

Accounting Quality: International Accounting Standards and US GAAP

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Abstract:

We compare measures of accounting quality for firms applying IAS with US firms to investigate whether IAS are associated with less earnings management, more timely loss recognition, and higher value relevance of accounting amounts than US GAAP. We find that IAS firms exhibit lower accounting quality relative to US firms in terms of earnings smoothing, correlation between accruals and cash flows, timely loss recognition, and the association between accounting amounts and share price.

Comparisons for IAS firms before and after they adopt IAS suggest that applying IAS moves firms closer to US GAAP. Conclusions are similar when we limit our sample to more recent periods. Comparing IAS firms with US GAAP reconciled from domestic GAAP and reported by non-US firms that cross list on US markets, we find that IAS accounting amounts are of similar quality to reconciled US GAAP amounts. Our results suggest that although IAS accounting amounts may not be of higher quality than those of US GAAP applied comprehensively, they are of comparable quality to reconciled US GAAP amounts reported by cross-listed firms.

Keywords: IAS, IASB, International Accounting Standards, International Accounting Standards Board, International Financial Reporting Standards, US GAAP

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