# Disclosures and Judgment in Financial Reporting

## Essays on Accounting Quality Under International Financial Reporting Standards

***Emmeli Runesson***

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## Abstract



University of Gothenburg
School of Business Economics and Law
Dept. of Business Administration
P.O. Box 610
SE-405 30 Göteborg, Sweden

Author: Emmeli Runesson



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**Disclosures and Judgment in Financial Reporting:**
**Essays on Accounting Quality Under International Financial Reporting Standards**

As capital markets become more integrated and globalized, standard setting in financial accounting faces multiple challenges. Financial accounting standards must adapt and change in ways that make them usable to firms in varying institutional and economic settings, and by extension, make the financial statements produced under those standards useful to capital market participants worldwide. A question that arises is how to ensure corporate transparency and faithfully represented financial reports, and whether principles-based – rather than rules-based – standards are superior in this context. Two areas of particular interest to standard setters are mandatory disclosures made within the scope of the standards, and judgments and estimates required by financial statement preparers when standards are predominantly principles-based.

This thesis investigates quality implications of features pertaining to three different accounting standards: IAS 1 *Presentation of Financial Statements*, IAS 19 *Employee Benefits* and IFRS 9 *Financial Instruments*. The underlying aim is to draw conclusions about effects on accounting usefulness of the various accounting methods and disclosure and recognition rules prescribed by these standards. The rationale for this type of research can be derived from the IASB's own requirements that a post-implementation review (PIR) be executed whenever significant financial reporting changes are introduced by a new or revised standard.

The studies carried out within the scope of this thesis show that in accounting for certain discretionary items related to employee benefits, there appears to be improvements in transparency as firms are required by the amended IAS 19 to move previously off-balance-sheet items onto the balance sheet, thus formally recognizing them rather than merely disclosing them in the supplementary notes. Further, evidence on disclosures made in accordance with IAS 1 points to comparability issues and to the disclosures being of varying quality, with accounting outcomes being contingent on the individual firm's contextual factors. This indicates that the principles-based disclosure standards that are currently favored by standard setters do not work as well as expected. Meanwhile, as regards estimation of credit losses in banks, there is evidence to support the current move towards a more principles-based standard (IFRS 9), provided that there is enforcement of adequate quality.



**Key words:** *Accounting quality, Judgment, Disclosures, Principles-based Accounting, Employee Benefits, Credit losses*

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