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International financial reporting standards as the basis of financial reporting for listed companies

Међународни стандарди финансијског извештавања као основа финансијског извештавања котираних компанија

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Abstract

Purpose: The research explores the specificities and differences in the application of International Financial Reporting Standards (IFRS) as the basis for financial reporting by listed companies worldwide. The primary issue addressed is the inconsistency in IFRS application across countries, despite its global significance for the transparency and comparability of financial statements.

Methodology: Methodologically, the research relies on the analysis of 168 jurisdictions whose profiles are available on the IFRS Foundation's website. Data on the extent of IFRS application in domestic and foreign listed companies were analysed, including whether the adoption of the standards is mandatory or optional.

Findings: The results indicate the dominance of jurisdictions where IFRS application is mandatory for listed companies, while specificities in the permissibility and scope of application are observed in other cases.

Originality/value: This study identifies the reasons behind the differences in the level of IFRS implementation across various jurisdictions, with a focus on listed companies, and provide insights into the future directions of IFRS implementation.

Practical implications: These findings are relevant for analysts, investors, and regulators in assessing the effects of global harmonisation of financial reporting.

Limitations: Although the analysis was conducted on all jurisdictions whose profiles are presented on the IFRS Foundation's website, which do not represent all jurisdictions in the world, the study did not consider changes in the scope and various variations of IFRS application in these jurisdictions over time.

Keywords: IFRS, listed companies, jurisdictions, IFRS Foundation

JEL classification: M41

Сажетак

Циљ: Истраживање се бави специфичностима и различитостима примене Међународних стандарда

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финансијског извештавања (IFRS) као основе финансијског извештавања котираних компанија широм света. Главни проблем истраживања јесте неуједначеност примене IFRS међу државама, упркос њиховој глобалној важности за транспарентност и упоредивост финансијских извештаја.

Методологија Методолошки, истраживање се ослања на анализу 168 јурисдикција чији су профили доступни на сајту IFRS Фондације. Анализирани су подаци о обиму примене IFRS у домаћим и иностраним котираним компанијама, укључујући обавезност или опционалност примене стандарда.

Резултати: Резултати указују на доминацију јурисдикција у којима је примена IFRS обавезна за котиране компаније, док се примећују специфичности у дозвољености и обухвату примене у другим случајевима.

Оригиналност/вредност: Ова студија идентификује разлоге за постојање разлика у нивоу примене IFRS у различитим јурисдикцијама, са фокусом на котиране компаније, али и пружа увид у правце будуће имплементације ових стандарда.

Практична примена: Налази су релевантни за аналитичаре, инвеститоре и регулаторе у процени ефеката глобалне хармонизације финансијског извештавања.

Ограничења истраживања: Иако је анализа спроведена на свим јурисдикцијама чији су профили представљени на веб-страници IFRS Фондације, што не обухвата све јурисдикције у свету, студија не разматра промене у обиму и различите варијације примене IFRS кроз време у тим јурисдикцијама.

Кључне речи: IFRS, котиране компаније, јурисдикције, IFRS Фондација

ЈЕЛ класификација: M41

Introduction

Financial statements are indispensable, given their importance to numerous users. For these users, globalisation and international comparability of financial reporting standards are crucial. Global standards enhance comparability between companies across countries and within individual nations. With the rapid progress in converging financial reporting standards in relatively short period (Carmona & Trombetta, 2008), comparability of financial statements has significantly improved. It should be considered that financial reporting is a dynamic and essential process that enables organizations to communicate their financial performance and position to a diverse set of stakeholders. This includes preparation of financial statements, compliance with regulatory standards, auditing and effective communication through various channels (Mladenović et al., 2023).

Despite efforts to harmonise financial reporting globally, eliminating all discrepancies remains challenging. A global consensus on reporting standards is crucial to minimise differences between countries. The likelihood of IFRS adoption increases when trading partners and neighbouring countries already use them (Ramanna & Sletten, 2009). However, factors like political systems, tax regimes, legal frameworks, traditions, and culture persist as key drivers of differences in national financial reporting standards. One of the aspects from which differences in the financial reporting systems of various countries can be observed is the financial reporting of listed companies, i.e., companies whose securities are traded on public capital markets (stock exchanges). Consequently, the subject of this study is the specificities and differences in the application of IFRS as the basis for financial reporting by listed companies in countries around the world.

The aim of the research conducted in this study is to identify and analyse the reasons behind the specificities and differences among various countries worldwide regarding the level of application of full IFRS as the basis for financial reporting by domestic and foreign

companies whose equity or debt securities are traded on public capital markets. This paper contributes to a better understanding of IFRS, highlighting its role in financial reporting for listed companies worldwide. It offers valuable insights into the global application of IFRS and supports analysts by providing data on its adoption across different jurisdictions. The practical relevance extends to foreign investors, who may base their decisions on whether companies apply IFRS. In cases where IFRS is not used or permitted, unfamiliarity with local GAAP can deter investment due to the extra effort needed for analysis. By presenting and analysing summary data on the financial reporting practices of listed companies globally, conclusions were drawn about the extent to which countries around the world have implemented IFRS in a particularly significant area of application – listed companies, which are typically large entities whose operations should be transparent, considering they are public interest entities. Based on the research findings, conclusions were made about future directions for the implementation of IFRS in listed companies and the potential for improving their application in this context.

The study is empirically oriented, analysing profiles of 168 jurisdictions from the IFRS Foundation's website. The findings highlight the significance of IFRS for listed companies and provide insights for financial analysts assessing IFRS applicability across countries, particularly for domestic and foreign listed companies. Moreover, the results can aid current and future foreign investors in making informed decisions based on IFRS adoption and application in listed entities worldwide.

In addition to the introduction and conclusion, the study consists of four parts. The first part presents a review of the literature related to the global significance of IFRS. The second part focuses on the importance of IFRS for listed companies. The third part outlines the research methodology. The fourth part presents the results of the conducted empirical research, based on the analysis of jurisdiction profiles regarding the application of IFRS in listed companies.

1. Global Significance of International Financial Reporting Standards

Before IFRS, only International Accounting Standards (IAS), developed by the International Accounting Standards Committee (IASC), were in use. After IFRS was introduced, both sets of standards became applicable. Obradović (2016) notes that the IASC was founded by accounting organisations from nine countries: Australia, France, the Netherlands, Japan, Canada, Mexico, (West) Germany, the USA, and the UK (with Ireland). During its more than 25 years of operation, the IASC issued the Framework for the Preparation and Presentation of Financial Statements and developed 41 standards, later revised or replaced, leaving 34 in effect when it transitioned to the International Accounting Standards Board (IASB). The IASB issues IFRS, which can be understood narrowly as the standards it publishes or broadly as the entire body of international standards, including IAS. In a narrow sense, IFRS refers to a series of documents, i.e., standards published by the IASB, while in a broader sense, IFRS represents the “entire authoritative literature on

international standards,” encompassing 1) IAS, 2) Interpretations issued by the IFRS Interpretations Committee, and 3) Interpretations published by the Standing Interpretations Committee (SIC), the predecessor to the IFRS Interpretations Committee (Obradović, 2016). IFRS, as products of several decades of work by the IASC and its successor, the IASB, form the basis for the global convergence of financial reporting standards (Obradović, 2016). Ian Mackintosh, former Vice-Chairman of the IASB, stated in November 2014 that “the last 10 years have been complicated, but absolutely successful for IFRS” (Mackintosh, 2014). Since the beginning of the 21st century, after IFRS received support from the International Organization of Securities Commissions (IOSCO), their position has been significantly strengthened (Garbutt, 2010). Judge et al. (2010) note that the acceptance of IFRS most depends on the willingness of a country’s institutions to impose them on companies.

The arguments most commonly cited in favor of adopting IFRS are primarily economic and focused on improving the functioning of financial markets. However, considering the unequal levels of economic development among countries, the expected economic benefits of adopting IFRS are not equally significant motivations for their adoption across all countries (Koning et al., 2018), as some countries already had a sufficiently high level of economic development before adopting IFRS. Dimitrou (2020) notes that there are numerous differences among countries concerning social, economic, and legal conditions, which significantly influence foreign investors’ decisions to invest in companies. However, the same author also points out that IFRS help bridge the gap, reducing the differences in financial reporting stemming from the social, economic, and legal disparities among countries.

The earnings and book value figures provide a summary of the available financial information on a company. The information content of financial statement figures often determines the degree to which investors consider these figures in making investment decisions. Thus, accounting standards are capable of influencing the value relevance of financial statements. Most of the pioneer studies on changes in accounting standards address the US financial reporting environment (Imhanzenobe, 2022).

The increasingly widespread adoption of IFRS conveys a sense of positive reception toward this set of financial reporting standards by many countries. For a long time, the U.S. Securities and Exchange Commission (SEC) required all foreign companies listed on U.S. stock exchanges to reconcile their net income and equity with U.S. Generally Accepted Accounting Principles (GAAP) (Obradović, 2016). The decision to allow foreign entities listed on U.S. exchanges to apply IFRS initially seemed to accelerate the possibility of IFRS becoming the default standard for domestic U.S. companies (Chua & Taylor, 2008). However, this prediction has not materialised, as U.S. companies continue to use U.S. GAAP. It is likely that U.S. GAAP and IFRS will coexist globally for an extended period, with some foreign-listed companies in the U.S. applying IFRS and companies elsewhere using U.S. GAAP. Despite the potential for competition between these standards, Jamal and Sunder (2007) expressed doubts about its likelihood. Some argue that the SEC’s decision to let foreign companies choose between U.S. GAAP and IFRS may have slowed the convergence process (Street & Linthicum, 2007). However, Chua and Taylor (2008)

maintained that the push for a single global standard issued by the IASB would continue, a perspective supported by progress in IFRS and U.S. GAAP convergence. Tolkach (2023) highlights that adopting IFRS in the U.S. could enhance global consistency, ease cross-country comparisons, and better meet investors' needs.

The convergence of IFRS and U.S. GAAP is crucial in the context of financial reporting globalization. Three main economic reasons justify this convergence: transparency, quality, and comparability. Transparency improves when IFRS is adopted, as it reduces information asymmetry between company management and external users of financial statements (Brown, 2013; Song & Trimble, 2022). Some argue that demand for high-quality financial reporting arises from the need for robust accounting of company transactions rather than solely from using financial statements for investment assessments (Watts & Zimmerman, 1986). When analysing the marginal value-relevance of adopting IFRS for firms already reporting according to NGAAP, it was observed that shareholders' equity reported under IFRS shows greater value-relevance compared to the balance sheet prepared under NGAAP, as a higher representation of fair values contributes to increased value-relevance. Additionally, normalized net operating income reported under IFRS demonstrates greater value-relevance compared to the corresponding NGAAP figure, especially for firms with intensive intangible assets (Gjerde et al., 2008). Regarding quality, research shows that the quality of financial reporting depends more on how standards are implemented than on the standards themselves (Chua & Taylor, 2008). Lastly, while it's surprising, there is little evidence that results under different financial reporting standards are non-comparable (DeFranco et al., 2011). These reasons play a key role in the global convergence of IFRS and other standards, supporting the globalization of financial reporting standards. Li et al. (2024) proved that the implementation of IFRS not only leads to improved company performance but also to better forecasting of future earnings and cash flows, which significantly affects the competitiveness of enterprises.

The idea that a unified set of financial reporting standards could provide significant assistance to current and potential foreign investors in assessing the suitability of companies for potential investment is highly significant. It is essential for investors, particularly foreign ones, to have a global set of financial reporting standards to aid in their decision-making regarding investments in companies. According to Brown (2013), external financial statements, while relevant to some extent for decision-making, are not particularly timely sources of information. This is because they reflect past transactions and events, meaning they are inherently backward-looking.

It is worth noting that major audit firms, particularly the "Big Four" audit firms (KPMG, Ernst & Young, PricewaterhouseCoopers, and Deloitte) can play a significant role in the global adoption of IFRS. Tran et al. (2019) state that these firms possess the expertise and experience needed to support and advise companies on adopting IFRS, thereby increasing awareness of the global importance of IFRS.

The globalisation of financial reporting standards is crucial for corporate financing, especially in international borrowing. Globally accepted standards reduce borrowing costs

for companies with foreign lenders. For nationally operating companies, changes in financial reporting can impose costs if national authorities set specific debt contracting conventions. However, such changes can also benefit some companies (Kim et al., 2010). Kim et al. (2007) show that non-U.S. borrowers who voluntarily adopt IFRS experience lower borrowing costs, underlining the global significance of IFRS in reducing borrowing costs, even for national companies.

Leuz and Wysocki (2008) suggest that voluntary IFRS adoption mainly improves capital market efficiency, analysts' forecasts, and similar outcomes. Barth et al. (2008) found that the financial statements of firms using IFRS are more relevant than those not applying it. Eroglu (2021) explains that mandatory IFRS adoption in the EU aims to harmonise financial reporting, save time and resources, and support the global expansion of listed companies.

Another important aspect of the global significance of IFRS is the comparability of financial statements. It is entirely expected that comparability of financial statements significantly increases with the global acceptance of IFRS. Numerous studies, as reviewed by Yip and Young (2012), demonstrate the positive impact of IFRS adoption on the comparability of financial statements. Similarly, Becker et al. (2021) note that IFRS adoption improves the comparability of financial statements and increases the predictability of stock prices for companies transitioning from national GAAP to IFRS, affirming its superiority as a financial reporting standard. From today's perspective, this assertion can be confirmed, as IFRS has significantly contributed to the global comparability of company financial statements.

An additional aspect of IFRS's global significance is its impact on the level of corruption in countries. Corruption is a critical factor for investors, who are hesitant to invest in companies from countries with high corruption levels. El-Helaly et al. (2020) conclude that there is a negative (inverse) correlation between the level of corruption and the speed and extent of IFRS adoption in a country.

IFRS for Small and Medium-sized Entities (SMEs) is a document introduced by the IASB for entities that prepare general-purpose financial statements but are not publicly accountable (Obradović, 2016). Sellami and Gafsi (2018) note that in the context of globalisation, where markets are increasingly integrated and economic activities more complex and competitive, it has become essential for SMEs worldwide to keep pace with innovations, including the adoption of IFRS.

From the above discussion, it is evident that there are numerous aspects from which the significance of IFRS on a global level can be assessed. These include its importance for international investors, increased business transparency, relevance for stock price prediction, capital market functioning, international comparability of financial statements, and more. Therefore, the process of IFRS adoption by national regulators in various countries and the alignment of national financial reporting standards with IFRS is crucial for facilitating the movement of capital, goods, and services between countries.

2. The Importance of IFRS for Listed Companies

IFRS represent the foundation of high-quality financial reporting, transparency, and comparability of financial statements for companies across different countries. When it comes to the transparency of corporate operations, it can be said that transparency is most pronounced and most demanded in the case of companies whose securities are traded on stock exchanges, i.e., listed companies. The mandatory adoption of IFRS for listed companies leads to significant changes compared to previous accounting regulations, particularly regarding the relationships between balance sheet items and income statement items (González et al., 2014). This is due to the fact that listed companies, considering the public trading of their securities, are subject to scrutiny by numerous stakeholders. Therefore, it is of utmost importance that the information they disclose, particularly information contained in financial statements, is relevant and faithfully represented.

Caramanis (2005) analysed 178 listed companies and found that the international comparability of their financial statements significantly improved after adopting IFRS. Tran et al. (2019) argue that IFRS adoption enhances transparency, reliability, and investor confidence, boosting foreign capital inflow. In a study investigating the adoption of IFRS in Italian companies, it was concluded that the implementation of IFRS positively affects performance, with a significant impact on net income and equity, and a more pronounced effect on equity (Cordazzo, 2013). Nurunnabi et al. (2020) found that IFRS implementation in Saudi Arabia resulted in increased transparency, comparability, and cross-border investment opportunities. Similarly, Jung et al. (2020) observed a significant improvement in the international comparability of financial statements following IFRS adoption. Lopez and Viana (2008) studied 44 listed Portuguese companies and found positive effects on equity and net results after transitioning from Portuguese GAAP to IFRS. Chalho et al. (2007) examined 26 Spanish companies and found that IFRS adoption increased total liabilities and decreased equity. Kalra and Vardia (2016) studied six Indian companies that voluntarily adopted IFRS by 2014 and concluded that IFRS improved financial reporting quality and comparability, though it had no significant effect on key financial ratios.

Nguyen et al. (2020), in their study analysing a sample of listed companies from Vietnam, stated that they identified two variables that influence the transition from Vietnam's national standards to IFRS. The variables in question are the support of administrators and the qualifications of accountants. Therefore, the adoption of IFRS is facilitated by the quality support of administrators (management) and qualified accountants within companies. One of the positive aspects of adopting IFRS can also be found in the research conducted by Kainth and Wahlstrøm (2021), which relates to predicting the occurrence of financial difficulties and bankruptcy in listed companies, an issue of significant importance for management. These authors, by analysing a sample of Norwegian listed companies, concluded that the occurrence of financial difficulties and bankruptcy in companies can be better predicted in those using IFRS as the basis for financial reporting, compared to those using Norwegian GAAP.

Lantto and Sahlstrom (2007) studied 125 Finnish companies and found that IFRS adoption altered financial indicators by increasing profitability ratios and leverage, while reducing the P/E ratio and quick ratio. Profitability increased due to higher earnings and reduced goodwill impairment under IFRS 3, while leverage rose due to increased debt and reduced equity. Hung and Subramanyam (2007) found that IFRS adoption resulted in higher total asset values, equity, and net income variability in German companies from 1998 to 2002. Odoemelam et al. (2019) concluded that IFRS adoption positively impacted the market value of listed companies. Glaum and Street (2003) found significant non-compliance with IFRS in German companies, with IFRS-compliant companies showing lower compliance than those using US GAAP. Callao and Jarne (2010) studied 1,408 non-financial EU companies and found significant IFRS impact, especially in France and the UK. Blanchette et al. (2011) analysed Canadian companies and identified differences in financial ratios post-IFRS adoption, but they were not statistically significant.

Georgakopoulou et al. (2008) investigated a sample of 39 companies from the industrial sector in Greece that adopted IFRS in 2005. Their findings indicate differences in four out of the ten financial ratios considered. Similarly, Pazarskis et al. (2011) examined the impact of IFRS adoption by Greek listed companies in the information technology sector using twelve financial ratios. Their results revealed a statistically significant difference in the profit margin ratio, which increased after IFRS adoption, as reflected in the ratio of EBIT (Earnings Before Interest and Taxes) to revenue. Additionally, the debt-to-equity ratio decreased following IFRS adoption compared to the pre-adoption period. Dumontier and Raffournier (1998) explored the relationship between disclosure levels and corporate characteristics using a sample of 133 companies listed on the Swiss stock exchange. Univariate analyses demonstrated a positive influence of company size, international operations, listing status (quality of traded securities), auditor type, and ownership dispersion on voluntary compliance with IFRS. In contrast, leverage, profitability, and the ratio of non-current assets to total assets were insignificant in explaining compliance levels. They concluded that political costs and pressures from external markets play a critical role in the decision of Swiss-listed companies to adopt IFRS.

The use of IFRS has also been linked to reduced delays in audit report issuance. Ologun et al. (2020) analysed Nigerian listed companies and concluded that IFRS adoption reduced audit report delays. This implies that financial statements and audit reports prepared under IFRS are more timely compared to those based on national standards. The study on IFRS adoption in China showed that audit fees increased after the implementation of IFRS, but the changes varied depending on prior IFRS experience. Audit firms with experience charged higher premiums, while clients with previous IFRS experience paid lower fees (Lin & Yen, 2016).

Numerous developed and developing countries have embraced IFRS (Demir et al., 2013). A significant milestone for IFRS adoption in European countries was the decision of the European Parliament and the EU Council of Ministers to mandate IFRS for all companies preparing consolidated financial statements and listed on regulated capital markets within the EU (Obradović, 2016). Specifically, in 2002, the European Council and

the EU Council of Ministers approved a regulation requiring all publicly traded companies in the EU to adhere to IFRS for consolidated financial statements from 2005 onwards. This marked a pivotal step toward achieving the goal of internationally comparable financial reporting (Demir & Bahadir, 2014).

Given the numerous variations in financial reporting practices among listed companies and the wide-ranging implications of IFRS adoption on company performance worldwide, the significance of IFRS adoption is perceived differently by various companies and national financial reporting regulators. Consequently, the scope of IFRS application varies across listed entities in different countries. It is therefore essential to examine the differences in the extent of IFRS adoption as the foundation for financial reporting among listed companies across countries, as well as the unique characteristics of IFRS implementation in listed companies globally.

3. Research Methodology

As previously mentioned, the research conducted in this study is empirically oriented, given that publicly available data on jurisdiction profiles, published on the IFRS Foundation's website in the form of completed questionnaires, was used to examine the adoption of IFRS as the basis for financial reporting by listed companies. The IFRS Foundation states on its website that it uses information from various sources to ensure the accuracy of jurisdiction profiles. Each jurisdiction's webpage includes a summary table that shows the extent of IFRS adoption within the jurisdiction, while more detailed information can be found in the questionnaire itself. This information pertains to: 1) relevant authorities, 2) details of survey participants, 3) public commitment to global financial reporting standards and IFRS, 4) scope of IFRS application, 5) IFRS adoption, 6) whether the jurisdiction has eliminated options or made specific modifications, 7) the process of IFRS translation, and 8) IFRS adoption for small and medium-sized entities. This approach aims to achieve the research objective, i.e., identifying and analysing the reasons behind the specificities and differences between various countries (jurisdiction profiles) in terms of the level of full IFRS adoption as the basis for financial reporting by domestic and foreign companies whose equity or debt securities are traded on public markets.

By analysing 168 jurisdiction profiles, each containing a section titled "EXTENT OF IFRS APPLICATION" (segments of the profiles focusing on IFRS application in listed entities), it is possible to draw conclusions about the scope and specificities of IFRS application in listed companies. The first part of this section pertains to domestic listed companies preparing consolidated financial statements. The second part concerns questions related to other financial statements of domestic listed companies, excluding consolidated financial statements. The third group of questions focuses on foreign listed companies.

The first question in the section on domestic listed companies addresses whether IFRS is a mandatory or permitted basis for preparing consolidated financial statements. The second question specifies whether IFRS is required or merely allowed in these entities. The third question examines the entities applying IFRS (whether required or permitted),

focusing on whether this applies to all or only specific entities. If the answer is that IFRS applies only to specific entities, the questionnaire identifies the types of entities to which it applies. The first question in the second part of the analysed section concerns whether IFRS is required or allowed for other financial statements (excluding consolidated ones) of companies whose securities are traded on capital markets. The second question pertains to whether IFRS is required or allowed when preparing individual financial statements, while the third question relates to the application of IFRS in companies that are not listed. The fourth question explores plans for IFRS adoption in the future (mainly if the jurisdiction neither requires nor allows IFRS application). The first two questions in the third part address the mandatory/permissive application of IFRS for foreign listed companies. The third question examines whether IFRS applies to all or only specific foreign listed companies. If IFRS applies only to certain entities, the questionnaire specifies the types of foreign listed entities to which it applies.

4. Research Results

Based on the data presented on the IFRS Foundation's website, the distribution of jurisdictions by world regions can be summarised as shown in Table 1.

Table 1: Overview of Analysed Jurisdictions

Region	Number of Jurisdictions	% by Region
Europe	44	26%
Africa	39	23%
Middle East	13	8%
Asia, Australia and Oceania	35	21%
North and South America	37	22%
Total	168	100%

Source: IFRS Foundation: *Who Uses IFRS Accounting Standards*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>, retrieved February, 2024

It can be unequivocally concluded that the participation of available jurisdiction profiles in the observed regions is approximately equal, except in the case of the Middle East, where there is an absolute minimal number of available jurisdiction profiles, accounting for 8% of the total number of observed jurisdictions. European countries are the most represented in the analysis, with 26% of the total number of available jurisdiction profiles. Then, with a slightly smaller share, Africa ranks second (23%), followed by North and South America combined in third place (22%), while Asia, Australia, and Oceania are in fourth place in terms of participation in the total number of observed jurisdictions. Jurisdictions can be divided into those that require the application of IFRS for all or most domestic publicly accountable entities, those that allow or require IFRS for at least some (but not all or most) domestic publicly accountable entities, and those that neither require nor allow the application of IFRS for any domestic publicly accountable entity. Publicly accountable entities are characterized by limited liability of a large number of owners, as well as the separation of ownership and management (Đukić & Pavlović, 2014). The review of jurisdictions according to this classification is presented in Table 2.

Table 2: Review of jurisdiction colours worldwide according to the IFRS application mandatory criteria

Region	Number of Jurisdictions	Required application	% of jurisdictions where application is required	Required or allowed application	Neither required nor allowed application
Europe	44	43	98%	1	0
Africa	39	37	95%	1	1
Middle East	13	12	92%	1	0
Asia, Australia and Oceania	35	28	80%	2	5
North and South America	37	26	70%	9	2
Total	168	147	87.5%	13	8
% of 168 jurisdictions	100%	87.5%	/	7.7%	4.8%

Source: IFRS Foundation: *Who Uses IFRS Accounting Standards*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>, retrieved February, 2024

Based on Table 2, it can be concluded that the majority of jurisdictions require the application of IFRS, meaning there is no choice involved, as the regulatory bodies of these countries have mandated the use of IFRS for all or most domestic publicly accountable entities. In other words, 87.5% of the jurisdictions require the application of IFRS for all or most domestic publicly accountable entities, 7.7% have jurisdictions where some entities are obligated, while others have the option to apply IFRS, and 4.8% of jurisdictions neither require nor allow the application of IFRS for domestic publicly accountable entities. Although a high percentage of jurisdictions (87.5%) formally require the application of IFRS, this does not guarantee global consistency and transparency of financial statements. The seemingly high compliance rate often conceals issues related to implementation and adaptation to local regulations, which may lead to partial and inconsistent application of the standards. Furthermore, the lack of adequate oversight and technical capacity in less developed countries hampers the proper implementation of IFRS, making formal harmonisation more symbolic than substantive. Such differences in interpretation and enforcement undermine the fundamental goal of global standardisation of financial reporting and hinder data comparability and transparency.

Unlike the previous analysis, which relates to the general application of IFRS in companies belonging to certain regions, an analysis can also be performed by exclusively focusing on listed companies in 168 jurisdictions. The summary results of the analysis of the mandatory application of IFRS in listed entities across all 168 observed jurisdictions are provided in Table 3.

Table 3: Obligation of applying IFRS in listed entities

Variants	Number of Jurisdictions	% of jurisdictions
Required application	135	80.35%
Allowed application	11	6.55%
Required for some entities, allowed for others	2	11.90%

Neither required nor allowed	6	3.57%
No financial market	14	8.33%
Total	168	100%

Source: IFRS Foundation: *Who Uses IFRS Accounting Standards*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>, retrieved February, 2024

An analysis of jurisdiction profiles reveals that IFRS is predominantly mandated by government authorities in 135 jurisdictions (80.35%). In contrast, IFRS is permitted in 11 jurisdictions (6.55%) and neither required nor permitted in 6 jurisdictions (3.57%). Specific nuances exist within these mandates. For example, in the European Union, IFRS adopted by the EU is mandatory for the consolidated financial statements of domestic companies listed on regulated markets, while unregulated markets may allow or require IFRS for various financial statements. In Sweden, IFRS is mandatory for entities on regulated markets but optional for unregulated ones. Similarly, Nicaragua allows entities to choose between IFRS and U.S. GAAP, with one being obligatory. Yemen, despite lacking a stock exchange, mandates IFRS for companies selling shares to the public. These examples highlight variations in IFRS adoption across jurisdictions. Differences between jurisdictions that apply IFRS and those that do not are often the result of economic and regulatory challenges as well as local accounting traditions. In less developed economies, the complexity and cost demands of IFRS implementation represent a significant problem, often leading to the assessment that the benefits do not justify the resources invested.

However, the question arises whether these reasons are truly justified or whether they conceal resistance to modernising accounting practices and globally harmonising reporting. In addition to economic barriers, some countries retain local standards due to the belief that they better reflect the specific characteristics of the domestic economy, while in some cases political resistance emerges, as the adoption of IFRS is perceived as a threat to sovereignty in financial reporting. Furthermore, non-application of IFRS may discourage foreign investors due to the lack of transparency and international comparability of financial statements, causing domestic companies to lose access to global capital markets. In an attempt to find a compromise, some countries develop hybrid solutions that combine local standards with certain elements of IFRS. However, such practices can further complicate the comparison of financial statements and undermine transparency, thereby failing to achieve the fundamental goal of harmonisation.

The next aspect essential to consider regarding the application of IFRS in listed companies is the extent of compliance with the IFRS requirements, i.e., whether the previously analysed mandates for IFRS application apply to all or only certain domestic listed entities. The results of the analysis of entities subject to the IFRS mandatory application requirements are presented in Table 4.

Table 4: Entities to which IFRS mandatory application requirements apply

Variants	Number of Jurisdictions	% of jurisdictions
Requirements for mandatory application of IFRS apply to all domestic listed entities	137	81.55%
Requirements for mandatory application of IFRS apply to certain domestic listed entities	12	7.14%
Data not available	19	11.31%
Total	168	100%

Source: IFRS Foundation: *Who Uses IFRS Accounting Standards*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>, retrieved February, 2024

In Table 4, the data are presented in aggregate form, without distinguishing whether IFRS application is mandatory or permitted, as discussed in the previous analysis. This section of the analysis examines jurisdictions based on whether the mandatory IFRS application requirements apply to all or only certain domestic listed entities.

Table 4 shows that 137 out of 168 jurisdictions (81.55%) mandate IFRS for all domestic listed entities, while 12 jurisdictions (7.14%) apply this requirement only to certain listed entities. Data for 19 jurisdictions (11.31%) are unavailable, often due to the absence of financial markets or domestic listed entities, or the prohibition of IFRS application. In some cases, specific entities, such as banks or insurance companies, do not apply IFRS even when it is required for others, as seen in Argentina, El Salvador, and Russia. Conversely, in countries like Albania and Canada, public-interest entities, such as banks and insurers, are required to use IFRS. Bolivia limits IFRS to subsidiaries of foreign entities, with others following Bolivian GAAP. Additionally, some countries, including France, Germany, and Ireland, mandate IFRS for domestic listed entities except those in unregulated financial markets. Although the results indicate a high rate of formal IFRS adoption among listed companies, the question arises as to whether this adoption truly achieves the fundamental objectives of the standards, such as transparency and comparability of financial statements. In practice, it often happens that, despite the mandatory application of IFRS, financial statements do not provide sufficiently reliable information to users, particularly in jurisdictions with weaker regulatory frameworks or limited supervisory capacities. In such cases, the application of IFRS may be more formal than substantive, where companies technically meet the standard requirements but face challenges such as inadequate accountant training, lack of professional oversight, and discrepancies in standard interpretation. This formalistic approach leads to a paradox in which nominally compliant reports are not genuinely transparent and comparable, thereby calling into question the fundamental goal of global harmonisation of financial reporting.

The next important aspect to consider in IFRS application is the extent of its use for the preparation of individual financial statements of listed companies. A summary of the research results from this perspective is presented in Table 5.

Table 5: Application of IFRS for the Preparation of Individual (Separate) Financial Statements of Listed Companies

Variants	Number of Jurisdictions	% of jurisdictions
Required application	96	57.14%
Allowed application	23	13.69%
Required for some entities, allowed for others	5	2.98%
Allowed for some entities, forbidden for others	1	0.60%
Neither required nor allowed	33	19.64%
Not defined	10	5.95%
Total	168	100%

Source: IFRS Foundation: *Who Uses IFRS Accounting Standards*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>, retrieved February, 2024

Based on Table 5, most jurisdictions require mandatory IFRS application for individual financial statements of listed companies. Specifically, 96 of 168 jurisdictions (57.14%) mandate IFRS use, while 23 jurisdictions (13.69%) permit but do not require it. In 33 jurisdictions (19.64%), IFRS application is neither mandated nor allowed. Some cases are more specific: in five jurisdictions, Australia, Hong Kong, Latvia, Lithuania, and Slovakia, IFRS is mandatory for banks, insurers, and financial institutions but permitted for other listed entities. IFRS may also be mandatory for entities on regulated or primary markets but optional for those on unregulated or secondary markets. The European Union represents a unique case: IFRS for individual financial statements is allowed in some member states but prohibited in others, depending on national laws. Lastly, 10 jurisdictions (5.95%) fall into an undefined category, including those without financial markets (e.g., Afghanistan, Angola, Belize, Brunei, Gambia, Honduras, Lesotho, Macau, Madagascar) or where individual financial statements are not mandatory (e.g., the UAE). The application of IFRS significantly varies between developed and less developed markets, with economically stronger countries generally being more successful in the consistent and high-quality implementation of the standards. Developed economies possess skilled personnel, financial resources, and a regulatory framework that enables the proper and complete application of IFRS, whereas countries with lower levels of development often face serious obstacles, such as a lack of trained accountants, financial constraints, and weak institutional support. In such conditions, although the standards are formally adopted, their actual application may be superficial and inadequate, thereby losing the substantive benefits of alignment with international accounting standards. In addition to economic limitations, the problem also lies in the regulatory flexibility that varies between countries. While developed countries often have stricter regulatory frameworks that ensure consistent application of IFRS, more flexible approaches in less developed countries allow companies to adjust or even bypass certain provisions. This leads to the formal acceptance of IFRS without any real impact on the quality of financial reporting and complicates the international comparability of financial statements.

Based on the questions in the jurisdiction profiles, it is possible to assess the extent of IFRS application in entities that are not listed, meaning their securities are not traded on

public markets. The results of this analysis are provided in Table 6.

The last analysed section of the jurisdiction profiles is the one concerning the application of IFRS for foreign listed entities. The results of the analysis regarding the mandatory application of IFRS for foreign listed entities are provided in Table 6.

Table 6: Mandatory application of IFRS for foreign listed entities

Variants	Number of Jurisdictions	% of jurisdictions
Required application	116	69.05%
Allowed application	25	14.88%
Required for some entities, allowed for others	2	1.19%
Neither required nor allowed	4	2.38%
No financial market	14	8.33%
No foreign companies	7	4.17%
Total	168	100%

Source: IFRS Foundation: *Who Uses IFRS Accounting Standards*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>, retrieved February, 2024

Based on the data in Table 6, it is clear that the majority of jurisdictions require IFRS application for foreign listed companies. Specifically, 116 out of 168 jurisdictions (69.05%) mandate IFRS, while 25 jurisdictions (14.88%) permit but do not require it. Four jurisdictions (2.38%), China, Indonesia, Montserrat, and Vietnam, do not allow IFRS for foreign listed companies. Fourteen jurisdictions lack a financial market, and thus, no foreign listed companies can apply IFRS. In the European Union, some member states require IFRS, while others permit it. In Singapore, foreign listed companies in the primary financial market must use IFRS, while those in the secondary market may use IFRS, GAAP, or SFRS. Additionally, seven jurisdictions (Iran, Kuwait, Myanmar, Oman, Qatar, Saudi Arabia, and Syria), accounting for 4.17% of the total, have no foreign listed entities despite having a financial market. The last segment of the analysis of jurisdiction profiles also pertains to foreign listed entities, specifically the application of mandatory IFRS requirements for these entities. It has been determined whether the mandatory IFRS application requirements apply to all or only specific types of foreign listed entities. If the requirements apply only to certain types of foreign listed entities, this has been specified. The results of the analysis of the application of mandatory IFRS requirements for foreign listed entities are presented in Table 7.

Table 7: Foreign entities to which the requirements for the mandatory application of IFRS apply

Variants	Number of Jurisdictions	% of jurisdictions
The requirements for the mandatory application of IFRS apply to all foreign listed entities	141	83.93%
The requirements for the mandatory application of IFRS apply to certain foreign listed entities	4	2.38%
Data not available	23	13.69%
Total	168	100%

Source: IFRS Foundation: *Who Uses IFRS Accounting Standards*, <https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>, retrieved February, 2024

From Table 7, it can be concluded that the majority of jurisdictions require IFRS application for all entities within the jurisdiction. Specifically, 141 jurisdictions (83.93%) mandate IFRS for all entities. In four jurisdictions (2.38%), IFRS is mandatory only for certain foreign listed entities. In 23 jurisdictions (13.69%), the data is not available because these jurisdictions either lack a financial market or prohibit the application of IFRS. Examples of jurisdictions where IFRS is mandatory for specific entities include Argentina, where all entities except banks and insurance companies must use IFRS; Bolivia, where foreign subsidiaries listed on the stock exchange must apply IFRS; Canada, where all foreign listed companies must use IFRS unless they are listed on a U.S. stock exchange (in which case they may use U.S. GAAP), or if their home jurisdiction's accounting standards are approved by Canadian regulators; and Japan, where IFRS is only allowed for foreign entities whose securities are traded on the secondary financial market.

Conclusion

This paper's research covered 168 jurisdiction profiles from the IFRS Foundation's website, focusing on the application of IFRS in listed companies. The findings highlighted significant variations in IFRS application for domestic and foreign listed companies, with some entities applying IFRS voluntarily, while others are required to do so. Overall, IFRS application is predominantly mandated by regulators, with a smaller proportion of jurisdictions allowing or prohibiting their use. The study also examined the mandatory application of IFRS in preparing financial statements for domestic listed and unlisted entities, showing that IFRS is mostly required in both cases. However, the use of IFRS for individual financial statements of listed entities is less widespread than for consolidated financial statements (57.14% vs. 80.35%). Also, foreign listed entities are more likely to be required to use IFRS when their securities are traded on domestic financial markets.

The results of this paper offer several contributions and implications. Firstly, they enhance the understanding of IFRS, particularly its role in financial reporting for listed companies. The findings provide valuable theoretical insights into the application of IFRS in listed companies globally. Moreover, the research can assist financial, business, and economic analysts by offering data on the extent of IFRS obligation and prevalence across different jurisdictions, which can be useful in their own research. The practical implications extend to current and potential foreign investors, who may base their investment decisions on the prevalence of IFRS in the countries where companies operate. If a company does not apply IFRS or operates in a jurisdiction that prohibits IFRS, investors may choose to avoid investing in that company due to unfamiliarity with the national GAAP, which may require additional time and resources to analyse.

The research in this paper has certain limitations. Although the analysis was conducted on all jurisdictions whose profiles are presented on the IFRS Foundation's website, which do not represent all jurisdictions in the world, the study did not consider changes in the scope and various variations of IFRS application in these jurisdictions over time. Given the statement that the analysed jurisdiction profiles are those available on the IFRS Foundation website, another limitation of the research concerns the number of

analysed jurisdictions. This is because the total number of jurisdictions in the world was not analysed.

Future research on the global application of IFRS could focus on jurisdictions that do not apply IFRS and investigate the reasons behind this. Additionally, future studies should consider the dynamics of IFRS adoption, analysing changes in the extent of its implementation over time to identify countries' attitudes towards IFRS. Research could also expand to include entire jurisdiction profiles, rather than just the segment related to IFRS in listed entities. Furthermore, future studies should incorporate additional jurisdictions as data become available or if new jurisdiction profiles are added to the IFRS Foundation website.

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