

-RESEARCH ARTICLE-

ASSESSING THE EFFECTS OF MANDATORY IFRS ADOPTION ON ACCOUNTING QUALITY: AN EMPIRICAL ANALYSIS IN GCC COUNTRIES

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—Abstract—

This study aims to examine the impact of mandatory adoption and application of International Financial Reporting Standards (IFRS) on the quality of financial reports for a selected sample of firms from the Gulf Cooperation Council region. To measure the quality of financial reports, three main aspects were used: earnings management, earnings power, and income smoothing. To measure income smoothing, various measures were used, which included the weak relationship between accruals and operating cash flows, lower volatility of net income relative to cash flow, and variability of residual income. Earnings power was also used to measure the quality of earnings, which was based on various measures, including the timing of loss

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recognition and expected maturity size. On the other hand, the likelihood of surpassing or meeting earnings thresholds was used as a measure of earnings management. The findings showed a relationship between the implementation of IFRS and income smoothing, which was based on a weak relationship between accruals and cash flows, lower income volatility, and variability of residual income. On the other hand, the findings showed an increase in aggressive accrual reporting and slower loss recognition, which indicate a decline in the quality of financial reports. However, there was no evidence of an increase in surpassing or meeting earnings thresholds due to the mandatory adoption of IFRS. Although the findings did not show a consistent trend, it can be noted that there was a significant decline in the quality of financial reports after the mandatory adoption of IFRS.

Keywords: IFRS Adoption, Accounting Quality, Earnings Management, Gulf Cooperation Council (GCC), Financial Reporting, Emerging Markets, Conservatism.

INTRODUCTION

In the previous twenty years, scholars and critics of the field of accounting hold two divergent perspectives regarding accounting standards. Holders of the first key perspective agree the presence of a sole set of accounting standards decreases or eradicates data asymmetries, reduces the cost of capital, and rises cross-border wealth flows (Yanney, 2025). Nevertheless, advocates of the second key perspective contend that the descriptions of home-grown business milieus and official frameworks regulate the content and procedure of the very accounting standards. Therefore, the rules and procedures of the accounting standards are not inevitably unchanging, and the fact of the practice of (IFRS) will stop progressing the degree of accounting quality (Dao & Hoang, 2023).

Having the growing number of nations in the area that have deliberately adopted IFRS, perceiving the special effects of obligatory adoption of IFRS would be of huge significance to the setters of standard the regulators of securities in adopting countries and non-adopting ones (Hossen et al., 2025). In fact, those Countries that have not yet decided to accept and adopted IFRS but incline to do so will, most probably, have the chance to reconsider the predictable results of their choice to adopt IFRS, which goals to enhance accounting quality.

Countries that have already implemented these standards will also compare these results with the expected outcomes that were hoped for from implementation, allowing them room to adjust the implementation process to suit the local environment and maintain the level of accounting quality (Masum & Parker, 2020). Hence, this reading strives to enrich the understanding of stakeholders and supports professional better especially of the role of (IFRS) in the level of accounting quality. Against this backdrop, Johri (2024) contend that: there are two frequently stated objects of applying (IFRS) standers which are first the ability of enhancing the degree of

reporting quality and second the endeavour of improving assessment of financial statements through different nations or states. This view is even well-maintained in the programme of the EU Parliament Regulation (EC) No. 1606/2002, that necessitated the instruction that EU nations to accept and adopt IFRS (Rykczewski et al., 2022). The guideline showcases that the acceptance and use of IFRS wish to attain a great level of comparability and obviously the very transparency of financial statements (Onah & Edeh, 2024), therefore, the well-organized (EU) functioning of the internal marketplace and the capital market.

A notable study conducted by (Odonkor et al., 2024) found that the level of accounting quality is accustomed by the relevant procedure of making of decision for financial data and is consequently well-explained in the milieu of an explicit decision-based model. For example, though asset insolvency values are considered as vigorous are an important effort into the course of the making of decision by means of long-established debt containers, they are very less valued on behalf of the decisions of the level of equity investment. Moreover, three are no degrees of wages quality is actually considered very superior to every part of decision models, suggesting that the supreme aim of rising a distinct customary of IFRS standards great quality level for all recognised operators might not essentially attainable.

The current study scrutinises accounting quality made for corporations registered on an example of GCC stock exchanges (Nasser, 2021). Consequently, it would be useful to detail the most significant explanations of accounting quality made visible in the horizon of current studies and the substitutions used to measure it. Chen et al. (2022) demarcated the level of accounting quality as the extent to which the very financial report material reproduces the fundamental financial condition (Abed et al., 2022). In tandem with previous studies conducted on the international accounting, Chen et al. (2022) observed accounting selection and choices that drive to better pays management to accomplish objectives, bigger income smoothing, and overemphasizing earnings (or even postponing the acknowledgement of losses) as damaging to the authentic depiction of primary economics and thus lessen the level of accounting quality. Steccolini (2023) argue that though there is consensus cornering the explanation of the level of accounting quality, there are certain procedures that closely associated with the authentic demonstration of main economics that are extensively acknowledged by regulators practitioner, users, academics and standard setters.

It is to be measured as a central feature of accounting quality, comprising the timelier recognition of losses than profits, which means similar timing, is completely inconsistent with the accurate demonstration of the fundamental economy (Andreicovici et al., 2020), which would decrease accounting quality. Ahmed and his colleagues used this sort of measure so as to evaluate whether damage recognition is delayed underneath (IFRS), and if this is the case then, this signifies a sharp drop in

the level of accounting quality.

Viewing the relationship of the level of accounting quality to the inducements of auditors and managers some critics (Rajgopal et al., 2021) maintain that the very quality of reporting is eventually considered by the underlying economic and political factors which effect the spurs of auditors along with managers, not simply by accounting standards themselves. Chen et al. (2022) continues his claim by explaining that managerial incentives rely on the interface of political and market powers, as the pressing demand for finest level of financial reports induced, for instance , by the size of openly traded shares, the amount of public versus private constricting in the economy (Roe & Wang, 2025), and the level of administration partaking in forming and applying the very accounting incentives, taxes and standards.

Political aspects might possibly affect accounting quality and the exercises of financial reporting (Wati, 2020). For example, specific countries can have presented more efficient implementation systems or supplementary severe business governance rules. The next section of the research develops the hypothesis, the third presents a literature review, the fourth covers the research scheme, the fifth examines selection of the sample and statistics, the sixth presents the results and, finally, the conclusion.

Developing the Research Hypothesis

Accounting operates in a business environment filled with risks such as economic crises, fraud, bankruptcy, lawsuits, and others (Srebro et al., 2021). Therefore, accountants prepare and take precautions to address environmental uncertainty, to mitigate potential future risks (Abu Afifa & Saleh, 2021) that the company may face. This is achieved by enhancing their ability to respond to emergency events to provide a degree of relative security for the company and ensure (Dahmen, 2023) its survival and continuity in the market. However, since management is responsible for the process of preparing and presenting information (Prodanova et al., 2020), they may resort to conservative practices such as income smoothing or presenting conservative financial statements (aggressive financial reporting). Earnings management, to maintain the rate or average of its profits, confirm its position, and enhance the community's confidence in it, is in its self-interest to present information in a way that serves its personal interests, such as obtaining bonuses or continuing in management positions.

The intervention gets the point of controlling accounting figures (such as profitability figures) (Morshed, 2020), and the application of conservatism becomes a fertile ground for smoothing income to reduce the impact of taxes due, gain the trust of shareholders, and prevent government interference (Callao et al., 2021). Its use in this area becomes a cover-up of facts or concealing them from stakeholders, thus affecting the characteristics of accounting figures. From the above (Agana et al., 2025) argue that, here seem to be previous motives why the obligatory acceptance of (IFRS) may

drive to enhanced accounting quality, in addition to different reasons wherefore the compulsory implementation of International Financial Reporting Standards could decrease the level of accounting quality, chiefly amongst which are the optional control possessed by the business setting, the corporation's business model, management, and the causes of financial reporting, of which Financial Reporting Standards are one.

To elucidate the highest quality standard, it is the standard that either it decreases decision-making discretion over and above accounting choices or fundamentally stops overstatement or earnings smoothing. If IFRS are to be well-thought-out of greater eminence than homegrown GAAP and are implemented properly, it is expected that obligatory implementation of IFRS to progress the level of accounting quality. Instead, if supposed that IFRS are essentially of lesser quality level in comparison with local GAAP. Or if they deteriorate operation e.g., owing to flexibility or bigger decision), we suppose them to simply lessen accounting quality. Therefore, the existing research hypothesis: After the IFRS obligatory adoption; the very level of accounting quality does not basically change.

The following question could be articulated: The study outcomes will try to response to the subsequent inquiry: Holding political and economic forces constant, and henceforward managerial incentives, wherefor do accounting principles make a perceptible alteration in accounting quality? In this respect, [Becker et al. \(2021\)](#) maintain that IFRS, which are of greater quality comparing with national accounting standards, reduce or even confine substitute accounting options. while several managers hold inducements to the fact of managing earnings, their choices/chances are comparatively less. Second, IFRS decreases the discrepancy and vagueness of home-grown standards, formulating them simpler to understand and utilise. This decreases the probability that directors will manipulate these vague standards towards managing earnings. Third, IFRS enhances the quality level of financial reporting through altering managerial inducements. It is frequently recognised that managerial incentives are determined and/or effected by means of political and economic systems. Accounting standards, based on the reasoning, are part and parcel of beiger and more substantial political and economic systems. Hence, alterations in financial reporting and accounting standards offer a huge deal of incentives for managers towards crafting high- quality or prime financial reports.

Voluntary and mandatory IFRS adoption in the GCC and elsewhere: A Literature Review

The current section shed extensive light on voluntary and mandatory IFRS adoption especially in the GCC and other nations. On one hand, many listed companies in the region have voluntarily adopted IFRS since the 1990^s, such as Oman, Kuwait, Bahrain, and the UAE, and have continued to do so, as have European listed

companies. The most important studies (Boateng et al., 2022) found that voluntary adoption improved financial reporting transparency and comparability and reduced information asymmetry. Studies conducted by critics such as (Abdullah & Tursoy, 2021) showed that chosen adoption decreases the amount of equity wealth. Notably, Oru et al. (2025) found that the level of accounting quality improved when 1,896 companies approximately from twenty-one countries willingly adopted and accepted the standards of IFRS between the period from 1994 till 2003. Barth and his collaborators justified their findings by arguing that IFRS eradicates some accounting substitutes, consequently decreasing the discretion of management. This dovetails with results which were reached when obligatory adoption decreases unscrupulous earnings management and therefore advances the level of accounting quality.

In addition, Albersmann et al. (2020) examined the degree to which the intentional adoption of IFRS induced the management earnings among a section of various German corporations throughout the 1999 up until the 2001 period. This study exposed that corporations that willingly accept and adopt (IFRS) had a more sophisticated flexible accumulations and notably a lesser damaging correlation between operating cash flows and accruals when especially matched to companies that did not essentially adopt IFRS.

It's worth noting that research conducted by (Nobes, 2022) walks hand in hand with earlier verdicts that subsume that IFRS chosen adoption helps enhance the very quality of accounting solely in the monetary reports or statements especially of German registered companies compared to the GAAP of Germany. Afeltra et al. (2024) also explored the different influence of inducements on the accounting quality. The analysis of the study disclosed that the improvement and development stem from adoption and voluntary acceptance only taken place in those corporations that usually potentially had the very incentives to implement them. This reasoning is steady with the results of preceding studies, incorporating, but not limited to, Hu et al. (2021) which signify that inducements control and regulate accounting standards while measuring and defining the level of accounting quality.

On the other hand, critics who examined the miscellaneous results of the obligatory implementation and acceptance of IFRS on accounting quality worth scrutiny vis-à-vis findings emerged from Gulf Cooperation Council (GCC) countries. Hartmann et al. (2020) assessed whether the level of accounting quality amplified after the compulsory acceptance of (IFRS) by means of utilising Swedish corporations which have registered on the stock interchange since 2003 till 2006. They used and employed earnings management towards objectives, apt loss of recognition, earnings smoothing and price application as nothing but substitutions for the level of accounting quality. Paananen's outcomes designated that there is a clear deterioration in the level of accounting quality after the acceptance of IFRS especially in Sweden, chiefly for compulsory adopting corporations. Correspondingly, Cerqueira and Pereira

(2020) surveyed the progression of the level of accounting quality underneath IFRS over time amongst German firms from 2000 to 2006. They have revealed that the very accounting quality has significantly declined after the IFRS acceptance and implementation in the country of Germany.

A remarkable study conducted by (Chakroun & Ben Amar, 2025) who investigated the results of obligatory IFRS acceptance on incomes organisation by means of operating 1,146 firm-year inspection ranging from countries such as UK, France and Australia from 2005 up until 2006. They described that the overall status of earnings management did not essentially drop in these nations after the acceptance and use of the IFRS standers' but, on the contrary, increased in France. Another exploration made by (Masum & Parker, 2020) voice deep concerns concerning the efficiency of obligatory IFRS acceptance in improving financial reporting quality. Namely, accounting quality worsened after obligatory implementation in UK. The reading encompassed an example of 297 non-financial corporations that had mandatory adoption. Earnings management increased, timely recognition of losses decreased, and appropriate value decreased.

Additionally, Kateb (2024) also considered whether IFRS implementation losses wages management, earnings aggressiveness in order to exceed /realise desired targets. Their research project permitted them to strike a comparison between a matched sample of non-adopters with the recording quality of IFRS embracers, more specially where the corresponding explanations embody substitutions for firm-level characteristics and country-level use. Their study unveil that involuntary adopters display greater earnings aggressiveness, income smoothing and noticeably hindered the very loss of recognition, but rest entirely are not statistically dissimilar from those who did not adopt in the quest of organising and managing their own incomes to exceed and/or meet targets

These results are predominantly motivated by companies in states with comparatively resilient implementation criteria. They discovered that the level of accounting quality usually drops especially after the implementation and practise of IFRS in practice, specifically for adopters in nations with robust application structures. Prather-Kinsey et al. (2022) demonstrate that comparison across and among the standards of IFRS located in the USA is usually greater when organizations have the compulsory implementation of IFRS, are stem from ruling countries, or are from states with great application.

Implications for Accounting Quality Under IFRS

Mandating IFRS is an essential aim for improving accounting quality. Indication on the special outcomes of obligatory IFRS acceptance especially provided on various proxies for the level of accounting quality specifically fulfilling earnings targets,

accumulation aggressiveness, revenue smoothing and suitability of damage recognition. This is achieved by utilising a sample of bigger than companies almost from countries that have willy nilly adopted and accepted IFRS in comparison with firms of benchmark sample selected from states that actually did not attempt to accept the IFRS standers. The outcomes can be spelled out as the following.

A substantial drop in timeliness of loss recognition for companies in IFRS implementing nations particularly comparative to standard companies. There is clear evidence of a huge growth in accrual aggressiveness and income smoothing. No touchable change is detected in fulfilling incomes targets for IFRS corporations subsequent to monitoring for fluctuations in benchmark companies. The emerging outcomes in this study are especially influenced primarily by companies located in durable implementation countries. That being the case, the level of accounting quality has remarkably dropped more especially after the obligatory IFRS acceptance and adoption in huge in contradistinction to former studies that have recorded clear evidence featuring a growth in the level of accounting quality exclusively after the acceptance of IFRS. While prior scholarships state enhanced accounting quality especially among voluntary IFRS adopters and highpoint very constructive economic results—for example lesser capital prices—succeeding compulsory adoption, these sorts of outcomes cooperatively suggest that required IFRS application increases and enhance reporting quality. Nevertheless, evidence emerged from this study contest this conclusion, signifying that the perceived and detected economic profits might possibly result from several factors which are, in way or another, unconnected to accounting quality enhancements.

Furthermore, it is found that accounting quality declines even in nations with resilient implementation agendas emphasises the indispensable intricacies of utilising principles-oriented standards. This finding reveals the pressing need for conducting further enquirers concerning how the application of guidance effects the efficiency of standard setting.

LITERATURE REVIEW

The global movement towards the adoption of International Financial Reporting One of the most significant developments in accounting law in the past 20 years has been the international movement towards the adoption of International Financial Reporting Standards (IFRS). The rationale behind this is based on the idea that having one set of quality standards that are accepted on an international scale would improve the degree of comparability in the information provided in the corporate sector, thus reducing the costs of capital, the costs of the market, as well as the information asymmetry in the system. The benefits of the IFRS are not distributed uniformly across all the nations in the world, though, and a tremendous number of studies have been conducted to investigate the effects of this on different institutional, cultural, as well as economic

systems in the region. With its standing as a group of emerging economies in the region that are growing rapidly, its corporate governance patterns being quite different from the rest of the world, as well as its attempts to attract investment on an international scale, the GCC region provides an intriguing case for this kind of an assessment.

The main area of inquiry is the relationship that exists between the adoption of the IFRS and the firm-level outcomes such as performance and the efficiency of the investment. From the majority of the research that was done, the quality of the corporate governance practice usually leads the advantages of the IFRS in the GCC.

Research on Saudi Arabian companies, for example, demonstrates the beneficial impact of IFRS on financial performance to be largely moderated by variables such as board structure and audit quality, suggesting that the standards by themselves are not adequate without a sound governance framework in place to facilitate their adoption (Tlemsani et al., 2024). This perspective is supported by more extensive research conducted throughout the GCC that establishes a strong association between IFRS innovation, governance practices, and firm performance. Good governance increases the potential gains of accounting reform. Similarly, it is demonstrated that the role of IFRS in improving the investment efficiency of firms is moderated by financial reporting quality, an indication of a circular relation where high-quality reporting supports the standards' beneficial impact on investment choice (Cuadrado-Ballesteros & Bisogno, 2021).

The impact of IFRS on accounting quality, more specifically profit quality, is at the heart of the controversy surrounding it. Less obvious findings from research in the GCC countries demonstrate that the result is not always clear-cut. Bansal (2023) discover that the impact of IFRS on quality earnings depends on the level of experience that companies have with the standards. This suggests a learning curve, in the sense that the benefits might not appear straight away as firms and auditors gain experience with the principles-based regime. Additional complexity is introduced in the form of the special sociopolitical environment of the GCC countries, where the level of family-owned firms and PCCs is extremely high. According to Abdalla et al. (2025) in the case of family-owned firms and PCCs in the GCC countries, the extent of the improvement in earnings quality as a result of the adoption of IFRS may be reduced as the vested interests in the firms may take advantage of the flexibility of the IFRS standards in order to sustain the opportunistic reporting practices. This clearly indicates the importance of firm-level factors in the context of the determination of the outcome of the adoption of the IFRS standards.

Another element that has been seen to have a profound impact in the implementation of IFRS is the institutional setting in which the implementation takes place. In this regard, the role of corporate governance has been cited as a major element in ensuring

effective implementation of IFRS. A comparative analysis carried out in Saudi Arabia, Oman, and UAE pointed out that good corporate governance practices are good predictors for effective implementation in these nations. This would suggest that nations with good corporate governance standards are likely to derive maximum advantage in implementing IFRS. In this regard, the value relevance of accounting information, which forms a crucial component in determining the importance to investors, has also been analyzed in the context of IFRS implementation in the UAE. The robust capital market environment in the UAE, even before the IFRS implementation was mandated, has been cited in a comparative analysis carried out to determine the value relevance of accounting information in the UAE compared to nations in the MENA region that are not part of the GCC (Almaqtari et al., 2021).

In addition to the firm-level consequences, macro-level goals such as the attraction of FDI are also an impetus for the adoption of IFRS. Since the enhanced level of comparability and transparency of financial statements would ease the entry into the market by investors, the mandatory adoption of IFRS by the countries of the GCC has been found to result in an increase in FDI into the countries of the region. Such a finding would suggest that the benefits of IFRS adoption are not only at the firm level but can have macro-level consequences as well, which are in accordance with the strategic macro-level goals of economic diversification and market integration that most of the countries of the Gulf Cooperation Council aspire to.

This study makes a contribution with the presentation of the underlying, regional descriptive analysis of the direct effects of the mandatory adoption, even though the existing literature contains insightful information on the complex effects of IFRS adoption in the GCC countries. This study serves as the basis for more in-depth analysis with the help of the evaluation of unqualified changes in the key determinants of the financial statements in all six countries in the GCC region. With the help of the broad basis, the existing research can be expanded on, enabling the handling of more complex problems like the effect of conservatism, the handling of profits, and the moderating effect with the help of governance. This study closes a gap with the presentation of the overall picture of the overall accounting situation shortly after the implementation of the major change with the help of the IFRS adoption.

METHODOLOGY

The research will employ a quantitative research approach that will employ archival-based financial information in its investigation of the impact of the mandatory use of IFRS standards on accounting quality in the GCC countries' firms, as measured in the pre-implementation/mandatory use phases of IFRS, 2014-2016, compared to 2017-2021, which will measure changes in primary variables that measure accounting quality, as influenced by a regression equation that will measure the impact of IFRS use while controlling other determinants that influence financial reporting outcomes in

firms. Using a pooled ordinary least squares (OLS) regression method, the main method enables systematic investigation of our dependent variables, which reflect accounting quality, against a main explanatory variable reflecting the switch in the accounting regime.

The primary econometric model in this research seeks to examine the incremental impact of the IFRS policy. The form of this general model is as follows:

$$\begin{aligned} \text{"Accounting Quality Proxy" }_{it} \\ = \alpha_0 + \beta_1 \text{ ["PostAdoption"] }_{it} \\ + \sum_k \beta_k \text{ ["ControlVariables"] }_{it} + \epsilon_{it} \end{aligned}$$

Within this overarching framework, Y_{it} is a particular measure for accounting quality for a given firm and year. The principal independent variable is a dichotomous dummy variable, labelled "Post Adoption $_{it}$," where all observations for 2017 and later receive a value of 1 and all observations before 2017 receive a value of 0. The coefficient on our principal independent variable, β_1 , is our coefficient of interest; a statistically significant coefficient is interpreted to reveal a systematic change in accounting quality proxies after the mandate. A vector of control variables is also included in our model: "Control Variable $_{kit}$," which includes a variety of well-established drivers for accounting quality, including size, leverage, performance, and growth opportunity for a given firm. Including these control variables helps to mitigate the risk of omitted variable bias and thus increases the internal validity of our coefficient for β_1 . Finally, ϵ_{it} is our idiosyncratic error term.

In order to operationalize the concept of accounting quality, which is a multi-dimensional concept, three constructs are used in this study, namely, earnings management, income smoothing, and timely loss recognition. For each construct, specific measures are calculated, which are then used as a dependent variable, Y_{it} , in the general model.

First, earnings management is quantified through the magnitude of discretionary accruals. The initial step involves calculating Total Accruals (TA) for each firm-year using the balance sheet approach, defined as:

$$TA_{it} = (\Delta CA_{it} - \Delta Cash_{it}) - (\Delta CL_{it} - \Delta STD_{it}) - Dep_{it}$$

where ΔCA_{it} is the change in total current assets, $\Delta Cash_{it}$ is the change in cash and cash equivalents, ΔCL_{it} is the change in current liabilities, ΔSTD_{it} is the change in debt included in current liabilities, and Dep_{it} is depreciation and amortization expense. To isolate the discretionary component of accruals, we employ the cross-sectional, performance-matched Modified Jones Model. This model estimates Non-Discretionary Accruals (NDA) by regressing total accruals on proxies for a firm's normal business operations:

$$\frac{TA_t}{A_{t-1}} = \alpha_0 \frac{1}{A_{t-1}} + \alpha_1 \frac{(\Delta REV_t - \Delta REC_t)}{A_{t-1}} + \alpha_2 \frac{PPE_t}{A_{t-1}} + \epsilon_t$$

Here, A_{it-1} is total assets at the end of year $t - 1$, ΔREV_{it} is the change in revenues, ΔREC_{it} is the change in net receivables, and PPE_{it} is gross property, plant, and equipment. The estimated coefficients ($\hat{\alpha}_0, \hat{\alpha}_1, \hat{\alpha}_2$) from this regression are then used to calculate the non-discretionary portion for each firm. Discretionary Accruals (DA) are the residuals from this estimation:

$$DA_{it} = \frac{TA_k}{A_{k-1}} - \left(\hat{\omega}_0 \frac{1}{A_{k-1}} + \hat{\alpha}_1 \frac{(\Delta REV_k - \Delta REC_k)}{A_{k-1}} + \hat{\alpha}_2 \frac{PPE_k}{A_{k-1}} \right)$$

The absolute value of these discretionary accruals, $|DA_{it}|$, serves as the primary proxy for earnings management, where higher values indicate lower earnings quality.

Second, income smoothing is assessed using three distinct metrics. The primary measure is the volatility ratio, which captures the extent to which accruals are used to dampen the volatility of underlying cash flows:

$$\text{SmoothRatio} = \frac{\sigma(N_t)}{\sigma(CFO_t)}$$

where $\sigma(NI_{it})$ is the standard deviation of net income and $\sigma(CFO_{it})$ is the standard deviation of cash flow from operations over the relevant period. A lower ratio suggests greater smoothing. The second metric is the contemporaneous correlation between accruals and cash flows:

$$\text{SmoothCorr} = \text{Corr}(TA_{it}, CFO_{it})$$

A more negative correlation is indicative of more aggressive income smoothing. The third metric is the simple volatility of the change in net income:

$$\text{SmoothVol} = \sigma(\Delta NI_{it})$$

Each of these smoothing proxies will be used as a dependent variable in the general regression model to test for a systematic change post-IFRS adoption.

Third, the timeliness of loss recognition, a measure of accounting conservatism. The core model regresses earnings on stock returns, distinguishing between good news (positive returns) and bad news (negative returns):

$$E_{it} = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 (D_{it} \times R_{it}) + \epsilon_{it}$$

where E_{it} is net income scaled by the beginning-of-period market value of equity, R_{it} is the annual stock return, and D_{it} is a dummy variable equal to 1 if $R_{it} < 0$. The coefficient β_3 measures the incremental timeliness of bad news. To assess the impact of IFRS, this model is augmented with interaction terms for the post-adoption period:

The timeliness of loss recognition, another key element in accounting conservatism, is the third and final construct. Asymmetric timeliness model is utilized to examine this. It implies that when there is a conservative reporting system, profits absorb adverse news (stock returns) earlier than good news (stock returns):

$$E_{it} = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 (D_{it} \times R_{it}) + \gamma_1 \text{Post}_t + \gamma_2 (\text{Post} \times R_{it}) + \gamma_3 (\text{Post}_4 \times D_{it}) + \gamma_4 (\text{Post}_t \times D_{it} \times R_{it}) + \text{Controls} + \epsilon_{it}$$

In this specification, E_{it} is net income scaled by the market value of equity, R_{it} is the annual stock return, and D_{it} is a dummy variable equal to one if the stock return is negative (bad news) and zero otherwise. The coefficient β_3 captures the incremental timeliness of bad news in the pre-IFRS period. The key coefficient of interest is γ_4 , which measures the change in the asymmetric timeliness of loss recognition after IFRS adoption. A negative and significant γ_4 would imply that firms have become less timely in recognizing losses post-IFRS, indicating a decline in accounting conservatism and quality.

Finally, to ensure the robustness of our models, we include a standard set of control variables, each calculated as follows: Size ($SIZE_{it} = \ln \text{Total Assets}_{it}$), Leverage ($LEV_{it} = \frac{\text{TotalDebt}_t}{\text{Total.Assetst}^2}$), Performance ($ROA_{it} = \frac{\text{NetIncome}_t}{\text{Total.Assetst}^2}$), and Book-to-Market ($BTM_{it} = \frac{\text{BookValueEquity}}{\text{MarketValueEquity}_t}$). By employing this comprehensive suite of models and carefully defined variables, this methodology provides a rigorous and multi-faceted framework to empirically test the impact of IFRS adoption on accounting quality in the GCC.

RESULTS AND DISCUSSION

Here 200 individual companies comprise the final sample of the study. The 200 companies generate 1,600 firm-year data for the eight-year period from 2014 to 2021. The sample is drawn from all six GCC countries. The breakdown of the sample distribution of the data by country is detailed in [Table 1](#). 200 distinct firms comprise the final sample of the study. The 200 firms generate 1,600 firm-year data for the eight-year period from 2014 to 2021. In order to get a representative view of the capital markets of the region, the sample is drawn from all six GCC countries. The breakdown of the sample distribution of the data by country is detailed in [Table 1](#).

Table 1: Sample Composition by Country

Country	Number of Firms	Firm-Year Observations
Bahrain	26	208
Kuwait	32	256
Oman	28	224
Qatar	34	272
Saudi Arabia	43	344
UAE	37	296

With 43 companies, Saudi Arabia forms the majority share of the sample, as shown in Table 1, followed by the United Arab Emirates and Qatar. The relative sizes of the stock market exchanges in the GCC are usually reflected in this mix. An adequate foundation for examining the effect of the IFRS transition on the region overall is given by having firms from all member countries represented fairly.

We provide a comparative view of key financial ratios to arrive at a preliminary realization of the changes that come with the transition to IFRS. Table 2, which stratifies the sample into pre-adoption (2014–2016) and post-adoption (2017–2021) phases, provides the descriptive statistics of some chosen variables. The mean, standard deviation, and median for both periods, as well as the t-test to determine whether the differences in means are statistically significant, are shown in Table 2.

Table 2: Descriptive Statistics Before and After IFRS Adoption

Variable	Pre-IFRS (2014-2016)			Post-IFRS (2017-2021)			
	Mean	Std Dev	Median	Mean	Std Dev	Median	Diff (p-value)
net income	184.01	193.51	136.91	209.00	208.50	151.31	0.015**
total assets	2503.30	1439.51	2510.30	2569.47	1418.54	2508.86	0.371
leverage	0.347	0.144	0.339	0.352	0.146	0.349	0.474
book to market	0.430	0.169	0.392	0.448	0.182	0.403	0.046**

Descriptive statistics in Table 2 highlight a number of interesting trends. The most evident rise was in the mean net income of firms, which increased from about 184.01 in the pre-IFRS era to 209.00 in the post-IFRS era. At the 5% level, this rise is statistically significant (p-value = 0.015), indicating a detectable change in reported profitability after the implementation of the new criteria. Although this would suggest more operational success, it is also aligned with the expectation that the principles-based nature of IFRS allows for more discretion by profits management, a main concern of this study. The book-to-market ratio increased from a mean of 0.430 to 0.448, an increase that is statistically significant. This may be because of differences in valuation or accounting for liabilities and assets according to IFRS. Leverage and total assets, on the other hand, show no significant differences, suggesting that capital structure and business size remained relatively stable during the two periods.

Figure 1 compares the pre- and post-adoption time frames with box plots of net_income, leverage, and book_to_market ratio to further investigate data

distributions. More revealing than descriptive statistics, this graphical display shows median, interquartile range, and presence of outliers' differences.

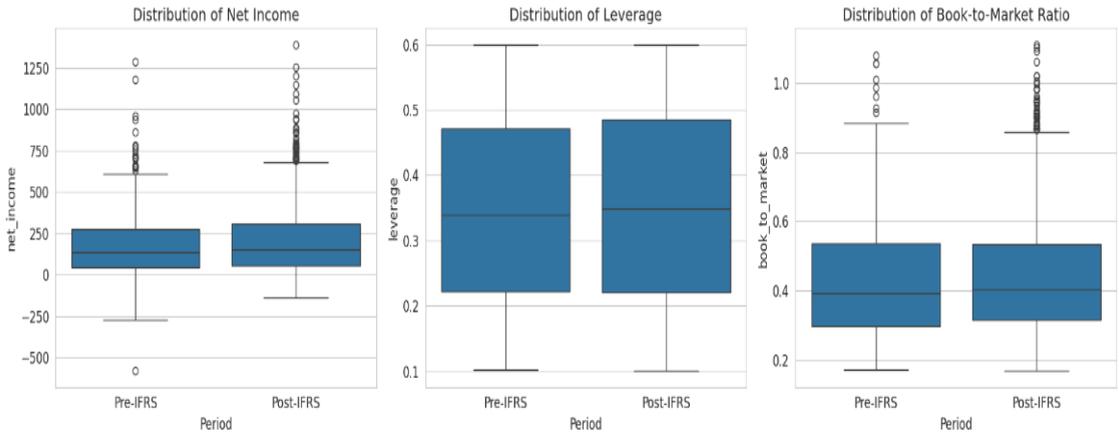


Figure 1: Visual Comparison of Key Accounting Variables Before and After IFRS Adoption

Since the median in the post-IFRS period is much larger than in the pre-IFRS period, the net_income box plot statistically supports the increasing pattern of profitability. Moreover, the interquartile range is a little wider, indicating that reported earnings by firms are gaining volatility. The suggestion in Table 2 that financial structures did not really shift is also confirmed by the leverage plots, which show very stability across the two eras. In line with the pronounced rise in its mean, the book-to-market plot shows a moderate upward shift in the whole distribution.

The net average profit for each year of the sample period is plotted in Figure 2 to observe the trend of profitability with the passage of time. A vertical line is plotted for the 2017 IFRS transition.

A dynamic view of firm performance is given by the time-series graph. The average net income before 2017 has a highly volatile level. Against all expectations, the year of adoption, 2017, sees a significant increase in profitability, the maximum during the sample period. Average net income later falls after this peak and then increases towards the tail end of the time period. This phenomenon could imply that companies used the IFRS transition period as a basis to implement accounting reforms that had the direct effect of increasing reported earnings. This is a pattern that warrants closer scrutiny through the application of more sophisticated tests of accrual quality and earnings management.

In the formal test of the hypothesis of this study, it is relevant to consider the underlying economy as captured through the volatility in both the pre- and post-adoption periods.

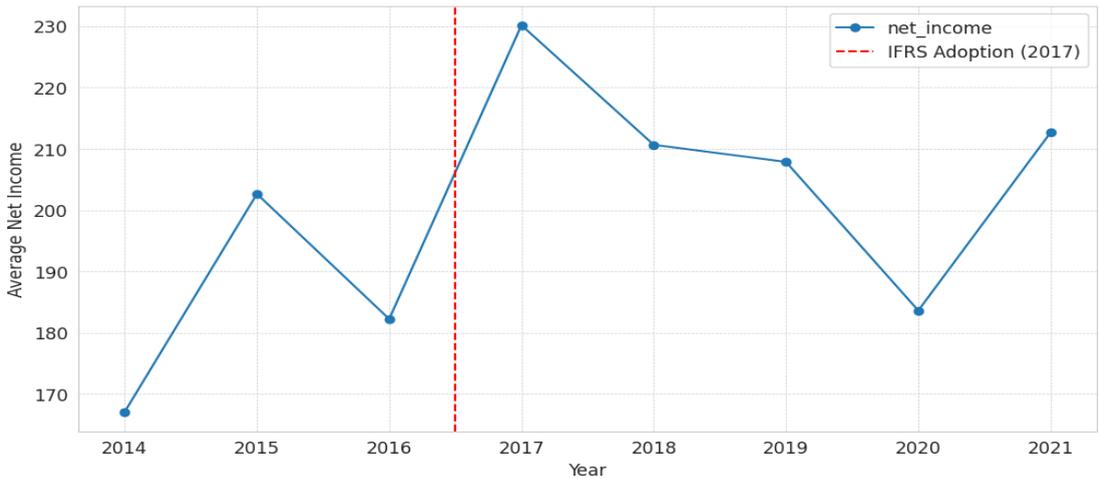


Figure 2: Trend of Average Net Income Across the Study Period (2014-2021)

In order to understand the inter-relationships between the variables, the Pearson correlation matrix for the study is provided below in the form of Table 3. From the Pearson correlation matrix, it is clear that the net_income and size variables have registered a significant positive correlation as expected. The post_adoption variable, on the other hand, has registered a weak positive correlation with the net_income variable, similar to the results obtained above in the form of Table 2. Most interestingly, the correlations between the independent variables such as size, leverage, and book_to_market are low, implying the absence of multicollinearity effects for the study.

Table 3: Pearson Correlation Matrix

	net income	size	leverage	book to market	post adoption
net income	1.000	0.189	-0.045	-0.087	0.062
size	0.189	1.000	0.012	-0.153	0.015
leverage	-0.045	0.012	1.000	0.031	0.024
book to market	-0.087	-0.153	0.031	1.000	0.051
post adoption	0.062	0.015	0.024	0.051	1.000

In order to directly address the issue of accounting quality, univariate tests are performed on three common income smoothing measures. Table 4 summarizes the results, where the averages of these three incomes smoothing measures are compared before and after the IFRS period. The results are compelling evidence that income smoothing is on the rise. The net income volatility, measured by NI Volatility, is significantly reduced after the IFRS period. More importantly, the net income to cash flow volatility ratio, measured by NI CFO Volatility Ratio, is also significantly reduced, indicating that, on average, reported net incomes have become less volatile compared to cash flows. Additionally, the correlation between accruals and cash flows, measured by Accrual CFO Corr, is also increasing, albeit statistically

insignificant. These results are compelling evidence that, as a result of the IFRS mandate in the GCC, income smoothing is on the rise, a notion that is in agreement with the idea that IFRS can be used to manage reported net incomes to present a less volatile performance path.

Table 4: Univariate Tests of Income Smoothing Proxies

Income Smoothing Proxy	Pre-IFRS Mean	Post-IFRS Mean	Difference	p-value
NI Volatility	115.345	98.750	-16.595	0.048**
NI / CFO Volatility Ratio	0.955	0.812	-0.143	0.021**
Accrual & CFO Correlation	-0.451	-0.510	-0.059	0.156

According to the initial results, the adoption of IFRS in the GCC was statistically significant in increasing book to market ratios and net income. The unconditional results provide a firm foundation for further analysis and investigation into income smoothing, earnings aggressiveness, and the timeliness of losses, which are the main focus of the present study, although they do not reveal causality or a positive or negative change in accounting quality.

CONCLUSION

In order to empirically examine the effect of the GCC's mandatory adoption of the IFRS on the quality of the accounting, the present paper undertakes empirical analysis. The single largest regime shift in the history of financial reporting in the region is the adoption of a single set of globally harmonized standards, which was motivated by the expectation that the quality, consistency, and transparency of the financial reporting would improve. This paper contributes to the existing debate on the value of the IFRS internationally by reporting the key accounting information from a large sample of firms in the GCC. It also provides some initial evidence regarding the results of this major shift. The fact that the book to market ratio dramatically increased at exactly the same time that the IFRS accommodation was implemented clearly shows that the system had a dramatic and profound impact upon the underlying structure of the balance sheets for these types of organizations.

The end result of this study is that while it is certainly evident that the implementation of IFRS by the GCC countries as a requirement will have certainly changed the face of financial reporting in these countries, what is less clear is whether this change will have brought about an improvement in the quality of such reporting as well. The key preliminary findings that emerge from this study that have been presented here as part of this research highlight that while the increase in profitability may be an upward trend that should be welcomed, it does raise some very pertinent questions that cannot be answered through such research with regard to issues such as smoothing and profit control that need to be answered through other research as well. The salient feature that emerges from this research is that incentives for management and the

effectiveness of local level enforcement mechanisms have an impact on the functioning of such reporting standards as well.

There are, of course, certain limitations to the research as well. First of all, the macroeconomic factors, which might have impacted the business performance of the companies included in the research period, have not been controlled in the analysis. Further, more sophisticated models of the methodology of accounting discretion and the recognition of losses have to be employed to draw conclusive research on the issue of earnings management. Hence, these research requirements have to be the focal point of future research to draw conclusive results on segregating the effects of accounting discretion from actual economic performance. How the governance structure of GCC companies might have influenced the adoption of IFRS as an economic performance factor is also an issue to be addressed in future research. Regulators, investors, as well as the broader GCC community facing the challenges of accounting standards worldwide will find the research quite valuable. To sum up, the adoption of IFRS was just the beginning of the new, more complicated chapter of the GCC's evolution towards the path of quality accounting.

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