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# Assessing Financial Reporting Quality: Evidence from Romania

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## Abstract

The aim of this research is to investigate the financial reporting quality of the entities listed on the Bucharest Stock Exchange, prior to and after the adoption of the International Financial Reporting Standards (IFRS) for individual financial statements (2012 was the first year of adoption). Due to the fact that the analysis aims to capture the quality of financial reporting before and after the adoption of IFRS for individual financial statements, this research is conducted on a three-year period of time, namely between 2011 and 2013. The sample consists of 50 companies listed on the Bucharest Stock Exchange, the primary market comprising both tier I and tier II companies, which publish their individual financial statements in accordance to IFRS starting with 2012. In order to measure the quality of financial reporting, an indirect method was used, namely the accrual model. Dechow et al. (1995) accrual model was used for estimating the discretionary accruals, while the accrual model of Kothari et al. (2005) was used for robustness check. The main finding of this research is that, when analyzing discretionary accruals, the lowest standard deviation of the firm's residuals is in 2013 (0.067), with the highest value in 2011 (0.509). The fact that in both 2012 and 2013, the standard deviation is lower than in 2011 indicates that the accruals quality has improved due to IFRS adoption, supporting Hypothesis 1, namely companies presenting their individual financial statements in accordance with IFRS expose a higher quality of financial reporting in the post-adoption period.

**Keywords:** International Financial Reporting Standards (IFRS), reporting, accruals, measurement, Romania

**JEL Classification:** C12, D53, M41

## 1. Introduction

In the last decade, a wide area of factors, such as accounting convergence, financial crisis, overloading disclosure requirements, brought into light an overwhelming focus on financial reporting. Thus, the challenge relies on providing a comprehensive definition of financial reporting quality, on the one hand, and assessing the quality of financial reporting, on the other hand.

According to the International Accounting Standards Board- IASB (2008), the fundamental premise of assessing the quality of financial reporting is represented by the adherence to the objectives and qualitative characteristics (represented by specific attributes which conduct to assessing the utility of financial information) of information disclosed in the entities' financial reports.

The IASB's Conceptual Framework encloses qualitative characteristics to facilitate assessing whether financial information is useful in the perspective of the financial reporting objectives. According to this approach, in order for financial information to be useful, it must be relevant and must faithfully represent what it purports to represent. Moreover, the Conceptual Framework also signals that usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable, these four characteristics being classified as improving characteristics of financial reporting.

The utility of financial reporting is emphasized in the Conceptual Framework of the international standardization body IASB. Thus, IASB (2010 BC 1.16) highlights the fundamental objective of financial reporting which resides in providing useful information for investors, creditors and other stakeholders in order to support their decisions of resource allocation. Although the users of financial reports include a wide area of subjects, IASB focuses primary on the capital markets participants' needs.

In accordance, investors represent the major group of interest related to financial reporting, due to the fact that they are capital providers on the capital markets, and if their information needs are contented, it can be assumed that these needs are representative for a

larger area of users/stakeholders (IASB, 2010).

Taking this aspect into consideration, at the academic level, the empirical researches which were conducted tented to centre their interest on investigating the relation between accounting standards and specific investors-related aspects/needs, such as stock prices and earnings.

Based on the definition of financial reporting quality provided by IASB, in the academic arena there are various manners of defining this concept. For example, Tang et al. (2008) define the quality of financial reporting as being the manner in which financial statements provide truthful and real information related to the entities' main performance and financial position. Other authors, such as Verdi (2006) define financial reporting quality as being the precision with which financial statements provide information related to an entity's operations, mainly its cash flows, in order to inform its investors.

A unanimously accepted definition in the literature is the one provided by Jonas and Blanchet (2000), who emphasise that quality financial reporting contains complete and transparent financial information, and is conceived not to mislead or alter its users' decisions.

In what concerns the aim of this research, namely to investigate the financial reporting quality exposed by Romanian entities listed on the Bucharest Stock Exchange, a minimum presentation of the financial reporting requirements in Romania has to be made. In Romania, one of the emerging economies across the European Union, the adoption of International Financial Reporting Standards (IFRS) represents quite a novelty process in comparison with the other member states. Namely, prior to becoming a member of the European Union in 2007, Romania started its demarche into the adoption of IFRS.

The first step into IFRS convergence was represented by the regulations applied to the companies traded on a financial regulated market which stipulated that from 2007, entities preparing consolidated financial statements and listed on the Bucharest Stock Exchange have to prepare their consolidated financial statements in accordance with IFRS. Recently, by issuing the law OMFP 881/2012, the Romanian regulator enlarged the area of IFRS application in Romania. Under these regulations, companies which

are traded on a regulated market are obliged to prepare their individual financial statements in accordance with IFRS starting with their 2012 financial -year.

This research is organized as follows: Section 2 - Literature Review- aims to present the trends in empirical research related to measuring the quality of financial reporting, Section 3 introduces the research design, including methodological aspects, while Section 4 provides the presentation and interpretation of this study's results. Sections 5 presents the limitations of this research, while the final section draws the decisive conclusions and highlights further research opportunities.

## 2. Literature Review

Although both the international standardization body - IASB and the American one - Financial Accounting Standards Board (FASB) emphasise the importance of high quality financial reports/statements, when investigating the accounting literature, it is obvious that researchers are confronted with a stringent issue related to defining and assessing this quality.

IASB (2008) has defined the manner of assessing the financial reporting quality in terms of fundamental characteristics, such as relevance and faithful representation, and enhancing characteristics (namely comparability, verifiability, timeliness/opportunity and understandability). In accordance with this IASB's Exposure Draft and with the previous literature, many researchers define financial reporting quality in terms of decision usefulness (for example Jonas and Blanchet, 2000; McDaniel et al., 2002).

Thus, some of the assessments of financial reporting quality are incomplete and they focus only on information relevance and faithful representation (McDaniel et al., 2002). According to this perspective, the improving characteristics of financial reporting should be included in the process of assessing the quality of financial statements. Moreover, the authors indicate that the companies' inclusive annual reports should be integrated when conducting empirical research, due to the fact that financial reporting comprises both financial and nonfinancial information.

Financial data accuracy indicates the manner in which the accounting profit is able to foresee the entity's ability to generate future cash flows. According to Cohen et al. (2004) and Salehi et al. (2010), an improvement of the preciseness and predictability of the stated profits' elements represents a key-indicator of a high financial reporting quality. This preciseness in financial data has been construed as financial reporting quality in studies conducted by a series of researchers, for example Barth et al. (2001), Fairfield et al. (2003), Mikhail et al. (2003) and Easley and O'Hara (2010).

Although assessing the quality of financial reporting involves a wide area of measures, such as accrual-based models, value-relevance literature, specific elements in annual financial reports and qualitative characteristics, there are also several factors related to financial reporting quality, such as taxation systems (Guenther and Young, 2000; Haw et al., 2004), political systems (Oberholzer-Gee and Leuz, 2006), or the property structure (Fan and Wong, 2002; Ball and Shivakumar, 2005; Burgstahler et al., 2006).

Holthausen and Watts (2001) state that researches comparing various accounting standards in correlation to stock prices are defined as *value-relevance research*. Value-relevance models assess the quality of information disclosed in financial reports through analyzing the correlation between accounting numbers and capital market reactions (for example, Barth et al., 2001; Nichols and Wahlen, 2004). Ohlson (1995) argues that value-relevance studies mainly focus on accounting value of capital and net profit, these two being the key-elements used in evaluating a firm.

In the accounting literature, there is a stream of studies which measure the quality of financial reporting through indirect assessments, focusing on factors considered to have a major influence on financial reporting quality, such as earnings management and opportunity (Schipper and Vincent, 2003; Cohen et al., 2004; Barth et al., 2008). The accrual models which examine earnings management as a proxy of earnings quality were implemented in researches conducted by Dechow et al. (1995), Jones (1991); Healey and Wahlen (1998).

Another stream of researches focuses on specific elements disclosed in financial statements. For example Hirst et al. (2004) focused on the utility of fair value accounting and financial reporting quality. Beretta and Bozzolan (2004) investigated the internal control quality and information disclosure risk, while Gearemynak and Willekens (2003) examined the relation between auditor's report and decision usefulness of information disclosed in financial statements.

When taking into account the various factors which influence or determine the quality of financial reporting, it can be stated that the core of these influences are represented by: governance, accounting profession, economic factors, international influences and last, but not least, culture (Gray, 1988; Cooke and Wallace, 1990; Douppnik and Salter, 1995; Imhoff, 2003; Holder-Webb, 2010).

While the existing differences between companies related to financial reporting quality are associated with management's motivation, the national differences reflect the characteristics of investors' protection, legal systems and capital markets development (Leutz et al., 2003), corporate governance practices (LaPorta et al., 2000b) and culture (Gray and Vint, 1995; Guan et al., 2005; Douppnik, 2008; Guan and Pourjalali, 2010).

At the national level, a series of studies were conducted in order to investigate the status of IFRS implementation in Romania. Ionașcu et al. (2010) state that the need to empirically certify the presence or absence of IFRS benefits is more stringent in countries in which politics has determined the adoption of international accounting standards, rather than the business environment. Moreover, Albu and Albu (2012) state that the incentives of IFRS adoption in Romania, as well as the benefits of this process, are often expressed in general terms, referring to economic development.

Albu et al. (2013) provided a comprehensive description of the IFRS adoption process in Romania and their research results indicate that the level of international financial reporting standards implementation is rather reduced, emphasizing significant differences between companies. Săcărin (2013) conducted an analysis of the mandatory

application of IFRS by the Romanian listed entities and the results indicate that there is a limited influence of IFRS on the companies' earnings and equity.

### 3. Research Design

This section introduces the research's hypothesis, the selection criterion adopted in the sampling process, as well as the regression model which aims to assess the quality of financial reporting at the level of Romanian listed entities.

#### 3.1. Hypotheses Development

The aim of this research is to investigate the financial reporting quality of Romanian listed companies-entities presenting their individual financial statements in accordance with IFRS, prior to and after the adoption of the International Financial Reporting Standards. Taking the major objective of this study into account, the following research hypotheses were settled:

*Hypothesis 1:* Companies presenting their individual financial statements in accordance with IFRS expose a higher quality of financial reporting in the post-adoption period.

*Hypothesis 2:* There is a significant correlation between financial reporting quality and auditor size, firm size, profitability, cash flow ratio and earnings per share ratio (EPS).

#### 3.2. Sample Selection

This research aims to provide an investigation of financial reporting quality of entities listed on the Bucharest Stock Exchange, prior to and after the adoption of the International Financial Reporting Standards for the individual financial statements. The year 2012 represents the year in which Romanian entities listed on the regulated market had to prepare their individual financial statements in accordance with the International Financial Reporting Standards.

Due to the fact that the analysis aims to capture the quality *ex ante* and *ex post* the adoption of IFRS for individual financial statements, this analysis is conducted

on a three-year period of time, namely between 2011 and 2013. The year 2011 has been chosen as the year prior to the one in which entities had to prepare their individual financial statements in accordance to IFRS, and the year 2013 represents the second year of reporting according to IFRS requirements.

The sample consists of companies listed on the Bucharest Stock Exchange, the primary market, including both tier I and tier II companies, which publish their individual financial statements in accordance to IFRS. Thus, a few restrictions are required for this study, as follows:

- Companies present their financial statements for the year 2012 according to the International Financial Reporting Standards – IFRS 1;
- Companies operating in the financial sector (both banks and insurance companies) were eliminated

from the study, due to the fact that these financial institutions have specific reporting regulations considering their activity, on the one hand, and they present higher assets, fact which would alter the research results` significance, on the other hand);

- Companies have to be listed on the Bucharest Stock Exchange in all the three analyzed years, namely 2011, 2012 and 2013.

After implementing the above-mentioned restrictions, the final sample consists of 50 companies listed on the Bucharest Stock Exchange. In order to collect the data for this research, the annual reports of the companies were consulted, as well as official publication from the Bucharest Stock Exchange and entities` websites. **Table 1** captures the sample industrial structure.

**Table 1. Sample Industrial Structure**

Industry*	Number of entities	Percentage	Exchange Segment
Mining and quarrying	2	4%	Bucharest Stock Exchange  Primary Market  Tier I and Tier II  Companies listed in each of the three years: 2011, 2012 and 2013
Manufacturing	32	64%	
Electricity, gas, steam and air conditioning supply	1	2%	
Construction	3	6%	
Wholesale and retail trade; repair of motor vehicles and motorcycles	4	8%	
Transportation and storage	4	8%	
Accommodation and food service activities	4	8%	
TOTAL entities	<b>50</b>	<b>100%</b>	

\* Nomenclature of economic activities - NACE codes Revised

### 3.3. Research Methodology

In order to assess the quality of financial reporting, two accrual models were adopted, namely Dechow et al. (1995) model and Kothari et al. (2005) model.

The first model - The Modified Jones Model (Dechow et al., 1995) represents the accrual model used in order to measure the quality of financial reporting. Thus, discretionary accruals represent the difference between total accruals and non-discretionary accruals; total accruals are determined as the difference between operating income and cash flows

from operations. In the Jones` modified model, non-discretionary accruals are the predicted (or expected) portion of total accruals.

The Modified Jones Model (Dechow et al., 1995) is presented below:

$$\frac{TA_t}{A_{t-1}} = \alpha_1 \frac{1}{A_{t-1}} + \alpha_2 \frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} + \alpha_3 \frac{PPE_t}{A_{t-1}} + \varepsilon_t;$$

Where:

- TA = total accruals (Net Income-Cash flow from operations);



- $A$  = total assets;
- $\Delta REV$  = changes in revenue;
- $\Delta REC$  = changes in net receivables;
- $PPE$  = gross property, plant and equipment;
- $t$  represents the year;
- $\varepsilon$ : unexpected portion of total accruals for sample firm  $i$  for year  $t$ .

Discretionary accruals are represented by the residuals  $\varepsilon$  from this equation.

The dependent variable of the regression model - represented by the quality of financial reporting (Qfin) - is measured through the residuals of the modified Jones model suggested by Dechow et al. (1995). Accruals quality is measured as the standard deviation of a firm's residuals. A higher magnitude of cross-sectional *absolute discretionary accruals* indicates a greater level of earnings management, or *lower accounting quality*. A larger standard deviation of the firm's residuals indicates poorer accruals quality, or lower accounting quality.

The second accrual model used in order to compute discretionary accruals, suggested by Kothari et al. (2005), is presented below:

$$ACCR_{i,t} = \beta_1 + \beta_2 \Delta REV_{i,t} + \beta_3 GPPE_{i,t} + \beta_4 ROA_{i,t} + \varepsilon_{i,t},$$

all the variables are divided by  $TA_{i,t-1}$ ,

Where:

- $ACCR$ : total accruals for sample firm  $i$  for year  $t$  (Net Income-Cash flow from operations);
- $TA$ : total assets for sample firm  $i$  for year  $t-1$ ;
- $\Delta REV$ : changes in net revenues for sample firm  $i$  for year  $t$ ;
- $GPPE$ : gross property, plant and equipment for sample firm  $i$  for year  $t$ ;
- $ROA$ : return on assets for sample firm  $i$  for year  $t$ , determined by dividing the company's annual earnings (net income) by its total assets;
- $\varepsilon$ : unexpected portion of total accruals for sample firm  $i$  for year  $t$ .

Discretionary accruals are represented by the residuals  $\varepsilon$  from this equation.

Kothari et al. (2005) model was implemented in order to check the robustness of the results.

### The logistic regression model

In developing the logistic regression model, Dechow et al. (1995) model was selected for estimating discretionary accruals. The regression model is presented below:

$$Qfin = \alpha_1 + \alpha_2 AS + \alpha_3 SZ + \alpha_4 ROA + \alpha_5 CFO + \alpha_6 EPS + \varepsilon_{i,t};$$

Where:

- Qfin is the dependent variable of the logistic model
- AS (auditor size) is defined as a dummy variable which equals 1 if external auditor is a Big 4 audit firm and 0 otherwise;
- SZ (firm size) is an independent variable associated to firms' characteristics and is defined as natural logarithm of total assets;
- ROA (return on assets): net profit/total assets;
- CFO (cash flow): cash flow from operations/total assets
- EPS (Earnings per Share ratio): (Net profit after tax - Preference dividend) / Number of equity shares (common shares).

## 4. Results

This section provides an insight into the statistical approach conducted in order to test the research's hypotheses, as well as the main findings related to results' interpretation.

### 4.1. Descriptive Statistics

In order to measure the quality of financial reporting, Dechow et al. (1995) model was implemented, Kothari et al. (2005) model being used for robustness check. Moreover, the analysis is structured on three years: 2011, 2012 and 2013, due to the fact that this research aims at conducting a comparison between financial reporting quality in both before and after IFRS adoption periods (for individual financial statements).

Table 2 presents the descriptive statistics related to total accruals displayed by entities in each of the three years.

Table 2. Descriptive Statistics - Total Accruals					
Descriptive Statistics/ Year	Total Accruals (Dechow et al., 1995 Model)				
	2011	2012	2013	$\Delta 2012/2011$	$\Delta 2013/2012$
Mean	0.370454	0.025031	-0.0277	-0.345423	-0.052733
Median	0.190685	-0.02103	-0.01965		
Standard Deviation	0.583274	0.210531	0.067747		
Kurtosis	5.956545	17.21655	3.105509		
Skewness	1.399197	3.96516	-0.77907		
Minimum	-1.30335	-0.25079	-0.27776		
Maximum	2.770198	1.076969	0.137285		
Number of observations	50	50	50		

When analyzing the data exposed in Table 2, it can be noticed the fact that, on average, both in year 2011 (prior to IFRS adoption for individual financial statements) and 2012, the total accruals are positive. In the second year of presenting the individual financial statements in accordance to IFRS- year

2013- entities expose on average negative total accruals (the mean of total accruals for the year 2013 is -0.0277). Thus, starting with 2012, companies present, on average, a lower accrual ratio, signalling an improved earnings quality related to the adoption of IFRS.

Table 3. Descriptive Statistics - Discretionary Accruals					
Descriptive Statistics/ Year	Discretionary Accruals (Dechow et al., 1995 Model)				
	2011	2012	2013	$\Delta 2012/2011$	$\Delta 2013/2012$
Mean	-2.9E-17	1.61E-17	-7.8E-18	4.4964E-17	-2.38698E-17
Median	-0.15652	-0.02876	0.00937		
Standard Deviation	0.509415	0.198597	0.067555		
Kurtosis	7.028828	12.91106	3.556427		
Skewness	2.232622	3.112422	-0.86803		
Minimum	-0.59761	-0.39156	-0.2561		
Maximum	2.261653	0.9016	0.168097		
Number of observations	50	50	50		

Table 3 structures the value of discretionary accruals, considering that accruals quality is measured as the standard deviation of a firm's residuals. When analyzing the discretionary accruals, the lowest standard deviation of the firm's residuals is in 2013 (0.067), with the highest value in 2011 (0.509). The fact that both in 2012 and 2013, the standard deviation is lower than in 2011 indicates that the accruals quality has improved due to IFRS adoption. This result

supports Hypothesis 1, namely, companies presenting their individual financial statements in accordance with IFRS expose a higher quality of financial reporting in the post-adoption period. The same results are obtained when analyzing the discretionary accruals according to the Kothari et al. (2005) model.

The magnitude of cross-sectional absolute discretionary accruals is the lowest in 2013, indicating an improved accounting quality.

## 4.2. Logistic Model Results

### 4.2.1. Variable Correlation

Figure 1 presents the correlation between variables for the year 2011. According to these results, there is a strong correlation between CFO and ROA (0.56), and a medium to large correlation between AS

and firm SIZE of 0.48. However, the correlation between Qfin and auditor size is negative (-0.348), signalling that entities audited by a Big 4 audit firm present negative discretionary accruals, as well as big companies, the correlation between Qfin and firm SIZE being of -0.689, partially supporting Hypothesis 2.

**Figure 1. Matrix Correlations – 2011**

	<i>Qfin</i>	<i>AS</i>	<i>SIZE</i>	<i>ROA</i>	<i>CFO</i>	<i>EPS</i>
<i>Qfin</i>	1					
<i>AS</i>	-0,348504	1				
<i>SIZE</i>	-0,689344	0,4886109	1			
<i>ROA</i>	-0,118382	0,1302646	0,16569548	1		
<i>CFO</i>	-0,147977	0,2049407	0,15805426	0,562639782	1	
<i>EPS</i>	-0,100025	0,2504168	0,30578159	0,177007612	0,1599209	1

Figure 2 presents the correlation between variables for the year 2012. According to these results, there is a strong correlation between AS and firm SIZE (0.54), and a medium correlation between firm size and Qfin (0.31). Thus, in 2012,

bigger companies present positive discretionary accruals. A medium correlation of 0.318 is between Qfin and ROA, and of 0.362 between CFO and firm size. These findings partially support Hypothesis 2.

**Figure 2. Matrix Correlations - 2012**

	<i>Qfin</i>	<i>AS</i>	<i>SIZE</i>	<i>ROA</i>	<i>CFO</i>	<i>EPS</i>
<i>Qfin</i>	1					
<i>AS</i>	0,08401	1				
<i>SIZE</i>	0,31864	0,54562	1			
<i>ROA</i>	0,31818	0,1445	0,15868249	1		
<i>CFO</i>	-0,0253	0,20401	0,362239705	0,24934483	1	
<i>EPS</i>	-0,0352	0,10571	0,033439157	0,25183173	0,120973265	1

Figure 3 presents the correlation between variables for the year 2013. According to these results, there is a strong correlation between AS and firm SIZE (0.53), as well as in the year 2012, and a medium to large correlation between CFO and firm SIZE of 0.41. Moreover, in 2013, a negative correlation of -0.17 is revealed between firm SIZE and Qfin, signalling the

fact that bigger companies present negative discretionary accruals in 2013. The strongest correlation in 2013 is between the quality of financial reporting and firms profitability of 0.59, while between the quality of financial reporting and CFO there is a strong negative correlation (-0.54). These findings partially support Hypothesis 2.



**Figure 3. Matrix Correlations – 2013**

	<i>Qfin</i>	<i>AS</i>	<i>SIZE</i>	<i>ROA</i>	<i>CFO</i>	<i>EPS</i>
<i>Qfin</i>	1					
<i>AS</i>	-0,27257225	1				
<i>SIZE</i>	-0,17232979	0,5391	1			
<i>ROA</i>	0,595562196	-0,13332	0,146263	1		
<i>CFO</i>	-0,54779513	0,18615	0,416735	0,251023	1	
<i>EPS</i>	0,016468347	0,22333	0,315251	0,168022	0,255035396	1

#### 4.2.2. Regression Statistics – Main Findings

Table 4 eposes the main findings of the regression statistics for 2011, 2012 and 2013.

According to the findings (Table 4), the explanatory power of the model in 2011 and 2012 is

not satisfying, thus 49% of the variation of financial reporting quality is explained by the independent variables in 2011 and 24% in 2012. However, in 2013, the R Square is 0.88 and the Adjusted R Square is 0.87, meaning that the model better fits the data in 2013.

**Table 4. Regression Statistics – Years**

Regression Statistics / Year	2011	2012	2013
<b>Multiple R</b>	0.70	0.49	0.93
<b>R Square</b>	0.49	0.24	0.88
<b>Adjusted R Square</b>	0.43	0.15	0.87
<b>Standard Error</b>	0.38	0.18	0.02
<b>Observations</b>	50	50	50

When analyzing the regression output for the year 2013 (see Figure 4), the results indicate that the variable ROA and CFO make their unique contribution in explaining the quality of financial reporting ( $p < 0.01$ ).

According to these results, there is a strong correlation between the quality of financial reporting and firms' profitability and cash flows in the case of Romanian listed entities in 2013.

**Figure 4. Regression Output in 2013**

ANOVA						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>	
Regression	5	0.197555595	0.039511119	66.69795301	2.05578E -19	
Residual	44	0.026065106	0.000592389			
Total	49	0.223620701				

  

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	-0.007265798	0.054326761	-0.133742526	0.894216032	-0.116754189	0.1022226
<i>AS</i>	-0.010613126	0.008970446	-1.183121411	0.243114372	-0.028691872	0.0074656
<i>SIZE</i>	0.002179243	0.00296671	0.734565605	0.46650106	-0.003799767	0.0081583
<i>ROA</i>	0.629165467	0.046110346	13.64477862	2.05155E-17	0.536236172	0.7220948
<i>CFO</i>	-0.776033304	0.059090319	-13.13300235	7.97379E-17	-0.895122016	-0.6569446
<i>EPS</i>	0.001430489	0.000922284	1.551027741	0.128058839	-0.000428253	0.0032892

## 5. Limitations of this Research

This research presents a series of drawbacks. First of all, the sample consists only in 50 entities, analyzed through a period of three years, 2011, 2012 and 2013. However, all these 50 companies have been listed in the studied period of time.

Second of all, the regression results are not statistically significant in 2011 and 2012, proving that the model does not fit the data, which stresses the need for an improvement of the model. Moreover, when assessing the quality of financial reporting, an indirect measure of it was adopted, namely the accrual model. Still, the robustness of the findings was checked through using two models of accruals (Kothari et al., 2005 and Dechow et al., 1995) which provided similar results.

## 6. Conclusions and Further Directions for Research

This research aims to provide an investigation of financial reporting quality of entities listed on the Bucharest Stock Exchange, before and after the adoption of the International Financial Reporting Standards for the individual financial statements. The year 2012 represents the year in which Romanian entities listed on the regulated market had to prepare their individual financial statements in accordance with the International Financial Reporting Standards.

Due to the fact that the analysis aims to capture the quality *ex ante* and *ex post* the adoption of IFRS for individual financial statements, this analysis is conducted on a three-year period of time, namely between 2011 and 2013. The year 2011 has been chosen as the year prior to the one in which entities had to prepare their individual financial statements in accordance to IFRS, and the year 2013 represents the second year of reporting accordingly IFRS requirements.

The sample consists of 50 companies listed on the Bucharest Stock Exchange, the primary market, comprising both tier I and tier II companies, which publish their individual financial statements in accordance to IFRS starting with 2012.

In order to measure the quality of financial reporting, an indirect method was used, namely the accrual model. Dechow et al. (1995) accrual model was used for estimating the discretionary accruals, while the accrual model of Kothari et al. (2005) was used for robustness check.

The main finding of this research is that, when analyzing discretionary accruals, the lowest standard deviation of the firm's residuals is in 2013 (0.067), with the highest value in 2011 (0.509). The fact that in both 2012 and 2013, the standard deviation is lower than in 2011 indicates that the accruals quality has improved due to IFRS adoption, supporting Hypothesis 1.

Another relevant finding is that the correlation between the quality of financial reporting and firm SIZE is large and negative in 2011 (-0.689), medium in 2012 (0.31) and small and negative in 2013 (-0.17). According to these findings, both in 2011 and 2013, larger firms exposed negative discretionary accruals.

When analyzing the logistic regression results for 2013, it appears that the variable ROA and CFO make their unique contribution in explaining the quality of financial reporting ( $p < 0.01$ ). According to these results, there is a strong correlation between the quality of financial reporting and firms' profitability and cash flows in the case of Romanian listed entities in 2013.

As for future directions of research, the regression model should be improved in order to better fit the data, through integrating explanatory variables related to corporate governance mosaic constituents, such as Board independence, the presence of an audit committee, or the internal control function.

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