time and/or among entities, the comparability is guaranteed and the quality of information for the users of financial reporting is as high as possible.

Clearly, two out of three situations impose an obligation to change the accounting estimates or policies: a mandatory change in the rules and/or the discovery of a material mistake in previous reports produce a change that is externally imposed. A voluntary change in accounting estimates or policies is less easy to justify as the Framework of the International Financial Reporting Standards (IFRSs) supports the general presumption that, once adopted, an accounting estimation methodology or policy should be applied consistently to record every similar type of event or transaction. [8]

The voluntary use of an alternative accounting estimate or policy may be allowed only if the reporting entity is able to justify such alternative adoption and the outcome of switching to the new methodology leads to an improvement in the usefulness of information, that is, a better true and fair view of the entity.

The mandatory adoption of an alternative accounting estimate due to a change in the IFRSs is favoured by the circumstance that a revision or a new standard is generally developed and issued one year or more before the date set for mandatory application. Hence, the entity has the opportunity to determine the effects of the new accounting estimates and policies well in advance unless such evaluations would incur undue costs or efforts. [9]

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[8] INTERNATIONAL ACCOUNTING STANDARDS BOARD (1989) (April), *Framework for the Preparation and Presentation of Financial Statements*.

[9] Any discretionary change in accounting policy would have a feasible cost or effort to be suffered at the time of splitting from a previously adopted reporting policy to a new one. Research focusing on the costs and efforts of discretionary accounting changes, and on the planning abilities of the preparers of financial reports, is not much flourishing, notwithstanding the number of revisions in the accounting standards that over time offered the possibility of this kind of research. An empirical test of the consequences and determinants of an intramethod accounting choice is detected by Bruce and Ramachandran, who reported the consequences for oil and gas companies that changed from successful efforts (SE) to full cost (FC) accounting method to recognize exploration expenses. Basically, FC accounting capitalizes all costs incurred in prospecting for oil and gas reserves and in acquiring, exploring, and developing oil properties, while SE accounting capitalizes only those acquisition, exploration, and development costs asso-

1.3. A brief history of the standards for accounting restatements

IAS 8 was first issued in February 1978 as “Unusual and Prior Period Items and Changes in Accounting Policies” and then replaced by the International Accounting Standards Committee in December 1993 with a standard entitled “Net Profit or Loss for the Period. Fundamental Errors and Changes in Accounting Policies”. In April 2001, the International Accounting Standards Board adopted the revised version of IAS 8, which was further revised in December 2003 and adopted with the new title “Accounting Policies, Changes in Accounting Estimates and Errors”, accompanied by two interpretations, comments issued by the Standard Interpretation Committee, so-called SICs: SIC 2 (“Consistency – Capitalization of Borrowing Costs”) and SIC 18 (“Consistency – Alternative Methods”).

The IASB Improvement Project, which led to the current version of IAS 8, resulted in several additions to the quality of reporting over two and half decades (1978-2003). Today, more than 40 years after 1978, IAS 8 is still being discussed and the present version of the standard requires the retrospective application of changes in accounting policies and estimates, which produces a restatement (i.e., the previous statement to be published again) to correct prior period errors. Moreover, the earliest reported retained earnings balance should be reported to clarify the effect of any changes or errors. The revised standard removed the alternative treatment, which was previously permitted and consisted of two steps: first, to include the adjustments resulting from changing an accounting policy or correcting a prior period error in the profit or loss for the current period; second, to present unchanged comparative information for prior periods.

The Improvement Project resulted in a reorganization of material in the standards, allocating certain guidance to International Accounting Standard No. 1 (IAS 1) rather than IAS 8. Presentational issues now appear in IAS 1, whereas the guidance on accounting policies is all located in IAS 8. Moreo-

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ciated with the successful discovery of oil and gas deposits. “Those firms that made the change from SE to FC had significantly higher levels of capital expenditures and debt financing in the year they changed than did SE firms. However, systematic differences in measures of debt covenant proximity and exploration intensity were evident for at least 2 years prior to FC adoption”. BRUCE, J.W. and RAMACHANDRAN, R. (1988), *Discretionary accounting changes from ‘successful efforts’ to ‘full cost’ methods: 1970-76*, *The Accounting Review*, Vol. 63, No. 1, pp. 96-110.

ver, the amended IAS 8 incorporates instructions for the consistent selection and application of accounting policies for similar transactions, as previously dictated in SIC 18 ("Consistency – Alternative Methods").

The improvement project for the IFRSs was ideally directed towards a relevant reduction in the foreseeable number of alternative accounting treatments of the same transaction or event, which the preparers of financial reporting were allowed. The IASB's aim is to secure consistency, that is, to "require like transactions and events to be accounted for and reported in a like way". [10] In a few situations, the final version of the amended standards supported the admittance of a second feasible policy or methodology, and, in those situations, some IASB members presented their dissenting opinions and struggled to avoid such a change. [11]

A revision agenda for IAS 8 was launched by the International Accounting Standards Board in 2015, proposing some improvements to the applicability of the standard, which are still under discussion. [12]

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[10] INTERNATIONAL ACCOUNTING STANDARDS BOARD (2010), *Preface to the International Accounting Standards*, par. 12.

[11] An interesting "dissenting opinion" is reported, e.g., by Professor Mary Barth and Messrs Cope, Garnett and Leisenring, who "voted against the issue of IAS 1 *Presentation of Financial Statements* in 2007. […] They believe that the decision to permit entities to divide the statement of comprehensive income into two separate statements is both conceptually unsound and unwise. […] Those Board members also believe that the amendments are flawed by offering entities a choice of presentation methods. The Board has expressed a desire to reduce alternatives in IFRS. The Preface to International Financial Reporting Standards, in paragraph 13 [that is now paragraph 12 of the *Preface*], states: 'the IASB intends not to permit choices in accounting treatment … and will continue to reconsider … those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.' […] By reporting a choice in this instance the IASB has abandoned that principle. Finally, the four dissenting Board members believe that allowing a choice of presentation at this time will ingrain practice, and make achievement of the conceptually correct presentation more difficult as the long-term project on financial statement presentation proceeds". INTERNATIONAL FINANCIAL REPORTING STANDARDS FOUNDATION (2013) (July), *A guide through IFRS*, Part B, IFRS Foundation, London (United Kingdom), pp. 1101-1102.

[12] INTERNATIONAL ACCOUNTING STANDARDS BOARD (2017) (September), *Exposure Draft ED/2017/5 Proposed Amendments to IAS 8*, *Accounting Policies and Accounting Estimates,* IFRS Foundation, London (United Kingdom).

1.4. Definitions and key words

IAS 8 introduced some main definitions to be considered in the application of the standard. First, accounting policies are "the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".[13] The management should select the accounting policy that results in better quality of information, that is, the one that provides information that is *i*) relevant to the economic decision making of the users and *ii*) reliable. Information is reliable when it represents faithfully the financial position, performance and cash flow of the entity, reflects the economic substance of the transactions and is neutral (i.e. unbiased), prudent and complete in all material aspects.[14]

Changes in accounting estimates are adjustments "of the carrying amount of an asset or a liability" or a related expense, resulting "from new information or new developments and, accordingly, are not corrections of errors".[15] "Prior period errors are omissions or misstatement in the entity's financial statements for one or more periods, arising from a failure to use, or misuse of, reliable information".[16] Errors are material when they affect significant information,[17] that is, when they could influence the economic decision making of the users on the basis of the financial statements,[18] considering that the users should have reasonable knowledge of the business and willingness to study the information with diligence.[19] An update of the framework, dated 1 January 2019,[20] revised the definition of materiality to make it easier for companies to make the judgement. The newly introduced definition supports the idea that information is ma-

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[13] INTERNATIONAL ACCOUNTING STANDARDS BOARD (2005), *op. cit.*, par. 5.

[14] *Ibidem*, par. 10.

[15] *Ibidem*, par. 5.

[16] *Ibidem*, par. 5.

[17] "The materiality concept states that a company must perform strictly proper accounting only for significant items. Information is significant – or, in accounting terms, *material* – when it would cause someone to change a decision. The materiality concept frees accountants from having to report every last item in strict accordance with GAAP". HORNGREN, C.T., HARRISON JR., W.T., OLIVER, M.S. (2009), *Accounting 8th Edition*, Pearson Education Inc., Upple Saddle River, New Jersey-USA, p. 361.

[18] INTERNATIONAL ACCOUNTING STANDARDS BOARD (2005), *op. cit.*, par. 5.

[19] *Ibidem*, par. 6.

[20] Application is mandatory since January 1st 2020, but early application is permitted.

terial "if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific entity".[21]

"Retrospective application is applying a new accounting policy to transactions […] as if that policy had always been applied. Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred."[22]

Prospective application is the method of "reporting a change in accounting policy and of recognising the effect of a change in an accounting estimate" that respectively consists of applying the new accounting policy to transactions after the date of enactment of the new policy and "recognising the effect of the change in the accounting estimate in the current and future periods affected by the change".[23]

"Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so". When it is impracticable to apply the change to a specific prior period or to all prior periods, the entity should adjust the comparative information and prepare the retrospective and prospective information on the earliest date practicable.[24]

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[21] "The IASB updated the definition because some companies had difficulty using the old definition. The amendments are intended to clarify both the definition of material and how the definition should be applied. The explanations that accompany the definition have been changed with the intent of providing more clarity, and the amendments are intended to ensure that the definition of material is consistent across all IFRS". TYSIAC, K. (2018) (October 31st), *News. IASB clarifies definition of 'material'*, *Journal of Accountancy*, retrieved online on September 2nd 2019 at: https://www.journalofaccountancy.com/news/2018/oct/iasb-definition-of-material-201820023.html#:~:text=Under%20the%20new%20definition%2C%20information,information%20about%20a%20specific%20entity.

[22] INTERNATIONAL ACCOUNTING STANDARDS BOARD (2005), *op. cit.*, par. 5.

[23] *Ibidem*, par. 5.

[24] *Ibidem*, parr. 24-25.

1.5. The importance of comparability and consistency in accounting: uniformity under the IFRSs

Comparability over space and time is a basic aim of accounting principles, both the IFRSs and the national GAAPs, which has long been debated and has found support from academics and practitioners worldwide. Similar entities should produce similar financial reporting to make it easier for the users of the reports to develop an economic opinion about them. This allows investors, creditors, regulatory agencies, vendors, customers, employees, joint venturers and others to make better-informed decisions. Uniformity in accounting produces comparability, which is a strategic resource [25] used to attract stakeholders. Those users should be informed about the accounting policies and consequent estimates that have been adopted by the firm, and IAS 8 guarantees that a change would not impair the quality of the information. Uniformity in accounting has long been debated, especially in the past decade, when the mandatory application of the IFRSs was still under discussion. [26] Although more than a decade has passed since the first international mandatory IFRS adoption, very recent accounting research has still discussed the improvement in international comparability gained through the switch from national GAAPs to IFRSs. [27]

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[25] "Drawing on this body of research, the ideal of comparability can be conceived of as a strategic resource employed by partisans of international accounting standards in promoting harmonization and the obliteration of differences in terms of standard philosophy and content across geographical boundaries. Comparability is assumed to be in the interest of all users". DUROCHER, S. and GENDRON, Y. (2011), *IFRS: On the Docility of Sophisticated Users in Preserving the Ideal of Comparability*, *European Accounting Review*, 20:2, p. 235.

[26] As examples of the fervent debate, among others, see: JEANJEAN, T. and STOLOWY, H. (2008), *Do accounting standards matter? An exploratory analysis of earnings management before and after IFRS adoption*, *Journal of Accounting and Public Policy*, Vol. 27, No. 6, pp. 480-794; KVAAL, E. and NOBES, C.W. (2010), *International differences in IFRS policy choice*, *Accounting and Business Research*, Vol. 40, No. 2, pp. 173-187; LANDSMAN, W.R., MAYDEW, E.L. and THORNOCK, J.R. (2012), *The information content of annual earnings announcements and mandatory adoption of IFRS*, *Journal of Accounting and Economics*, Vol. 53, No. 1-2, pp. 34-54.

[27] E.g., Siciliano (2019) recently presented a very interesting comparison of national interpretations of IFRS and the influence of local GAAP uniformity in the feasibility of applying IFRS with international uniformity. He interestingly supported that "the degree to which financial reports converge toward the use of the same accounting methods may

Notwithstanding the dominant support for comparability and uniformity in accounting, some criticism has arisen from various streams of research and practise. Historically, some accountants, opposed to the opportunities of uniformity, have highlighted the problem that a focus on uniformity might remove the element of discretionary judgement that is required to produce a true and fair view of a single entity, with its individuality in economic performance and financial position. Moreover, supporters of the amelioration agenda for the IFRSs asserted that an overemphasis on comparability and uniformity might impede the improvement in accounting methods. Conclusively, some interesting and contrasting views have been raised by an accounting principle, IAS 8, which seems to have been discussed seldom and mainly overlooked during the last four decades.

Comparability enhances the quality of accounting reports. The Conceptual Framework for Financial Reporting supports the assertion that comparability, together with the verifiability, timeliness and understandability of financial reporting,[28] augments the quality of accounting information. They are the basis on which to secure a relevant and faithful representation of the financial position and performance of a firm and thus enhance the usefulness of information.

Comparability, consistency and uniformity are technically defined in the framework. "Comparability enables users to identify and understand similarities in, and differences among, items".[29] Comparability implies recording similar phenomena similarly, whereas consistency is an instrument to achieve comparability and suggests the use of the same method to report the same item: "comparability is the goal; consistency helps to achieve the goal".[30] Uniformity, which has often been adopted in the literature as a synonym for consistency or comparability, is considered in the framework to be a slightly different concept as it implies a reduction of the differences in recording different items, whereas comparability requires that "like things must look alike and different things must

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depend on the characteristics of the distance between local GAAP and IFRS". SICILIANO, G. (2019), *Has IFRS Enhanced Accounting Uniformity?*, *Accounting in Europe*, Vol. 16, No. 3, p. 318.

[28] IFRS Conceptual Framework, QC 19.

[29] IFRS Conceptual Framework, QC 21.

[30] IFRS Conceptual Framework, QC 22.