

# The value of discretionary accruals computed using both national and international standards

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**Abstract:** The present research provide information about the value of discretionary accruals considering the fact that a switch from Romanian Accounting Standards to International Financial Reporting Standards was compulsory, from 2012, for the entities that have securities admitted on trading. The value of discretionary accruals has been estimated using two methods, but either of them has provided pertinent information about a difference in the value of discretionary accruals. A comparison between the mean, the median and the variance of discretionary accruals computed under the two accounting regimes has been conducted, but not a statistically significant difference could be detected. Moreover, no influence of specific factors could be observed on the value of discretionary accrual.

**Keywords:** discretionary accruals, IFRS, transition period, Romania

**JEL codes:** M41, M21

## 1. Introduction

Considering the 881/2012 and 1286/2012 Orders of the Romanian Ministry of Finance, the entities that are listed in the stock exchange have to report their individual financial statements using the International Financial Reporting Standards (IFRS) starting with 2012. These entities had the possibility to construct before 2012, a distinct set of financial statements according to the IFRS approach, but they were used only by other users different from the public institutions. The implementation of the 881/2012 order is based on the fact that a shift from voluntary adoption of IFRS to mandatory adoption of IFRS is done. Moreover, this

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regulation repeals the article 4 from 1121/2006 Order, which requested that entities that use the IFRS as accounting method have also to prepare their financial statements using the Romanian Accounting Standards (RAS). The entities for which the adoption of IFRS is compulsory, starting from 2012, have to provide the accounting information for their individual financial statements under IFRS, considering that the adoption of IFRS standards and their interpretation is in accordance with the procedure laid down in article 6 of Regulation 1606/2002 of EC of the European Parliament and Council from July 19, 2002. These entities have to construct their financial statements in Romanian and have to use the Romanian RON. The entities have also to ensure the comparability of their data and of the IFRS accounting method, even if their securities are no longer admitted on trading on a regulated market.

From the entities' perspective, in 2012, an harmonization of the accounting procedures was done due to the fact that the entities that had their securities admitted on trading in a regulated market have to report their consolidated financial statements according to IFRS accounting measure from 2006 (Order 1121/2006 of the Ministry of Finance).

The order is in accordance with the development of the implementation of the IFRS accounting standards in Romania. As a fact, starting from 2012, the financial institutions from Romania adopted as compulsory the IFRS approach, as an accounting measure for their individual financial statements. The financial institutions could have provided IFRS financial statements before 2012, but these documents had only an informative purpose and could only be own used.

The adoption of the IFRS is considered that is going to bring significant improvements in the accounting quality, which is going to create more confidence for the users of the financial statements.

Taking these elements into consideration, the present research is conducted on the entities that have their securities admitted on trading in the Bucharest Stock of Exchange (BSE) and that have to report their financial statements under IFRS. The idea of research is to provide evidence about the value of accruals and the value of discretionary accruals these companies had before and after the implementation of the IFRS accounting measure.

The rest of the paper is structured as follow: the first part presents a short literature review regarding the implementation of the IFRS standards, the way the accounting quality had improved or not after their adoption and several models that were used for establishing the value of discretionary accruals. The next section presents the methodology of research, data sampling and the models developed, while the forth section emphasizes and discusses the results of the research. The article ends with conclusions and provides information about future research.

## 2. Literature review

A wide literature in the accounting field is concerned with the implementation of the IFRS as accounting measures and it deals with their impact on the earnings management process. The earnings management is viewed as the ability of manager to influence the external financial reporting process with the purpose to gain private benefit either by influencing the entity's contractual outcomes or by influencing the investors' perception about the economic situation of the entity and its ability to create future benefits for them (Schipper, 1989 ; Healy & Wahlen, 1999).

It is considered that the transition from the national accounting standards to the international accounting standards – IFRS - can reduce the likelihood that managers present disclosure information in order to obtain private benefit (Leuz *et al.*, 2003) or can increase the earnings management considering the flexibility that was given to preparers (Barth *et al.*, 2008).

The adoption of the IFRS, as an accounting measure, enquires the preparation and the presentation of the financial statements under this accounting regime. As a fact, a cost benefit analysis is required. Brown (2011) provides evidence about the fact that the results of IFRS implementation are mixed due to the fact that the samples on which the accounting quality is tested are different in terms of size and characteristics. Moreover, there is a wide range of proxies used for underlying the same idea. It seems that the shift to IFRS has brought significant improvements in the valuation of equity process and the entire equity markets. Improvements in the accounting quality have also been frequently observed.

Considering these features, the adoption of the IFRS can provide additional information to stakeholders, as specific measurement and recognition rules can positively influence the quality of accounting numbers. Thus, the financial reporting becomes more transparent (Daske, 2006). While Barth *et al.* (2008) observed a positive influence of the adoption of the IFRS, for the countries that have adopted them, when earnings management process, timely loss recognition and value relevance elements are analyzed, Lin *et al.* (2012) pointed out that a significant decrease was observed in terms of accounting quality as the value of earnings management had increased and the value of timely loss recognition and of value relevance had decreased after the adoption of the IFRS accounting measures. In Romania, to our knowledge an analysis on the effect of IFRS was conducted by Brad *et al.* (2014) who concluded that an improvement in earnings management have been observed in the post – IFRS period, while Munteanu *et al.* (2014) provide evidence about several differences between the values of financial indicators and of financial ratios measured by RAS and IFRS accounting regime.

Mixed results were also obtained when the value relevance element is analyzed. Oliveira *et al.* (2010) detected that the adoption of IFRS do create improvements in the value relevance for Portuguese entities, while Morais & Curto (2008) found opposite results. Paglietti (2009) consider that the impact of the IFRS accounting measures generates an improvement of the accounting quality in the value relevance for Italian Companies, while Iatridis (2010) found no relevant effect on UK firms.

Considering the discretionary accruals as a measure of earnings management, Ahmed *et al.* (2013) conducted a review analysis on the effects of IFRS adoption. They provided evidence not only about the methods and the samples used in estimating the value of discretionary accruals, but also information about other techniques according to which an evaluation of earnings management has been done. In accordance with the results that have been already obtained on the earnings management, using either value relevance models or earnings smoothing techniques, mixed results were also identified for the discretionary accruals elements. The results are in this form due to the fact that several estimation techniques were used in the literature.

The models on which the estimation of discretionary accruals can be done were developed by Jones (1991), Larcker and Richardson (2004), Ball and Shivakumar (2005), Kothari *et al.* (2005), Barth *et al.* (2008) or Jeanjean and Stolowy (2008). These models present the influence of the IFRS accounting measures' implementation considering both the voluntary and the mandatory adoption of them. Van Tendeloo and Vanstraelen (2005) provide evidence about the fact that that voluntary adoption of IFRS does not create less earnings management for the societies that have adopted them. Similar results were obtained for South Africa entities compared with US entities that used GAAP standards by Prather-Kinsey & Shelton (2005), while same authors provide evidence about the fact that the discretionary accruals do indeed decrease for UK entities that applied the IFRS approach. Guenther *et al.* (2009) found that discretionary accruals decrease only for the entities that mandatory have adopted the IFRS approach and not for the companies that engaged in voluntary adoption of them.

When this indicator is analyzed for mandatory adopters, Callao and Jarne (2010) emphasize the effect of transition of EU countries to IFRS and compare the value of discretionary accruals before and after the implementation of the IFRS accounting measures. They found evidence that discretionary accruals do indeed increase after the adoption of IFRS standards. Similar conclusions were obtained by Houque *et al.* (2012) who used data from 46 countries and demonstrated that the discretionary accruals were not mitigated considering the mandatory adoption of the IFRS. Manzano and Conesa (2014) revealed that the adoption of IFRS is not associated with lower levels of discretionary accruals in Mexico. Similar results

were obtained by Yosr (2013) as the magnitude of discretionary accruals is higher after the transition period.

Opposite to their conclusion, Chen *et al.* (2010) consider that the value of discretionary accruals for 15 European countries has significantly decreased after the entities have used the IFRS accounting approach. Sellami and Fakhfakh (2013) provide evidence about the fact that the value of discretionary accruals is significantly reduced in France after 6 year period from the mandatory adoption of the IFRS.

Considering these elements, we wonder if the value of discretionary accruals of Romanian entities that have to report their individual financial statements using the IFRS approach suffer or not an increase after the implementation of the new accounting standard. Based on our knowledge, few studies were conducted on Romanian market and no relevance of the change of the value of discretionary accruals has been provided.

### **3. Methodology of research**

In order to identify if any significant improvement has been observed in Romania in the value of discretionary accruals since the adoption of IFRS accounting approach, we conducted an analysis on the entities that have to report their individual financial statements using the IFRS regulation.

Considering the 881/2012 Order, 68, respectively 71, entities have to provide their individual financial statements using the IFRS approach. From this sample, the entities that were in their insolvency procedure during 2010-2012 were excluded (CGC, UZT, COFI, UCM, SRT). Other entities that were excluded, were the companies that have a negative value of own capital in the period 2010-2012. These entities are: RRC, OLT, COS, MJM.

In order to detect if an improvement in the value of discretionary accruals has been realized, some financial information has been collected, both from the Bucharest Stock of Exchange site ([www.bvb.ro](http://www.bvb.ro)) and from the individual site of each company. For each entity, data regarding the value of net profit, the value of cash flow from operations, the value of current assets, the value of current liabilities, the value of total debts, the value of income tax payable during the financial year, the value of cash, the value of amortization and depreciation, the value of revenues, the value of accounts receivable, the value of gross property, plant and equipment, the value of total assets, the value of own capital and the value of sales has been collected. This information was manually collected as no proper database regarding it exists in Romania. The information was collected for two periods of time: one

period refers to 2010-2011 and the data is reported using the RAS approach and the second period refers to 2011-2012 and the data is reported using the IFRS accounting approach. The data has been collected for these two periods as the difference between several indicators is needed for quantifying the value of discretionary accruals. We used other qualitative information such as the quality of audit and the separation between the CEO and the board of directors. As a fact, both variables were quantified using dummy variables. For the auditor variable, the value one was conferred if the auditor is a company from Big 4 and zero otherwise. It is considered that a higher quality of accounting reporting should be detected if the entity is audited by a Big 4 company. For the second dummy variable, value one was conferred if the position of executive manager and the position of company's president is hold by two different persons. Otherwise, the variable received zero value.

In order to estimate the evolution of discretionary accruals, the value of total accruals had to be estimated. For calculating the value of total accruals, we used two methods. The first one is based on presenting the value of total accruals as a difference between net profit and cash flow from operation. The formula that we used is presented in equation (1). The formula is similar with the one used in other research papers, such as Teoh *et al* (1998) or Xie (2001). There are also research papers where the authors used the value of net income before extraordinary items (Keung & Shih, 2014). As we have no extraordinary items, we used the value of net income.

$$TA_i = NP_i - CFO_i \quad (1)$$

Where:

$TA_i$  is total accruals for company i;

$NP_i$  is the value of net profit for company i;

$CFO_i$  is the value of cash flow from operations for company i.

For the entities that have not provided their cash flow from operation, we have calculated it, using the formula presented in equation (2). The formula is used considering the approach met in Dumitrescu *et al.* (2002, p. 42). It is presented in equation (2).

$$CFO_i = NP_i + Amortization_i + Asset's\ sales\ result_i - Financial\ result_i - \Delta The\ need\ of\ floating\ capital_i \quad (2)$$

Where:

$CFO_i$  is the value of cash flow from operations for company i;

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$NP_i$  is the value of net profit for company i;

$Amortization_i$  is the value of amortization for company i;

$Assets' sales results_i$  is the value of the difference between revenues of the assets transferred and the expenses of the assets transferred for company i;

$Financial result_i$  is the value of the difference between financial revenues and financial expenses;

$\Delta The need of floating capital_i$  is the value computed using the elements presented in equation (3).

$$\Delta Invent + \Delta Accounts\ rec - \Delta Operating\ liabil(no\ cash\ liabilities) \quad (3)$$

Where:

$\Delta Inventories$  is the value computed considering the inventories that the entity has in two different period of time;

$\Delta Accounts\ rec$  is the value computed considering the value of accounts receivables that the entity has in two different period of time;

$\Delta Operating\ liabil$  is the computed considering the liabilities that the entity has in two different period of time.

The second way of computing the total accruals was realized by using the earnings components, as they were proposed by Leuz *et al* (2003). The formula is provided in equation (4).

$$TA_i = \Delta CA_i - \Delta Cash_i - (\Delta CL_i - \Delta STD_i - \Delta TP_i) - Dep_i \quad (4)$$

Where:

$TA_i$  is total accruals for company i;

$\Delta CA_i$  is the change in current assets computed for company i;

$\Delta Cash_i$  is the change in cash components computed for company i;

$\Delta CL_i$  is the change in current liabilities computed for company i;

$\Delta STD_i$  is the change current debt for company i;

$\Delta TP_i$  is the change in income tax payable for company i;

$Dep_i$  is the current value of depreciation and amortization for company i in the year of reporting.

In order to establish the value of discretionary accruals, a regression model was calculated for total accruals using Kothari *et al* (2005) technique. This model has been widely used in most recent studies for discretionary accruals estimation. No reliable data for other models' estimation was available.

The Kothari *et al* (2005) model has the expression presented in equation (5).

$$TA_{it} = \alpha_{0t} + \alpha_{1t} \times (\Delta Rev_{it} - \Delta AR_{it}) + \alpha_{2t} \times PPE_{it} + \alpha_{3t} \times ROA_{it} + \varepsilon_i \quad (5)$$

Where:

- $TA_{it}$  is the total accruals for company i in year t;
- $\Delta Rev_{it}$  is the change in revenues for company i between year t and t -1;
- $\Delta AR_{it}$  is the change in accounts receivable for company i between year t and t-1;
- $PPE_{it}$  is the gross property, plant, and equipment for company i in year t;
- $ROA_{it}$  is the return on assets for company i in year t;
- $\varepsilon_i$  is the error term of the equation.

All variables are divided by lagged total assets. The variables are scaled by total assets in order to reduce the correlation that exists between them. The scaling procedure is found in several studies, such as DeAngelo (1986), Jones (1991), Teoh *et al.* (1998), Leuz *et al.* (2003), Chen *et al.* (2010) or Houqe *et al.* (2012).

Considering the fact that there is no possibility to estimate the value of accruals on each type of industry, as we have areas where the number of companies is under 10, we develop an analysis by including all entities into it. In order to establish the value of discretionary accruals, the fitted values for total accruals were estimated. They are used in order to compute the value of non-discretionary accruals. Consequently, the value of discretionary accruals is represented by the residual obtained from the estimation of the model (the residuals are used as they provide evidence about the difference between total accruals and non-discretionary accruals). In order to detect if a decrease in the value of discretionary accruals has been realized on Romanian market, we compare the individual elements of the residuals calculated in the pre-adoption period and in the post adoption period of time. As a fact, estimation was conducted on the years 2010-2011 and an estimation of the residuals was conducted on 2011-2012 period of time.

In the last part of our analysis, we try to identify the factors that can influence the value of discretionary accruals. We also tested the influence of the IFRS accounting approach. As individual elements, we included the size of the company (considering Burgstahler and Dichev (1997) results, small firms and large firms tend to manage earnings), measured as the natural logarithm of total assets, the debt ratio calculated between total debts and own capital (firms with high debt ratio tend to have higher discretionary accruals (Gul *et al.*, 2000), the change in total sales (firms with high growth can generate information asymmetry, which can lead to higher earnings management Llukani, 2013), the auditor type, the CEO variable



(according to Idowu, 2014: 292 firms where CEO is also the president of the company have higher values of discretionary accruals, but this effect can be mitigated by an auditor from BIG 4) as it can be seen in equation (6). Equation (6) is own research.

$$DA_{it} = \alpha_{0t} + \alpha_{1t} \times size_{it} + \alpha_{2t} \times levier_{it} + \alpha_{3t} \times \Delta Sales_{it} + \alpha_{4t} \times DCEO + \alpha_{5t} \times DAUD + \alpha_{6t} * DIFRS_{it} + \varepsilon_i \quad (6)$$

Where:

- $DA_{it}$  is the value of discretionary accruals for company i in year t;
- $size_{it}$  is the value of firm express by natural logarithm of total assets for company i in year t;
- $levier_{it}$  is the value of debts divided by own capital for company i in year t;
- $\Delta Sales_{it}$  is the change in sales between company i sales form year t to year t-1
- $DCEO$  is the variables that reflects the if the CEO of the company is different form the president of the company i in year t;
- $DAUD$  is the variable that reflects the type of auditor for company i in year t (if the auditor is from BIG 4 or not);
- $DIFRS$  is a dummy variable that has value one for the period where the IFRS approach was used;
- $\varepsilon_i$  is the error term of the equation.

Considering these, we based our analysis on the hypotheses:

- H1: Larger the company is, larger the value of discretionary accruals is.
- H2: Larger the indebtedness ratio is, larger the value of discretionary accruals is.
- H3: The change in sales can influence positively the value of discretionary accruals.
- H4: The existence of CEO and of the president of the company as two different persons should influence negatively the value of discretionary accruals.
- H5: The existence of the financial auditor from BIG 4 should mitigate the value of discretionary accruals.
- H6: The adoption of the IFRS should mitigate the value of discretionary accruals.

## **4. Results and discussions**

The purpose of the analysis was to determine if a change occurred in the value of discretionary accruals and what is the influence of the IFRS accounting approach on it. In order to provide this kind of information, the value of total accruals was

firstly estimated using two different approaches. As a consequence, the summary statistics for it is presented in Table 1.

**Table 1. Summary statistic for total accruals**

Element	Values for 2011 RAS approach		Values for 2012 IFRS approach	
	Method 1	Method 2	Method 1	Method 2
Mean	-56952505	-74239626	-57310562	-1.20E+08
Median	-4326918	-722534.5	-2113365.0	-3251775.0
Standard deviation	3.07E+08	4.39E+08	3.89E+08	6.89E+08
Skewness	-6.814999	-5.949448	-6.504996	-6.911222
Kurtosis	38.68414	49.18538	47.05901	50.26036

As it can be seen in Table 1, the values of the mean and median are closer in period one and period two, while a change can be observed in the value of standard deviation. In order to reveal if this difference is statistically significantly, test of equality of mean, median and variance was conducted. The results are provided in Table 2.

**Table 2. Test of equality**

Mean		Median		Variance	
T test	P- Value	Wilcoxon	Probability	Levene Test	Probability
0.005413	0.9957	1.085281	0.2778	0.128421	0.7208

As it can be observed in Table 2, no significant differences between the mean, median and the variance of total accruals computed using both the national and the international approach can be detected. Either the probability of p-value, the probability of Wilcoxon rank or the one associated with Levene' test is under the threshold of significance of 1%, 5% or 10%. For the variance the Levene test was used and not the Barlett's one, as there is a probability for the Barlett test to provide information only about the distribution of elements, which in this case is not a Gaussian one. As a fact, no reliable assumption about the total accruals variable calculated in the pre-adoption and the post-adoption period of IFRS accounting approach can be generated. The difference in the variance of Levene test can be considered statistically significant if we assume a risk of 72.08% of rejecting the null hypothesis, which is extremely high.

The next step was to realize the estimation for the total accruals and to determine the value of discretionary accruals using the fitted values of total accruals. The results are presented in Table 3.

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**Table 3. Results on non-discretionary accruals**

Element	RAS approach		IFRS approach	
	Dependent variable DA estimated through first approach		Dependent variable DA estimated through first approach	
	Value	p-value	Value	p-value
Constant	-0.044480	0.0748*	-0.038454	0.1720
$\Delta Rev_{it} - \Delta AR_{it}$	0.020782	0.4899	-0.010611	0.7199
$PPE_{it}$	0.008383	0.8188	0.008918	0.8343
$ROA_{it}$	0.125582	0.3950	0.737881	0.0000***
F	0.549995	0.650399	12.30294	0.000003***
R squared	0.030755		0.415131	
	Dependent variable DA estimated through second approach		Dependent variable DA estimated through second approach	
	Value	p-value	Value	p-value
Constant	-0.083900	0.0722*	0.028806	0.5578
$\Delta Rev_{it} - \Delta AR_{it}$	0.008364	0.8815	0.037529	0.4715
$PPE_{it}$	0.128032	0.0655*	-0.065127	0.3865
$ROA_{it}$	0.135643	0.6222	0.224646	0.2999
F	1.234404	0.306621	0.830579	0.483111
R squared	0.0664		0.045727	

Where \*\*\*, \* denotes significance at 1% and 10 %

As it can be revealed in Table 3, the equation does not provide statistically significant information for the value of non-discretionary accruals. It can be observed that the value of non-discretionary accruals is influenced by the value of gross property, plant and equipment when the total accruals are calculated by Leuz *et al.* (2003) method. On the other hand, regarding the first approach of total accruals, only a positive correlation between the value of non-discretionary accruals and the value of return on assets exists when the RAS accounting regime is considered. The problems are that the models are not statistically significant, with the exception being the scenario where the return on assets is statistically significant different from zero and it's correlated with the value of total accruals. The idea of research was to provide evidence about the existence or not of a difference in the value of discretionary accruals considering the fact that two different accounting regimes are used. The literature in the field emphasizes that not the relevance of the model is the element that interests us, but the characteristics of the obtained residuals (see the research conducted by Chen *et al.* (2010), Houqe *et al.* (2012)). Thus, we have analyzed the properties of the residual that we had obtained and we have performed the test of equality as it has been done with the value of total accruals. These characteristics are presented in Table 4.

**Table 4. Test of equality of discretionary accruals**

	TA-First Approach		TA- Leuz <i>et al</i> Method	
	T test	P- Value	T test	P- Value
Mean	7.35E-16	1.0000	Mean	2.14E-15
	Wilcoxon	Probability		Wilcoxon
Median	0.165847	0.8383	Median	0.9339
	Levene Test	Probability		Levene Test
Variance	1.1140	0.6903	Variance	0.5933
				0.4428

According to the results presented in Table 4, no proper assumption about the value of discretionary accruals can be formed. There is no significant difference either in the mean of them, the median or at least in the variance (their variability). Due to this situation, it can be concluded that there is no difference in the value of discretionary accruals when the IFRS or the RAS accounting measures are used, so no reliable improvement in the value of discretionary accruals were observed.

In order to shed the robustness of the results, we realized a regression model where both quantitative and qualitative variables were used considering equation (6). This model consists both of RAS and of IFRS measures and is trying to provide information about the evolution of discretionary accruals. The results are presented in Table 5.

**Table 5. Results of the model estimation**

Element	TA-first approach		TA- Leuz <i>et al</i> method	
	Value	P-value	Value	P-value
Constant	0.0551	0.5968	0.1468	0.4325
$size_{it}$	-0.003	0.5893	-0.008	0.4128
$levier_{it}$	-0.0003	0.5016	-0.0006	0.3947
$\Delta Sales_{it}$	-0.0182	0.4735	-0.0139	0.7595
<i>DCEO</i>	0.0078	0.5858	0.0311	0.2297
<i>DAUD</i>	-0.003	0.8486	-0.0281	0.8962
<i>DIFRS</i>	-0.0001	0.9025	-0.003	0.8962

From Table 5, it can be observed that, in case the model was statistically significant, H1, H2 and H3 are not valid. Consequently, the size, the indebtedness ratio and the increase in sales does not influence positively the value of discretionary accruals, rather negatively. The independence of CEO influences positively the value of discretionary accruals, which is opposite to our assumption (H4). When the auditor type and the accounting regime are analyzed, we observed that higher the auditor quality is lower the value of discretionary accruals is (H5 would be valid) and the adoption of the IFRS influence negatively the value of discretionary accruals (H6 would be valid- higher transparency of financial data).

Overall, due to the lack of significance of the modes, the conclusion is that there is no difference between the value of discretionary accruals computed using RAS and the value of discretionary accruals computed under IFRS accounting measure. Even though the variables included in the model are nearly not correlated, the regression model that was developed is not statistically significant as all coefficients are not significantly different from zero.

Considering the research conducted, there is no pertinent information according to which an increase/decrease in the value of discretionary accruals could be observed.

## **5. Conclusions**

The present research tried to detect a difference between the value of discretionary accruals reported under IFRS and the value of discretionary accruals computed under RAS accounting measure. The idea was to provide information about an increase/decrease of the value of discretionary accruals considering that the companies that have securities admitted on trading have to report their individual financial statement using the IFRS accounting measure from 2012.

In the research, the value of total accruals was firstly computed as a difference between net profit and cash flow from operation (Teoh *et al.*, 1998) and secondly, by using Leuz *et al.* (2003) model. The value of non-discretionary accruals was estimated using Kothari *et al.* (2005) technique (the fitted values for total accruals). The difference between total accruals and non-discretionary accruals represented the value of discretionary accruals. An analysis on their characteristic was conducted. As a fact, a comparison between the mean, median and variance was tested, but no proper difference was detected. Consequently, it can be said that there is no difference between the value of discretionary accruals reported under RAS and under IFRS. The results are similar with the results obtained by Houqe *et al.* (2012). An explanation of these results could be the fact that the analysis is conducted on the first year of adoption of the IFRS when higher costs of using the IFRS approach are encountered.

The problems of the research are related with manually collecting the data and the fact that we have a small sample on which the analysis was conducted. Another problem is related with the fact that the analysis focuses on the transition year. In fact, according to Houqe *et al.* (2012) the switch from national to international accounting measures can encounter higher costs and thus, the benefits of IFRS adoption can be observed with a delay. As the entities have to report the data using the IFRS a year before the adoption, several entities could have already adjusted their financial information and thus, this could be the reason why we found not a

significant difference in the value of discretionary accruals. Further research might provide evidence about the value of discretionary accruals using a panel data model.

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