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-RESEARCH ARTICLE-

IFRS IMPLEMENTATION AND COST OF EQUITY CAPITAL: THE ROLE OF FINANCIAL REPORTING QUALITY

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─Abstract─

The study investigates the influence of International Financial Reporting Standards (IFRS) on financial reporting quality (FRQ) in Australia by examining the cost of equity capital in relation to firms' positions within their life cycle. Employing a Systematic Literature Review (SLR) approach, the researchers conduct an empirical analysis of publicly listed Australian firms to explore changes in financial behaviour preceding and following IFRS implementation. The findings indicate that the adoption of IFRS did

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not lead to consistent improvements in FRQ across various organisational contexts. Instead, the introduction of IFRS was associated with a decline in FRQ, largely due to the standards' inherent complexity and the extensive professional judgement required by accountants. The study reveals that a firm's financial life cycle stage significantly mediates the relationship between IFRS implementation and financial reporting outcomes. Organisations at a more advanced growth stage exhibited enhanced FRQ and reduced equity capital costs, likely attributed to their established governance frameworks and mature reporting mechanisms. In contrast, firms in earlier developmental phases, particularly during growth, experienced diminished or adverse effects from IFRS adoption, primarily due to insufficient preparedness. Additionally, the study highlights that financial market responses to IFRS are shaped by prevailing market conditions and investor sentiment. These findings emphasise the necessity for a nuanced approach to IFRS adoption that accounts for firm-specific characteristics and external influences, rather than relying solely on standardised implementation practices.

Keywords: IFRS Adoption, Financial Reporting Quality (FRQ), Cost of Equity Capital, Firm Life Cycle, Capital Markets.

INTRODUCTION

The global move towards IFRS has significantly transformed financial reporting practices over the past two decades. This standardisation initiative has been adopted in over 140 jurisdictions, offering a unified framework for business financial disclosures (Gardi et al., 2023). Within the Australian context, the introduction of IFRS into capital markets marked a substantial structural shift in the presentation and interpretation of financial information, affecting the practices of investors, analysts, and policymakers (Akisik & Gal, 2023). The availability of accurate and reliable financial data is crucial for efficient capital markets, as high-quality reporting minimises information asymmetry, enhances investor confidence, and influences firm valuation (Deef, 2023).

The mandatory implementation of IFRS in Australia in 2005 created a valuable opportunity for examining its financial impacts (Sharif & Johari, 2022). The transition was supported primarily for two reasons: to improve the credibility of financial statements and to align national reporting with international practices, thereby attracting foreign investment (Khuong & Anh, 2022). Companies expected a range of benefits from this shift, including enhanced access to international markets, better resource allocation, and reduced capital costs (Jibril, 2019). However, research has produced inconsistent findings regarding its actual effects. While some studies report improvements in reporting quality and reduced equity costs, others reveal minimal or negligible effects, depending on firm size, governance standards, and industry type (Abhishek et al., 2023; Al-Okaily et al., 2024). One recurring limitation in existing research is the lack of consensus on the capital market implications of IFRS adoption (Pinsker & Wheeler, 2009). Although the links between IFRS, reporting quality, and capital costs have been independently examined (Heidari Gandoman & Rostami, 2017), fewer studies consider the mediating influence of reporting quality within this relationship (Kabwe et al., 2021). This oversight is critical, as reporting quality enhancement is the main mechanism through which IFRS is expected to impact market efficiency (Kateb, 2024). Furthermore, many studies do not account for firm heterogeneity, particularly differences in corporate life cycle stages, which significantly influence how firms respond to changes in accounting standards (Bryce et al., 2015).

Corporate life cycle theory classifies organisations as progressing through introduction, growth, maturity, and decline, with each stage characterised by unique cash flow patterns, risk exposures, financing requirements, and strategic objectives (Almaqtari et al., 2021). These distinctions shape organisational responses to IFRS implementation (Oppong & Bruce-Amartey, 2022). While mature firms may benefit from increased comparability, younger firms often face greater complexity and compliance costs (Mensah, 2021). Therefore, a thorough assessment of IFRS impacts requires a framework that considers life cycle stages, offering a more refined theoretical and practical understanding of its effectiveness (Musa, 2019). This study combines a Systematic Literature Review (SLR) with empirical analysis of Australian-listed firms to derive its findings (Hasan et al., 2022). The SLR method facilitates systematic identification and evaluation of peer-reviewed studies concerning IFRS effects on reporting quality and capital market behaviour (Hassani & Behrouz, 2023). The empirical analysis investigates the mediating role of reporting quality in the relationship between IFRS and equity capital costs across various corporate life cycle stages (Minh et al., 2023).

The review has three primary objectives. First, it explores the mediating role of reporting quality in the relationship between IFRS and capital costs. Second, it examines how this role changes across different stages of firm development. Third, it provides practical guidance for standard-setters, market participants, and policymakers by identifying how IFRS influences capital costs depending on a firm's developmental phase. By integrating theoretical insights with empirical data, the study contributes to a deeper understanding of IFRS outcomes, highlighting the specific conditions under which capital markets derive benefit and identifying the types of firms that realise such advantages. These insights support the formulation of more tailored and effective financial reporting strategies.

SLR APPROACH AND JUSTIFICATION

This study utilises the SLR approach as a structured and rigorous method, enabling researchers to identify relevant literature addressing specific research questions through comprehensive evaluation and synthesis of existing academic work. The adoption of SLR supports a methodical framework that reduces potential biases and enhances the transparency of the review process, particularly when examining empirical evidence

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within the fields of finance and accounting. The PRISMA analysis used in this study is illustrated in Figure 1.

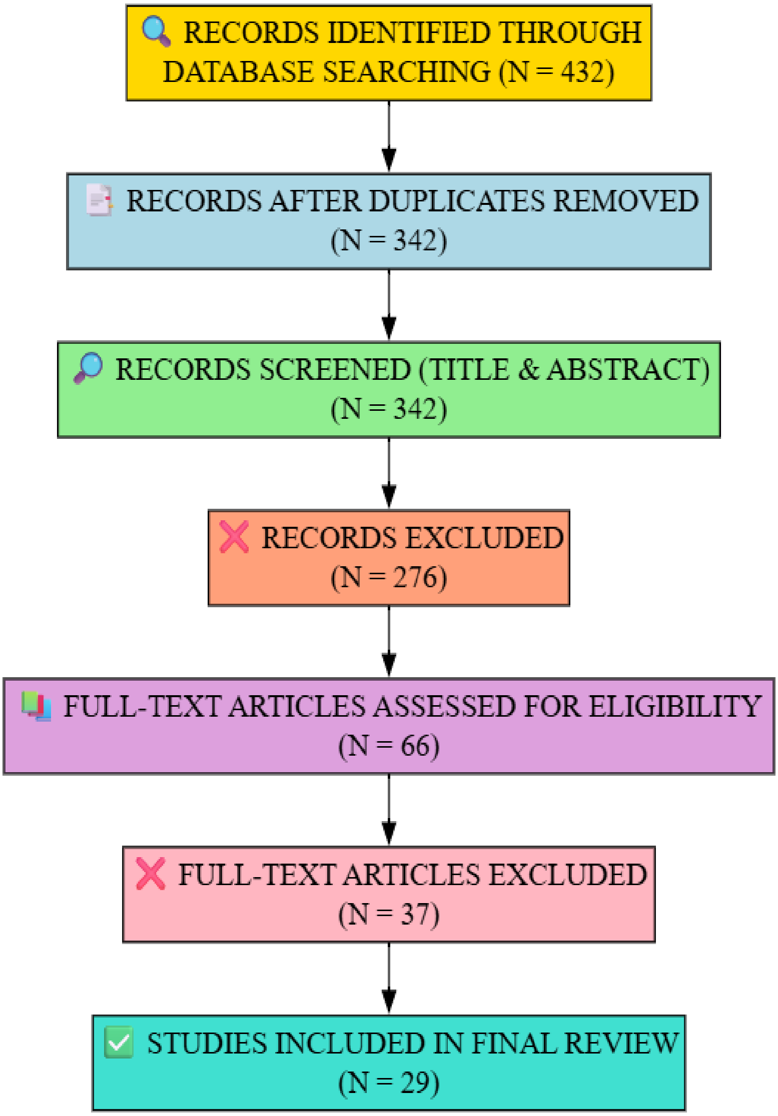

Figure 1: PRISMA Analysis

The study employs a structured, context-driven framework to categorise firms according to their respective positions within the corporate life cycle—specifically, the stages of introduction, growth, maturity, and decline—drawing upon qualitative synthesis from existing scholarly literature. Instead of applying statistical techniques or quantitative benchmarks, the analysis adopts an interpretive perspective based on peer-reviewed research to investigate how firms at different developmental stages engage with and react to IFRS. This method uncovers recurring conceptual patterns across

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varied settings, facilitating a more refined understanding of the regulatory, organisational, and market-related factors that influence these responses. Through the integrated SLR framework, the research establishes a comprehensive basis for exploring the ways in which financial reporting practices shape governance structures, inform policy decisions, and affect investor sentiment within the context of IFRS adoption.

Search Strategy

Search Terms & Keywords

The study utilised a structured Boolean logic strategy, incorporating a range of keywords to locate pertinent literature aligned with the research objectives. A combination of search terms was applied, linking "IFRS adoption" with expressions such as "financial reporting quality," "cost of equity," "firm life cycle," "earnings quality," and "Australian capital market." These terms were deployed across all searchable fields, including titles, abstracts, and keywords. The search methodology also employed wildcard and truncation techniques (e.g. "earn quality*") to capture variations such as "earnings quality" and "earnings reporting quality," along with other potential derivatives. The literature search was restricted to English-language publications within the disciplines of economics, finance, and accounting. An initial screening involved assessing titles and abstracts for relevance, which was followed by full-text analysis to confirm thematic alignment and methodological appropriateness.

Inclusion and Exclusion Criteria

Studies were selected for inclusion based on their focus on Australian listed firms and their provision of data covering both the pre- and post-2005 IFRS implementation periods, as this temporal framework was critical for assessing long-term effects. The review was limited to research offering empirical evidence related to financial reporting quality, earnings quality, and cost of equity, ensuring that the analysis remained centred on financial performance metrics. Only those firms with adequate company-specific financial data were considered, as this information was necessary to accurately classify firms by corporate life cycle stage. Research was excluded if it examined non-Australian contexts without establishing a direct comparison to the Australian capital market, as such limitations constrained the relevance of findings to the local financial environment. Additionally, studies lacking empirical support or methodological rigour were omitted. Firms with incomplete or unreliable financial data were also excluded to preserve data integrity within the longitudinal analytical framework. The overall selection strategy was designed to establish a credible evidence base aligned precisely with the research objectives.

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Data Extraction and Analysis

The data extraction phase focused exclusively on collecting firm-level financial information necessary for conducting empirical analysis. The investigation centred on three core indicators: earnings quality measures (such as accruals, persistence, and smoothness), cost of equity estimations (derived from pricing models and analyst forecasts), and a metric for reporting consistency. These variables were subjected to standardisation procedures prior to conducting inter-firm comparisons and interpretive evaluations. A combination of indicators was utilised to assign firms to specific life cycle stages, drawing on established accounting research models that analyse cash flow trajectories, revenue growth, retained earnings, and capital expenditure patterns. Following data collection, the analysis proceeded in two phases. Thematic synthesis was first applied to identify recurring patterns, inconsistencies, and gaps in existing IFRS literature. Subsequently, quantitative regression techniques were employed to test hypotheses concerning the influence of corporate life cycle stages on the relationship between IFRS adoption and financial outcomes. This dual-method approach enabled both in-depth interpretative insight and statistically robust findings, consistent with contemporary standards in SLR and empirical accounting research.

Although the initial screening adhered to standard procedures commonly employed in systematic reviews, the analysis phase adopted a context-driven SLR approach rather than relying solely on thematic synthesis. This method prioritised the assessment of IFRS impacts within defined contextual parameters, including firm size, governance arrangements, life cycle stages, and market conditions, as presented in the selected studies. Each source was analysed with particular attention to the specific circumstances under which variations in financial reporting quality and cost of equity were observed. This enabled a more nuanced interpretation of how contextual factors influence the outcomes of IFRS implementation, thereby strengthening the relevance and applicability of the findings within the Australian financial context. The use of a context-based framework ensured that the conclusions accurately captured the diversity in organisational responses, regulatory environments, and reporting practices documented across the reviewed literature.

KEY CONCEPTS IN IFRS AND FINANCIAL REPORTING

Establishing clear conceptual understanding of IFRS, financial reporting quality, and cost of equity capital is essential for comprehensively exploring their interrelationships. This study draws upon these interconnected concepts to construct its conceptual foundation, enabling a systematic evaluation of how accounting standards influence both capital market performance and firm-specific financing mechanisms. The formulation of the core research problem concerning IFRS and financial reporting is presented in Table 1.

Table 1: SLR Validation of Financial Reporting

Author	Description	Drawbacks
Alharasis (2025)	Assesses the use of IFRS-based electronic reporting (XBRL) in Jordan's financial sector and its influence on financial information relevance.	Findings are limited in scope due to the focus on a single industry in Jordan, reducing global applicability.
Botiralievna (2025)	Reviews changes in lease accounting practices under IFRS 16, focusing on recognition and disclosure shifts.	Concentrates narrowly on lease accounting, overlooking broader IFRS adoption impacts.
Bulycheva et al. (2024)	Proposes a conceptual model for integrating IFRS with sustainability efforts, particularly in green supply chains and corporate responsibility.	Lacks empirical validation of the framework in practical or operational contexts.
Cheng (2024)	Explores the worldwide impact of IFRS on corporate accounting standards and practices.	Does not delve into specific financial outcomes like cost of equity capital.
Diva et al. (2025)	Performs a scientometric analysis to map research trends in IFRS-related accounting and auditing fields.	Relies on bibliometric data, without empirical evidence of IFRS outcomes at firm level.
Hikal et al. (2025)	Investigates how the readability of corporate reports affects investor behaviour and future reporting trends.	Does not directly address how IFRS adoption relates to equity costs or reporting quality.
Lim et al. (2024)	Discusses the pedagogical delivery of IFRS 15, focusing on teaching control concepts and comprehension outcomes.	Educational in nature, with no analysis of how teaching impacts real-world business performance.
Maggioni and Turchetti (2024)	Introduces IFRS principles through the lens of the insurance sector, emphasising consolidated financial reporting.	Focuses solely on one industry, which may not capture IFRS effects across wider sectors.
Mamadiyarov et al. (2024)	Examines IFRS adoption challenges within microfinance institutions and their financial reporting practices.	Narrow focus on microfinance limits generalisability to larger firms and industries.
Wagenhofer (2024)	Discusses the role of sustainability reporting as part of financial disclosure practices under IFRS.	Does not establish a link between sustainability disclosures and financial outcomes such as equity costs.

IFRS Adoption

IFRS constitute a globally recognised set of accounting standards designed to enhance the transparency and consistency of financial reporting across international markets (Alharasis, 2025). The adoption of these standards aims to improve the quality of financial disclosures, thereby fostering greater investor confidence, reducing information asymmetry, and facilitating cross-border investment flows. In Australia, IFRS gained regulatory authority on 1 January 2005, replacing the previously applied Australian Generally Accepted Accounting Principles (GAAP) as the mandatory framework for all reporting entities (Bulycheva et al., 2024). The transition to IFRS introduced a principles-based reporting model that requires firms to exercise

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professional judgement in the recognition and measurement of financial transactions (Cheng, 2024). This approach prioritises the economic substance of transactions over their legal form, with the objective of providing a more faithful representation of financial position and performance. Adoption of IFRS is expected to lower the cost of financial information processing for capital market participants, thereby improving the quality of their decision-making (Diva et al., 2025). Firms often experience reductions in capital costs as enhanced credibility of financial statements increases their access to international sources of finance. The realisation of these benefits, however, depends on coordinated efforts among regulatory authorities, industry practices, and firm-level adherence to the standards (Hikal et al., 2025).

Financial Reporting Quality (FRQ)

FRQ refers to the degree to which financial statements accurately reflect a firm's financial performance and overall condition, thereby supporting users in making informed economic decisions. FRQ is distinguished by four fundamental attributes: relevance and reliability on one hand, and transparency and consistency on the other. These characteristics enhance the value of accounting information for evaluating historical performance, forecasting future trends, and assessing managerial accountability (Lim et al., 2024). Elevated FRQ is associated with reduced opportunities for earnings manipulation, stronger earnings persistence, more timely recognition of losses, and improved disclosure practices in real-world business settings. A robust reporting system also constrains managerial discretion and promotes trust among investors, creditors, and other stakeholders. Within the IFRS framework, FRQ tends to improve due to expanded disclosure obligations, fair value measurement requirements, and harmonised compliance standards. However, the degree of improvement following IFRS implementation is influenced by various factors, such as the strength of enforcement mechanisms, the quality of corporate governance, and the firm’s capacity to adapt to the new standards. The impact of these regulatory changes varies across different stages of a company's development, as the burdens of compliance and the anticipated benefits differ according to operational maturity (Mamadiyarov et al., 2024).

Cost of Equity Capital

Investors expect a certain rate of return in exchange for assuming the risks associated with equity ownership. For firms, the cost of equity constitutes a critical component of the overall cost of capital, influencing key financial decisions such as investment planning, capital allocation, and business valuation. Organisations that maintain a lower cost of equity benefit from more efficient capital acquisition, facilitating enhanced strategic expansion and long-term value generation (Wagenhofer, 2024). The quality and timeliness of corporate financial disclosures significantly influence investor behaviour. Firms that deliver transparent, accurate, and timely financial information reduce ambiguity surrounding their financial condition and future outlook, thereby

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lowering investors' risk perceptions. As a result, investors are inclined to accept lower returns. Conversely, financial reports characterised by inaccuracies, omissions, or opacity increase perceived risk, prompting investors to demand higher risk premiums as a safeguard (Botiralievna, 2025). Under IFRS, financial disclosures are intended to reduce information risk by improving the clarity and reliability of reporting, which in turn contributes to lower equity capital costs. The extent to which market participants respond positively to these reporting improvements depends on the quality of enhancements introduced and the perceived credibility of the financial information provided (Maggioni & Turchetti, 2024).

THEORETICAL AND CONCEPTUAL FOUNDATIONS

This study is grounded in Signalling Theory, Agency Theory, and Life Cycle Theory, which collectively offer a theoretical framework for examining the influence of IFRS adoption on both financial reporting quality and equity capital costs. These perspectives enable researchers to interpret corporate disclosures as signals to external stakeholders, understand mechanisms for managing internal conflicts, and assess how organisational characteristics at different developmental stages shape financial outcomes.

Table 2: Theoretical and Conceptual Foundations

Author	Description	Drawbacks
Pradeu et al. (2024)	Reviews the conceptual development of innate immunity over the past three decades.	Offers no direct relevance to financial reporting or accounting standards.
Termine (2025)	Investigates moderate revisionism within the field of international relations and its theoretical foundations.	Unrelated to IFRS or financial reporting contexts.
Han and Balabanis (2024)	Provides a meta-analysis on the role of social media influencers, emphasising theoretical perspectives.	Focuses on marketing dynamics, lacking direct connection to IFRS or equity capital concerns.
Racat et al. (2024)	Suggests a conceptual model integrating effectuation and causation theories in entrepreneurial studies.	Largely conceptual, offering limited relevance to practical applications in financial reporting.
Imhanzenobe et al. (2024)	Assesses how IFRS adoption influences the value-relevance of financial statements in Nigeria.	Country-specific scope may hinder generalisability to international settings.
Siqi (2025)	Examines conceptual flaws and misrepresentation within ESG-related disclosures.	Centres on ESG themes without directly addressing IFRS or cost of equity capital implications.
L'Abate et al. (2024)	Analyses the influence of circular economy-related disclosures on debt financing costs using signalling theory.	Focuses on cost of debt, not directly linked to equity capital or IFRS impact.
Ibem et al. (2024)	Evaluates IFRS implementation and reporting quality in Nigeria's banking sector.	Citation lacks publication date and journal details, reducing source credibility.

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Kateb and Belgacem (2024)	Investigates the combined effect of governance practices and IFRS adoption on firm performance in Saudi Arabia.	Regional limitation may affect applicability to more developed financial markets.
Ma (2024)	Explores how convergence of accounting standards affects decisions in cross-border investments.	Fails to isolate the role of reporting quality in determining cost of equity outcomes.

Signalling Theory

According to Signalling Theory, organisations share information with external stakeholders to mitigate uncertainty and reduce asymmetries in information availability. The quality of such disclosures serves as a signal of organisational credibility, sound governance practices, and long-term value creation potential (Pradeu et al., 2024). Firms adopting IFRS enhance their perceived reliability among investors, as the standard promotes transparency and comparability, reflecting a commitment to elevated accountability frameworks (Siqi, 2025). The use of globally harmonised accounting standards also contributes to diminishing opportunities for unethical financial practices, thereby improving the overall reliability of reported information (Termine, 2025). Financial disclosures play a pivotal role in capital markets, as they are central to investors' risk assessments and investment decisions. Enhanced transparency resulting from IFRS adoption has the potential to reduce perceived investment risk, which in turn may lead to a decrease in equity capital costs (L'Abate et al., 2024).

Agency Theory

Agency Theory highlights the significance of the conflict between shareholders and managers, particularly when managerial control over firm resources is combined with access to private information. In the absence of appropriate accountability mechanisms, managers may prioritise personal objectives over shareholders' interests, necessitating incentive structures that promote ethical conduct. Financial reporting serves as a critical mechanism for reducing such agency conflicts by offering transparent, verifiable information that allows investors to monitor managerial decisions effectively (Imhanzenobe et al., 2024). The adoption of IFRS reinforces reporting systems by curbing opportunities for earnings manipulation and concealing financial risk. This enhancement is especially relevant for firms in the maturity stage, where complex operations and advanced governance frameworks demand robust internal controls (Ibem et al., 2024). In such settings, IFRS-based financial disclosures facilitate better performance assessments, stronger shareholder engagement, and improved organisational oversight. Enhanced transparency also lowers agency costs, thereby fostering greater investor confidence and enabling access to more favourable financing conditions (Racat et al., 2024).

Life Cycle Theory

Life Cycle Theory outlines the progression of firms through four distinct stages—

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introduction, growth, maturity, and decline—each characterised by specific financial demands, reporting requirements, and investment prospects (Han & Balabanis, 2024). These developmental phases shape how firms respond to, and benefit from, regulatory changes such as IFRS. During the growth stage, organisations often rely heavily on external financing; thus, enhanced transparency achieved through IFRS compliance aids in attracting investors by fostering greater credibility and trust. In contrast, mature firms, which typically operate with established governance mechanisms and stable cash flows, are well positioned to leverage IFRS reporting to reinforce the reliability of their financial statements and further strengthen investor confidence (Kateb & Belgacem, 2024). Firms in the decline phase tend to face deteriorating performance and financial instability, which may hinder their ability to fully adhere to reporting standards. Analysing these life cycle stages allows for a more refined understanding of how reporting quality serves as a mediating factor between IFRS implementation and equity capital costs. This study applies Life Cycle Theory to account for firm-level behavioural variation, thereby offering a more nuanced evaluation of IFRS effects on capital market dynamics across different phases of corporate development (Ma, 2024).

FINDINGS

IFRS Implementation and Financial Reporting Trends

IFRS adoption has contributed to notable improvements in financial reporting quality and capital market outcomes by enhancing transparency and facilitating comparability. Nevertheless, empirical evidence reveals that conventional assumptions regarding the benefits of IFRS do not consistently materialise, as financial reporting quality has exhibited mixed results across different contexts. In many cases, IFRS adoption has been associated with a general decline in reporting quality. This deterioration can be attributed primarily to two features inherent in the principles-based IFRS framework: its inherent complexity, which demands considerable judgement from firms in applying the standards, and the use of fair value accounting, which introduces volatility in earnings and asset valuations, complicating investor assessments of firm performance. Additionally, organisations with limited resources or insufficient experience have encountered difficulties in producing accurate reports compliant with IFRS requirements.

Contrary to expectations that IFRS adoption would lower the cost of equity, research indicates that equity capital costs increased across firms following implementation. These findings are unexpected, suggesting that investors perceive IFRS as introducing greater complexity and uncertainty rather than improving transparency. The transition period associated with IFRS implementation, coupled with investor uncertainty, elevated perceived risk, thereby raising firms' required equity returns. Furthermore, the effectiveness of IFRS is influenced by market-specific factors and firm-level characteristics, indicating that the anticipated benefits of uniform adoption may not be

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fully realised as initially projected.

Life Cycle Influence on IFRS Effects

Firms encounter varying impacts from IFRS adoption depending on their position within the corporate life cycle. A company's developmental stage influences both its financial structure and its ability to implement new reporting requirements under IFRS.

Table 3: IFRS Implementation and Financial Reporting Trends

Author	Description	Drawbacks
Onah and Edeh (2024)	Investigates how IFRS adoption influences the comparability of financial reports in Nigeria.	Focused on a single geographic area, lacking longitudinal data to assess changes over time.
Darmawati et al. (2025)	Provides a bibliometric overview of trends and emerging topics within digital financial reporting.	Utilises bibliometric methods that lack in-depth qualitative insights, resulting in broad findings.
Li et al. (2025)	Examines the effect of IFRS adoption on forecasting future earnings and cash flow figures.	May overlook industry-specific differences and risks potential bias due to sample selection.
Slama (2024)	Explores the relationship between IPSAS adoption and economic growth across multiple countries.	Does not establish a definitive causal connection between IPSAS implementation and economic growth.
Polzer et al. (2023)	Offers a structured literature review on IPSAS adoption in emerging and low-income nations.	Primarily theoretical with limited empirical evidence to validate conclusions.
Saeed (2024)	Identifies the key obstacles faced in implementing IPSAS within Ghana's public sector.	The country-specific focus may restrict the generalisability of the findings to other contexts.
Christiaens et al. (2014)	Compares the effects of IPSAS adoption on reforming reporting practices across various governments.	The data may be outdated, missing recent developments in public sector accounting reforms.
Tawiah (2023)	Assesses the impact of IPSAS on governance quality in both developed and developing countries.	Variability in governance measurement makes cross-country comparisons challenging.
Lawalata et al. (2024)	Reviews IFRS's role in driving convergence of accounting practices worldwide.	Provides a broad analysis without detailed consideration of regional differences.
Schmidthuber et al. (2022)	Conducts a systematic review of IPSAS literature, identifying existing research gaps.	Emphasizes academic perspectives with limited input from practitioners.

Mature Firms

Mature firms, characterised by stable revenue streams, established governance structures, and well-developed reporting systems, generally experience enhanced earnings quality following IFRS adoption (Onah & Edeh, 2024). Their capacity to capitalise on the increased transparency afforded by IFRS allows them to achieve superior comparability. The presence of robust internal controls and governance mechanisms in these organisations facilitates effective IFRS implementation, resulting in financial statements that more accurately reflect economic performance. Following IFRS adoption, mature firms often observe reductions in their equity capital costs due to improved signalling between the company and its investors and other stakeholders. High-quality IFRS-compliant reporting diminishes information asymmetry between management and investors, thereby lowering perceived risk and reducing the risk premiums demanded by investors (Schmidthuber et al., 2022). Organisations with a well-established base of institutional investors derive particular benefit from IFRS, as these investors require transparent and comparable financial disclosures (Darmawati et al., 2025).

Non-Mature Firms

Firms in the growth or introduction phases of the life cycle typically experience weaker or, in some cases, adverse outcomes following IFRS adoption. According to Christiaens et al. (2014), six Type 2 categories of firms operate under conditions of uncertainty, constrained by limited resources and rudimentary reporting systems. Organisations in the growth stage encounter significant challenges in implementing IFRS, particularly regarding fair value accounting and other complex principles, which often outweigh the potential advantages (Li et al., 2025). These non-mature firms frequently struggle to meet the heightened disclosure requirements mandated by IFRS due to inadequate internal control frameworks and insufficient familiarity with the new reporting standards. Consequently, IFRS adoption does not yield the same improvements in financial disclosure quality and investor confidence as observed in mature firms. Some of these organisations experience increased equity capital costs because investors perceive their IFRS compliance efforts as problematic or regard their financial statements as carrying greater risk following the transition (Slama, 2024).

Market Perceptions and Contradictions

The research reveals an intriguing discrepancy between improvements in financial reporting quality and market perceptions. Although IFRS adoption aims to enhance reporting standards, this advancement does not consistently translate into lower equity capital costs, particularly during periods of market uncertainty or sector-specific volatility (Lawalata et al., 2024). Investors' risk assessments encompass factors beyond financial reporting quality, including macroeconomic conditions, industry-specific challenges, and prevailing market sentiments (Saeed, 2024). Consequently, some firms that achieve higher reporting quality through IFRS do not realise corresponding reductions in equity costs, despite meeting expected standards. Investor views on capital costs often fluctuate independently of the theoretical expectation that improved disclosure reduces financing expenses. Instead, market dynamics and sectoral risks exert a greater influence on investment decisions than enhancements in reporting

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quality (Polzer et al., 2023). The inherent risks associated with operating in volatile industries frequently outweigh the benefits of IFRS implementation. Macroeconomic uncertainties and industry-specific threats sustain investor caution, which cannot be fully mitigated by improved financial disclosures resulting from IFRS adoption. The unpredictability of market dynamics sometimes causes investor behaviour to diverge from theoretical predictions of transparency benefits, highlighting the complex nature of actual financial markets (Tawiah, 2023).

CRITICAL DISCUSSION AND SYNTHESIS

The findings reveal that the standardisation of financial reporting through IFRS produces varied impacts on financial reporting quality and the cost of capital across different firms. This study highlights the complexity of IFRS effects, emphasising that financial performance is influenced by multiple firm-specific factors, including stages of the business life cycle, market sentiment, and prevailing market conditions. The research underscores the necessity for scholars to enhance their understanding of the mechanisms through which IFRS adoption shapes financial outcomes.

Influence of Life Cycle Stages on IFRS Adoption Outcomes

This study's primary contribution lies in identifying firm life cycle stages as significant moderators in the relationships between IFRS adoption, financial reporting quality, and cost of equity. Life Cycle Theory posits that firms' behaviours and financial attributes evolve over time, which accounts for the varied effects IFRS adoption produces across different firms. The research demonstrates that mature firms tend to obtain more substantial benefits in financial reporting quality from IFRS compared to non-mature organisations. Transitioning to IFRS enhances transparency, consistency, and comparability of financial statements, advantages that predominantly accrue to well-established firms possessing robust governance and reporting systems. These firms find the adoption process more manageable due to their greater capacity to handle the complexities inherent in IFRS, leading to improved earnings quality and reduced equity costs. The stability signalled by mature companies through high-quality reporting mitigates information asymmetry and investor uncertainty, thereby lowering perceived risk and decreasing the equity risk premiums demanded by investors.

Conversely, firms in the growth or introduction stages generally experience weaker or adverse impacts from IFRS implementation. These organisations often lack sufficient resources, appropriate controls, and expertise, which hinders their ability to fully benefit from adopting IFRS. Challenges arise particularly in applying complex standards such as fair value accounting, potentially resulting in misinterpretations or errors. Moreover, IFRS implementation can increase volatility in financial results, heightening investor concerns about risk and consequently elevating equity capital costs. Ultimately, a firm's preparedness in terms of financial reporting capacity and organisational maturity determines the effectiveness of IFRS adoption in practice.

Financial Reporting Quality as a Contextual Link Between IFRS Adoption and Capital Outcomes

Financial reporting quality has been identified as a mediating variable that partially links IFRS adoption to equity capital pricing, rather than serving as a fixed, direct connection within this relationship. Theoretical frameworks propose that improvements in reporting quality resulting from IFRS implementation reduce both information asymmetry and equity capital costs. However, empirical evidence indicates that the impact of IFRS adoption on equity costs is contingent upon multiple factors, including the firm's developmental stage and prevailing external market conditions. Firms with well-established internal control systems tend to derive benefits from IFRS adoption through enhanced financial statements, which bolster market confidence and reduce investors' perceived risk associated with equity. In such cases, financial reporting quality functions as a moderator that contributes to lowering equity costs. Conversely, organisations lacking the capacity to meet IFRS requirements may face unforeseen risks and uncertainties that increase investor risk perception, leading to higher equity capital costs. The association between high-quality financial reporting and reduced equity costs is not automatic. The efficacy of this mediation is influenced by a range of factors, including firm maturity, strength of institutional support, managerial incentives, and market dynamics. The relationship between IFRS adoption and equity capital costs varies and cannot be categorised as universally positive or negative. Rather, how firms and investors interpret and react to financial information is shaped by numerous mediating variables that influence this complex interaction.

The Role of Contextual Factors in Shaping Capital Market Responses

This study emphasises the importance of contextual factors such as investor sentiment, market volatility, and sector-specific conditions in shaping capital market reactions to IFRS adoption. Although IFRS enhances financial transparency and theoretically reduces capital costs by diminishing information asymmetry between firms and investors, the realisation of these benefits largely depends on investor perceptions and prevailing market environments at the time of implementation. In emerging or volatile industries, firms that adopt IFRS and provide high-quality financial reports may not necessarily experience reductions in equity capital costs. Investors often prioritise broader industry risks—such as economic uncertainties, regulatory challenges, technological developments, and macroeconomic fluctuations—over improvements in reporting practices. Consequently, investor required rates of return may remain elevated despite the accuracy of the financial disclosures provided. This complexity in investor decision-making demonstrates that factors beyond financial transparency frequently influence the cost of capital, as investor behaviour does not adhere to a straightforward, single-factor model. Market volatility can undermine the positive signalling effect of

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superior financial reporting, particularly during periods of economic instability or market turbulence. In such circumstances, investors tend to become more risk-averse, leading to reduced investment in firms irrespective of transparency levels. As a result, high market uncertainty maintains elevated equity capital costs even when financial reporting quality improves.

Implications for Policy and Practice

The findings carry significant implications for policymakers, regulators, and practitioners alike. Political and regulatory bodies must reconsider their assumptions that IFRS adoption will inherently reduce capital costs and enhance market efficiency. The improvement in financial reporting quality depends largely on a firm's readiness, its stage within the life cycle, and prevailing market conditions. Therefore, standard-setting authorities and policymakers should integrate these contextual factors when developing regulatory frameworks. A uniform, one-size-fits-all approach to IFRS implementation appears unsuitable for early-stage firms operating within highly volatile markets. The adoption process is more effective when accompanied by targeted support measures, including training and guidance for non-mature firms, facilitating full realisation of IFRS benefits. This analysis underscores the continuing importance of high-quality financial reporting, yet investors must consider additional factors such as firm growth stage, market environment, and sector-specific uncertainties. High-quality IFRS-based financial reports do not guarantee lower equity capital costs, particularly during periods of market uncertainty and within emerging industries.

CONCLUSION

This study examines the role of financial reporting quality as a key mediating factor in the relationship between IFRS adoption and equity capital costs across various stages of firm maturity. While IFRS implementation is intended to enhance transparency and reduce equity costs, research findings reveal a more complex reality in practice. The effectiveness of IFRS adoption is heavily influenced by a company's developmental stage. Mature firms benefit from strengthened reporting systems and governance frameworks, which improve financial reporting quality and concurrently lower equity costs. Conversely, non-mature firms, particularly those in the growth phase, often experience weak or even adverse outcomes. Furthermore, external market conditions and investor sentiment substantially influence how stock markets react to firms adopting IFRS standards. Therefore, evaluating IFRS's impact on equity cost reduction necessitates consideration of these contextual factors. The findings indicate that the benefits of IFRS adoption vary across firms, depending on specific organisational characteristics and broader economic conditions. Regulators and policymakers should incorporate these considerations when designing IFRS implementation strategies. In volatile markets and emerging sectors, high-quality IFRS-compliant reporting does not necessarily lead to reduced equity capital costs. This research clarifies the effects of

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IFRS adoption on financial outcomes and supports further investigation into the interplay between firm maturity, external environments, and reporting quality.

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