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Topic: "Does the Mandatory Adoption of IFRS Improve the Mapping of Accruals to Cash Flows?: Evidence from Accounting Estimates ».

Abstract:

We study the effect of mandatory International Financial Reporting Standards (IFRS) adoption in the European Union (EU) on the mapping of accruals to future cash flows, a key concept of accounting quality within the IASB framework. Our focus is on accounting estimates, the portion of accruals that are most subjective to managerial assumptions and projections. We find that the mapping improves with the IFRS adoption, largely due to the recurring portion of accounting estimates. There is little evidence that the mapping improves for the other components of accruals. These results are concentrated in firms from countries with stronger legal infrastructure. Taken together, our analysis suggests that managers in countries with strong legal infrastructure use the reporting discretion permitted under high quality, principle-based reporting standards to signal future cash flows through current period accounting estimates.