



UNIVERSIDADE DE COIMBRA
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Effects of mandatory conversion to IFRS on the Net Income and Owners' Equity of Portuguese companies listed in the Euronext

MESTRADO EM CONTABILIDADE E FINANÇAS

Isabel da Conceição Madeira Rodrigues

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List of Abbreviations

- AGAAP – Australian General Accounting Accepted Principles
AIFRS – Australian International Financial Reporting Standards
ATF – Audit Task Force
CESR – Committee of European Securities Regulators
CLC – Certificação Legal de Contas
CNC – Comissão de Normalização Contabilística
DAS – Domestic Accounting Standards
EAA – European Accounting Association
EC - European Commission
EECS – European Enforcer Coordination Sessions
EECS – European Enforcers Coordination Sessions
EFRAG – European Financial Reporting Advisory Group
EU – European Union
FASB – Financial Accounting Standards Board
GAAP – General Accounting Accepted Principles
IAS – International Accounting Standards
IASB – International Accounting Standards Board
IASC – International Accounting Standards Committee
IC – Index Comparability
IFAC – International Federation of Accountants
IFRIC – International Financial Reporting Interpretation Committee
IFRS – International Financial Reporting Standards
IOSCO – International Organisations of Securities Commission
NCA – Normas de Contabilidade Ajustadas
NCRF – Normas Contabilísticas de Relato Financeiro
NI – Net Income
OROC – Ordem dos Revisores Oficiais de Contas
PCAOB – Public Company Accounting Oversight Board
POC – Plano Oficial de Contabilidade
SA – Sociedade Anónima
SAD – Sociedade Anónima Desportiva
SE – Shareholders Equity

SEC – Securities and Exchange Commission

SGPS – Sociedade Gestora de Participações Sociais

SME – Small and Medium Enterprises

SNC – Sistema de Normalização Contabilística

UK – United Kingdom

USA – United States of America

US – United States

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Abstract

Following the issue of EU Regulation Nr. 1606/2002, EU companies listed in any EU based stock exchange were required to prepare consolidated accounts in accordance with IFRS from 2005 onwards.

IFRS implementation in Europe is a matter of primary importance, especially when about 7,000 European listed companies, reported their 2005 consolidated figures under IFRS for the first time.

This research aims at providing additional evidence concerning the effects of mandatory conversion to IFRS on the net income and owners' equity of Portuguese companies listed on the Euronext, in December 2005. Based on Hung and Subramanyam (2004), and on the index of comparability introduced by Gray (1980), and later adopted by Weetman *et al.* (1998) and Ucieda Blanco and Garcia Osma (2004), the research concludes that when reporting under IFRS instead of domestic GAAP, Portuguese companies' show material differences. However, the materiality of the gap differs among the various international standards, international business combination standards causing the larger effects.

The research analyses the effects of mandatory conversion to IFRS on the net income and owners' equity of all Portuguese companies listed on the Euronext, and the results present provide no statistical evidence of positive or negative impact of IFRS adoption, when consider both financial and non financial companies all together. However, when the samples are split between financial and non-financial Portuguese companies, the separate results for the former provide preliminary evidence of no statistical evidence of positive or negative impact of IFRS adoption by the companies in the sample, while for the sample with the latter companies there, the impact of IFRS adoption shows a statistically increase on the IC Net Income of such companies..

Keywords: IFRS; accounting harmonisation; accounting regulation; consolidated accounts; Euronext; Portugal

SECTION I - INTRODUCTION

The mandatory adoption of IFRS¹ in the European Union (EU) is a relevant event in financial reporting and will make IFRS the most widely accepted financial accounting model in the world.

In Portugal, following the EC Regulation Nr. 1606/2002 of 19th July 2002, issued by the European Commission, that has got the objective to provide to a better regulation of capital market, to protect the investors and maintenance of finance market trust, arise the obligation of all UE companies, with listed shares, to prepare consolidated accounts in accordance with IFRS from 2005 onwards.

International Financial Reporting Standards (IFRS) were adopted for the first time in year 2005, in many countries around the world, concerning listed companies in the EU.

The issue of IFRS implementation in Europe is a matter of primary importance, especially when about 7,000 European listed companies, reported their 2005 consolidated figures under IFRS for the first time.

“I consider the adoption of IFRS in Europe as the most revolutionary financial reporting development since Pacioli’s double entry bookkeeping, even more revolutionary than the adoption of the Fourth and Seven EU Directive.”²

However the adoption of IFRS in Europe has been controversial. Some IFRS’s defenders believe that the IFRS adoption would benefit investors for three primary reasons: the use of IFRS would result in higher quality financial reporting information than application of domestic European standards, while improved information quality would lower information asymmetry and information risk. Other defenders of the IFRS use argue that a common set of standards would lower costs to investors of comparing performance of firms from different countries. Thirdly, European capital markets would experience increased capital flows from outside of Europe and became more global competitive, thereby increasing liquidity for European firms, Barth *et al.* (2007). Those are the principal reasons that explain the fact that many of the UE country’s firms had voluntarily disclosed their financial statements adopting IFRS before it becomes an obligation.

1 International Financial Reporting Standards (IFRS) is the name of accounting standards produced by International Accounting Standards Board (IASB)

2 Martin Hoogendoorn in Dublin , 29th Annual EAA Congress, 2006

1.1. OBJECTIVES AND RESEARCH QUESTION

This research aims at providing empirical evidence concerning the effects of mandatory conversion to IFRS on the net income³ and the owners' equity⁴ of Portuguese companies listed on the Euronext. Specifically, the research explores how the switch to IFRS has quantitatively impacted the consolidated net income reported by Portuguese companies listed on the Euronext.

The research questions are:

RQ1: Is there a difference between Net Income under domestic GAAP and IFRS?

RQ2: Is there a difference between Equity Value under domestic GAAP and IFRS?

1.2. RESEARCH DESIGN

The research design follows the Hung and Subramanyam (2005) study that shows a small increase in firms' Net Income in Germany in the 1998-2002 with the IFRS adoption.

It is also used on the empirical analysis, the same measure known as the Index of Comparability (IC), this metric was introduced by Gray (1980) and is widely used by other authors as Weetman *et al* (1998), Street *et al.* (2000) and Ucieda Blanco and Garcia Osma (2004).

In the present study it will be applied at the Portuguese context and focused on the consolidated accounts disclosed by companies listed in the Lisbon Euronext.

The sample is compounded by firms from Portugal listed in Euronext, which are first time adopter of IFRS and had, at the sample selection date, revealed their 2004 annual net income figures both under national standards and IFRS⁵.

The results suggest that reporting under IFRS leads to a statistical significant increase in the net income for the fiscal ending on 31st December 2004.

3 The Net Income which is considerate in this research is the Consolidated Net Income.

4 The Owens's Equity value which is considerate in this research is the Consolidated Equity value.

5 While firms were not required to produce comparative figures until the 2005 year-end, many companies exceed this requirement and had disclosed comparative 2004 IFRS Net Income numbers by the sample selection date.

1.3. RESEARCH OUTLINE

After this introduction, the research is organised as follows.

Section II contains the literature review, organized as:

- Theoretical framework, that includes of demonstrating the importance, relevance and the causes that lead to adoption the IFRS in the EU. Additionally the IASB and FASB collaboration are addressed, as well as the enforcement mechanisms which were essential to the success of the IFRS implementation. It also discusses the advantages and disadvantages of IFRS adoption, and the importance of the process of accounting harmonization and IASB objectives contribute, but focusing on: a) the mains advantages of IFRS (higher quality and low cost of capital); b) advantages for prepares and users of financial statements (advantages for investor and stability of financial markets); c) Disadvantages or challenges, highlighting the two standards system problem (presenting Portugal's case), the fair value problem and the uneven implementation of IFRS;
- Regulatory framework; reviews the literature with special focus on the regulatory framework of consolidated accounts, the main international accounting standards related, as well as the advantages and limitations of consolidated accounts versus individual accounts;
- Previous empirical research, were is summarized the related researches with special contribute to the topic of this research, and them present the research design, followed by the identification of dependent and independent variables, and the sample selection.

Section III describes the research methodology, research design and data sample.

Section IV discloses the results and provides their interpretation, firstly a descriptive statistical analysis of the sample, to get a feeling of data, followed by the statistical results and hypothesis testing and the statistical conclusions for the samples of financial versus non-financial companies.

Section V addresses the conclusions of the research, its limitation and a few suggestions for future research. The evidence found is consistent with prior researches of the subject: the impact of IFRS provokes, on the non finance firm's a statistically increase

on the Net Income. This research sets the base for comparison not only with data from other countries but also can be used as an input to comparative research on the impact of the new Portuguese standards on SME.

SECTION II - LITERATURE REVIEW

2.1. THEORETICAL FRAMEWORK

2.1.1. INTRODUCTION

The literature review intends to show the importance, the relevance and the reasons that led to the adoption of IFRS by the EU companies. Among the causes for the importance of the IFRS are the following: a) an increase of comparability companies, based in different countries, but traded in the same market; b) the facilitation for auditors in the preparation of group accounts; c) meeting foreign investor's demand, because mostly of stock exchange allow foreign registrant to prepare their financial statements according IFRS.

The relevance of IFRS adoption in EU is closely related with the process of convergence, especially between Continental countries and Anglo-Saxon countries. Joint efforts of FASB and IASB, with the aim to developing a high quality and compatible set of financial reporting standards, used for domestic and cross border reporting is also discussed, according to Barth *et al.* (2005), Shipper (2005) and Whittington (2005).

The enforcement mechanisms are essential to the success of the IFRS adoption. The IASB has no a direct power in the process of IFRS implementation, but it may persuade those with regulatory and enforcement power. To clarify this process, we present and explain the present IASB structure and their relationship with the key groups closely involved. Authors such as Broun and Tarca (2005), Shipper (2005) and Cañibano and Heras (2007) studied the importance of enforcement and these mechanisms.

The importance of collaboration between regulators is crucial to ensure the adequate implementation of IFRS, to fulfil this process the CESR work and develop a common framework to enforce compliance with the financial reporting standards.

2.1.2. THE ADOPTION OF IFRS IN EUROPE

The adoption of International Financial Reporting Standards in the European Union (EU) results started in 2000 after the European Commission had announced its intention to require International Accounting Standards to be used in group accounts of all companies listed in any stock exchange within the European Union from January 2005 onwards. This proposal was formally approved in July 2003. The EC Regulation Nr. 1606/2002 of 19th

July 2002 applies to all members of EU, to which were given discretion to apply this requirement to a wider group of companies and their accounts. Even before these standards had already been adopted by many large internationally listed companies in countries such as Germany and Switzerland, which permitted international standards as an alternative to local standards, and several of the "transition" economies of Eastern Europe, which did not established local standards. Also several of the "transition" economies of Eastern Europe, which did not establish local standards, were either adopting or permitting the use of international standards. Notably, Russia intended to require the use of IFRS by its listed companies from January 2004 onwards.

However, the adoption of IAS⁶ by the EU was only one further step in a long process of developing international standards. Earlier in 2000, the International Organisation of Securities Commission (IOSCO) had recommended its members to allow that multinational issuers use International Accounting Standards Committee (IASC) standards. This was the result of many years of work by the IASC since its foundation in 1973, and particularly from the period of its programme to achieve a complete set of core standards (1995 onwards), which was specifically directed towards achieving the IOSCO approval. As a result of this approval, International Accounting Standards are now fully accepted for overseas registrants by most of the world's stock exchanges.

2.1.2.1. THE MOTIVATION FOR THE ADOPTION OF IFRS

Several developments have motivated firms to prepare financial statements in accordance to IFRS; probably the most important is the rapid worldwide economic integration and the associated increase of capital flows.

There are also relevant developments on the regulatory side. In 1995 the Commission of the European Communities recognised for further harmonization of financial reporting in the EU going beyond the level achieved by the European Accounting Directives (Commission of the European Communities, 1995). The Commission of the European Communities expressed its support for IAS, the standards issued by the IASC⁷.

⁶ The International Accounting Standards Board (IASB) REPLACED THE International Accounting Standards Committee (IASC), on April, 1 2001. IASB is the responsible for the development of International Accounting Reporting Standards (IFRS), and these rules resulted from the revision of International Accounting Standards (IAS) issued by the IASC.

⁷ the International Accounting Standards Committee, the predecessor body of the IASB (International Accounting Standards Board)

In January of 2001 the European Committee proposed a requirement for all EU firms listed on stock exchanges within the EU to prepare their financial statements in accordance with IFRS by 2005. The European Parliament and the Council adopted the regulation Nr 1606/2002 prepared by the European Union on July 19th.

By 2004, most of the European listed firms had already voluntarily adopted IFRS, but most of them provide two separate sets of financial statements: one using domestic standards (to satisfy regulatory requirements) and other using IFRS. Other group of firms reported according to IFRS, and provides reconciliation to domestic standards.

In addition to the use of IFRS by listed companies, many countries have adopted international standards for unlisted companies, or have modelled their domestic standards based on the international standards.

A common set of accounting standards may increase the comparability of companies based in different countries but traded in the same market. An additional benefit for multinational companies and their auditors is the preparation of group accounts, consolidating the accounts of companies based in different countries is made easier and more informative. Also there is the benefit to those countries that did not establish their domestic accounting standards. The adoption of international standards in such countries provided a ready-made set of standards which would meet the needs of domestic companies, especially the larger ones, and have credibility in international capital markets (Whittington, 2005).

Adopting IFRS implies using stricter measurements rules and making more disclosures in financial statements than would be required under firms' domestic standards. If a firm reports according to IFRS it is voluntarily making a commitment to providing more, and more standardised, information to capital markets⁸. Cuijpers, and Buijink, (2005) maintained hypothesis is that firms will switch from domestic standards to IFRS if the benefits of adoption outweigh the cost. These authors clarify that firms with international stock exchange listing face additional capital market pressures, and stock requirements that may lead them to increase their level of disclosure, and that investors demand information about the domestic operating environment and domestic accounting regulations of foreign firms. They also explain that firms will incur cost to comply with the regulation of the different stock exchanges that they decide to list on, and that those costs can be significant.

8 (Leuz and Verrecchia, 2000; Ashbaugh, 2001; in Cuijpers, and Buijink, 2005, p.495)

So in order to meet foreign investor' demand and comply with foreign exchange regulations, firms may be motivated to report according to an internationally accepted set of accounting principles. In fact, mostly of the stock exchanges around the world allow foreign registrant to prepare their financial statements according IFRS.

Another feature that may motivate companies to adopt IFRS, relates to corporate governance, more specifically the disclosures of corporate structure. Companies with many "inside" stakeholders have fewer incentives to disclose high quality financial information than companies that rely primarily on "outsiders" to provide the necessary capital. This is because inside stakeholders are not dependent on public disclosures, whereas for firms with many outside stakeholders, public disclosures are the only economically possible way to resolve possible information asymmetry problems (Cuijpers, and Buijink, 2005).

2.1.2.2. CONVERGENCE

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have been working together to develop high quality, full compatible financial reporting standards that could be used for domestic and cross border reporting, this cooperative effort is sometimes described as international convergence of US generally accepted accounting principles (US GAAP) and IFRS financial reporting standards⁹.

A primary goal of the IASB is to develop, *“in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements”*¹⁰.

In this regard, the IASB has taken steps to limit allowable alternative accounting practice and to provide a more consistent approach to accounting measurements, both of which it believes should increase accounting quality. If reducing the alternatives and increasing consistency in measurements limit managers' discretion to report accounting amounts less reflective of the firm's economic performance and condition, e.g. by managing earnings, accounting quality could increase. Thus, Barth *et al.* (2005) predict that accounting amounts determined in accordance with IFRS are higher quality than those determined in accordance with firm's domestic standards. However, application of accounting standards also depends importantly on the associated regulatory, enforcement, and attestation environment; Ball, Robin, and Wu (2003) in Barth *et al.* (2005).

Schipper (2005) focuses on the implication of IFRS adoption in Europe for international convergence, more precisely for the convergence between IFRS and US GAAP. She argues that the goal of the IASB/ FASB convergent efforts is to make US GAAP and IFRS financial reporting standards as nearly as possible the same across jurisdictions while also improving the overall quality of those standards. Her work points out the importance of guidance in the implementation; in her view unless this is proved by the IASB it will imply either a lack of comparability in IFRS reporting or the use of other authoritative guidance from other regimes, such as the US GAAP. Considering that comparability through the use of IFRS is the main objective of UE decision, and the IASB is committed to convergence to FASB, Schipper, K. (2005) considers the necessity to develop a convergent mechanism for providing detailed implementation guidance that

⁹ This agreement can be found at www.fasb.org

¹⁰ IASB Mission Statement, at www.iasb.org

supports converged standards. This leads to an interesting debate on the relative importance of rule-based versus standards-based regulation.

Accounting in the Anglo-Saxon (includes US) group has traditionally been characterised by a considerable amount of options or a freedom of choice and the exercising of subjective judgement in selecting accounting methods, and a relative disconnection between tax and financial reporting. The Anglo-Saxon accounting has also been marked by the compliance with accounting standards rather than law, and a concern for communicating relevant and timely information to investors for their decision-making.

Accounting for the Continental group (includes Portugal), on the other hand, has traditionally been very much state-driven and tax dominated. Furthermore, the financial reporting practices follow very strict and rigid prescriptions as contained in commercial codes, company law and general accounting plans, and featured by the absence of authoritative standard-setting bodies.

Implementation advice will tend to push USA towards rules-based approaches and Schipper (2005) is also concerned that the Sarbanes Oxley Act will lead to an even greater emphasis on the rules-based approach in USA. Thus rules-based approaches may become more dominant in USA and in Europe, despite recent criticism.

Convergence is also critically mentioned by Whittington (2005) as one of the three broad objectives¹¹ of the IASB work. In fact much of the improvements project has been oriented to reduce unnecessary differences between IFRS and US GAAP. As for the future Schipper (2005) mentions the boundaries of the reporting entity and the fair value as “fundamental, pervasive and difficult standard setting issues”, in order to achieve convergence between IFRS and US GGAP.

Whittington (2005) deeply analyses financial instruments and performance reporting, both topics linked to the use of fair value as a measurement basis. And Shipper (2005) highlighted this issue as one of the biggest challenges when adopting IFRS in the EU context. It could incite a shift in behaviour, especially by banks, and in her view a key issue for convergence is whether fair value measurement can be accepted as having sufficient reliability. According to Whittington, it is important that IASB and FASB do not diverge on performance reporting, as this deal with the presentation of changes in fair value.

¹¹ The IASB has three broad objectives underlying its work: convergence, improvement and leadership Whittington (2005).

The same opinion was expressed by Charlie Mc Creevy the European Commissioner for Internal Market and Services, who says that *“In the long term it is crucial that there is substantial convergence between IFRS and US GAAP, the world's most important accounting frameworks. I welcome the efforts made by the standard-setters FASB and IASB to develop accounting standards for worldwide use. This does not mean that IFRS and US GAAP should be identical, but differences should be narrowed down so that investors can understand the financial statements prepared under the different accounting frameworks”*¹².

The convergence of accounting standards try to remove financial and reporting differences so that investors can understand different financial statements and make similar investment decisions regardless whether accounts are prepared under IFRS or US GAAP, but for that the regulators in the US and the EU must extend their cooperation to ensure consistent application and enforcement of the accounting standards.

2.1.2.3. ENFORCEMENT

Whittington (2005) adopts an historical perspective to explain the way in which the IASB has arrived at the current situation. He discusses the process of developing IFRS by the IASB, and also takes into account the role of this body as a global standard setter and its programme. A crucial comment from our point of view is that the IASB will need to persuade those with regulatory and enforcement powers to approve the use of international standards: the IASB has no direct powers of its own’.

A notable feature of the development of IFRS is that they are a product of an independent, private-sector body, and have arisen in response to demand, from capital markets not as a result of specific political initiatives by governments, (Whittington, 2005).

Such a process, involves accountants, auditors, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world.

12 ON THE ROAD TOWARDS CONVERGENCE AND EQUIVALENCE—STATE OF PLAY IN INTERNATIONAL ACCOUNTING -Charlie McCREEVY, European Commissioner for Internal Market and Services - US Securities & Exchange Commission (SEC) Roundtable, Washington, 6th March 2007

Schipper (2005) argues that the quality of financial reporting is crucially dependent on vigorous enforcement. Unless there is a strong enforcement mechanism the EU decision to adopt IFRS will not achieve the desired objective to improve the quality of accounting information.

Brown and Tarca (2005) examine the changes that are now happening in Europe in order to achieve the necessary enforcement schemes in different jurisdictions. They conclude that there is little evidence of convergence in enforcement. Schipper (2005) predicts that *“the mandated use of IFRS will increase the demand for a single European Union securities regulator with inspection and enforcement authority over financial reporting similar to the role and responsibilities of the Securities and Exchange Commission in the US”*. However, Brown and Tarca (2005) seem to find no evidence of this as yet.

To highlight the importance of enforcement, Schipper (2005) mentions:

“The pace of international convergence will be affected by how IFRS implementations are viewed by investors after 2005 and that enforcement will play a significant role in shaping those perceptions”.

IFRS does supply a single set of accounting standards that will allow companies to provide higher quality financial information to capital markets and users of financial information. Its adoption is essential for the development of a single European capital market. Nevertheless, the adoption of a set of high quality accounting standards is a necessary condition but not a sufficient condition to assure high quality information, Cañibano, and Heras, (2007).

If standards cannot be effectively enforced or are enforced differently in different regimes some benefit of the move to IFRS will be lost.

Cooperation between regulators is crucial for the smooth introduction and enforcement of IFRS. In the global market, only regulators working together can ensure adequate implementation of IFRS.

CESR (Committee of European Securities Regulators) published a draft Statement of Principles on the enforcement of standards of financial information on October 22nd 2002, very important because harmonization of enforcement systems in Europe is seen as an effective tool to create an efficient capital market and an actual level playing field within the Union. It is also expected that harmonisation of enforcement practices throughout

Europe will help improve investors' confidence in financial markets and enhance comparability between financial information published by listed companies in Europe.

*“In particular, the Regulation from its inception calls for CESR to have a role in developing standards for enforcement. Recital n. 16 of the regulation says: **“A proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets.** Member States, by virtue of Article 10 of the Treaty, are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States, notably through the Committee of European Securities Regulators (CESR), to develop a common approach to enforcement”.*

To this end CESR set up the CESRfin Sub-Committee on Enforcement (SCE), which agreed upon a work plan whereby standards, guidelines and practices will be considered by the enforcers.”¹³

In conclusion, the quality of financial reporting is dependent on enforcement; the enforcement mechanism must be strong enough to achieve the desired objective to improve the quality of accounting information. Without effective and consistent enforcement there can be no confidence that the standards are being consistently or correctly applied. The CESRfin are working to ensure that standards are robust and meet investor protection needs.

¹³Proposed Statement of Principles on the enforcement of standards of financial information on October 22nd 2002 - CESR

2.1.3. IFRS – ADVANTAGES AND DISADVANTAGES OF IFRS

The process of harmonization of financial accounting information in Europe started with the Fourth and Seventh EU directives, respectively on the annual and consolidated accounts of companies, which had to be implemented in the national laws of all Member States. Due to those directives, national accounting systems became similar in the UE, in particular concerning the format of balance sheet and profit and loss account and disclosure aspects.

Provided that all Member States worked in the direction of a common system derived from current practice it was inevitable that they ended up compromising through the incorporation of a considerable number of options, which balanced aspects on format and recognition as well as valuation.

EU has clearly made huge progress towards harmonization of accounting standards, but this cannot hide the fact that the harmonization of the financial accounting information across Europe, through the accounting directives, they did not reach the intended level of comparability and transparency (Vansteeger, 2005).

Factors such as different uses and interpretation of the true and fair value principle, changes in the legal accounting requirements and purpose of financial statements in many Member States were very important, the existence of too many options and the variety of those options are the main reason for the failure of comparability and transparency of financial statements across Europe (Vansteeger, 2005).

Despite all shortcomings and many impediments it would not be fair to say that the effort of EU to harmonize financial reporting across Europe, failed. It must be remember the great improvement to diminish the approaches to report accounting information across the Member States that lead to an obligatory codification of accounting rules, forcing million of companies across the EU to change and converge their methods of reporting financial information as a consequence.

Through the adoption of IFRS a higher level of harmonization has been pursued, but the implementation of IFRS in many European countries is only required for the consolidated statements of list companies, as in Portugal.

To evaluate the pros and cons of IFRS, we must understand the progress that IASB has made toward achieving its states objectives, which includes¹⁴:

- “develop, ..., a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements ... to help participants in the world's capital markets and other users ...;”
- “promote the use and rigorous application of those standards;”
- “bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.”

IASB has developed a nearly set of standards that, if followed, would require companies to report “*high quality, transparent and comparable information*”.

Ball (2006) interprets financial reporting “quality”, in general terms, as satisfying the demand for financial reporting. That is, high quality financial statements provide useful information to a variety of users, including investors, requiring:

- “*Accurate depiction of economic reality (ex: accurate allowance for bad debts; not ignoring an imperfect hedge);*
- *Low capacity for managerial manipulation;*
- *Timeliness (all economic value added gets recorded eventually; the question is how promptly); and*
- *Asymmetric timeliness (a form of conservatism): timelier incorporation of bad news, relative to good news, in the financial statements.”*¹⁵

Accounting standards-setters historically have viewed the determinants of “quality” as “relevance” and “reliability” but these concepts are not fund particularly important because IASB and FASB recently have been placing less emphasis on reliability, probably arising from the failure to distinguish reliability that is inherent in the accounting for a particular type of transaction, from reliability arising from capacity for managerial manipulation, (Ball 2006).

14 IASC Foundation Constitution, (Revised) (July 2005), on www.iasplus.com/resource/2005july/revisedconstitution.pdf

15 Ball, R. (2006) “International Financial Reporting Standards (IFRS): Pros and Cons for investor”, International Accounting Policy Forum, Accounting and Business Research, pp. 11

So we are facing a new accounting system that compared to the legalistic, politically and tax-influenced standards that are typically from the Continental Europe, IFRS have a more Anglo Saxon approach and are designed to:

- Reflect economic substance instead of legal form;
- Reflect economic gains and losses more timely;
- Make earnings more informative;
- Provide more useful balance sheets; and
- Restrain the historical Continental European discretion given to managers to manipulate provisions, create hidden reserves, smooth earning and hide economic losses from the public examination.

The IASB second objective is to “promote the use and rigorous application of those standards”, and it also has experience a remarkable success.

The IASB has been vigorous in promoting IFRS at a political level, and its efforts have paid off generously regarding the approval of mandatory adoption:

- All listed companies in EU member countries are required to report consolidated financial statements complying with IFRS, effective in 2005;

Some countries are replacing their national standards with IFRS for some or all domestic companies. Others have adopted a policy of reviewing IFRS and then adopting them either literally or with minor modifications as their national standards.

In February 2007 the International Accounting Standards Board published for public comment an exposure draft of an International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

“The IFRS for SMEs is intended for use by small and medium-sized entities SMEs are entities that:

- a) do not have public accountability; and*
- b) publish general purpose financial statements for external users.*

Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

An entity has public accountability if:

- a) *it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or*
- b) *it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity.*

If a publicly accountable entity uses this [draft] standard, its financial statements shall not be described as conforming to the IFRS for SMEs—even if national law or regulation permits or requires this [draft] standard to be used by publicly accountable entities.”¹⁶

The aim of the proposed standard is to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies and are based on full International Financial Reporting Standards (IFRS), developed primarily for listed companies.

By removing choices for accounting treatment, eliminating topics that are not generally relevant to SMEs and simplifying methods for recognition and measurement, the resulting draft standard reduces the volume of accounting guidance applicable to SMEs by more than 85 per cent when compared with the full set of IFRSs. As a result, the exposure draft offers a workable, self-contained set of accounting standards that would allow investors for the first time to compare SMEs' financial performance across international boundaries on a like for like basis.

The third IASB objective, convergence of national accounting standards and IFRS to high quality solutions, refers to the process of narrowing differences between IFRS and the accounting standards of countries that retain their own standards.

Depending on local political and economic factors, these countries could require financial reporting to comply with their own standards without formally recognizing IFRS, they could explicitly report under IFRS, they could permit all companies to comply with domestic standards and permit only cross-listed foreign companies to comply with either, (Ball 2006).

¹⁶ Exposure Draft INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES – IASB / FEBRUARY 2007 Currently the Board is undertaking field tests on the Exposure Draft. Field testers are asked. Following the comment period ending 30 November 2007, the Board will analyse and deliberate on the results of the consultations and the field tests. The Board plans to issue a final IFRS for SMEs in the second half of 2008. The comment period for the Exposure Draft was until 30 October 2007, but has been extended until 30 November 2007.

Some countries that have not adopted IFRS at this point, have established convergence projects that most likely will lead to their acceptance of IFRS, in some of the above present forms, in to a not distance future.

After analyse the IASB objectives, it is clear that the main advantage of adopting IFRS outcomes the objectives itself.

2.1.3.1. ADVANTAGES OF IFRS

The main advantages of IFRS adoption are discussed below, based on previous literature, which suggest a) higher quality, b) lower cost of capital, and c) other advantages for preparers and users.

All the advantages below discussed match with the first IASB objective stated on the IASC Foundation Constitution¹⁷: “a) *to develop,, a single set of **high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants and other users make economic decisions;**”*

High quality is our first analysis, lower cost of capital outcomes from a higher quality, transparent and comparative information, other advantages for prepares and users (advantages for investors and stability of markets), correspond with the objective of help participants and users to make economic decisions.

a) Higher Quality

The main advantage of adopting IFRS is linked with the intrinsic high quality standards.

For the accounting quality literature states that IFRS is of higher quality than the most domestic GAAP. Auer, (1996) found evidence suggesting that IFRS-based earnings express significant higher information content when compared with Swiss GAAP earnings. Ashbaugh and Pincus (2000) show that firms' financial information becomes more predictable after the adoption of IFRS and the reduction in the variation in measurement and disclosure practice as consequence. In particular, they found that the accuracy of financial analyst's earnings forecasts is increasing after adoption of IFRS.

¹⁷ IASC Foundation Constitution, (Revised) (July 2005), on www.iasplus.com/resource/2005july/revisedconstitution.pdf

Leuz and Verrecchia (2000) found that the information asymmetry component of the cost of capital decreases after IFRS implementation, because of an increase of quality and level of disclosure.

Barth et al. (2005) compare firms characteristics that adopt IFRS, in a pre-adoption and post-adoption period and found evidence that adopting firms generally exhibit higher accounting quality in the post-adoption period than the pre-adoption period, they also stand that the increase in accounting quality is generally higher for adoption firms than for non-adopting firms. Barth et al. (2006) compare measures of accounting quality for IFRS firms and US GAAP firms, and found that the adoption of IFRS reduces differences in accounting quality between them.

The improvement in the information environment following change to IFRS is contingent on at least two factors. First, improvement is based upon the premise that change to IFRS constitutes change to a GAAP that induces higher quality financial reporting. For example, Barth et al. (2005) find that firms adopting IFRS have less earnings management, more timely loss recognition, and more value relevance of earnings, all of which they interpret as evidence of higher accounting quality. Second, the accounting system is a complementary component of the country's overall institutional system (Ball, 2001) and is also determined by firms' incentives for financial reporting.

Soderstrom and Sun (2007), argue that cross-country differences in accounting quality are likely to remain following IFRS adoption because accounting quality is a function of the firm's overall institutional setting, including the legal and political system of the country in which the firm resides.

There are at least three factors which are expected to influence the IFRS effect on financial markets: legal origins, earnings management practice and corporate disclosure, Nobes and Platikanova (2007). They studied whether IFRS increases value-relevance of corporate disclosures, relating the improvement of accounting quality, found that higher disclosure is positively correlated with larger information asymmetry, but they could not confirm that IFRS introduction is value-relevant. Nevertheless, they believe that the initial reaction will most likely change significantly over the time, as investors learn with practice if IFRS improves their decisions and increases value-relevance of the financial information.

b) Lower cost of capital

The cost of capital is an essential risk metric for the investment and financial decisions of professional investors and corporate financial managers.

The mandatory adoption of IFRS across the EU has been hailed as a 'big bang' and a vital step towards global harmonisation of generally accepted accounting principles (GAAP). The main reason of this decision is to improve corporate disclosure quality and the international comparability of financial statements, which is expected to lead to reductions in the cost of capital.

Basel II (Basel Capital Accord) of the Basel Committee on Banking Supervision¹⁸, effective from 2004 onwards, requires a rating of all debtors to estimate the appropriate equity coverage of the loans of banks. This could have a considerable impact since it is possible that the rating agencies and/or banks encourage companies to apply IFRS (Haller, 2002). SME tend to have a low capital base and depend heavily on bank financing. If they do not prepare the right documentation, they may find they have a poor ranking from their bankers or rating agencies.

As IFRS is of higher quality than most of domestic GAAP (more disclosure, more timely, more predictable), companies who disclose information according IFRS could receive a higher rating as a consequence obtain a lower cost of capital.

Regulators, preparers and users of financial statements have frequently expressed the view that more transparency and higher accounting quality under international recognise standards like IFRS lower the cost of capital for adopting firms.

This opinion has traditionally been based on the theory that higher information quality, lower the cost of capital, or by decreasing the estimation risk of future returns, or decreasing the information asymmetries between manager and outside investors.

¹⁸ Basel II: Revised international capital Framework on <http://www.bis.org/publ/bcbsca.htm>

The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures. It seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II Framework is intended to promote a more forward-looking approach to capital supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices.

The efforts of the Basel Committee on Banking Supervision to revise the standards governing the capital adequacy of internationally active banks achieved a critical milestone in the publication of an agreed text in June 2004.

However, more recent research has show that those relations do not hold under all conditions. Empirical evidence on the association between disclosure and cost of capital across different accounting regimes (Leuz and Verrecchia, 2000), has not been conclusive.

Later, Daske (2006) also study the expected changes for the adopting firms of cost of capital, but evidence fail to document lower expected cost of capital. For the analyses period, the expect cost of capital on the adopting firms in Germany appear to increase under IFRS

Moreover, Jermakowicz and Gornik-Tomaszewsk, (2006) examined the implementation of IFRS by EU companies based on questionnaires send to EU-listed companies in 2004. The responses received indicate, between others that companies do not expect to lower their cost of capital by implementing IFRS, and a majority of respondents would not adopt IFRS if not required by the EU Regulation.

So if the cost of capital is one of the advantages or disadvantages of IFRS, still one more question to answer and debate.

c) Other Advantages for preparers and users of financial statements

Financial accounting is the mean of communicating financial information from the companies to users of financial accounting information. Many users of reported financial information are external to the management of the company and therefore have no access to other king of information, beyond the reported information, and it is very important that both the sender and the receiver of the information understand each other perfectly, so if all companies use the same standard definition and accounting rules to communicate financial information, not only the efficiency of accounting information as a communication devise will be increased, but also user's costs of understanding the financial information will be reduced.

The benefits to users and preparers of financial statements from the adoption of IFRS are academically generally recognised. A large number of different national standards to some degree require a high cost on business. This cost is in the form of a direct compliance cost that arises from the need to meet multiple sets of standards if business operate or raise capital across borders. Through the adoption of IFRS, it will be easier for businesses to expand both within the region and also around the world. In addition, differing accounting standards around the world increase the cost of capital for companies no matter where they

operate. This is because differing accounting standards increase the level of uncertainty for foreign investors because they may not be familiar with the financial reporting framework that governs the preparation of financial statements. By moving to one set of accounting standards, this uncertainty is reduced. Cross border investment decisions are made easier because users are able to make direct comparisons between financial statements of companies. This should increase the level of investor confidence in financial statements and reduce the cost of capital. The net result of this will be greater business activity in the region and a more efficient allocation of resources.

For investors, uniform accounting requirements pave the way for greater international diversification and improved investment returns.

Investors will have greater confidence that companies are disclosing information in accordance with a comprehensive and internationally accepted body of standards regardless of where the company is located. In addition, confidence in the integrity of the financial statements should increase through improved auditing and regulation of financial statements.

In particular, a single set of accounting standards will enable international audit firms to standardise training and better assure the quality of their work on a global basis. For regulators, the confusion associated with needing to understand various reporting regimes would also be reduced.

General international adoption of IFRS offers equity investors a variety of potential advantages, Ball (2006) refers:

- By eliminating many international differences in accounting standards, and standardizing reporting formats, IFRS eliminate many of the adjustments which had to be made in order to make companies' financial more comparable internationally. IFRS adoption can so reduce the cost to investors of processing financial information.
- IFRS assure more accurate, comprehensive and timely financial statements information, relative to domestic standards they replace for public financial reporting in most of the adopters countries, Europe included. To the extent that financial statements information is not known from other sources, this should lead to more-informed valuation in the equity markets, and hence lower risk to investors.

- Small investors are likely than investment professionals to be able to anticipate financial statement information from other sources. Improving financial reporting quality allows them to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional.
- Reducing the cost of processing financial information most likely increases the efficiency with which the stock market incorporates it in prices. Meaning that most investors can expect gains from increased market efficiency.

In General, IFRS offer increased comparability and hence reduced information costs and information risk to investors.

2.1.3.2. DISADVANTAGES OF IFRS OR CHALLENGES?

In June 2002, the European Union (EU) Council of Ministers approved the Regulation No.1606/2002, requiring that EU listed companies to prepare consolidated financial statements in accordance with IFRS after January 2005. This regulation applies to all companies listed on a regulated market, including banks and insurance companies.

Although some years European companies reported voluntary under international standards before the deadline, this EU Regulation introduced the biggest changes into financial reporting in Europe of the last 30 years. It is expected to help eliminate barriers to cross-border trading in securities and, consequently, increase market efficiency and reduce the cost of raising capital for EU companies.

2.1.3.2.1. Two Standard system

There is no doubt about the fact that harmonization of financial accounting across Europe increase because of the implementation of IFRS. But, and because the implementation is only mandatory for consolidation of listed companies, all the others, (more than 95%), will continue to apply domestic GAAP, this will undoubtedly lead to a existence of a wide gap between the consolidated financial statements (based on economic reality) and to the individual reporting (which will continue to be tax driven for most European countries), leading so to a “two standards system” within each Member State, creating disharmonization within the country.

In Continental Europe there is a very strong link between financial accounting and taxes, so any changes that influence accounting rules must be very carefully analysed because of this impact on the state member tax revenue.

As long as the application of IFRS is restricted to consolidate financial statements no problems arise, because in most EU countries corporate tax is based on the individual financial statement.

However, as soon as IFRS is also allowed or required for individual statements, current tax computations should be either abandoned or very carefully adapted. Abandoned, because it would not be possible to tax companies based on different financial statements, (which one would be more valid?).

Carefully adapted, because computation of corporate tax based on IFRS financial statements would mean that the tax revenue of the state would depend on income computing by principles which cannot be determined by the State.

On the other hand, the primary objectives of IFRS, as set forth in the IASB framework, are to serve the needs of the capital markets. But investors have different information needs than the tax authorities, so it must be recognize the divers purpose of financial reporting and tax accounting, and consider the different approaches that will accommodate the differing objectives.

2.1.3.2.2. Fair Value

The world wide implementation of IFRS presented a huge challenge to prepares, analysts, investors and auditors.

For many companies, the shift to IFRS will be significant due to the fact that the IASB new and improved standards are based, to a greater extent than any national accounting standards, on the accounting model that focus clearly on the primacy of asset/liability recognition and measurement. This approach is based on the principle that a reporting entity should recognise in its balance sheet all those items that are considered to be assets and liabilities, and that income and expenses are determined by reference to increases and decreases in assets and liabilities. This approach is entirely consistent with the IASB's Conceptual Framework.

The IASB focus on assets and liabilities as the primary elements of financial statements, and this contrasts with Portuguese common accounting practice. This practice has been generally based on historical cost and focused on accounting for transitions, underpinned by the concepts of “realisation”, under which revenues were matched with costs and “prudence”. Thus, it has implicit conservatism, but was seen by some as a means by which companies could inappropriately smooth their profits through the creation of hidden reserves or excessive provisions.

The inadequacy of the historical cost, transaction-based approach for dealing, in particular, with derivatives (which have small or no initial cost but can expose companies to very substantial financial risk), and diminutions in the value – impairments – of assets, encouraged standard-setters to espouse an asset/liability approach to recognition and a “fair value” basis measurement of assets and liabilities.

The valuation approach that the IASB has embraced is introducing “fair value” as the primary basis of assets/liability measurement. As a result, a substantial portion of a reporting entity’s assets and liabilities will be started in the balance sheet at “fair value” – including pension assets and liabilities, derivative financial instruments, certain other financial assets, financial liabilities held for trading, tangible and intangible fixed assets that have been acquired in a business combination, impaired or devalued, assets held for disposal, share based payment liabilities, investment properties, provisions and biological assets.

So, probably the major feature of IFRS standards is extending to which are imbued with fair values accounting as follow:

- IFRS 2 requires share-based payments (stocks, options, etc.) to be accounted at fair values;
- IFRS 3 provides for minority interest to be recorded at fair value;
- IAS 16 provides a fair value option for property, plant and equipment;
- IAS 36 requires asset impairments (and impairments reversals) to fair value;
- IAS 38 requires intangible asset impairments to fair value, and provides revaluation to market price, if available;
- IAS 39 requires fair value for financial instruments and other than loans and receivables that are not held for trading, securities held to maturity;

- IAS 40 provides a fair value option for investment property.

According to Ball (2006), the fundamental case in favour of fair value accounting seems obvious to most economists: fair value incorporates more information into the financial statements. In this author's opinion, fair values contain more information than historical costs whenever there exist either:

1. *“Observable market prices that managers cannot materially influence due to less than perfect market liquidity, or*
2. *Independently observable, accurate estimates of liquid market prices.”*

Naturally that incorporating more information in the financial statements makes them more informative, arising potential advantages to investors and becoming more useful for managers, and other users.

However, over the recent two decades, the markets for many commodities and financial instruments, including derivatives, have become substantially deeper and more liquid, and some of those markets did not even exist thirty years ago. But on the present time, we look at an enormous growth in the electronic databases containing transactions prices for commodities and securities, and for a variety of assets such as real estate for which comparable sales can be used in estimating fair values. In addition, in financial statements, a variety of methods for reliably estimating fair values for untraded assets have become generally used and acceptable¹⁹, meaning that accounts have been replacing more and more historical cost with fair values, obtained from liquid market prices or from model-based estimates.

Ball (2006) questions whether IASB has pushed (and intend to push) fair value accounting too far, and addresses some of the many potential problems with the fair value:

- *“Market liquidity is a potential important issue in practice. Spreads can be large enough to cause substantial uncertainty about fair value and hence introduce noise in the financial statements.*
- *In illiquid markets, trading by managers can influence traded as well as quoted prices, and hence allows them to manipulate fair values estimates.*

¹⁹ These include the present value (discounted cash flow) method, and a variety of valuation methods adapted from the original Black-Scholes model.

- *Worse, companies tend to have positively correlated positions in commodities and financial instruments, and cannot all cash out simultaneously at the bid price, let alone at the ask. Fair value accounting has not yet been tested by a major financial crisis, when lenders in particular could discover that “fair value” means “fair weather value”.*

In Ball's (2006) opinion the fair value accounting rules in IFRS placed considerable faith in the “conceptual framework” that IASB and FASB jointly develop, noticing that the framework is imbued with a highly controversial “value relevance” philosophy, emphasizes “relevance” relative to “reliability”, and assumes the sole purpose of financial reporting is direct “decision usefulness”.

❖ **Value Relevance;**

There are costs associated with the application of fair value accounting. For Landsman, R (2006) one key issue is whether fair values of financial statement items can be measured reliably, especially for those financial instruments for which active markets do not readily exist (e.g., specialized receivables or privately placed loans).

Both the FASB and IASB state in their concepts statements that they consider the cost/benefit trade-off between relevance and reliability when assessing how best to measure specific accounting amounts, and whether measurement is sufficiently reliable for financial statement recognition. A cost to investors of fair value measurement is that some or even many recognized financial instruments might not be measured with sufficient precision to help them assess adequately the firm's financial position and earnings potential. This reliability cost is compounded by the problem that in the absence of active markets for a particular financial instrument, management must estimate its fair value, which can be subject to discretion or manipulation.

Ball (2006) also argues that value relevance is by no means the sole criterion for financial reporting, and that providing more information can be worse than providing less, if it is accompanied by more noise, especially if the noise arises from inherent estimation error and managerial manipulation.

2.1.3.2.3. Uneven implementation

It must be emphasised the benefits to users and preparers of financial statements from the adoption of IFRS that are academically generally recognised and the enormous improvement to diminish the approaches to report accounting information across the Member States, also due to the directives, national accounting systems have become more similar in the EU, in particular concerning the format of the balance sheet, the profit and loss account and disclosure aspects, as well as the definitions and methods used to present consolidated statements have become more comparable.

Nevertheless, significant international differences in financial reporting practice and financial reporting quality are inevitable, with or without international standards because of the bellow explained reasons:

- Accrual accounting (versus simply counting cash), and fair value accounting in particular, that involves judgments about future cash flows and thus provides flexibility in IFRS implementation.
- The political influences on financial reporting practices may limit the effective implementation of uniform reporting standards, because IFRS allows a large number of options and that leads to political and economic flexibility in practice.

In Ball (2006) opinions uneven implementation of IFRS seems inevitable, not only because of the judgment involving accrual accounting, but also because of local political and economic forces that determine how managers, auditors and regulators respond to that flexibility allowed.

Ball (2006) also discusses how political factors may specifically undermine the proper enforcement of IFRS in certain countries. Also it provides an overview of issues surrounding the adoption of IFRS and identifies several key issues that may limit the success and effectiveness of mandated IFRS. However many of those concepts have yet to be tested because mandated uses of IFRS are recent.

The developments of uniform international accounting standards are a recent phenomenon, European Union did not mandate the use of IFRS for public European companies until 2005, as result, there are relatively little data on the economic outcomes arising from the required use of uniform IFRS.

Conclusion: In this chapter we discussed the main advantages and disadvantages of IFRS implementation.

High quality is undoubtedly the principal advantage (as consensus of several authors) because: a) information become more predictably, having as consequence a reduction in measurements and disclosure practice; b) as consequence reduce the information asymmetry and decreases the cost of capital. However, there will still exist cross country differences in the accounting quality, because legal origin and corporate disclosure influence IFRS implementation. IFRS adoption brings some specifically advantages for prepares and users, because: a) produces more comparative financial information witch reduce information costs and risks and increases the efficiency; b) promote stability of financial markets.

As disadvantages or challenges, and although harmonization of financial accounting across Europe be a positive fact and increase due to the IFRS implementation, the co-existence of a two standard-system creates disharmonization within countries. At this point we focus particularly Portugal case and the implementation of the new Portuguese accounting model (SNC).

Fair value represents the main challenger for IFRS users and preparers, especially because of contrast with the traditional accounting on the primary elements, such as liabilities and assets.

Also as a challenger that certain will be exceeded by the political end economic forces are the uneven implementation of IFRS, that are consider as inevitable for same authors.

As final, and because IFRS advantages are so important and positive to the world economy, and eventhough they are fully apply to consolidated accounts, in the individual financial accounts and specially in the SME financial accounts, there are still a long road to cover up, that it is expected o bring advantages and disadvantages, but certainly different ones.

2.1.4. PORTUGAL

In Portugal, Decrew Law 35/2005 dated of February 17th, further than transpose to Portuguese code law the UE Directive n°2003/51/EC, of July 18th, follows the UE Regulation No.1606/2002, implementing the mandatory conversion to IFRS on Portuguese listed companies consolidated accounts, from January 2005 onwards.

The said Portuguese Decree Law 35/2005 also allows companies that compiled consolidated accounts or that are part of an economic group to apply IFRS on their consolidated accounts, from January 2005 onwards since they are object of *Certificação Legal de Contas* (CLC)²⁰.

With the transposing of the international framework three well delimited concepts arose: consolidated financial statements, separate financial statements and individual financial statements.

In fact, Portuguese financial conceptual framework have code law objective and international conceptual framework's primary goal is to disclose relevant financial information's to support economic decisions.

In order to achieve this objective, the accounts presented by the parent are usually the consolidated accounts (IAS 27 – consolidated and separate financial statements paragraphs 1, 9 and 10) because they disclose the global performance and financial position of the group providing the accrual information to support economic decision of financial users. IAS 27 also allows, that companies that present consolidated accounts, also disclose another set of accounts additionally to consolidated accounts, in which the investments in subsidiaries and jointly controlled entity or in associates can be accounted in accordance IAS 27 orientation or at cost method. For taxes and dividends purpose it is used the individual financial statements.

Regarding individual financial statements, only companies that are part and included in consolidated group can voluntarily apply IFRS accounts instead of National GAAP.

Table 1 summarises the options for Portuguese companies concerning disclosure regulation.

Mother Companies	Mandatory adoption	Voluntary adoption (subject to an audit CLC)
	Consolidated accounts (Listed companies)	Consolidated accounts (Non listed companies)
Subsidiary Companies	Voluntary adoption (subject to an audit CLC) Individual Accounts (companies included in consolidated group accounts)	

²⁰ Certificação Legal de Contas; Account Legal Certification, compulsory audit

Table 1: Portuguese companies disclosure regulation

Portuguese companies that should apply IFRS are required to adopt and prepare for income tax purposes, individual accounts under the domestic GAAP for the respective sector of activities (except companies under the supervision of the Bank of Portugal. The latter should disclose the individual accounts with adjustments to the GAAP *Normas de Contabilidade Ajustadas* (NCA)). As a result, even though companies adopt IFRS either as mandatory or voluntary basis, they should continue to apply domestic GAAP (POC, Directrizes and others domestic GAAP), when preparing financial statements for tax purposes.

The coexistence of two systems of regulation leads to the inevitability prepare of financial statements applying two accounting systems.

Following those events, the Portuguese government is allowed to review the Portuguese code law, and complementary regulation, to afford adjustments in the income tax rules, for companies that adopt IFRS.

Under these situation, a new challenge took place, as the Comissão Normalização Contabilística (CNC), presented a new model for accounting normalization that is built on the Normas Contabilísticas de Relato Financeiro (NCRF), that are IFRS adaptations.

After listed companies, insurance and bank sector, the new Portuguese accounting model that applies to the rest of companies and economic entities (SME), will develop to a standard quite close to the IASB standards, is the implementation of the new Portuguese standard, Sistema de Normalização Contabilística (SNC).

The SNC should be as close as possible to the international standards, in order to provide Portuguese alignment with the UE standards, without ignore the features and requirements of Portuguese SME.

The SNC implementation is pointed to January 2010. Until there Portuguese companies will continue to be split in two categories and using two standard system of accounting.

The coexistence of two accounting systems of regulation brings new issues to accounting, both to financial preparers and to the main users of financial statements. Will the markets understand that the financial position and performance can disclose different results under the national standards and international standards? Will they represents a true and fair view of the financial statements?

2.2. – REGULAMENTARY FRAMEWORK

2.2.1. CONSOLIDATED FINANCIAL STATEMENTS

Following the EU accounting harmonization brought about by the Fourth (78/660/EC) and Seventh (83/349/EC) Directives, market forces and regulatory efforts have resulted in a significant levelling of accounting differences across EU countries.

The 7th EU Directive regulated the consolidated accounts in the European Union. According to this Directive, an entity to which the Directive is applicable must prepare consolidated financial statements if one of the following conditions is met:

- It has the majority of the voting rights of another entity.
- It has the right to appoint or remove the majority of the main management body of another entity.
- It has the right to significantly influence another entity.
- It is one of the shareholders of another entity and a majority of the members of its management body has been appointed as a consequence of the exercise of the voting rights of the entity, or it controls (alone or with other shareholders) the majority of the voting rights.

Afterwards, the Directive considers aspects of the consolidation process such as legal forms of entities under its scope (article 4), exemptions to the obligation of consolidation (article 5, financial holdings; article 6, size thresholds; and article 7, subsequent consolidation), and exclusion of immaterial subsidiaries (article 13).

In its second section, the Directive is focused on the preparation of the consolidated accounts (articles 16 to 35). The Directive concludes with some additional information requirement about the development of the entity (article 36), with the obligation of auditing (article 37), with the publication of the consolidated accounts (article 38), and with the transitional provisions (articles 39 to 51)²¹.

Since its approval in 1983, the 7th Directive has been amended a certain number of times, as a consequence of the publication of new legislation or, simply, of the normal evolution of accounting in the last years, but its core principles have remained unchanged.

²¹ The original text of the directive is available in:
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31983L0349:EN:HTML>
As a consequence of IFRS adoption in EU, it was slightly amended in 2003.

The main changes have been produced after the IFRS adoption by the European Union. After IFRS adoption and with 7th Directive applicable in all cases, the situation is:

- Consolidated accounts of listed groups: compulsory use of IFRS.
- Consolidated accounts of unlisted groups and individual accounts of all companies (listed and unlisted): depending on the national decision can use IFRS or national GAAP.

The regulation No. 1606/2002 (IAS/ IFRS Regulation) aimed at eliminating the accounting differences between companies based in EU countries. By making IFRS mandatory in the consolidated financial statements of publicly traded firms, the IAS regulation introduces two differing criteria, according to which the application of either IFRS or national GAAP can be required or permitted.

The first criterion is the degree of public accountability to outside investors, i.e. whether or not a firm is publicly traded.

The second criterion is the type of financial statements, based on the argument that the purpose of consolidated accounts is profoundly different from that of the individual statements. The information contained in consolidated accounts is used exclusively to make business and investment decisions, while individual accounts frequently serve various regulatory purposes, such as the determination of firm's tax obligation, and the allowed profit distribution under capital maintenance regulation. This distinction between consolidated and individual accounts is very important in many continental European countries.

We start to clarify the different international accounting standards that regulate consolidated accounts, with especial focus on IAS 27. Following we evidence the need of consolidated financial statements due to the limitations inherent in the individual financial statements that are made for one of the firms that compose the economic and financial group, pointing out the principal advantages of consolidated financial accounts.

2.2.1.1. - INTERNATIONAL ACCOUNTING STANDARDS

As primary goal, this research aims to provide early evidence concerning the effects of mandatory conversion to IFRS on the net income and owners' equity of Portuguese companies listed on the Euronext, especially attempts to measure the consequences of the

implementation of IFRS in Portugal by focusing on group accounting, analysing consolidated financial statements, which is our empirical basis.

This narrow focus allows for more detailed analysis of impacts of the new regulations on accounts figures of companies. Additionally, group accounts (or accounting for business combinations) are a central issue in modern financial reporting where the majority of financial statements for large economic entities are conducted through the medium of consolidated accounts. Moreover, IFRS are typically only required for the consolidated financial statements of listed companies, thus group accounting issued are a core issue to the vast majority of IFRS compliant companies.

For a variety of legal, tax, and other reasons, companies generally conduct their activities through several subsidiaries controlled by the parent company, rather than through a single legal entity. However, separate financial statements for those activities would not present a full picture of the parent company's economic activities or financial position.

IAS 27 - Consolidated and separated financial statements

IAS 27 has the objective to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control for that it sets standards to apply:

- on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent;
- on accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

Consolidated financial statements integrate a parent company's financial statements with those of its subsidiaries, both domestic and foreign, as long as the parent has more than 50 percent voting rights. IAS 27 requires that consolidated financial statements should report the financial position, performance and cash flows of a group as if the group were a single entity without regard for the boundaries of the separate legal entities for that, it establishes the requirements for the presentation of consolidated financial statements and specifies:

- the circumstances in which an entity must be consolidate the financial statements of another entity (subsidiary);
- the accounting for changes in the level of ownership interest in a subsidiary;
- the accounting for the loss of control of a subsidiary; and
- the information that an entity must disclose to enable users of the financial statements to enable the nature of the relationship between the entity and its subsidiaries.

Consolidated financial statements include all investments in associates and subsidiaries and also all associate ventures in which the parent exercises significant influence (IAS 28) as well as joint ventures in which the parent has joint control (IAS 31)

IAS 27 defines a subsidiary as:

“A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).”

IAS 27 defines control as:

“Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.”

IAS 31 – Interests in joint ventures

IAS 31 is applied in accounting for all interests in joint ventures and the reporting of joint venture assets, liabilities, income, and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place, the exception are for investments held by a venture capital organisation, mutual fund, unit trust, and similar entities including investment-linked insurance funds that are accounted for as under IAS 39 at fair value with fair value changes recognised in profit or loss. (IAS 31)

IAS 31 defines a Joint venture as:

“A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control”.

IAS 31 defines a Joint control as:

“The contractually agreed sharing of control over an economic activity such that no individual contracting party has control”.

IAS 28 - Investments in associates

IAS 28 is applied in accounting for investments in associates except investments in associates held by venture capital organizations or mutual funds, unit trusts and similar entities including investment-linked insurance funds.

IAS 28 defines Associate as:

“An enterprise in which an investor has significant influence but not control or joint control”.

IAS 28 clarifies the meaning of significant influence as:

“the power to participate in the financial and operating policy decisions but not control them”.

Identification of Associates

A holding of 20% or more of the voting power of the investee (directly or through subsidiaries) indicates significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, the investor will be presumed not to have significant influence unless it can be clearly demonstrated otherwise.

The existence of significant influence by an investor is usually evidenced in one or more of the following ways: (IAS 28)

- representation on the board of directors or equivalent governing body of the investee;
- participation in the policy-making process;
- material transactions between the investor and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

IAS 27 is also applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements. Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

According to IAS 27, when separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 shall be accounted for either:

- at cost, or
- in accordance with IAS 39.

The same accounting shall be applied for each category of investments. Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 shall be accounted for in accordance with that IFRS.

Investments in jointly controlled entities and associates that are accounted for in accordance with IAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 1 main objective is to ensure that an entity's first IFRS financial statements and its interim financial reports for part of the period covered by those financial statements, contains high quality information that:

- is transparent for users and comparable over all periods presented;
- provides a appropriate starting point for accounting under IRFS; and
- can be compiled at a cost that does not exceed the benefits to users.

IFRS requires an entity to comply with each IFRS effective at the end of its first IFRS reporting period. In particular, the IFRS requires an entity to do the following in the opening IFRS statement of financial position that it prepares as a starting point for its accounting under IFRS:

- recognise all assets and liabilities whose recognition is required by IFRS;
- not recognise items as assets or liabilities if IFRS do not allow such recognition;
- Reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRS; and
- Apply IFRS in measuring all recognised assets and liabilities

The IFRS also requires disclosures that explain how the transition from previous GAAP to IFRS affected the firms reported financial position, financial performance and cash flows.

The disclosures resultant of all the above requirements, in numeric variable, was the basis of the present research: Net income and equity value in IFRS and Portuguese GAAP, to evaluate the mandatory impact of IFRS in Portuguese listed firms.

Changes required on Group accounting to comply with IFRS

In order to clarify the changes required on Group Accounting to comply with IFRS we present the following resume, comparing the existing accounting policies with the respective requirements of IFRS.

Accounting policy	Changes to comply with IFRS
The assets, liabilities, revenues and expenses, of subsidiaries consolidated on a line-by-line basis are included in the consolidated financial statements, regardless of the percentage of ownership.	No changes are required to the accounting policy.
The carrying values of investments are eliminated against the subsidiaries' stockholders' equity. The portion of stockholders' equity and results of operations attributed to minority interests are disclosed separately in the consolidated financial statements.	Minority interests are not presented as part of equity

Entities whose operations are not homogeneous with those of the Group have been excluded from the scope of consolidation.	IAS 27 does not permit the exclusion of subsidiaries that have non-homogeneous operations or when it is not possible to obtain information on a timely basis or without disproportionate expense.
Entities for which it would be not practicable to obtain the necessary information on a timely basis or without disproportionate expense have not been consolidated	These subsidiaries should be consolidated on the opening IFRS balance sheet using the guidance in IFRS 1.
Differences arising from the elimination of investments against the related stockholders' equity of the investment at the date of acquisition are allocated to the fair value of the assets and liabilities of the company being consolidated.).	The accounting policy for the purchase price allocation is appropriate under IFRS. This policy should be applied to business combinations after the date of transition to IFRS in accordance with the detailed requirements of IFRS 3.
The residual value, if positive, is capitalised as goodwill, and is amortised using the straight-line method over the estimated period of recoverability. Negative residual amounts are recorded as a component of stockholders' equity in 'consolidation reserve' (or as a liability in 'consolidation reserve for future risks and charges', when it is attributable to a forecast of future losses	Positive goodwill should not be amortised but should be tested for impairment at least annually. IFRS 3 requires negative goodwill to be recognised in the income statement. Negative goodwill should not be presented in equity.
Unrealised intercompany profits and losses are eliminated net of related tax effects, together with all intercompany receivables, payables, revenues and expenses arising on transactions between consolidated companies that have not been realised by transactions outside the Group.	The profit recorded on intercompany sales and equipment produced and sold at prices in line with market conditions should be eliminated on consolidation in accordance with IAS 27.
The gross margin on intercompany sales of plant and equipment produced and sold at prices in line with market conditions.	Not eliminated on consolidation in accordance with IAS 27.
Guarantees, commitments and risks relating to companies included in the consolidation.	Eliminated on consolidation in accordance with IAS 27.

Table 2: Contrast of existent accounting polices with the respective requirements of IFRS.

Table 2 provides a comparison between the existing accounting polices with the respective requirements of IFRS. The main differences are: a) the minority interests that are not presented as part of equity, b) positive goodwill that should not be amortised but should be tested for impairment at least annually, c) the fact that IFRS 3 requires negative goodwill to be recognised in the income statement and negative goodwill should not be presented in equity.

After analysing IAS 27, the objectives, and definitions of subsidiary and control, we analyse the changes in the scope of consolidated accounts, on the transition to IFRS from prior national GAAP, also analyse IAS 31 in the scope of interest in joint ventures, that

applies to all joint ventures regardless of the structure or form under which the joint venture take place.

IAS 28 applies to all investments in which an investor has significant influence but not control, defines associates and clarifies the meaning of significant influence.

After the exposure concerning the presentation of consolidated financial accounts and accounting for investments in subsidiaries, joint controlled entities and associates in separate financial statements, the section ends by summarizing the changes due by the amendment to IFRS 1 and IAS 27.

2.2.1.2. – INDIVIDUAL VERSUS CONSOLIDATED ACCOUNTS

The financial group as an economic, social and political entity of major importance, demands a financial accounting reporting distinct from the financial statements reported individually from each one of firms that compose the group. Indeed, as we will explain below, the information reported by each one of the independent firms that compose the financial group is limited, concerning the knowledge of integrated reality that is the financial group.

As in many other accounting areas, there is not a unique theory that establishes the purpose followed by the financial consolidated accounts, but there are two main theories, that congregate consensus among authors, the parent company concept and the entity approach.

Under the parent company concept, the consolidated annual accounts are considered an extension of the individual annual accounts of the parent company, enhancing the revaluated value of their investments. Thus, the consolidated information is considered complementary to the information disclosed in the parent company accounts. The focus of this theory is that the interest of the parent company in the subsidiary companies is purely financial in nature. Although not explicitly referred to in extant regulation, it is, by convention, the parent company theory which underpins much of existing accounting practice world wide (Beckman, 1995 *apud* Cristina Abad et al. (2000)).

This theory excludes from consolidated equity the minority interests; they are treated o a group extern debt. The headlines of the balance sheet integrally are considered, given its indivisibility nature, being object of a distribution, merely accounting, between proper capitals of the group and debts of the proprietors of the group face to the minority

shareholders. The rights of these last ones are determined having for base the individual accounts, without any elimination or modification of the profit and lost of the internal operations of the group. These are taken in account, only with the purpose of performance evaluation, representing the consolidated financial accounts a furtherance of the individual accounts, Rodrigues A. (2006).

Under the entity approach, the group is considered to be the dominant economic unit and thus the consolidated annual accounts are considered to be the most suitable format for providing information about the financial situation of the parent. The focus of this theory is on the operating unit being the group rather than the parent, Moonitz. (1951) *apud* Cristina Abad et al. (2000).

According to concept of the entity or principle of the economic group entity, the consolidated financial statements are the one of a economic entity, differentiated of the parts that compose it, distinguishing itself only for relatively having different rights to the profits and the result of the allotment in liquidation case. As a consequence, the consolidated accounts must be elaborated, because they represent the form most faithful to present the group information as an operative economic entity, guaranteed not through the participation in the capital, but through the entity control (Rodrigues A. 2006).

When a firm decides to invest in other to carry on with an extern growing strategy, acquire an assorted set of resources, which allows them to accomplish their objectives of growing and development. Meanwhile, when those firms present their individual account, it will only recognise them on the asset of balance sheet the value of shares that possesses in their subsidiaries or associates, not disclosing any information about the nature of their resources, independently of the measurement adopted basis, equity or cost method. So in their individual accounts, those resources are disclose on the assets, investments on associates, but does not demonstrate their full productive capacity as a parent firm. If se same firm instead decided to extend their productive capacity through the acquisition of new investments (intern grow strategy), they will figure on their assets measured by the acquisition value, allowing disclosure on firms individual account of the resources that they have available to accomplish their objectives.

Though this procedure we verify that the information disclosed by each one of the firms legally independent organizer as a group is limited for the knowledge of their economic and financial reality underlying their financial structure, not being able to

disclose the true and fair financial and economic position, instead, disclose a twisted reality because of existence of the intercompany operations, that mislead the shareholders equity, financial position and income of the different firms that compose the financial group. This mislead can be reduced when we disclose group accounts that are prepared attending basis measurements of consolidated accounts, (Rodrigues, 2005).

Consolidated accounts arise with the development of financial groups, and have as mayor objective to report owners' equity and financial income, of the group activities that is not accurately reflected on individual accounts of each one of the firms.

When we have a parent firm that leads a set of firms, consolidated account is designer of useful information to all financial users, because in several cases financial consolidated accounts are a complement individual accounts, disclosing financial information that would not be found on parent individual account.

Disclose and preparation of consolidated accounts is crucial to some group of firms that are organized as a financial group. With consolidated accounts disclosure, the group aim to protect owner's interests as well as all users, and also archive the information comparability between different groups.

So consolidated information compiled on an aggregated basis unveil a useful information tool to financial users but also to financial managers, and executives administrators of different group firms.

As an answer to new information needs of those who manage complex groups emerge consolidated financial information. Its main purpose has been to disclose its financial position, operating results, as well as the group performance of the financial group.

Users of the financial statements of a parent are usually concerned with, and need to be informed about, the financial position and results of operations of not only the enterprise itself but also of the group as a whole.

This need is served by providing the users consolidated financial statements, which present financial information about the group as that of a single enterprise without regard to the legal boundaries of the separate legal entities.

In theory, consolidated data are better suited to the aim of financial analysis, as they show the net financial position of a group of companies, eliminating the double counting that arises when the individual data of various subsidiaries of a group are aggregated.

Indeed, simply adding the individual accounts of companies that belong to the same group leads to overstatement of financial costs and debt ratios, as the flows of financing and liabilities between the members of the group are counted twice. The extent of the impact on the analysis caused by this phenomenon is directly linked to the number of intermediate parent companies created by the groups.

Group accounts depict the financial position of the economic entity while individual accounts are prepared for the legal entity. In individual accounts, investments in subsidiaries are recognized in the parent company's balance sheet under the position "financial property". Those investments are usually recorded at historical cost and may, in subsequent periods, be impaired. In the company's net income, all distributions (dividend payments) from subsidiaries to the parent are recognized, while the operating income is not "affected" by these distributions.

Zimmermann, J.; Werner J. and Goncharov I. (2006) distinguish three differences between company and group accounts typically arise through:

- (a) Accounting procedures for affiliated companies and the timing of income distribution;
- (b) Consolidation techniques and;
- (c) (Possibly different or asymmetric) accounting treatments.

Accounting treatment differences arise either due to the application of different accounting frameworks (i.e. national GAAP for company accounts and IFRS for group accounts) or due to divergent reporting incentives, which affect the application of accounting frameworks while preparing group and company accounts.

Zimmermann, J.; Werner J. and Goncharov I. (2006), studied whether it is necessary to prepare company accounts under German GAAP alongside consolidated accounts. They recognize that single accounts have legal functions such as calculating distributable income or being the starting point for taxation, but also play a unique role in valuation and contracting. A distinctive economic function of single accounts can also arise from the application of domestic GAAP. Earnings properties will reveal which functions prevail.

Their study show that although not always statistically pronounced, the analysis points to higher predictive ability, value relevance and timeliness of group accounts and to higher earnings management in company accounts, and that group accounts are also a better

predictor of dividends and future default probabilities and are more (less) conditionally (unconditionally) conservative. Further inquire whether there is any economic function of single accounts alongside group accounts and they were not able to identify any incremental usefulness of single accounts.

Their analysis shows that single accounts play no incremental role in valuation, contracting, dividend policy and are not useful in situations of financial distress. All of these functions are performed (better) by group accounts. They also conclude that the main function of single accounts is thus computing taxable income shows that single accounts play no incremental role in valuation, contracting, dividend policy and are not useful in situations of financial distress.

Cristina Abad *et al.* (2000) present a research on the evaluation of the value relevance of consolidated versus unconsolidated accounting information. They investigate the value-relevance of consolidated versus parent company accounting information. Their research casts light on the suitability of accounting regulation being developed upon the entity or parent company theories of consolidation. They provide evidence on the suitability of such a move by investigating the valuation relevance of standard disclosure under the two pure theories of consolidation and the current practice which uses entity definitions of a group and parent company accounting.

Their results indicate that consolidated reports do provide additional value relevant information to that provided in parent company accounts, meaning that the market does value the retained earnings of subsidiaries and associated companies which are revealed in the consolidated accounts.

There are a large set of authors that grant the major relevance to consolidated finance accounts, such as Condor López in Blasco Burriel (1997), Cea Garcia (1992), Boiseelier and Olivero (1995), Moonitz (1951), Tho (1995)²², and develop researches comparing consolidated to individual accounts that show informative superiority of the first ones on second particularly on the economic utility issue, allowing the consolidated finance information to represent a reference basis on the global market for the investment decisions.

Same opinion has Rodrigues A. (2005), who summarizes the main advantages of consolidated accounts as follows:

²² in Rodrigues (2005).

- Consolidated accounts supply enhanced information than individual accounts, because they allow to collect information about all resources (economic and finance resources) controlled by the financial group, under an exclusive direction or control. In fact, consolidated accounts provide information about transactions outside the group, allowing elimination of eventual artificial transactions inside the group. In consolidated statements, all transactions within the group are eliminated. Hence, all assets and liabilities are recognized in one group balance sheet and all income and expense in one group income statement as if they were generated by one single company.
- Consolidated accounts allow apprehending the real economic weigh of the group integrating subsidiaries and associates, as well as the parent firm. In addition, legislation flexibility, characterise for numerous accounting options, provide accounting prepares to supply the most faithful consolidate accounting accounts.
- The synthetic nature of consolidated accounts provide them to assume themselves as a privileged vector of finance information of the sector that the group develops his activities, assuring the higher information utility, even though inevitably there may have some implicit lost of details that result of the aggregation process.

Although there are several studies that conclude and demonstrate the presented advantages, there are also authors, such as Gonzalo Angulo (1994), Pourtier (1993), Basco Burriel (1997) and Archel Domench (1998)²³ that question the utility of consolidated financial accounts; they found critical basis especially by the fact that the parent firm and their associates or subsidiaries as a group are not a legal entity that may own assets and answer to liabilities, this cam only be considerer on each one separately, this limitation question one of the principal basis of consolidated accounts: elimination of intern operations.

However, Blasco Burriel (1997) in Rodrigues A. (2005), concludes on this empirical study on the utility of the analysis of the consolidated annual accounts, that consolidated accounts are a necessary source of information where it must support any analysis of financial performance and future evolution of a economic company that presents as

²³Apud Rodrigues (2005).

dominant firm (parent firm) of a consolidated group, although all the limitations that this information can involve.

One of the main limitations present by Rodrigues (2005), is the inexistence of a coherent theoretical framework, in the scope from which if it proceeds to the preparation of consolidated financial accounts. Financial accounting has been strongly restricted for the inexistence of an autonomous legal entity, probably for that reason, it still without a true philosophy of consolidated accounts, splitting into the entity concept and the parent company concept, enclosing some elements of each one of these theories, allowing to arise in literature and on accounting standard, one third concept of elaboration of the consolidated accounts: the mixing theory. So, the consolidated accounts while model of accounting disclosure of the economic group entity, are composed by of some basic principles that head over to the elaboration of the individual accounts of the distinct legal entities (individual accounts), and strongly conditioned by the precedence of the financial consolidated information to be in directed first-hand the shareholders of the parent firm.

The absence of a theoretical framework in the elaboration of consolidated information, leads the focal point that presides to its elaboration to be uneven, distributing itself between the two main concepts that are conflict between themselves. In addition, the different approaches lead to distinct criteria in the elaboration of consolidated accounts that leads to different results necessarily, meaning that results of consolidated accounts are not many times supported for the accounting theory.

Another limitation of consolidated financial information is the definition of group itself, regarding the nature of the finance relationships that can establish among different entities that compile the consolidated finance group. It as been accepted in a general way that detention of majority of capital is criterion primary or rule general for compulsory elaborations of consolidated information, despite is also accepted that the control can not be assured in exclusive by the detention of capital parts, but can be complemented with other ways that they assure to the parent firm the control on one another entity, such as: contracts or agreements between shareholders. However, if it does not foresee, in the generality of the accounting standards, that exists compulsory to elaborate this type of accounting information, if not to exist detention of capital (directly or indirectly) on the part of the parent firm, despite it is each more frequent time to appear forms of domination, that are not assured by the capital detention. In this scope, what it is figured as truly relevant, more than what the participation of capital, is to analyze the power of control of

the society in the vertex of the hierarchy on other entities, in order to assure, or not, the existence of a unit board, responsible for the definition of the strategically and operational policies of the group Rodrigues (2005).

The lack of a clear definition of the group, specifically the options related with the exclusions or exclusion contemplated in the generality of the accounting standards of reference, that lead to a significant discretionary, allowing that the parent companies to choose the informative entity that more convenient to present for the purpose of consolidation. These circumstances represent significant impediments, leading the one that the consolidated finance accounts cannot translate of true and fair view form the economic and financial reality that is the group. Also the problems of understanding that result of the multiplicity of activities, markets and economic and financial structures that share the group are restrain of the quality of the consolidated financial information.

The coexistence of different procedures related with the elimination of the transactions intra-group and the evaluation of the profits also carried through does not contribute for the lack of consistency, relevance and comparability of the consolidated information, aggravated for the aggregation process that the consolidation technique demands, being able in such a way to occult information important (as in on some subsidiaries) or present the most suitable global information of the group, that can hide in itself, situations extremely unbalanced.

One another limitation of the consolidated finance accounts, that is strongly constrain by the concept of preparing of the individual financial information, is the type of users who is addressed. Since its emergence, financial information as been privileged instrument of communication with the financial markets (shareholders and eventual investors), relegating for secondary plan other users, as the creditors and of the controllers of the group.

The consolidated information must be guided in a perspective pair: internal information and external, intent information the close connection that exists enters the information given to the market and the necessary information for the purpose of management, in an effort to look to a coordinate system of information, constituting an important tool of management that allows to measure the global performance of the group, while distinct entity of the parts that constitute it, and at the same time minimizing the risks of decision of the external agents who establish relations with this entity. The consolidated accounts must be figured in such a way indispensable for the internal managers, as for all a broad set

of interests that must be warned, and that they are not only the potential investors, but also the workers, the suppliers and other creditors, the State and also the public in general. All these agents establish relations continued with the group, data that this must be understood as a economic entity, that produces multiple relations between partners of business with varied interests and many incompatible times, Rodrigues (2005).

The economic entity that is the group is not an independent legal entity. The inexistence of a regulator legal framework of this economic entity is one of the biggest problems in the search of accounting solutions, which is also one of the main limitations of consolidated accounts. Perhaps one of the limitations that had to be exceeded was the alteration of the responsibilities of the societies individually considered face to the entities for it dominated.

If the economic unit assured by the existence of a unit group direction, allows that the parent firm can control the assets and liabilities and the operations of the associates and subsidiaries, would have therefore to assume, directly or subsidiary, the responsibilities of its the associates and subsidiaries to their creditors. It makes no sense that the global assets and the operations are defined by the parent firm who has not any legal responsibility to the liabilities of each one of associates and subsidiaries.

As an answer to this limitation Rodrigues (2005) suggest that should exist the regulation of the responsibility of the different firms of the consolidated set for the payment of the debts of all the firma of this macrostructure. This responsibility would be and at least subsidiary, to parent firm that has effective control, despite it was admitted that any of the other firms of the group if could come to assume solitarily responsible for the payment of these debts, without damage of the right of return for the part of the debts that to each one of them effectively respected. This regulation would benefit the creditors of the firms concentrated in a group form, allowing to a reduction of the global uncertainty associate to the payment of its responsibilities, that they would come assured its debts for any of the grouped firms, given the responsibility that fits to the parent firm in the definition of the general politics of loans in the different constituent associates or subsidiaries of the group.

The alternative use of the different methods of consolidation to integrate firms that have the same type dependence is one another limitation of the consolidated accounts. This is reflected in the coexistence of two methods to measure one same type of investment in

the consolidated financial statements. We focus to the particular case of the investments in the joint enterprises or joint ventures, that they correspond the situations of control distributed between the parent firm and a small number of participants. The exclusion of an associate, subsidiary or joint venture, for the use of an alternative method for a group, or any another controlled entity for the parent firm for the purpose of consolidation, to appear measure for the MEP, means that the consolidated accounts display only the value of the investment carried through in these firms, instead to incorporate all the assets and liabilities, profits and costs of these firms. So, situations of over loans, or use of assets of the joint venture for the society-mother, are not enhanced in the financial disclosures, providing an incomplete image and not reflecting the purpose of the consolidated financial information.

According Rodrigues (2005), significant deficiencies related with the use of alternative methods of consolidation for situations similar, would be eliminated if the national and international standards imposed and limited the use of the equity method disclose the situations where the group does not exercise a significant or dominant influence in the management of the acquired firms, and it was not allowed to occult situations doubtful based on reliable arguments of the theoretical point of view, as it is, for example, the question of the differentiated activities.

Finally, another one of the great limitations, normally pointed in the elaboration of the consolidated information is the variability of the used criteria of measurement in the consolidated accounts. The question is focus just in the alternative pair between historical costs versus fair value. First, the duplicity of criteria of measurement of the assets and liabilities habitually used in the consolidated accounts (accounting value and/or just value) had not assured the comprehensibility and the reliability of the consolidated financial statements, not allowing the reflection the true and fair view of the financial performance and the results of the group. In the consolidated finance statements historical costs (assets and liabilities of the parent firm) with the cost of acquisition of the assets and liabilities of the society are combined "old" associates and subsidiaries, increased of the quota-part of the potential more-value that belongs to the parent firm, according to participation percentage, for the option for the evaluation of the assets of the acquired one to fair value. So, the assets and liabilities of the consolidated accounts do not offer to a valuation adjusted to the market values not even to its cost price, given the coexistence of this duplicity of measurement criteria.

A coherent conceptual framework is necessary; one that is the practice and technical basis in the consolidated accounts, because if this was strongly supported on solid theoretical principles would suppress the limitations inherent. A new conceptual model would have to assure that the operations between parent firms, associates and subsidiaries, would not be covered or omitted by the consolidated financial accounts. This new conceptual model would have to bet more in the inclusion of what in the exclusion, being in such a way more coherent with general trend, that the consolidated financial information must assure the maximum of information on the set of companies that compose the group.

Attending the advantages and limitations presented as well as the diversity of possible perspectives, it matters to rethink the process of consolidated accounts that was drawn similarity to the process of the individual accounts, enforcing the new conceptual model to disclose the total assets, its financial position, its alterations and still the results of the operations, as well as the evolution of the group, in accordance with more suitable accounting principles.

Although, we are aware of the all set of limitations of consolidated accounts, the advantages of consolidated accounts prevail in the opinion that the consolidated financial accounts supply enhancer information, allowing the apprehending of the real economic weight of the group and these relationships, and especially that consolidated financial accounts add higher information utility to all users.

2.3. EMPIRICAL STUDIES

The adoption of International Financial Reporting Standards in the European Union is a very important event for accounting, and the accountancies and accounting researches have been devoting special attention to the issue.

Previous literature concerning the voluntary adoption of IFRS and the type of companies that applied it (Street and Gray, 2002ies reviewed, as well as carious papers about the effects of adopting IFRS (e.g. Hung and Subramanyam, 2004; Ucieda Blanco and Garcia Osma, 2004; Goodwin, J. and Ahmed, K., 2006; Barth, M.E. *et al.* 2005, Hans, B. C. *et al.*, 2006)

Hung and Subramanyam (2004) use a sample of 80 German firms voluntarily adopting IFRS over the period 1998-2002, that provide accounts under German and IFRS GAAP for the same period, show that Net Income is slightly higher using IFRS as compared with German GAAP. Using several levels models they find that IFRS earnings are less persistent than German GAAP earnings and IFRS earnings and book values explain less of the variation in market price than does German GAAP.

Ucieda Blanco and Garcia Osma (2004) studied the comparability between US GAAP and IFRS by looking at the Form 20-F reconciliation adjustments to US GAAP made by the firms using IFRS in the period from 1995 to 2001.

Barth *et al.* (2005) use data from 24 countries over a 15-year period to 2004 and find that the transition to AIFRS results in improved accounting quality using a variety of measures. Specifically, they find that in the post-adoption period, adopting evidence less earnings managements than do non-adopting firms. Firms adopting IFRS have significantly higher variance oh the change in the net income, higher ratio of the variances of the net income and change in cash flows, and lower frequency of small positive net income. So, adapting firms generally exhibit higher accounting quality in the post-adoption period than they do in the pre-adoption period and the increases in accounting period quality is generally higher for adopting firms than for non adopting firms. They also find out evidence suggesting that the use of IFRS may be associated with a lower cost of equity capital.

Hans *et al.* (2006) examined the market response of UK companies to the mandatory IFRS adoption. The focused on the possibility that there may have been significant differences across the population of UK quoted firms in the perceived net benefit of IFRS

adoption. They study two aspects of the market response to the mandatory IFRS adoption. First they study the share price response to news about the UE's deliberation on IFRS adoption. Second they examined the effect of mandatory adoption decision on the implied ex-ante costs of equity of UK companies using an earning based valuation model to infer cost of capital before and after the decision to adopt IFRS across the UE. They conclude that it was found evidence that mandatory IFRS has not affected UK firms in a uniform way – some firms have made a relative gain and some have made a relative loss as a consequence.

The same answer has got Barth *et al.* (2007) when they investigated of the market reaction to the adoption of IFRS in Europe. These authors examine the European stock market reaction to sixteen key events associated with the adoption of IFRS and found significant positive and negative market reactions to the events that increase and decrease the likelihood of IFRS adoption, which indicates that European equity investors perceive net benefits to the adoption of IFRS.

Goodwin and Ahmed (2006) examine the effect of Australian equivalents to International Financial Reporting Standards (AIFRS) for 1,387 listed firms over 2004 and 2005. They document and analyse the effects of the most significant changes to various financial statements numbers and ratios, and found out that AIFRS earnings is higher and equity is lower than AGAAP, and that more firms have earnings decreases than increases.

With respect to a country's institutional environment, Ball *et al.* (2000) report that due to different levels of conservatism, earnings of firms in common law-based countries are more timely in impounding economic information than earnings for firms in code law countries. They also find that earnings coefficients are larger for code law than for common law countries. Since Australia is a common law country and Germany a code law country, the results in Hung and Subramanyam (2004) imply higher associations of Accounting GAAP earnings with market value than Accounting IFRS and perhaps lower earnings coefficients under Accounting GAAP *ceteris paribus*.

Many authors recognise that in comparative international accounting research we have a contingency perspective on accounting system differences, which suggests that accounting is influenced by the environment. Undid, cultural factors represent one of the main obstacles to the harmonization of financial reporting practices across EU members states. Delvaille *et al.* (2005, p.138) explain the key differences between the Continental

Europe (that includes Germany) and Anglo Saxon grouping (US, UK and Australia) as follows:

“Whilst the Anglo-Saxon group is characterized by a capital market and shareholder orientation with a strong accountancy profession, the Continental Europe group is characterized by a tax and legal orientation and creditor protection”.

Following, Table 3 shows a summary of relevant previous investigation in countries belonging to both groups.

From the table, one can conclude that voluntary adoption on the Anglo Saxon group IFRS and US GAAP seem to be converging, although there is some evidence that mandatory IFRS adoption has not affected UK firms in a uniform way. Those could be the main reasons for the weak evidence of incremental value relevance found on the AIFRS accounting information.

The adoption of IFRS on group account were found evidence that there are an increase in profit provide by the changes in the treatment of goodwill.

In Continental Europe and firstly on voluntary adoption the researches point to the increasing of assets, book-value of equity and net income under IFRS.

More recently, studying the consolidated account and especially in Portugal, researches such as Cordeiro, *et al* (2007) and Lopes e Viana (2007), shows that there are a significant impact of IFRS on the financial reports of Portuguese firm's and that Portuguese accounting standards are more conservative than IFRS.

The present researches had especial attention to those last ones, but followed a different research methodology and design.

Author	Country	Sample	Analyses Period	Method	Object	Objectives	Dependent Variable	Independent variable
Goodwin, J., and Ahmed, K. (2006)	Australia	1,387 Listed Firms on Australian Stock Exchange	2004/ 2005	<ul style="list-style-type: none"> Relative value relevance: $MV_{it} = \alpha_0 + \alpha_1 E_{it} + \alpha_2 BV_{it} + \varepsilon_{it}$ MV_{it} = market value of firm's equity at the end of year t scaled by the number of shares at t. E_{it} = firms earnings for year t under AGAAP or AIFRS scaled by the number of shares at t. BV_{it} = book value of equity under AGAAP or AIFRS at the end of year t scaled by the number of shares at t. ε_{it} = is the error term. 	Financial statements	<ul style="list-style-type: none"> Examine the effects of Australian equivalents to IFRS (AIFRS). Analyse the effects of the most significant changes from IFRS on earnings and equity and the changes to various financial statements numbers and ratios. . 	MV_{it} = market value of firm's equity at the end of year t scaled by the number of shares at t.	E_{it} = firms earnings for year t under AGAAP or AIFRS scaled by the number of shares at t. BV_{it} = book value of equity under AGAAP or AIFRS at the end of year t scaled by the number of shares at t.
Results:	<p>The paper provides evidence on the effects of IFRS on the accounts and accounting quality for about 80% of the listed Australian firms:</p> <ul style="list-style-type: none"> AIFRS adjustments are found to increase mean and median earnings and to decrease mean and median equity. Reversal of goodwill amortisation, and unrealised gains on investment property, are the main drivers of earnings increases. Impairment and revenue recognition are the major drivers of equity decreases for the average firm. They find little evidence that AIFRS earning and book value are more value relevant than AGAAP earnings and book value and this results holds for partitions of industry sector, firm size and profit. They found weak evidence of incremental value relevance of AIFRS accounting information. 							
Dufour, D., Demaria, S. (2007)	France.	Firms of the SBF 120 INDEX of Euronext Paris. Final sample: 107 firms.	2005	<ul style="list-style-type: none"> Multivariable analysis: Logit method, due the fact: <ol style="list-style-type: none"> explained variables are qualitative; probit or logit analysis is the methodology generally used on similar cases. 	Group Accounts	<ul style="list-style-type: none"> Explain French fair value choices during the first adoption of IFRS, reveal the determining factors behind those choices. 	Options: <ul style="list-style-type: none"> IFRS 1 IAS 16 IAS 40 	<ul style="list-style-type: none"> Size Leverage CEO's compensation Ownership structure Financial Sector Cross listing
Results:	<p>The achieve results suggesting that for the used French sample of firms:</p> <ul style="list-style-type: none"> Fair value adoption is not linked with size, financial leverage, CEO's compensation, institutional ownership and cross-listing., however performing a Mann-Whitman test to compare for each option the characteristics of adopter and non-adopter; Financial industry membership is the main determinant for the fair value option; There are evidence witch shows that the majority of French companies maintained historical cost for the valuation of assets – conservative option. 							
Bavagnoli, F. <i>et al.</i> (2007)	Italy	Top 30 companies listed on the Italian Stock Exchange	2005	<ul style="list-style-type: none"> Figures and qualitative information gathering; Analysis of available information; Presentation of results. 	Consolidated Financial statements	<ul style="list-style-type: none"> Identify and analyse critical issues related the impairment test of a cash generating unit. 		

Results:	They did not find conclusive evidence to answer most of the research questions because the degree of disclosure in the financial statements doesn't allow having an insight of how, in practice, impairment testing has been performed. Even though it was possible to gather some evidence about the following:								
	<ul style="list-style-type: none"> - The discounted Cash Flow model appears to be the mainstream model for value in use calculations; - Some entities (Banks) have opted for the dividend discounted model - The WACC-CAPM appears to be the mainstream model for estimate the discount rate, but they rarely disclose all the input of the model. 								
Hung, M. and Subramanyam, K. (2004)	Germany	80 German firms ²⁴	1998/2002	<ul style="list-style-type: none"> •Model for testing relative value relevance: $P_{it}=a_0+a_1BV_{it}+a_2NI_{it}+e_{it}$ P_{it}=total market value of equity for the year it firm at year end t. BV_{it}= book value of equity. NI_{it}= net income 	Group financial statements	<ul style="list-style-type: none"> •Investigate the effects of adopting IAS on financial statements and their value relevance. 	P_{it} =total market value of equity for the ith firm at yearend t.	<ul style="list-style-type: none"> •BV_{it}= book value of equity. •NI_{it}= net income; 	
Results:	They found and document that:								
	<ul style="list-style-type: none"> - Total assets and book-value of equity, as well as the variation of book-value of equity and net income, are significantly higher under IAS than under German GAAP, - Book-value of equity plays a more important valuation role under IAS, than under German GAAP, and net income play a less important valuation role under IAS, than under German GAAP. - The IAS adjustments to book value of equity are generally value relevant, and the adjustments to net income generally value irrelevant and may ever impair value relevance. 								
Gassen, J. and Sellhorn, S. (2006)	Germany	The sample comprises all German public firms included in the Worldscope universe.	1998/2004	<ul style="list-style-type: none"> •Annual Logistic determinant Model of IFRS adoption; • Pooled estimation •Regression Models 	Annual reports of group accounts	<ul style="list-style-type: none"> •Determinants of Accounting choices •Earnings quality •Information asymmetry effects 	<ul style="list-style-type: none"> • Prob (IFRS); • Measure for accrual quality • Bid-ask spread measure 	<ul style="list-style-type: none"> •Market capit./Total Debt /held shares/n° of exchanges on which shares are listed/ net income/ total assets.... 	
Results:	They conclude that:								
	<ul style="list-style-type: none"> - Voluntary adoption of IFRS for German firms is influenced by size, international exposure, and dispersion of ownership; - Adopting IFRS was especially attractive for young firms witch initially went public subsequent to the mid-1990s; - The results indicate that the earnings of IFRS firms are of higher quality; - IFRS adopters experience lower levels of communication asymmetry on the German equity market relative to their German counterparts. 								
Tendeloo, B. and Vanstraelen, A.	Germany	German listed companies (636).	1999/2001	<ul style="list-style-type: none"> •Cross sectional Jones model Regression Model: $ACC_t=\alpha_{ik0}(1/A_{t-1})+\alpha_{ik1}\Delta REV_t+\alpha_{ik2}GPPE_t+\mu_t$ 	Financial statements	<ul style="list-style-type: none"> •Investigate if German companies that have adopted IFRS engage significantly 	<ul style="list-style-type: none"> •Accruals in year t 	A_{t-1} =total asset in year t; ΔREV_t =change in revenues in year t;	

²⁴ German firms in Compustat Global Vantage Industrial/ Commercial database and in the Thomsom ONEBanker Company Filing database.

(2005)				•Others regression models.		less in earnings managements compared to German companies reporting GAAP		GPPEt=gross property, plant and equipment in year t.
Results:	Their results suggest that: <ul style="list-style-type: none"> - Without the possibility of using hidden reserves to manage earnings, IFRS adopters turn more to discretionary accruals to manage their earnings; - Companies that have adopted IFRS engage more in earnings smoothing, but this increase is significantly reduced when the company has a Big 4 auditor; - When hidden reserves are take in consideration, IFRS adopters do not present different earnings management behaviour compared to companies reporting under German GAAP. 							
Bellas, A. <i>et al</i> (2007)	Greece	Companies listed on Athens Stock Exchange (83).	2004/2005	<ul style="list-style-type: none"> •Based on Hung and Subramanyam, (2004): $P_{it}=a+bBV_{it}+cNI_{it}+e_{it}$ •Model of linear regression: $P_{it}=a+bBV_IAS_{it}+cBV_DIF_{it}+dNI_IAS_{it}+eNI_DIF_{it}+e_{it}$ 	Financial statements disclose on Capital Market Athens Stock Exchange	<ul style="list-style-type: none"> •Investigate the repercussions of applying IAS to various accounting magnitudes and indicators, as well as how accounting information explains the share prices: - Relative value relevance; - Incremental value relevance. 	•P _{it} = the share price for the company I at the end of year t.	<ul style="list-style-type: none"> •BV_{it}= book value of equity. •NI_{it}=net income after taxes. •Book value
Results:	The results of the analysis shows that: <ul style="list-style-type: none"> - Tangible assets, total fixed assets and total liabilities record considerably higher prices under IAS; - The application of the IAS shows notable differences of the values of balance-sheet magnitudes in comparison to those under the GAS for the majority of companies examined; - The adoption and application of the IAS considerably influence accounting magnitudes and financial indicator; - Examining the relative value relevance if the accounting information, the book values of equity, in contrast to net profits, play a more important role under IAS in comparison with GAS. 							
Cordeiro, R <i>et al</i> (2007)	Portugal	Portuguese companies listed on official stock market of Euronext Lisbon.	2004/2005	<ul style="list-style-type: none"> •Regression Models• •Descriptive Analyses •Ratios and Clusters Analyses 	Consolidated Financial statements	•Evaluate the impact of implementing the IFRS in the consolidated accounts.	<ul style="list-style-type: none"> •Intangibles assets, Tangible assets; •Equity,•Profits Liability.... 	<ul style="list-style-type: none"> •Firm's dimension •Sales Volume •Market Capitalization •Total Assets •Sectors of activity
Results:	The results of the analysis shows that: <ul style="list-style-type: none"> - There are a significant impact of IFRS on the financial reports of Portuguese firm's; all the items from the Balance sheet, the profits and Loss Statements registered important variations, increasing, in general, the total value of the assets, Capital, Liabilities and Net Results; - There are no evidence of different adaptation procedures between firms from different activity sectors; 							
Lopes, P. and Viana, R.	Portugal	Portuguese companies listed on	2004/2005	<ul style="list-style-type: none"> •analyse the communications to the market •Comparability Index 	Consolidated Financial	•Evaluate the impact of implementing the IFRS in the	•Comparability Index (CI)	•Profit

(2007)		official stock market of Euronext Lisbon		$CI=1-\left(\frac{R_{IFRS}-R_{UK}}{ R_{IFRS} }\right)$	statements	consolidated accounts.		
Results:	The results of the analysis shows that: - 70% of Portuguese listed companies are the category of neutral or pessimistic; $IC \leq 1.05$							
Jaruga A. <i>et al.</i> (2007)	Poland	Companies listed on the Warsaw Stock Exchange.	2004/2005	<ul style="list-style-type: none"> •Empirical archival (database from the Polish stock exchange); •Empirical survey. 	Consolidated Financial statements	<ul style="list-style-type: none"> •Investigate changes in assets, liabilities, structure, and impact on revenue, expense recognition and measurement. 		<ul style="list-style-type: none"> •Equity IFRS / PGAAP •Net income IFRS / PGAAP
Results:	The results of the investigations shows that: - It can not be found unambiguous tendency of changes in net income or equity, although there is visible that the most of companies presented increase of equity.							
Perramon, J. and Amat, O. (2007)	Spain	Non-financial listed companies in IBEX-35.	2004/2005	<ul style="list-style-type: none"> •Descriptive statistics •Non-parametric statistical methods: - Wilcoxon's test; Johnson's test; - Spearman's and Kendall's rank correlation 	Consolidated Financial statements	<ul style="list-style-type: none"> •Analyse the first results of IFRS implementation by Spanish non-financial listed companies 	• Net Profit	<ul style="list-style-type: none"> •Total assets •Nominal profit value
Results:	The results shows that: - The introduction of IAS may influence the profit results most likely due to the application of fair value for derivative instruments and new rules for accounting goodwill; - The empirical tests reveals that the adoption of IFRS in Spain has a diverse effect on the net profit; - The difference that IFRS causes for the consolidated profit does not depend on the profit rate and total assets of companies which imply that the adoption of IFRS standards may influence similarly Spanish companies of different size and profitability.							
Hans, B. C. <i>et al.</i> (2006)	U.K.	UK listed companies in Datastream (469)	2001/2004	<ul style="list-style-type: none"> •Descriptive statistics •Logistic regression models •Time series regression •Cross sectional regressions 	Financial Time All Share Index from Datastream.	<ul style="list-style-type: none"> •Marked response of UK companies, and economic consequences of mandatory IFRS adoption. 	<ul style="list-style-type: none"> •Stock return •Cost of capital •Cost of equity capital 	<ul style="list-style-type: none"> •Earnings grow •Market value •Sales grow •Cost of equity
Results:	Their results suggest that: - There are evidence that mandatory IFRS adoption has not affected UK firms in a uniform way – some firms have made a relative gains and others have made a relative loss as a consequence; - There are evidence that the stock price reaction of UK companies to announcements favourable (unfavourable) to mandatory IFRS adoption is positively (negatively) related to theirs proxy for UK firm's willingness to adopt IFRS; - There are evidence that the changes to the implied cost of equity is negatively related to theirs proxy for UK firm's willingness to adopt IFRS; Mandatory IFRS adoption has a different effect on the cost of capital depending on company characteristics.							
Weetman, P. and Gordon,	U.K.	UK listed companies in the FTSE 100	2005	<ul style="list-style-type: none"> •Descriptive statistics •Comparability Index 	Annual reports	<ul style="list-style-type: none"> •Investigate how firms communicate the effects of 	•Comparability Index (CI)	<ul style="list-style-type: none"> •Disclosure •Profit IFRS / UK

P.(2006)		index		$CI=1 - \left(\frac{\text{Profit}_{IFRS} - \text{Profit}_{UK}}{ \text{Profit}_{IFRS} } \right)$ $CI=1 - \left(\frac{\text{Equity}_{IFRS} - \text{Equity}_{UK}}{ \text{Equity}_{IFRS} } \right)$		IFRS adoption, and relate it to the magnitude of projected changes in profit and equity.		<ul style="list-style-type: none"> •Equity IFRS / UK •Disclosure
Results:	<p>The results shows that:</p> <ul style="list-style-type: none"> - There is no standard method of communicating changes. Companies in this transition period made their own choices about communication and frequently did not clearly involve the auditor; - The dominant preference to communicate the additional separate statement are the press release and Web –based; - On the reconciliation, profit slightly decreases and equity increases, with the adoption of IFRS. 							
Stenka, R. and Ormrod, F. (2007)	U.K.	50 non- financial FTSE 100 companies	2005	•Comparative analyses	Interim group financial statements	•Exam the adoption of IFRS and its impact on reported net profit and on equity.		<ul style="list-style-type: none"> •Profit IFRS / UK •Equity IFRS / UK
Results:	<p>From the evidence achieved:</p> <ul style="list-style-type: none"> - The largest single effects on profit were the change in the treatment of goodwill, that provide an increase in profit; - In the case of equity, care needs to be exercised in assessing the impact in the first year adoption. The balance sheet effects are cumulative over time thus if the evidence of the sample is repeated in future years with respect to goodwill amortization then the development of equity will increase linearly over time; - The treatment of goodwill had the largest effect on the reported profit of the companies examined, witch resulted the greatest difference between IFRS and UK GAAP. 							
Ucieda Blanco and Garcia Osma (2004)	U.S:	Non-US companies listed on the Stock Markets (NASDAQ, NYSE and AMEX)	1995/2001	<ul style="list-style-type: none"> •Index of comparability: $CI_{NI}=1 - \left(\frac{NI_{USA} - NI_{IAS}}{ NI_{USA} } \right)$ $CI_{SE}=1 - \left(\frac{SE_{USA} - SE_{IAS}}{ SE_{USA} } \right)$	Form 20-F reconciliations to US GAAP made by firms using IAS	•Study the comparability between US GAAP and IAS, by looking at the Form 20-F reconciliation adjustments.	•Index of comparability	<ul style="list-style-type: none"> •Net Income IAS / USGAAP •Shareholders Equity IAS / USGAAP
Results:	<p>The results reveals that:</p> <ul style="list-style-type: none"> - There are no big differences between IAS and US GAAP, although SE (Shareholders Equity) is consistently larger under US GAAP. NI (Net Income) is similar in IAS and US GAAP, but differences seem to go up and down in wave, suggesting that the accrual making process and delay policy or the adoption of new standards might be the cause; - There are evidence of a increasing number of adjustments being disclosed by companies but the overall adjustments declines during the analysed period; - Expenses Capitalisation, Business Combinations, Asset Revaluation, Employee Benefits and stock Compensation are the most frequent categories reported; - Even though the reconciliations produce material differences between IAS and US GAAP when considerate each category individually; <p>So, the authors, considering the evidence found, believe that differences are narrowing and that the agreement between the IASB and the FASB should make that movement more visible. They conclude that although material differences still exist, IFRS and US GAAP seem to be converging..</p>							

Table 3: Researches Collection

Even though, we recognize that this work collection is only a small sample of international research, and that the subject is much larger than the expose made in this investigation, we will give you some illations, separating the results of investigations in Continental Europe (that includes Germany) and in Anglo Saxon grouping (US, UK and Australia).

Analysing first the Anglo Saxon group, we must distinguish between investigation on voluntary and mandatory adoption of IFRS.

Ucieda Blanco and Garcia Osma (2004) studied the Form 20-F reconciliations to US GAAP made by firms using IFRS on the 1999/2001 period, investigating the comparability between US GAAP and IFRS, by looking at the Form 20-F reconciliation adjustments of the firms that voluntary adopt International Accounting Reporting Standards giving us one of the first results of it impact on firms financial report and they conclude that although material differences still exist, IFRS and US GAAP seem to be converging, because they found no big differences between IFRS and US GAAP, although SE (Shareholders Equity) is consistently larger under US GAAP. NI (Net Income) is similar in IFRS and US.

Those conclusions are consistent with our prior study on convergence and especially consistent with Commissioner Charlie Mc Creevy and Commissioner Kathleen L. Casey opinion on convergence between IFRS and US GAAP, believing on the efforts made by FASB and IASB to develop accounting standards that allows the elimination of the U.S. GAAP reconciliation requirement.

Later, and already studding mandatory conversion to IFRS, Hans, B. C. et al. (2006), studied Marked response of UK companies, and economic consequences of mandatory IFRS adoption, Goodwin, J., Ahmed, K. (2006) examine the effects of Australian equivalentents to IFRS (AIFRS), analyse the effects of the most significant changes from IFRS on earnings and equity and the changes to various financial statements numbers and ratios.

Hans *et al.* (2006) found evidence that mandatory IFRS adoption has not affected UK firms in a uniform way, and that the stock price reaction of UK companies to announcements favourable (unfavourable) to mandatory IFRS adoption is positively (negatively) related to theirs proxy for UK firm's willingness to adopt IFRS;

Goodwin and Ahmed (2006) found weak evidence of incremental value relevance of AIFRS accounting information. They also found that AIFRS adjustments increase mean

and median earnings and decrease mean and median equity. Reversal of goodwill amortisation, and unrealised gains on investment property, are the main drivers of earnings increases. Impairment and revenue recognition are the major drivers of equity decreases for the average firm. They find little evidence that AIFRS earning and book value are more value relevant than AGAAP earnings and book value and this results holds for partitions of industry sector, firm size and profit.

Weetman and Gordon (2006) investigate how firms communicate the effects of IFRS adoption, and relate them to the magnitude of projected changes in profit and equity, and found that companies in this transition period made their own choices about communication and frequently so there are no standard method of communicating changes, even though the dominant preference to communicate the additional separate statement are the press release and Web-based.

On the reconciliation, profit slightly decreases and equity increases, with the adoption of IFRS.

Stenka and Ormrod (2007), studied how the adoption of IFRS on group accounts has impacted on reported net profit and on equity found evidence that there are an increase in profit provide by the change in the treatment of goodwill. In the case of equity, care needs to be exercised in assessing the impact in the first year adoption. The balance sheet effects are cumulative over time thus if the evidence of the sample were repeated in future years with respect to goodwill amortization then the development of equity will increase linearly over time, so the treatment of goodwill had the largest effect on the reported profit witch resulted the greatest difference between IFRS and UK GAAP.

Analysing investigations in Continental Europe (that includes Germany), we must distinguish also between investigation on voluntary and mandatory adoption of IFRS.

From the researches collection that investigate the adoption of IFRS and their impact on financial statements (group and individual account) on Germany, all seems to study the voluntary adoption.

Hung and Subramanyam (2004), investigate the effects of adopting IFRS on financial statements and their value relevance, Gassen and Sellhorn (2006), investigate the determinants of accounting choices related to earnings quality, information asymmetry effects, both on group accounts.

Tendeloo and Vanstraelen (2005) financial statements, investigate if German companies that have adopted IFRS engage significantly less in earnings managements compared to German companies reporting according to domestic GAAP.

Hung. and Subramanyam (2004) found and document that total assets and book-value of equity, as well as the variation of book-value of equity and net income, are significantly higher under IAS than under German GAAP. The IAS adjustments to book value of equity are generally value relevant, and the adjustments to net income generally value irrelevant and may ever impair value relevance.

Gassen and Sellhorn (2006) conclude that voluntary adoption of IFRS by German firms is influenced by size, international exposure, and dispersion of ownership. Adopting IFRS was especially attractive for young firms witch initially went public subsequent to the mid-1990s. The results indicate that the earnings of IFRS firms are of higher quality. IFRS adopters experience lower levels of communication asymmetry on the German equity market relative to their German counterparts.

Tendeloo and Vanstraelen (2005) found results suggest that companies that have adopted IFRS engage more in earnings smoothing, but this increase is significantly reduced when the company has a Big Four auditor. When hidden reserves are take in consideration, IFRS adopters do not present different earnings management behaviour compared to companies reporting under German GAAP.

The more recent researches already investigate mandatory conversion to IFRS, from those, and related to the present research we select two researches made in Portugal from Cordeiro, *et al* (2007) and Lopes and Viana (2007) on consolidated financial statements, analysing the impact of implementing the IFRS in the consolidated accounts. The results of Cordeiro's (2007) analysis shows that there are a significant impact of IFRS on the financial reports of Portuguese firm's because all the items from the Balance sheet, the profits and Loss Statements registered important variations, increasing, in general, the total value of the assets, Capital, Liabilities and Net Results and that there are no evidence of different adaptation procedures between firms from different activity sectors.

On the other hand, Lopes and Viana (2007), confirm the hypothesis that Portuguese accounting standards are more conservative than IFRS, as the results of theirs research show that 70% of the Portuguese listed companies are neutral or pessimistic ($IC \leq 1$), when reporting profit under Portuguese GAAP rather than IFRS.

Also focus on the consolidated financial accounts, there are some interesting and recent investigation on the effects of mandatory conversion to IFRS in Europe.

In Italy, Bavagnoli, *et al.* (2007), try to identify and analyse critical issues related the impairment test of a cash generating unit, but they did not find conclusive evidence to answer most of the research questions because the degree of disclosure in the financial statements doesn't allow having an insight of how, in practice, impairment testing has been performed.

In Poland, Jaruga *et al.* (2007), investigate changes in assets and liabilities amounts and structure, impact on revenue and expense recognition and measurement, but they could not found unambiguous tendency of changes in net income or in equity, although there was visible that the most of companies presented increase of equity.

In Spain, Perramon and Amat (2007), analyse the first results of IFRS implementation by Spanish non-financial listed companies and found that, the introduction of IAS may influence the profit results most likely due to the application of fair value for derivative instruments and new rules for accounting goodwill. The empirical tests reveals that the adoption of IFRS in Spain has a diverse effect on the net profit. The difference that IFRS causes for the consolidated profit does not depend on the profit rate and total assets of companies which imply that the adoption of IFRS standards may influence similarly Spanish companies of different size and profitability.

After analysing both Continental and Anglo Saxon groups it was not possible to identify an accentuated tendency on the different studies explored but there are differences that results of IFRS adoption.

Next section will present the research design that includes the development of research question, model and variables used and characterisation of the selected sample.

SECTION III – RESEARCH DESIGN

This section outlines the research design, namely the research question; definition of variables, Hypothesis's test used and discusses the sample selection process.

3.1. RESEARCH QUESTION

The purpose of this research is to explore the impact on Net Income and on the Equity Value of the mandatory conversion to IFRS among the 52 companies listed in the Lisbon Euronext.

The research questions are as follows:

RQ1: Is there no difference between Net Income under domestic GAAP and IFRS?

RQ2: Is there no difference between Equity Value under domestic GAAP and IFRS?

Our study is built on the Hung and Subramanyam (2005) paper (discussed on section 2.3 – Empirical studies) which shows that IFRS adoption leads to a slight increase in firms' Net Income in Germany in the 1998-2002 period. However, this study differs from the Hung and Subramanyam (2005) research in the following ways. First, this paper focuses on those firms which were mandated to convert to IFRS, whereas their work focuses on firms which choose to adopt IFRS voluntarily. Second, the period analysed here is more recent (i.e., 2005, while Subramanyam studies 1998/2002). Third, the present study focuses on the Portuguese companies range as opposed to similar researches in other countries.

The empirical analysis in this work is based upon a measure known as the Index of Comparability (IC). This metric, which is used to quantify the difference between national GAAP and IFRS Net Income, was first introduced by Gray (1980) as an 'index of conservatism' to compare the Net Income measurements of different countries. The same concept was later adopted by Weetman *et al.* (1998), who renamed the index of comparability to shift the focus to comparability without regard to the issue of conservatism. More recently, the same index was used by in Weetman and Gordon, (2006). Studies such as those by Street *et al.* (2000) and Ucieda Blanco and Garcia Osma (2004), also make use of the IC.

In the Portuguese context, the same IC was used by Lopes and Viana (2007), to study the impact of IFRS on Profit, presented on the European Accounting Association (EAA) 30th Annual Congress in Lisbon. Forward, and after achieve ours results, we will prepare a comparative analysis of both.

IC values measuring the difference between Net Income derived under a company's domestic accounting standards and the Net Income deriver under IFRS. We will also use IC to measure the difference between the Equity Value derived under a company's domestic accounting standards and the Net Income deriver under IFRS.

3.2. MODEL AND VARIABLES

The main independent variables used for the present research are Net Income and Equity Value, disclosure under DAS and IFRS.

The IC is calculated as follows:

$$IC_{Net\ Income} = 1 - \left(\frac{(\text{Net Income}_{DAS}^{25} - \text{Net Income}_{IFRS})}{|\text{Net Income}_{DAS}|} \right)$$

$$IC_{Equity\ Value} = 1 - \left(\frac{(\text{Net Equity Value}_{DAS} - \text{Net Equity Value}_{IFRS})}{|\text{Net Equity Value}_{DAS}|} \right)$$

The Net Income figure obtained for each company is the consolidated Net Income. It should be noted that each firm's Net Income under national accounting standards is the denominator in the formula presented above. This is because the companies in the sample are implementing IFRS for the first time and therefore the difference in Net Income is more appropriately viewed as a departure from national standards rather than as a departure from IFRS. An IC value greater than one indicates that Net Income is higher when restated under IFRS whereas an index value less than one indicates that Net Income is lower after adjusting from domestic standards to IFRS. If a company's Net Income is identical under both local GAAP and IFRS then the IC equals one.

25 Domestic Accounting Standards

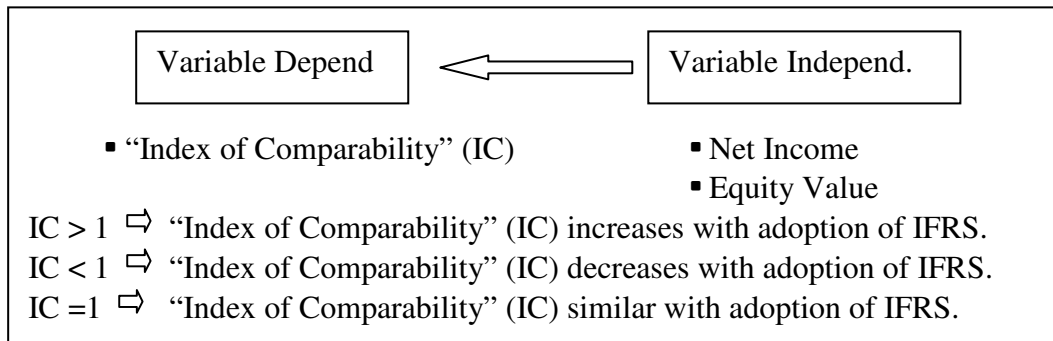


Table 4: IC Variables behaviour

The research question is addressed by means of the following hypothesis:

H1: *There is no difference between Net Income under domestic GAAP and IFRS.*

The hypothesis H1 implies the following predictions with respect to the IC metric:

- H1 which predicts no difference between Net Income under domestic GAAP and IFRS implies that IC = 1.

H2: *There is no difference between Equity Value under domestic GAAP and IFRS.*

The hypothesis H2 implies the following predictions with respect to the IC metric:

- H2 which predicts no difference between Equity Value under domestic GAAP and IFRS implies that IC = 1.

For the present research it is used descriptive statistic and statistic inference about the sample; hypothesis tests:

$$\text{Mean: } \bar{X} = \frac{\sum_{j=1}^n X_j}{n}$$

Median; Median Value

$$\text{Std Deviation; } \delta = \sqrt{\delta^2}; \delta^2 = \frac{\sum_{j=1}^n (X_j - \bar{X})^2}{n-1}$$

Tests of the hypothesis developed on research design, assuming $X \sim N(\mu; \delta)$ and the

$$\text{Confidence Interval: } \left[\bar{X} - z(\alpha/2) \cdot \frac{\sigma}{\sqrt{N}}, \bar{X} + z(\alpha/2) \cdot \frac{\sigma}{\sqrt{N}} \right]$$

Asserts that there is or there is no difference in Net Income and Equity Value computed using domestic standards and IFRS, implies that the IC measures does or does not differ significantly from 1 for a confidence level of 90% ($\alpha= 0,10$), 95%($\alpha= 0,05$), and 99%($\alpha= 0,01$).

In order to determine if the average of one variable differs significantly from one specific value (in this research : 1.0), the one sample t-test can be applied.

Parametric tests t can be applied to independent samples or to dependent sample. It is used to test hypotheses about Mean of a variable of quantitative level or diatomic.

When the samples used are small ≤ 30 , the t-test demand that the group followed a normal distribution.

The one sample t-test implies the following hypothesis:

H_0 : There is no difference between the variable average and the test value of 1.

H_1 : There is difference between the variable average and the test value of 1.

To apply a parametric statistical test, like the one sample t-test, it is necessary to verify the assumption that the values of the variables are normally distributed, which can be done with the K-S test (Kolmogorov-Smirnov test, with the correction of Lilliefors), that implies the following hypothesis:

H_0 : The variable follows a normal distribution.

H_1 : The variable does not follow a normal distribution.

When the p-value is higher than 5%, the null hypothesis is accepted, meaning, the variable follows a normal distribution. When the p-value is lower than 5%, the null hypothesis is rejected, meaning, the variable does not follow a normal distribution.

If that does not happen for both variables, because the p-value is always lower than 5%, the null hypothesis is rejected. The results of the parametric test need to be confirmed by the equivalent non parametric test.

In this case it can be used the Wilcoxon Signed Ranks test wich has the following hypothesis.

H_0 : There is no difference between the variable median and the test value of 1.

H_1 : There is difference between the variable median and the test value of 1.

When the p-value is higher than 5%, the null hypothesis is accepted, there is no difference between the variable median and the test value of 1. When the p-value is lower than 5%, the null hypothesis is rejected; there is difference between the variable median and the test value of 1.

If the p-value is higher than 5% for both variables, which means that for a 95% confidence level, the null hypothesis is accepted, the median values of both Net Income and the Equity Value are not significantly different from 1.

The results of the one-sample t test can then be confirmed or not.

3.3. DATA

In order to be selected to the sample, companies had to fill in the follows features:

- Be listed in Lisbon Euronext;
- Be Portuguese firms;
- Present consolidated financial statements in 2004 and 2005;
- Adopt for the first time IFRS on January 2005;
- Have issued the 2004 Net Income and Equity Value figure under both, domestic standards and IFRS.

The presentation of one year of full comparative consolidated financial statements in compliance with IFRS standard is absolutely necessary. Indeed, the first consolidated financial statement of an entity shall include at least one year of comparatives under IFRS. Thus in practice firms adopt the new standards from 2005, but had to prepare comparative information of year 2004. So the comparative information was only available in 2006, when presented consolidated information of year 2005, as show in table 5 below.

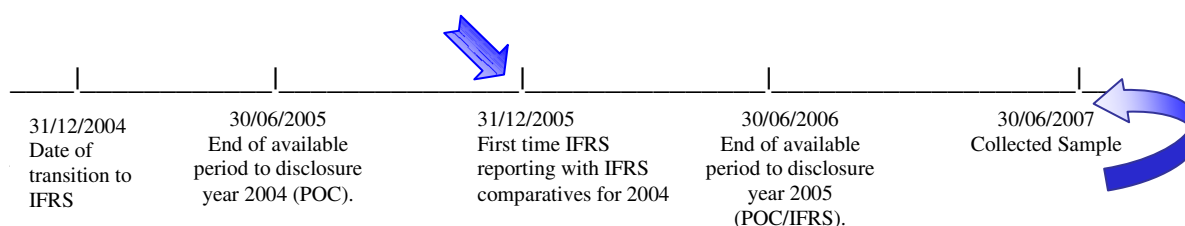


Table 5 – IFRS Disclosure period evolution.

The first time of IFRS reporting with IFRS comparative for 2004, presented financial statements of 2004 POC, 2004 IFRS, and 2005 IFRS. That is the period of analysis.

The sample for the present research represents Portuguese population of 112 firms listed in the Euronext Lisbon on 31st December 2006.

The sample is compounded by 52 Portuguese firms listed in the Lisbon Euronext. Out of the one hundred and twelve listed firms, twenty four companies were excluded because they did not present financial statements during the 2004/2005 period, nine did disclose only non consolidated financial statements, six were foreign firms, four were SAD (Sportive anonymous society), and seven were excluded from the main sample due the fact that they may be considered as outliers.

According to the European Union's directive on IFRS, companies were not required to issue 2004 comparative figures until the 2005 year-end.

For this reason, the information for this research was extracted from the 2005 consolidated annual reports, but the analysis report to 2004 financial information, because this year disclosing both figures under domestic statements and IFRS. In 2005 consolidated financial statements, there is only information according to IFRS, following the EU Regulation Nr. 1606/2002 requirements. Only a few of Portuguese companies exceeded this requirement and disclosed 2004 comparative IFRS Net Income Figures on a voluntary basis. Despite three of ours firms, GALP ENERGIA - SGPS, SA, LISGRÁFICA - IMPRESSÃO E ARTES GRÁFICAS, SA and NOBABASE - SOCIEDADE GESTORA DE PARTICIPAÇÕES SOCIAIS, SA. voluntary adopt IFRS for the first time in the year 2004, preparing their 2004 annual statements according IFRS.

The final sample is compounded by 52 firms, 12 being financial companies (23.07%), while 40 are non-financial companies (76.92%).

The sample companies and equity values and net income data is listed on appendix I.

For the present research and because financial firms prepare their financial statements under a different and specific accounting plan (bank and insurance), we split the results for finance firms and non-finance firms.

Firstly, the IC for NET INCOME and EQUITY VALUE of the full sample are analysed (52 firms). Additionally, this research focuses on IC Net Income and Equity Value of financial firms and non financial firms separately.

The reason why we split the sample between financial and non financial is the fact that the latter prepare their financial statement under a different and specific accounting plan (bank and insurance).

The next section presents the results, which answer to the research questions

The sample companies, equity values and net income data is listed on Appendix I.

SECTION IV - RESULTS

This section presents the results of the research, which are organized as follows.

Firstly, there is descriptive statistical analysis of the all sample, followed by the data analysis for the two partitions of the sample: financial and non finance firms. Secondly, there is the interpretation and comparison of the results obtained.

4.1. DATA ANALYSIS - DESCRIPTIVE STATISTIC

4.1.1. TOTAL SAMPLE

Table 6 presents the sectors of activity of the all sample.

We try to study those impacts on the non finance firms according to the firm's activity, but as showed below most of them are SGPS by nature and the number left of firms that we could study were not enough to achieve specific conclusions.

Activity of Finance and Non Finance firms	n	%
Finance	12	23,08%
SGPS	27	51,92%
Auto	1	1,92%
Transportation	2	3,85%
Construction	3	5,77%
Industry	4	7,69%
Fabricated products	1	1,92%
Energy	1	1,92%
Electronic equipment	1	1,92%
	52,00	100,00%

Table 6: Industries of financial and non financial firms

Table 7 summarize the differences found on the average analysis of Net income and Equity value, presented on the financial statements of 2004 POC, 2004 IFRS, that is our main analysis period.

(Express in thousands euros)	Net Income		Equity Value	
	2004	2004IFRS	2004	2004IFRS
Portuguese companies listed on the Euronext				
All Sample Average; n=52	88.246	95.312	769.600	734.611
Financial firms Average; n=12	138.986	127.870	1.341.641	1.254.313
Non Financial firms Average; n=40	73.024	85.544	597.987	578.700

Table 7: Average of Net income and Equity value, 2004/2004 IFRS

A glance at Table 7 reveals that there are no big differences between IFRS and domestic standards.

Although standards measures are very similar, the average of Equity Value decreases 4.564%, and the average for Net Income increases 8.008%, from domestic standards to IFRS, as shown in Table 8.

But those are the values for the all sample, if we split the present sample in to two samples, one for Finance firms, and other for Non finance Firms, we have a more elucidative view:

	Δ Average Net Income	Δ Average Equity Value
Financial and Non Financial companies (all sample; n=52)	8.008%	-4.564%
Financial Firms (n=12)	-7.998%	-6.513%
Non Financial Firms (n=40)	17.147%	-3.255%

Table 8: Variation of Average on Net Income and Equity Value- split for Finance and Non Finance firms.

We observe that the variation of the average Net Income of Financial firms decreases 7.998% and the variation of Equity Value decreases 6.513%, meaning that the application of IFRS from domestic standards had a negative impact on both standard measures, Net Income and Equity Value.

The variation of the average of Net Income of Non-Finance firms increases 17.147% and the variation of Equity Value decreases 3.255%, meaning that the application of IFRS from domestic standards had a very positive impact on the Net Income, and a slightly negative impact on the Equity Value.

Following we preset an overview of the summary statistics for the Index of Comparability (IC) metric, for Net Income and Equity Value.

To understand the impact of IRS on our sample, we first analyse the all sample and them also split the sample on financial firms and non financial firms, because it is also expected different behaviour on the impact of the adoption of IFRS.

The expected different behaviour outcomes from the different structure and different basis frame of accountancy, financial firms apply specific accounting plan.

Table 9 shows the IC for Net Income and Equity Value of Portuguese companies listed on the Euronext , and the resume of their descriptive statistics.

Portuguese companies listed on the Euronext	IC Net Income	IC Equity Value
Average	1.12	1.05
Standard Desviation	0.45	0.47
Median	1.03	1
Máx.	2.37	3.56
Mín.	-0.10	0.,09

Table 9: Sample Companies and Index of Comparability for Net Income and Equity Value

The Average is 1.12 for the IC Net Income and 1.05 for the IC Equity Value, with Stand deviation of 0.45 and 0.47 respectively.

Both series of IC Net income and the IC Equity Value do not have a statistically different Median, 1.03 and 1.00, respectively.

These results are not consistent with our H1: There is no difference between Net Income under domestic GAAP and IFRS, or H2: There is no difference between Equity Value under domestic GAAP and IFRS.

An average of 1.12 and 1.05 was obtained for dependant variables IC Net income and the IC Equity Value, respectively. Because IC is greater than one, thus these results show that a difference exist in Equity Value, when reported under domestic GAAP and IFRS, , meaning that Net Income and Equity Value increases with the adoption of IFRS, but it will be clarified on the statistical results of hypotheses tests forward.

4.1.2. FINANCIAL VERSUS NON FINANCIAL COMPANIES

Splitting the sample and analysing separately financial and non financial firms, to inquire the difference between Net Income and Equity Value under domestic GAAP and IFRS, separately.

Table 10 shows the IC for Net Income and Equity Value of Portuguese financial companies listed on the Euronext, and the resume of their descriptive statistics.

Portuguese companies listed on the Euronext	IC Net Income	IC Equity Value
Average	0.94	0.97
Standard Desviation	0.50	0.11
Median	0.81	0.96
Max.	2.37	1.17
Mín.	0.5	0.81

Table 10: Financial Companies and Index of Comparability for Net Income and Equity Value

The Average is 0.94 for the IC Net Income and 0.97 for the IC Equity Value, with Stand deviation of 0.5 and 0.11 respectively.

Both series of IC Net income and the IC Equity Value do not have a statistically different median, 0.81 and 0.96, respectively.

The behaviour of the dependents variables IC Net Income and IC Equity Value, point at a completely different impact of IFRS on the financial firms predicting difference between Equity Value under domestic GAAP and IFRS because $IC < 1$, meaning that Net Income and Equity Value decreases with the adoption of IFRS, also clarify on the statistical results of hypotheses tests forward.

Table 11 shows the IC for Net Income and Equity Value of Portuguese financial companies listed on the Euronext, and the resume of their descriptive statistics.

Portuguese companies listed on the Euronext	IC Net Income	IC Equity Value
Average	1.18	1.08
Standard Desviation	0.43	0.53
Median	1.08	1
Max.	2.15	3.56
Mín.	-0.10	-0.09

Table 11: Sample of non financial Companies and Index of Comparability for Net Income and Equity Value

The Average is 1.18 for the IC Net Income and 1.08for the IC Equity Value, with Stand deviation of 0.43 and 0.53 respectively.

Both series of IC Net income and the IC Equity Value do not have a statistically different Median, 1.08 and 1, respectively.

The behaviour of our dependents variables IC Net Income and IC Equity Value, point at a completely different impact of IFRS on the non financial firms predicting a positive impact on the Net Income and Equity Value of IFRS because Net income and Equity Value $IC > 1$, meaning that Net Income and equity value increases with the adoption of IFRS.

After conclude such variation on the Index of Comparability, we try to explore and extend the IC to some other standard measures of the Balance Sheet such as Liabilities, Net Assets, Intangible Assets and tangible Assets.

On the Income and Expense Statements, we further explore the two additional variables: Operating Profits and Business Turnover.

We decide to extend this study only to non financial sample, because those standards measures are specific of non financial firms, being classified in a different view on the finance firms.

Table 12 summarise the IC for Liabilities, Net Assets, Intangible Assets and tangible Assets.

NON FINANCE SAMPLE; N=40	IC LIABILITIES	IC NET ASSETS	IC INTANGIBLE ASSETS	IC TANGIBLE ASSETS	IC OPERATING PROFITS	IC BUSINESS TURNOVER
Average	0,99	1,00	0,82	0,96	1,15	1,00
Standard Desviation	0,13	0,14	0,62	0,30	0,88	0,12
Median	1,00	1,00	0,97	1,00	1,05	1,00
Máx.	1,27	1,44	2,56	1,65	4,59	1,65
Mín.	0,47	0,51	0,00	0,00	-1,84	0,80

Table 12: IC's summary of Liabilities, Net Assets, Intangible Assets, Tangible Assets, Operating Profits and Business Turnover, of the non financial sample

Table 12 shows that the Average of IC on the standards measure of Balance Sheet (Liabilities, Net Assets, Intangible Assets and Tangible Assets) that all of them indicate a slightly decrease on the standards measure, except the Net Assets that show no impact on the adoption of IFRS.

On the standards measure of the Income and Expense Statements, the IC of Operating Profits increases but the IC of Business Turnover does not modify, indicating obviously that the impact of the adopting of IFRS only modify the Operating Profit.

Trying to achieve a clarify conclusion of those standards we also present the statistical results of hypotheses tests subsequently.

4.2. STATISTICS RESULTS AND HYPOTHESIS TESTS FOR NET INCOME AND EQUITY VALUE- VALIDITY OF THE RESULTS

4.2.1. ALL COMPANIES

Table 13 presents the results for the dependent variables tested under HYPOTHESIS 1 and HYPOTHESIS 2 Net Income and for the Equity Value.

	MEAN	STD. DEVIATION	MEDIAN
IC Net Income	1.125	0.455	1.033
IC Equity Value	1.054	0.469	1.000

Table 13: Statistics Results for the IC Net Income and for the IC Equity Value for all companies

Table 14 presents the results of the tests of the hypothesis developed on research design, assuming $X \sim N(\mu; \delta)$ and the Confidence Interval:

$$\left[\bar{X} - z(\alpha/2) \cdot \frac{\sigma}{\sqrt{N}}, \bar{X} + z(\alpha/2) \cdot \frac{\sigma}{\sqrt{N}} \right]$$

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	1.019	1.230
95% Confidence Interval ($\alpha=0.05$)	0.998	1.251
99% Confidence Interval ($\alpha=0.01$)	0.923	1.293

($n=52$; $\mu=1.125$; $\delta=0.455$)

Table 14: Statistics Results of hypothesis tests for the Net Income for all companies

H1, which asserts that there is no difference in IC Net Income computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for a confidence level of 95% and 99%. Only for the confidence level of 90% the IC measures differ significantly from 1.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.945	1.163
95% Confidence Interval ($\alpha=0.05$)	0.923	1.185
99% Confidence Interval ($\alpha=0.01$)	0.880	1.228

($n=52$; $\mu=1.054$; $\delta=0.469$)

Table 15: Statistics Results of hypothesis tests for the IC Equity Value for all companies

H1, which asserts that there is no difference in IC Equity Value computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for all the confidence levels of 90%, 95% and 99%.

In order to determine if the average of one variable differs significantly from one specific value (in this case: 1.0), the one sample t-test can be applied.

The one sample t-test implies the following hypothesis:

H0: There is no difference between the variable average and the test value of 1.

H1: There is difference between the variable average and the test value of 1.

Results of the one-sample t-test:

	TEST VALUE = 1					
	t	df	Sig. (2-tailed)	Mean Difference	95% CI of the Difference	
					Lower	Upper
IC Net Income	1.977	51	.053	.125	-.002	.251
IC Equity Value	.828	51	.411	.054	-.077	.185

CI - Confidence Interval

Table 16: One Sample t-test statistics results of hypothesis tests for the IC Net Income and the IC Equity Value for all companies

The p-value is the sig. (2-tailed) value (in bold). When the p-value is higher than 5%, the null hypothesis is accepted, meaning, there is no difference between the variable average and the test value of 1. When the p-value is lower than 5%, the null hypothesis is rejected, meaning, there is difference between the variable average and the test value of 1.

The p-value is higher than 5% for both variables, which means that for a 95% confidence level, the null hypothesis is accepted; the mean values of both Net Income and the Equity Value are not significantly different from 1.

The p-value means the degree of certainty associated to the statistical conclusions.

For IC Net Income, the p-value = 5.3%, meaning that for a Confidence Interval lower than 94.7%, the conclusion becomes different, the mean value of the IC Net Income becomes significantly different from 1.

For Equity Value, the p-value = 41.1%, meaning that only for a Confidence Interval lower than 58.9%, the conclusion becomes different, this is: the mean value of the IC Equity Value becomes significantly different from 1.

Thus, the degree of certainty associated to the statistical conclusions is much higher for the IC Equity Value than for the IC Net Income.

To apply a parametric statistical test, like the one sample t-test, it is necessary to verify the assumption that the values of the variables are normally distributed, which can be done with the K-S test (Kolmogorov-Smirnov test, with the correction of Lilliefors), that implies the following hypothesis:

H₀: The variable follows a normal distribution.

H₁: The variable does not follow a normal distribution.

The following results are obtained:

	KOLMOGOROV-SMIRNOV(A)		
	Statistic	df	Sig.
IC Net Income	.158	52	.002
IC Equity Value	.262	52	.000

a Lilliefors Significance Correction

Table 17: Results for K-S test (Kolmogorov-Smirnov test, with the correction of Lilliefors)

When the p-value is higher than 5%, the null hypothesis is accepted, meaning, the variable follows a normal distribution. When the p-value is lower than 5%, the null hypothesis is rejected, meaning, the variable does not follow a normal distribution.

In order to apply a parametric test, H_0 must be verified, which in this case, does not happen for both variables, because the p-value is always lower than 5%, the null hypothesis is rejected. The results of the parametric test need to be confirmed by the equivalent non parametric test.

The t test, being a parametric test, requires that the assumption of normality is verified, which does not happen. For this reason, the Wilcoxon Signed Ranks test must be applied. This test has the following hypothesis.

H₀: There is no difference between the variable median and the test value of 1.

H₁: There is difference between the variable median and the test value of 1.

When the p-value is higher than 5%, the null hypothesis is accepted, there is no difference between the variable median and the test value of 1. When the p-value is lower than 5%, the null hypothesis is rejected, there is difference between the variable median and the test value of 1.

Results of the Wilcoxon Signed Ranks test are shown under Table 18.

	Z	SIG. (2-TAILED)
IC Net Income	1.846	0.065
IC Equity Value	0.215	0.829

Table 18: Wilcoxon Signed Ranks test statistics results of hypothesis tests for the IC Net Income and the IC Equity Value for all companies

The p-value is higher than 5% for both variables, which means that for a 95% confidence level, the null hypothesis is accepted; the median values of both IC Net Income and the IC Equity Value are not significantly different from 1.

The results of the one-sample t test are confirmed.

The p-value also means the degree of certainty associated to the statistical conclusions. For Net Income, the p-value = 6.5%, meaning that for a Confidence Interval lower than 93.5%, the conclusion becomes different, this is: the value of the IC Net Income becomes significantly different from 1.

For IC Equity Value, the p-value = 82.9%, meaning that only for a Confidence Interval lower than 17.1%, the conclusion becomes different, this is: the value of the IC Equity Value becomes significantly different from 1.

Thus, the degree of certainty associated to the statistical conclusions is much higher for the IC Equity Value than for the IC Net Income.

Conclusion: for a significance level of 5%, widely used in all social sciences, the values of both IC Net Income and the IC Equity Value are not significantly different from the reference value of 1, meaning that there is no statistical evidence of positive or negative impact of IFRS adoption, when consider the all sample.

4.2.2. FINANCIAL COMPANIES

Table 19 below presents the statistic results for the IC Net Income and for the IC Equity Value for financial companies.

	MEAN	STD. DEVIATION	MEDIAN
IC Net Income	0.943	0.497	0.814
IC Equity Value	0.966	0.113	0.960

Table 19: Statistics Results for the IC Net Income and for the IC Equity Value for financial companies

Table 20 shows the statistic results of the tests of the hypothesis:

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.686	1.201
95% Confidence Interval ($\alpha=0.05$)	0.628	1.259
99% Confidence Interval ($\alpha=0.01$)	0.894	1.389

($n=12$; $\mu=0.943$; $\delta=0.497$)

Table 20: Statistics Results of hypothesis tests for the IC Net Income for financial companies

H1, which asserts that there is no difference in Net Income computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for all confidence levels of 90%, 95% and 99%.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.908	1.025
95% Confidence Interval ($\alpha=0.05$)	0.894	1.038
99% Confidence Interval ($\alpha=0.01$)	0.865	1.068

($n=12$; $\mu=0.966$; $\delta=0.113$)

Table 21: Statistics Results of hypothesis tests for the IC Equity Value for financial companies

H1, which asserts that there is no difference in IC Equity Value computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for all the confidence levels of 90%, 95% and 99%.

In order to determine if the average of one variable differs significantly from one specific value (in this case: 1.0), the one sample t-test can be applied. Table 22 shows the results of the said statistical test.

	t	df	TEST VALUE = 1			
			Sig. (2-tailed)	Mean Difference	95% CI of the Difference	
					Lower	Upper
IC Net Income	-.395	11	.700	-.057	-.372	.259
IC Equity Value	-1.030	11	.325	-.034	-.106	.038

CI - Confidence Interval

Table 22: One Sample t-test statistics results of hypothesis tests for the IC Net Income and the IC Equity Value for financial companies

The p-value is higher than 5% for both variables, which means that for a 95% confidence level, the null hypothesis is accepted; the mean values of both Net Income and the IC Equity Value are not significantly different from 1.

For IC Net Income, the p-value = 70.0%, for IC Equity Value, the p-value = 32.5%.

Thus, the degree of certainty associated to the statistical conclusions is higher for the IC Net Income than for the IC Equity Value.

To apply the one sample t-test, it is necessary to verify the assumption that the values of the variables are normally distributed, with the K-S test:

	KOLMOGOROV-SMIRNOV(A)		
	Statistic	df	Sig.
IC Net Income	.283	12	.009
IC Equity Value	.113	12	.200(*)

a Lilliefors Significance Correction

* This is a lower bound of the true significance.

Table 23: Results for K-S Test

In order to apply a parametric test, H0 must be verified, which in this case, does not happen for the IC Net Income, because the p-value is lower than 5%, the null hypothesis is rejected. The results of the parametric test need to be confirmed by the equivalent non parametric test, the Wilcoxon Signed Ranks test, the results are shown in Table 24.

	Z	SIG. (2-TAILED)
IC Net Income	1.490	0.136

Table 24: Wilcoxon Signed Ranks test statistics results of hypothesis tests for the Net Income for financial companies

The p-value is higher than 5%, which means that for a 95% confidence level, the null hypothesis is accepted, the median values of IC Net Income is not significantly different from 1.

For IC Net Income, the p-value = 13.6%.

The results of the one-sample t test are confirmed.

Conclusion: for a significance level of 5%, the values of both IC Net Income and the IC Equity Value are not significantly different from the reference value of 1, for the financial companies, meaning that there is no statistical evidence of positive or negative impact of IFRS adoption on our finance firm's sample.

4.2.3. NON FINANCIAL COMPANIES

The table 25 shows the results for the IC Net Income and for the IC Equity Value for non financial companies.

	MEAN	STD. DEVIATION	MEDIAN
IC Net Income	1.179	0.433	1.079
IC Equity Value	1.080	0.530	1.000

Table 25: Statistics Results for the IC Net Income and for the IC Equity Value for non financial companies

Table 26 presents the statistic results of the tests of the hypothesis developed on research design:

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	1.064	1.295
95% Confidence Interval ($\alpha=0.05$)	1.041	1.318
99% Confidence Interval ($\alpha=0.01$)	0.911	1.365

(n=40; $\mu=1.179$; $\delta=0.433$)

Table 26: Statistics Results of hypothesis tests for the IC Net Income for non financial companies

H1, which asserts that there is no difference in IC Net Income computed using domestic standards and IFRS, implies that the IC measures differ significantly from 1 for the confidence levels of 90% and 95% and does not differ significantly from 1 for the confidence level of 99%.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.939	1.221
95% Confidence Interval ($\alpha=0.05$)	0.911	1.250
99% Confidence Interval ($\alpha=0.01$)	0.853	1.307

(n=40; $\mu=1.080$; $\delta=0.530$)

Table 27: Statistics Results of hypothesis tests for the IC Equity Value for non financial companies

H1, which asserts that there is no difference in IC Equity Value computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for all the confidence levels of 90%, 95% and 99%.

In order to determine if the average of one variable differs significantly from one specific value (in this case: 1.0), the one sample t-test can be applied, with the following results, as shown in Table 28.

	TEST VALUE = 1					
	t	df	Sig. (2-tailed)	Mean Difference	95% CI of the Difference	
					Lower	Upper
IC Net Income	2.615	39	.013	.179	.041	.318
IC Equity Value	.956	39	.345	.080	-.089	.250

CI - Confidence Interval

Table 28: One Sample t-test statistics results of hypothesis tests for the IC Net Income and the IC Equity Value for financial companies

The p-value is lower than 5% for the IC Net Income, which means that for a 95% confidence level, the null hypothesis is rejected, the mean value of IC Net Income is significantly different from 1, in this case, is significantly higher than 1.

The p-value is higher than 5% for IC Equity value, which means that for a 95% confidence level, the null hypothesis is accepted, the mean value of IC Equity Value is not significantly different from 1.

For IC Net Income, the p-value = 1.3%, for IC Equity Value, the p-value = 34.5%.

To apply the one sample t-test, it is necessary to verify the assumption that the values of the variables are normally distributed, with the K-S test:

	KOLMOGOROV-SMIRNOV(A)		
	Statistic	df	Sig.
IC Net Income	.167	40	.007
IC Equity Value	.271	40	.000

a Lilliefors Significance Correction

Table 29 Results for K-S Test

In order to apply a parametric test, H0 must be verified, which in this case, does not happen for both variables, because the p-value is always lower than 5%, the null hypothesis is rejected. The results of the parametric test need to be confirmed by the equivalent non parametric test, the Wilcoxon Signed Ranks test:

	Z	SIG. (2-TAILED)
IC Net Income	2.954	0.003
IC Equity Value	0.251	0.802

Table 30: Wilcoxon Signed Ranks test statistics results of hypothesis tests for the IC Net Income for non financial companies

The p-value is lower than 5% for IC Net Income, which means that for a 95% confidence level, the null hypothesis is rejected, the median values of IC Net Income is significantly different from 1, in this case higher than 1.

The p-value is higher than 5% for IC Equity Value, which means that for a 95% confidence level, the null hypothesis is accepted, the median values of IC Equity Value is not significantly different from 1.

For IC Net Income, the p-value = 0.3%, For IC Equity Value, the p-value = 80.2%.

The results of the one-sample t test are confirmed.

Conclusion: for a significance level of 5%, the value of IC Net Income is significantly higher than the reference value of 1 and the IC Equity Value is not significantly different from the reference value of 1, for the non financial companies.

There is statistical evidence to conclude that the impact of IFRS adoption provokes a statistically increase on the IC Net Income.

4.2.4. COMPARISON BETWEEN FINANCIAL AND NON FINANCIAL COMPANIES

Companies – Qualitative nominal dichotomised variable.

IC Net Income and IC Equity Value – quantitative variables.

To accomplish the crossing between the quantitative variables and the nominal dichotomised variable, the parametric test t of Student can be used, to verify the significance of the differences among the mean values observed for both groups of companies: financial and non financial, that produces the following results:

		LEVENE'S TEST		T TEST		
		F	Sig.	t	gl	p-value
IC Net Income	Equal variances assumed	.004	.948	-1.599	50	.116
	Equal variances not assumed			-1.483	16.345	.157
IC Equity Value	Equal variances assumed	2.250	.140	-.734	50	.466
	Equal variances not assumed			-1.265	47.836	.212

Table 31: Results for Levene's Test and T Test values

The t test is preceded by a test of the equality of the variances in each one of the groups, the test of Levene:

H0: The variance (or standard deviation) is the same for both groups.

H1: The variance (or standard deviation) is different for the two groups.

When the p-value of this test is higher than the reference value of 5%, the null hypothesis is not rejected, otherwise it is rejected and the alternative hypothesis is accepted.

The proof value higher than 5% (in blue), H0 is not rejected and the variances are considered the same for the two groups.

These results are taken in account for the analysis of the t test t: we consider the superior line or the inferior line, consonant the variances are considered the same or different in both groups, respectively. In the present case, the superior line is considered, because the variances are equal for both groups (in bold).

The t test assets the following hypotheses:

H0: There are differences in the mean of the IC variables, between both groups.

H1: There are no differences in the mean of the IC variables, between both groups.

The p-value is in the last column of the table. When the p-value is higher than 5%, the null hypothesis is accepted: there are no differences between the two groups. When the p-value is lower than 5%, the null hypothesis is rejected, the mean is not the same for the two groups, and in other words, there are differences between the two groups.

The p-value is higher than 5% for both variables, H0 is rejected, there are no significant differences between the mean values of the IC, for the financial and the non financial companies, for both variables.

In order to apply one parametric test, like the t-test, it is necessary to verify the assumption that the values of the variables are normally distributed within both groups, with the K-S test:

	Companies	KOLMOGOROV-SMIRNOV(A)		
		Statistic	df	Sig.
IC Net Income	Financial	.283	12	.009
	Non Financial	.167	40	.007
IC Equity Value	Financial	.113	12	.200(*)
	Non Financial	.271	40	.000

* This is a lower bound of the true significance.

a Lilliefors Significance Correction

Table 32: Results for K-S Test.

In order to apply a parametric test, H0 must be verified in both groups of companies, which in this case, does not happen for both variables, because the p-value is always lower

than 5% for at least one group of companies, the null hypothesis is rejected. The results of the parametric test need to be confirmed by the equivalent non parametric test, the Mann-Whitney test.

The Mann-Whitney test puts the following hypotheses:

H₀: There are differences in the median of the IC variables, between both groups.

H₁: There are no differences in the median of the IC variables, between both groups.

When the p-value is higher than 5%, the null hypothesis is accepted, otherwise it is rejected and the alternative hypothesis is accepted..

When the p-value is higher than the reference value of 5%, the null hypothesis is not rejected, otherwise it is rejected and the alternative hypothesis is accepted.

Results of the Mann-Whitney test:

	MANN-WHITNEY U	WILCOXON W	Z	P-VALUE
IC Net Income	121	199	-2.585	0.010
IC Equity Value	205	283	-0.760	0.447

Table 33: Results for Mann-Whitney test.

The first three values are the test statistics. The p-value is the value to analyse. When this value is higher than the reference value of 5%, the null hypothesis is accepted, there are no differences between the two groups. When the p-value is lower than 5%, the null hypothesis is rejected; there are differences between the two groups.

The p-value is lower than 5% for Net Income, *H₀* is rejected, there are significant differences between the financial and the non financial companies.

The p-value is higher than 5% for Equity Value, *H₀* is not rejected, there are no significant differences between the financial and the non financial companies.

The results of the t test are confirmed for the IC Equity Value, but not for the IC Net Income, where the results are now significantly different between the two groups.

The differences are illustrated by their statistics, already presented before in tables 19 and 24.

	COMPANIES	N	MEAN	STD. DEVIATION
IC Net Income	Financial	12	0.943	0.497
	Non Financial	40	1.179	0.433
IC Equity Value	Financial	12	0.966	0.113
	Non Financial	40	1.080	0.530

Table 34: Statistical results for IC Net Income and Equity Value

Conclusions: The value of the IC Net Income is higher for the non financial companies, and the differences are statistically significant.

In the sample, the value of the IC Equity Value is higher for the non financial companies, but the differences are not statistically significant.

4.2.5. STATISTICS RESULTS AND HYPOTHESIS TESTS FOR OTHER IC

The table presents the statistic results for other IC for non financial companies.

	MEAN	STD. DEVIATION	MEDIAN
IC Liabilities	0.991	0.132	1.002
IC Net Assets	0.995	0.141	1.000
IC Intangible Assets	0.823	0.617	0.973
IC Tangible Assets	0.960	0.303	0.999
IC Operating Profits	1.134	0.874	1.032
IC Business Turnover	0.985	0.048	1.000

Table 35: Statistics Results for other IC for non financial companies

Table 36 presents the results of the tests of the hypothesis developed on research design:

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.956	1.026
95% Confidence Interval ($\alpha=0.05$)	0.949	1.033
99% Confidence Interval ($\alpha=0.01$)	0.934	1.048

(n=40; $\mu=0.991$; $\delta=0.132$)

Table 36: Statistics Results of hypothesis tests for IC Liabilities for non financial companies

H1, which asserts that there is no difference in IC Liabilities computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for the confidence levels of 90%, 95% and 99%.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.957	1.033
95% Confidence Interval ($\alpha=0.05$)	0.950	1.040
99% Confidence Interval ($\alpha=0.01$)	0.935	1.056

(n=40; $\mu=0.995$; $\delta=0.141$)

Table 37: Statistics Results of hypothesis tests for IC Net Assets for non financial companies

H1, which asserts that there is no difference in IC Net Assets computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for the confidence levels of 90%, 95% and 99%.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.659	0.987
95% Confidence Interval ($\alpha=0.05$)	0.626	1.020
99% Confidence Interval ($\alpha=0.01$)	0.559	1.087

(n=40; $\mu=0.823$; $\delta=0.617$)

Table 38: Statistics Results of hypothesis tests for IC Intangible Assets for non financial

H1, which asserts that there is no difference in IC Intangible Assets computed using domestic standards and IFRS, implies that the IC measures differ significantly from 1 for the confidence level of 90% and does not differ significantly from 1 for the confidence levels of 95% and 99%.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.879	1.040
95% Confidence Interval ($\alpha=0.05$)	0.863	1.057
99% Confidence Interval ($\alpha=0.01$)	0.830	1.089

(n=40; $\mu=0.960$; $\delta=0.303$)

Table 39: Statistics Results of hypothesis tests for IC Tangible Assets for non financial companies

H1, which asserts that there is no difference in IC Tangible Assets computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for the confidence levels of 90%, 95% and 99%.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.901	1.367
95% Confidence Interval ($\alpha=0.05$)	0.855	1.413
99% Confidence Interval ($\alpha=0.01$)	0.760	1.508

(n=40; $\mu=1.134$; $\delta=0.874$)

Table 40: Statistics Results of hypothesis tests for IC Operating Profits for non financial companies

H1, which asserts that there is no difference in IC Operating Profits computed using domestic standards and IFRS, implies that the IC measures does not differ significantly from 1 for the confidence levels of 90%, 95% and 99%.

	LOWER BOUND	UPPER BOUND
90% Confidence Interval ($\alpha=0.10$)	0.972	0.998
95% Confidence Interval ($\alpha=0.05$)	0.969	1.000
99% Confidence Interval ($\alpha=0.01$)	0.964	1.006

(n=40; $\mu=0.985$; $\delta=0.048$)

Table 41: Statistics Results of hypothesis tests for IC Business Turnover for non financial companies

H1, which asserts that there is no difference in IC Business Turnover computed using domestic standards and IFRS, implies that the IC measures differ significantly from 1 for the confidence level of 90% and does not differ significantly from 1 for the confidence levels of 95% and 99%.

In order to determine if the average of one variable differs significantly from one specific value (in this case: 1.0), the one sample t-test can be applied, with the following results:

	TEST VALUE = 1					
	t	df	Sig. (2-tailed)	Mean Difference	95% CI of the Difference	
					Lower	Upper
IC Liabilities	-0.425	39	0.673	-0.009	-0.051	0.033
IC Net Assets	-0.218	39	0.829	-0.005	-0.050	0.040
IC Intangible Assets	-1.818	39	0.077	-0.177	-0.374	0.020
IC Tangible Assets	-0.841	39	0.406	-0.040	-0.137	0.057
IC Operating Profits	0.970	39	0.338	0.134	-0.145	0.413
IC Business Turnover	-1.985	39	0.054	-0.015	-0.031	0.000

CI - Confidence Interval

Table 42: One Sample t-test statistics results of hypothesis tests for the IC Net Income and the IC Equity Value for financial companies

The p-value is higher than 5% for all the variables, which means that for a 95% confidence level, the null hypothesis is accepted, the mean value of all IC's is not significantly different from 1.

The p-values are indicated in bold in the table.

To apply the one sample t-test, it is necessary to verify the assumption that the values of the variables are normally distributed, with the K-S test:

	KOLMOGOROV-SMIRNOV(A)		
	Statistic	df	Sig.
IC Liabilities	.216	40	.000
IC Net Assets	.227	40	.000
IC Intangible Assets	.230	40	.000
IC Tangible Assets	.268	40	.000
IC Operating Profits	.252	40	.000
IC Business Turnover	.349	40	.000

a Lilliefors Significance Correction

Table 43: Results for K-S Test.

In order to apply a parametric test, H0 must be verified, which in this case, does not happen for all variables, because the p-value is always lower than 5%, the null hypothesis is rejected. The results of the parametric test need to be confirmed by the equivalent non parametric test, the Wilcoxon Signed Ranks test:

	Z	SIG. (2-TAILED)
IC Liabilities	-0.402	0.688
IC Net Assets	-0.299	0.765
IC Intangible Assets	-2.106	0.035
IC Tangible Assets	-0.921	0.357
IC Operating Profits	-1.806	0.071
IC Business Turnover	-1.490	0.136

Table 44: Wilcoxon Signed Ranks test statistics results of hypothesis tests for the IC Net Income for non financial companies

The p-value is lower than 5% for IC Intangible Assets, which means that for a 95% confidence level, the null hypothesis is rejected, the median values of IC Intangible Assets is significantly different from 1, in this case lower than 1.

The p-value is higher than 5% for all the other IC's, which means that for a 95% confidence level, the null hypothesis is accepted, the median values of all the other IC's is not significantly different from 1.

The p-values are indicated in bold in the table.

The results of the one-sample t test are confirmed, except for the Intangible Assets, for which, the results are significantly different from 1, conclusion not withdrawn from the one-sample t test.

Conclusion: for a significance level of 5%, the value of Intangible Assets is significantly lower than the reference value of 1 and all the other IC are not significantly different from the reference value of 1, for the non financial companies.

The statistic results and hypothesis tests for IC Net Income and IC Equity Values, considering the all sample, shows that there are no statistical evidence of positive or negative impact of IFRS adoption. Those results match Hans et al (2006) research, they also found evidence that mandatory IFRS adoption has not affected UK firms in a uniform way, and Jaruga *et al* (2007) in Poland found ambiguous tendency of changes in net income and in equity.

Ambiguous tendency and irregular impact on consolidated accounts influences the statistical results, and explain part of the presented results, the IC net income and IC equity values, goes from de Mín. of -0.10 and 0.09 to the Máx. of 2.37 and 3.56, respectively.

Analysing the financial companies' sample separately, it was found statistical evidence of impact of IFRS adoption, but in this case explain by the fact that those companies (insurance and bank) used a specific account plan.

On the non financial firm's sample, the IC Net income is significantly higher than 1, meaning that IFRS adoption increased the Net Income; there was a positive impact on the companies Net Income.

Ours results are consistent with the results presented by several authors such as Stenka and Ormrod (2007) that studied the impact of IFRS adoption on group accounts, and found evidence of an increase on the reported net profit. Cordeiro *et al* (2007) studying

consolidated accounts, also reported a significant impact of IFRS on the financial reports of Portuguese firms, including the Net Results that increased.

Perramon and Amat (2007) analyse the first results of IFRS implementation by Spanish non-financial listed companies and found influence on the profit results due to the application of fair value for derivate instruments and new rules for accounting goodwill, also consistent with the present research, because IC Intangible Assets <1 showing a decrease with the adoption of IFRS.

Table 45 presents hypotheses test summary for IC Net Income and IC Equity Value, in the all sample and them split for financial companies and non-financial companies.

	N	IC NET INCOME	IC EQUITY VALUE	RESULTS
Financial and non Financial companies	52	IC \approx 1	IC \approx 1	No statistical evidence of IFRS adoption
Financial companies	12	IC \approx 1	IC \approx 1	No statistical evidence of IFRS adoption
Non Financial companies	40	IC > 1	IC \approx 1	IFRS adoption provokes a statistically increase on the IC Net Income

Table 45: Hypotheses test summary for IC Net Income and IC Equity Value

As result of the hypotheses test it possible to conclude that there is no statistical evidence of positive or negative impact of IFRS adoption on the all sample. Financial companies sample has the same result; no statistical evidence of positive or negative impact of IFRS adoption. However, for the non financial companies IC Net Income > 1; there is statistical evidence to conclude that the impact of IFRS adoption provokes a statistically increase on the IC net income.

As result of financial companies versus non-financial companies' analysis it is possible to conclude that the IC Net Income and IC Equity Value are higher for the non financial companies, but the difference is only statistically significant for the non financial companies.

Naturally the present research is limited by the research design and methodology adopted, that was clearly different from the other authors, also it have a specifically objective but still creates a valid answer to the general issue – impact of IFRS adoption.

The present results must be analysed has a complement of the main issue, because the impact of IFRS adoption are must further than only an numeric database, it also had impact on the disclosure of financial statements, and those consequences may be reflected on the financial statements forward.

Those impacts are associated to the benefits especially for multinational companies, traded on international stock markets, those benefits outcomes from IFRS advantages such as higher quality of financial information, transparent and comparative disclosure that offer a set of advantages for prepares and users of financial information.

SECTION V - CONCLUSION

The adoption of IFRS in EU is the result of a long process that culminated with the application of Regulation Nr. 1606/2002, that determinate the mandatory application of IFRS on the consolidated accounts for all UE listed companies from 2005 onwards.

We search for the principal motivations for the adoption process and indicate:

Increase of comparability companies, based in different countries, but traded in the same market;

Facilitate accounts in the preparation of group accounts;

Meet foreign investor's demand, because mostly of stock exchange allow foreign registrant to prepare their financial statements according IFRS. We focus the IASB contribution and their especial effort of collaboration with FASB and other key groups, to the success of adoption process mechanism of enforcement.

However the adoption of IFRS in EU has been controversial, we expose the different authors position and conclude that: a) high quality is undoubtedly the principal advantage (as consensus of several authors) because with higher quality on the financial information it becomes more predictably, having as consequence a reduction in measurements and disclosure practice, as consequence the information asymmetry is reduce and decreases the cost of capital; b) promote stability of financial markets. As disadvantages or challenges:

- the co-existence of a two standard-system creates disharmonization within countries;
- fair value represents the main challenge for IFRS preparers and users, especially because of contrast with the traditional accounting;
- the uneven implementation of IFRS certainly will be exceeded by the political end economic forces even thought some authors consider it inevitable.

To complete the research, and because our research data are consolidated accounts, we try to expose the main advantages and limitations of consolidated account versus individual accounts an conclude that, consolidated financial accounts supply enhanced information, apprehension of the real economic weight of the group and these relationships, and especially that consolidated financial accounts add higher information utility to all users.

This research analysed the effects of mandatory conversion to IFRS on the net income and owner's equity of consolidated Portuguese companies listed in the Euronext Lisbon. We analyse the consolidated financial statements of 2004 POC and 2004 IFRS, as disclosed in the financial statements for the year 2005, that is the first time mandatory IFRS reporting with annual comparatives for 2004 POC/IFRS.

The results provide no statistical evidence of positive or negative impact of IFRS adoption, when consider the all sample (finance and non finance firms).

When analysed separately the results provide preliminary evidence of no statistical evidence of positive or negative impact of IFRS adoption on Portuguese finance firm's sample. However, concerning the non finance firm's sample there is statistical evidence to conclude that the impact of IFRS adoption provokes a statistically increase on the Net Income.

As result of comparison between financial and non-financial firms:

- the value of the IC Net Income is higher for the non financial companies, and the differences are statistically significant;
- the value of the IC Equity Value is higher for the non financial companies, but the differences are not statistically significant.

As a complement, this research explores non financial firms sample the statistical result and hypothesis test and conclude that only the value of IC Intangible Assets is significantly lower than the reference value of one and all the other IC analysed. However this last analysis ask for careful and a most profound analyse, that was limited by the fact that was not compute on the database, all the items that compose the intangible assets, and that certainly would be essential.

The results provide evidence on the impact of mandatory conversion to IFRS for the firms listed in the Euronext, and as expected, the impact of IFRS adoption provokes, on the non finance firm's, a statistically increase on the Net Income. The evidence found in this research is consistent with the prior studies of the subject not only in Portugal but also in Continental Europe.

The study is limited by the research design and methodology adopted as well as the variables display. The variables used are only numeric variables and to evaluate the

extension of IFRS adoption impact, the research should consider also non numeric variables, to study financial statement's disclosure.

The present study focus exclusively on Net Income and Equity Value, and the final result in those items, but it would be interesting to study and understand the reasons behind the increase on Net income of the non-finance firms' sample. Additional this research sets the base for comparison not only with data from other countries such as Spain or France, but also can be used as an input to comparative research on the impact of new Portuguese standards on SME.

A complementary research may include the study of non numeric variables that evaluate and display the impact of IFRS of Portuguese firm's disclosure financial statements.

Appendix I– Sample Companies and Equity Value and Net Income Data

(Express in thousands euros) Portuguese companies listed on the Euronext on 30/06/2007	Net Income		Equity Value	
	2004	2004IFRS	2004	2004IFRS
Banco BPI, S.A.	192.718	159.298	1.491.105	1.256.086
Banco Comercial Português, SA	513.002	631.534	3.605.275	3.215.530
Banco de Investimento Imobiliário, SA	12.637	8.699	142.796	153.121
Banco Espírito Santo de Investimento, SA	53.451	42.817	219.856	206.698
Banco Espírito Santo, SA	204.309	151.643	2.185.253	2.556.267
Banco Millennium BCP Investimento, S.A.	54.258	46.906	209.376	230.928
Banco Popular Portugal, SA	33.731	37.811	314.158	321.481
Banco Santander Totta, S.A.	54.671	41.554	1.616.994	1.339.306
BES-Vida, Companhia de Seguros, SA	22.747	20.521	287.167	287.574
Caixa Geral de Depósitos, SA	448.481	227.987	3.386.443	3.318.033
Espírito Santo Financial (Portugal) - SGPS, S.A.	67.716	160.575	2.511.215	2.045.909
Finibanco Holding - SGPS, SA	10.116	5.089	130.049	120.826
Brisa - Auto Estradas de Portugal, SA	183.632	191.121	1.385.433	1.535.268
Celulose do Caima, SGPS, S.A.	10.294	9.639	92.910	94.617
Cimpor - Cimentos de Portugal, SGPS, SA	185.909	263.815	970.352	1.222.918
CIN - Corporação Industrial do Norte, SA	10.570	11.290	65.482	67.446
Cofina - SGPS, SA	12.954	19.131	89.304	104.223
Compta-Equipamentos e Serviços de Informática, SA	-5.887	-5.679	-7.339	-7.880
Corticeira Amorim - SGPS, SA	10.032	15.160	212.494	203.856
EDP - Energias de Portugal, SA	440.152	400.515	6.401.714	4.781.795
Estoril Sol, SGPS, S.A.	7.224	-712	98.830	63.267
Galp Energia, SGPS, SA	333.064	333.064	1.887.351	1.887.351
GDP - Gás de Portugal, SGPS, SA	115.680	117.980	539.257	495.089
Gescartão, SGPS, SA	10.637	10.611	167.306	162.137
Grupo Soares da Costa, SGPS, S.A.	-7.785	-2.925	157.450	117.041
Ibersol - SGPS, SA	7.507	8.334	46.492	42.872
Imobiliária Construtora Grão Pará, SA	-8.145	-7.420	13.210	47.010
Inapa - Investimentos, Participações e Gestão, SA	4.467	5.575	113.126	96.715
Jerónimo Martins - SGPS, SA	130.927	130.927	341.629	569.210
Lisgráfica - Impressão e Artes Gráficas, SA	2.282	2.282	10.694	10.694
Martifer - SGPS, SA	4.376	2.854	36.733	36.438
Mota-Engil, SGPS, S.A.	27.690	27.964	253.925	258.298
Novabase, SGPS, SA	5.475	5.475	84.431	84.431
Papelaria Fernandes - Indústria e Comércio, SA	-982	-1.374	6.686	2.269
Pararede - SGPS, SA	2.584	5.402	32.847	34.387
Parública - Participações Públicas (SGPS), SA	150.859	56.703	2.731.623	2.731.624
Portucel - Empresa Produtora de Pasta e Papel, S.A.	33.337	51.283	1.047.058	1.008.797
Portugal Telecom, SGPS, S.A.	500.125	725.212	2.704.777	2.254.173
PT Multimédia - Serv. Tel. Multimédia, SGPS, SA	110.084	125.661	488.747	509.310
Reditus - SGPS, SA	9.406	9.700	33.622	3.014
SAG Gest - Soluções Automóvel Globais, SGPS, SA	16.177	24.978	70.212	86.564
Semapa - Sociedade Investimento e Gestão, SGPS, SA	182.073	198.350	384.425	386.143
Sociedade Comercial Orey Antunes, SA	1.473	1.486	7.573	7.505
Sonae - SGPS, SA	269.858	415.883	1.209.865	1.890.415
Sonae Indústria, SGPS, SA	40.922	45.074	446.786	470.214
Sonae Sierra, SGPS,SA	82.246	126.757	821.818	821.818
Sonaecom - SGPS, SA	18.048	38.832	440.575	440.575
Sumolis - Comp. Industrial de Frutas e Bebidas, SA	-2.352	-1.552	68.197	80.657
Teixeira Duarte - Engenharia e Construções, SA	29.860	62.766	251.295	366.874
Tertir - Terminais de Portugal, SA	3.840	5.965	85.629	52.500
Toyota Caetano Portugal, SA	5.836	5.468	123.136	119.421
VAA - Vista Alegre Atlantis - SGPS, SA	-13.509	-13.830	3.843	8.935
Average - All Sample; n=52	88.246	95.312	769.600	734.611
Average - Finance firms; n=12	138.986	127.870	1.341.641	1.254.313
Average - Non Finance firms: n=40	73.024	85.544	597.987	578.700

Appendix II– IC's summary of Liabilities, Net Assets, Intangible Assets, Tangible Assets, Operating Profits and Business Turnover, of the non finance sample.

	IC Liabilities	IC Net Assets	IC Intangible Assets	IC Tangible Assets	IC Operating Profits	IC Business Turnover
1	0,78	0,88	1,09	1,00	1,06	1,00
2	0,86	0,98	0,00	0,99	1,69	1,65
3	1,03	1,07	0,94	1,20	1,30	1,00
4	1,02	1,02	1,09	1,01	0,79	1,02
5	0,96	1,01	1,07	0,98	1,13	1,00
6	1,00	0,98	0,80	1,00	0,96	1,00
7	1,01	0,99	0,40	1,10	1,27	0,99
8	1,07	0,93	1,00	0,93	0,68	1,01
9	0,97	0,89	0,64	0,22	0,67	1,00
10	0,99	0,99	1,00	0,99	1,02	0,83
11	0,69	0,73	0,66	0,69	1,23	1,00
12	1,07	0,99	0,96	0,99	0,95	1,00
13	1,03	0,97	0,00	1,36	1,77	0,99
14	0,98	0,96	0,85	0,95	1,02	1,00
15	1,14	1,44	0,00	1,65	0,90	1,00
16	1,00	0,97	0,91	1,03	2,93	1,00
17	1,00	1,00	1,00	1,00	1,13	1,00
18	0,90	1,00	0,00	1,00	1,00	1,00
19	1,27	1,15	1,06	0,99	0,74	1,00
20	1,03	1,03	0,98	1,02	1,06	1,00
21	1,00	1,00	1,00	1,00	1,00	1,00
22	1,16	1,07	0,06	1,60	-1,84	1,02
23	0,98	1,02	1,06	1,00	-0,01	1,00
24	0,47	0,74	0,00	0,20	0,28	1,00
25	1,01	0,99	1,01	0,99	1,41	1,00
26	1,21	1,07	1,01	0,97	1,08	0,98
27	0,94	0,98	0,91	0,90	1,11	0,80
28	1,00	0,51	0,10	1,00	1,03	1,00
29	1,05	1,06	2,24	1,00	2,48	0,88
30	0,86	1,15	0,00	0,00	4,59	1,05
31	1,09	1,06	1,00	1,06	1,00	0,99
32	1,06	1,14	2,56	0,71	1,67	0,97
33	1,10	1,09	2,38	1,00	1,04	0,94
34	1,00	1,00	1,00	1,00	0,99	1,00
35	1,00	1,00	1,00	1,00	1,00	1,00
36	1,05	1,10	0,99	1,30	1,02	1,01
37	1,01	1,06	0,01	0,69	1,36	0,89
38	0,87	0,77	0,39	1,08	1,25	1,00
39	0,98	0,98	0,41	0,98	1,15	1,00
40	1,02	1,04	1,32	0,84	1,14	1,00
Average	0,99	1,00	0,82	0,96	1,15	1,00
Standard Desviation	0,13	0,14	0,62	0,30	0,88	0,12
Median	1,00	1,00	0,97	1,00	1,05	1,00
Máx.	1,27	1,44	2,56	1,65	4,59	1,65
Mín.	0,47	0,51	0,00	0,00	-1,84	0,80

Appendix III -Summary statistics for the Net Income and Equity Value

Summary Statistics for the Index of Comparability - Net Income			
	Average	Standard Deviation	Median
All sample (n=52)	1.12	0.45	1.03
Financial sample (n=12)	0.94	0.05	0.81
Non financial sample (n=40)	1.18	0.43	1.08

Summary Statistics for the Index of Comparability – Equity Value			
	Average	Standard Deviation	Median
All sample (n=52)	1.05	0.47	1
Financial sample (n=12)	0.97	0.11	0.96
Non financial sample (n=40)	1.08	0.53	1

Appendix IV- Sample Companies and Index of Comparability for Net Income and Equity Value

Portuguese companies listed on the Euronext on 30/06/2007	IC Net Income	IC Equity Value
Banco BPI, S.A.	0,83	0,84
Banco Comercial Português, SA	1,23	0,89
Banco de Investimento Imobiliário, SA	0,69	1,07
Banco Espírito Santo de Investimento, SA	0,80	0,94
Banco Espírito Santo, SA	0,74	1,17
Banco Millennium BCP Investimento, S.A.	0,86	1,10
Banco Popular Portugal, SA	1,12	1,02
Banco Santander Totta, S.A.	0,76	0,83
BES-Vida, Companhia de Seguros, SA	0,90	1,00
Caixa Geral de Depósitos, SA	0,51	0,98
Espírito Santo Financial (Portugal) - SGPS, S.A.	2,37	0,81
Finibanco Holding - SGPS, SA	0,50	0,93
Brisa - Auto Estradas de Portugal, SA	1,04	1,11
Celulose do Caima - SGPS, S.A.	0,94	1,02
Cimpor - Cimentos de Portugal, SGPS, SA	1,42	1,26
CIN - Corporação Industrial do Norte, SA	1,07	1,03
Cofina - SGPS, SA	1,48	1,17
Compta-Equipamentos e Serviços de Informática, SA	1,04	0,93
Corticeira Amorim - SGPS, SA	1,51	0,96
EDP - Energias de Portugal, SA	0,91	0,75
Estoril Sol, SGPS, S.A.	-0,10	0,64
Galp Energia - SGPS, SA	1,00	1,00
GDP - Gás de Portugal, SGPS, SA	1,02	0,92
Gescartão - SGPS, SA	1,00	0,97
Grupo Soares da Costa - SGPS, S.A.	1,62	0,74
Ibersol - SGPS, SA	1,11	0,92
Imobiliária Construtora Grão Pará, SA	1,09	3,56
Inapa - Investimentos, Participações e Gestão, SA	1,25	0,85
Jerónimo Martins - SGPS, SA	1,00	1,67
Lisgráfica - Impressão e Artes Gráficas, SA	1,00	1,00
Martifer - SGPS, SA	0,65	0,99
Mota-Engil - SGPS, S.A.	1,01	1,02
Novabase, SGPS, SA	1,00	1,00
Papelaria Fernandes - Indústria e Comércio, SA	0,60	0,34
Pararede - SGPS, SA	2,09	1,05
Parública - Participações Públicas (SGPS), SA	0,38	1,00
Portucel - Empresa Produtora de Pasta e Papel, S.A.	1,54	0,96
Portugal Telecom - SGPS, S.A.	1,45	0,83
PT Multimédia - Serv. Tel. Multimédia, SGPS, SA	1,14	1,04
Reditus - SGPS, SA	1,03	0,09
SAG Gest - Soluções Automóvel Globais, SGPS, SA	1,54	1,23
Semapa - Sociedade Investimento e Gestão, SGPS, SA	1,09	1,00
Sociedade Comercial Orey Antunes, SA	1,01	0,99
Sonae - SGPS, SA	1,54	1,56
Sonae Indústria - SGPS, SA	1,10	1,05
Sonae Sierra - SGPS, SA	1,54	1,00
Sonaecom - SGPS, SA	2,15	1,00
Sumolis - Comp. Industrial de Frutas e Bebidas, SA	1,34	1,18
Teixeira Duarte - Engenharia e Construções, SA	2,10	1,46
Tertir - Terminais de Portugal, SA	1,55	0,61
Toyota Caetano Portugal, SA	0,94	0,97
VAA - Vista Alegre Atlantis - SGPS, SA	0,98	2,32
Average	1,12	1,05

Standard Desviation	0,45	0,47
Median	1,03	1
Máx.	2,37	3,56
Mín.	-0,10	0,09

Appendix V- Financial Companies and Index of Comparability for Net Income and Equity Value

Portuguese companies listed on the Euronext on 30/06/2007	IC Net Income	IC Equity Value
Banco BPI, S.A.	0,83	0,84
Banco Comercial Português, SA	1,23	0,89
Banco de Investimento Imobiliário, SA	0,69	1,07
Banco Espírito Santo de Investimento, SA	0,80	0,94
Banco Espírito Santo, SA	0,74	1,17
Banco Millennium BCP Investimento, S.A.	0,86	1,10
Banco Popular Portugal, SA	1,12	1,02
Banco Santander Totta, S.A.	0,76	0,83
BES-Vida, Companhia de Seguros, SA	0,90	1,00
Caixa Geral de Depósitos, SA	0,51	0,98
Espírito Santo Financial (Portugal) - SGPS, S.A.	2,37	0,81
Finibanco Holding - SGPS, SA	0,50	0,93
Average	0,94	0,97
Standard Desviation	0,50	0,11
Median	0,81	0,96
Max.	2,37	1,17
Mín.	0,5	0,81

Appendix VI- Sample of Non financial Companies and Index of Comparability for Net Income and Equity Value

Portuguese companies listed on the Euronext on 30/06/2007	IC Net Income	IC Equity Value
Brisa - Auto Estradas de Portugal, SA	1,04	1,11
Celulose do Caima, SGPS, S.A.	0,94	1,02
Cimpor - Cimentos de Portugal, SGPS, SA	1,42	1,26
CIN - Corporação Industrial do Norte, SA	1,07	1,03
Cofina - SGPS, SA	1,48	1,17
Compta-Equipamentos e Serviços de Informática, SA	1,04	0,93
Corticeira Amorim - SGPS, SA	1,51	0,96
EDP - Energias de Portugal, SA	0,91	0,75
Estoril Sol - SGPS, S.A.	-0,10	0,64
Galp Energia - SGPS, SA	1,00	1,00
GDP - Gás de Portugal - SGPS, SA	1,02	0,92
Gescartão - SGPS, SA	1,00	0,97
Grupo Soares da Costa - SGPS, S.A.	1,62	0,74
Ibersol - SGPS, SA	1,11	0,92
Imobiliária Construtora Grão Pará, SA	1,09	3,56
Inapa - Investimentos, Participações e Gestão, SA	1,25	0,85
Jerónimo Martins - SGPS, SA	1,00	1,67
Lisgráfica - Impressão e Artes Gráficas, SA	1,00	1,00
Martifer - SGPS, SA	0,65	0,99
Mota-Engil - SGPS, S.A.	1,01	1,02
Novabase - SGPS, SA	1,00	1,00
Papelaria Fernandes - Indústria e Comércio, SA	0,60	0,34
Pararede - SGPS, SA	2,09	1,05
Parública - Participações Públicas (SGPS), SA	0,38	1,00
Portucel - Empresa Produtora de Pasta e Papel, S.A.	1,54	0,96
Portugal Telecom - SGPS, S.A.	1,45	0,83
PT Multimédia - Serv. Tel. Multimédia, SGPS, SA	1,14	1,04
Reditus - SGPS, SA	1,03	0,09
SAG Gest - Soluções Automóvel Globais, SGPS, SA	1,54	1,23
Semapa - Sociedade Investimento e Gestão, SGPS, SA	1,09	1,00
Sociedade Comercial Orey Antunes, SA	1,01	0,99
Sonae - SGPS, SA	1,54	1,56
Sonae Indústria - SGPS, SA	1,10	1,05
Sonae Sierra - SGPS, SA	1,54	1,00
Sonaecom - SGPS, SA	2,15	1,00
Sumolis - Comp. Industrial de Frutas e Bebidas, SA	1,34	1,18
Teixeira Duarte - Engenharia e Construções, SA	2,10	1,46
Tertir - Terminais de Portugal, SA	1,55	0,61
Toyota Caetano Portugal, SA	0,94	0,97
VAA - Vista Alegre Atlantis - SGPS, SA	0,98	2,32
Average	1,18	1,08
Standard Desviation	0,43	0,53
Median	1,08	1
Max.	2,15	3,56
Mín.	-0,10	-0,09

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