Finance:

Accounting choices under IFRS and their impact on Eurozone crises

Trends in the finance literature detail the tendency of accounting practices being studied in isolation (Deegan, 2013, p. 87). However, accounting choices and financial reporting are described as inherently shaped by economic and political forces (Hung, 2000, p. 401). With increased globalisation of markets and worldwide recognition of local markets and politics, as well as reductions in communications and information processing costs which accompany this, the increased integration of uniform international financial reporting standards (IFRS) may be construed as almost inevitable (Ball, 2012, p. 5). With such economic enmeshment observed between accounting standards and local political and market conditions, mutual considerations of accounting choices under this increased adoption of IFRS and successive economic crises, including the Eurozone crisis, may help shed important insights on the nature of this relationship.

Accounting choices in line with standardised IFRS are demonstrably influenced by local credit conditions of market economies. The reporting of credit conditions comprise an important channel whereby the Eurozone crises translated to a difference in trade volumes (Chor and Manova, 2012, p. 117), with this effect especially pronounced in sectors requiring extensive external financing, limited access to trade credit, and few collateralizable assets. This unavoidable economic enmeshment similarly spells out the importance and relevance of timely and targeted policy intervention, and the potential economic gains to be had from such intervention.

In one empirical study seeking to further investigate this degree of enmeshment between markets, accounting choices under IFRS and subsequent economic crisis, Li (2010, p. 607) sought to identify the extent whether mandatory adoption of IFRS in EU countries reduced the cost of equity capital. On average, the analysis revealed that adoption of the IFRS mandate significantly reduces the cost of equity for mandatory adopters (ibid, p. 608). However, importantly this effect was moderated by the degree of legal enforcement in respective countries. In this way, whilst the impact of accounting choices under IFRS in the Eurozone and comparable crises is demonstrated, such considerations remain reportedly incomplete without greater assessment concerning the degree of enforcement and uptake of such standards in respective local markets.

reduction also present only in countreis with strong legal enforcement; increased disclosure and enhanced information comparability - two mechanisms behind cost of equity reduction.

while mandatory IFRS adoption significantly lowers firms' cost of equity, the transmitted effects are moderated by the strength of respective countries' legal enforcement