

ADOPTION OF IFRS IN ECUADOR AND COLOMBIA 2010-2016

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Abstract

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The International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), have been adopted by a large number of countries, since they are considered an international benchmark for obtaining comparable quality financial information. The adoption by Ecuador and Colombia of IFRS as a transition from their previous local regulations based on provisions and decrees, justifies the present research work to provide knowledge of the regulatory reality of both countries. Behind this ambitious adoption of accounting standards, since they are costly processes both financially and in terms of training, there is a need to obtain consistent financial information that should attract investments and facilitate access to other less harmful financial markets. The purpose of this research is to perform an analysis of the effect on the accounting variables of the balance sheet and financial ratios, before and after the application of IFRS on large Ecuadorian and Colombian companies. To do this, Wilcoxon's nonparametric test of related samples is used, on a total of 204 Ecuadorian companies and 60 Colombian companies. To compare the results of both countries, a non-parametric U Mann-Whitney test is carried out. The results show an impact in both countries on the variables studied after the mandatory adoption of IFRS, although the relative impact is greater in the Colombian case.

Keywords: IFRS, Financial Information, Ecuador, Colombia

1. INTRODUCTION

The International Financial Reporting Standards (IFRS), as well as accounting principles and standards generally accepted in the US (US GAAP), have been positioned worldwide as high quality standards and are used by most countries. According to Dolgikh (2017), in the current panorama, countries are in a position to adapt IFRS in accounting practices.

The process of globalization has invigorated a series of changes in the way of interacting with financial markets and organizations. These organizations have been able to access a greater number of markets thanks to the elimination of trade barriers, and to financing via other capital markets. The process of harmonization of financial information has been a key factor to achieve these advantages; this process is also a consequence of the demand of users of comparable high quality financial statements in all entities. According to Bogdan, Domil and Mates (2017), in order to achieve

a harmonization and accounting compliance process, factors that influence financial information at a global level must be identified, in order to transform them, so that a set of accounting standards is generated. These rules are intended to guarantee a uniform way of presenting the information.

In this sense, one of the objectives of the IASB has been to issue a set of effective accounting standards and mandatory compliance to make financial information an instrument of transparency and comparability and help the participants in capital markets worldwide, which are involved in general in economic decision making (IASCF, 2006). An appropriate record and disclosure will help in some way to avoid financial crises such as those experienced in previous decades in this area (Marín, Antón & Ortiz, 2015).

Consistent with one of the most important accounting objectives, the information reflected in the financial statements provides guidelines for adequate decision-making (Mahdi & Mojdeh, 2016), so the business sector has seen the need to

harmonize the financial information, in order to improve the comparison of financial statements between companies and countries that demand useful and reliable information for both investors and interest groups (Callao et al., 2010).

The accounting has transcended notably, from the time when accounting systems were used as technical means of registration, until the last decades where accounting has been subject to continuous changes and accounting reforms to be studied from an accounting economic and financial approach (Moya & Platikanova, 2007).

One of these changes has been the accounting convergence to the International Financial Reporting Standards (IFRS) process, with the goal of raising the accounting quality worldwide and facilitating the comparison of financial information (Cai, Rahman, & Courtenay, 2014). These changes have involved a challenge for the business sector, due to the globalization of capital markets, international cooperation between countries and the increase in international trade (Marín et al., 2015).

Ecuador is not immune to this international requirement of homogenization and quality in the financial information provided by companies. It also has a high potential in the present and future to attract large investments and therefore it is essential that its companies are prepared for this global challenge. The process of transferring local to international standards culminated in the year 2010 according to resolution No. 08.G.DSC.010 of the Superintendence of Companies, Securities and Insurance. The schedule established three groups of companies, the first of which to implement IFRS companies, where those companies and entities regulated by the Law of Markets and Securities, as well as companies that exercised the activity of external audit. It should be noted that although they had to adapt to IFRS on January 1, 2010, they did not do so until 2012, as did the rest of the groups.

It is the same case for Colombia, that is not an exception to international demands and the Government regulated, through Law 1314 of 2009, the principles and rules of financial accounting. The Ministry of Commerce, Industry and Tourism was responsible for drafting the decrees (2706, 2784 and 3022) in 2012 and 2013, which facilitate the implementation of IFRS in the country. This adoption of standards of recognized international prestige also seeks to facilitate foreign investment and provide access to financial markets with greater agility.

After this brief introduction in which the relevance of this research is highlighted, framed in the need to harmonize the financial information and the adoption of IFRS by Ecuador and Colombia, a review of the literature is made, then the methods used and the results for both countries and finally the conclusions are presented.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The Full IFRS (Full IFRS), IFRS for SMEs and IFRS for the Public Sector (IPSAS) have been incorporated into the full IFRS (full IFRS). According to Pacter (2015) since 2001 about 114 countries have accepted the IFRS, the European Union, New Zealand, Russia, Hong Kong, China, India, among others. According

to Deloitte (2016) all the countries of Latin America and the Caribbean have demanded the application of IFRS as a platform for the preparation of financial statements, that have Argentina that adopted international regulations for all listed companies (except for banks and insurance companies), Brazil adopted IFRS as of 2010 for banks and listed companies, Chile implemented IFRS in 2012 for all public interest entities, while Mexico adopted the IFRS for all listed companies with the exception of banks and insurance companies, among others.

Ecuador has been making cooperative efforts since 1996, according to the International Accounting Standards (NIC), as a basis for the issuance of the Ecuadorian Accounting Standards (NEC), with the purpose of following the trend of international convergence and making it easier to understanding of financial statements, however, by not being able to carry out the process of updating the NEC at the same cadence of the international standards, the Ecuadorian financial statements had a disparity issue when compared with financial reports issued in other countries, preventing reaching the objective for which NEC was created in the first place (Pérez et al., 2015). In this context, the Superintendence of Companies, Insurance and Securities of Ecuador in order to achieve a balanced financial development, and in consideration of a globalized market, defined the mandatory implementation of IFRS according to Resolution No. 06.P.ICI. 004 of 2006.08.21 and Official Registry No. 348 of 2006.09.04.

The process contemplated the application of full IFRS and IFRS for SMEs (as applicable) and was developed in three groups that began in 2010 and were completed in 2012 according to Resolution No. 08.G.DSC.010 of 2008.11.20 and Official Registry No. 498 of 2008.12.3. The implementation began with the companies regulated by the Securities Market Law, and all the companies with external audit activities. Next, companies with assets equal to or greater than \$ 4M and holding companies; and finally, in the third group the other companies not considered in the groups described above (Superintendencia de Compañías del Ecuador, 2011). All the companies in the third group that applied full IFRS and IFRS for SMEs as of January 1, 2012, where obliged to draw up the following during the transition period: an implementation schedule and the reconciliation of net equity, according to Resolution No. SC.ICI.CPAIFRS.G.11.010 of 2011.10.11, Official Registry No. 566 of 2011.10.28 (Superintendencia of Companies of Ecuador, 2011). All this involved a set of changes at company level, since the complexity of international regulations forced companies to count on a series of material, human and financial requirements. Particularly, the process has demanded a more prepared and continuously updated accounting staffs, which in reality is not always met due to the high costs demanded (Pérez et al., 2015).

In line with the objective of the present investigation, to analyze the main effects of the adoption of IFRS in Ecuador and Colombia, after the review of some studies realized on accounting adoption and harmonization processes, it is shown below, from a theoretical approach research results focused on quantitative evidence that among others point out, some benefits such as the production of

high quality financial reports (Barth, 2008), unification of international finance (Hope, Jin & Kang, 2006), market integration Capital (Kargin, 2013; Odia & Ogiedu, 2013), access to foreign direct investment (Gordon, Loeb & Zhu, 2012).

The studies of Hung and Subramanyam (2004) and Cordazzo (2008), have shown important increases in the equity value of the companies, as well as in the net profits attributed to the registry of property, plant and equipment, financial instruments and deferred taxes. Callao, Jarne and Lainez (2007) with the analysis of the financial information of Spanish companies reveal important differences in the figures of the elements of the balance sheet that show an increase in the book value of the entities' equity, reflected in the of cash and cash equivalent accounts, short and long-term debts, and in the ROE.

Chen et al. (2010) carried out the comparison of the accounting quality before and after mandatory adoption in 15 countries of the European Union as of 2005. The results show a higher quality of accrual after the adoption of IFRS. Callao and Jarne (2010) compare discretionary accumulations for listed companies of 11 European stock exchanges with data up to 2006, in periods before and after the adoption of international financial regulations concluding that the implementation of IFRS increases discretionary accounting. In the same way the results by Salewski, Teuteberg and Zülc (2016) indicate that IFRS adoption initially leads to an increase in earnings management through discretionary accruals which is reduced in the mature phase of IFRS reporting.

On the other hand, Jeanjean and Stolowy (2008) with data from 2002 to 2006 found that earnings management did not decrease in the United Kingdom and Australia but did do so in France after the introduction of IFRS. The research by Paananen and Lin (2009), analyzes the changes in the schemes of the income management activities of German companies during the period 2000 to 2006. The study evidences a decrease in the accounting quality, after the mandatory implementation of the IFRS. On the other hand, Hoque et al. (2012) find that legal application has a positive influence on the effects of the adoption of IFRS in the reduction of earnings management.

The study by Cai et al. (2014) examines the effects of the adoption of IFRS considering the level of divergence of national regulations and IFRS. A sample of 31 countries is analyzed and the results show that the countries that benefit most from the adoption of IFRS are the ones that show the greatest differences between local GAAP and international financial regulations. The findings also suggest that when the divergence of national GAAP is taken into consideration before the adoption of IFRS, the effects of law enforcement are not as strong as those found in previous studies. These findings highlight the importance of the harmonization process in countries with lower quality accounting standards and weaker institutional environments rather than those with higher quality accounting standards and stronger institutional environments.

On the other hand, the study by Garza et al. (2017), using a sample of 141 companies listed on the Mexican stock exchange, shows that the process of harmonization of local regulations (GAAP) with

IFRSs increases the relevance of value and the quality of the accounting information. Likewise, the results of the Hessayri and Saihi (2017) the findings support evidence of increases in equity holdings following a firm's IFRS adoption. On the other hand, in Müller's research (2014) on the impact of the adoption of IFRS on the absolute and relative quality of the consolidated financial information of listed companies of the largest stock markets in Europe, they reveal the increase in the quality of the financial statements after the adoption of IFRS. An important study on the contribution of the adoption of IFRS in the reduction of perceived corruption between developed and developing countries by Nurul and Monem (2016) reveals that the benefits of adopting IFRS in the reduction of perceived corruption are higher in developing countries. These findings are significant if we focus on the criticism which considers developing countries to have weak institutional environments.

Yurisandi and Puspitasari (2015) in its study carried out with companies in Indonesia concludes that the quality of financial information is stronger after the adoption of IFRS. The results show that the characteristics of relevance, levels of comparability and understandability increase after the adoption of IFRS.

Analyzing the studies that have been carried out to date in this area, there is no doubt that the adoption of IFRS becomes a necessity, however the empirical evidence of whether IFRS improve the accounting quality are inconclusive, in fact, the study by Mala and Chand (2015) indicate that it would be premature for the IASB and standard setters of countries adopting IFRS to assume that adopting IFRS will automatically lead to high quality financial reports, in these sense the results of research applied to large Ecuadorian companies will undoubtedly be a contribution to the literature mentioned above in contributing to the quality of accounting information.

In Ecuador there are few research papers published to date on the adoption of IFRS and its effect on various accounting magnitudes and ratios. Cuenca et al. (2017) conducted a study on 31 companies listed in the Ecuadorian markets for the Pre-IFRS and Post-IFRS period, covering a total of 6 years from 2009 to 2014. In this study significant differences (for all variables) are found in the value for the accounting quantities, increasing said values - after the adoption of IFRS, however they are not significant in the case of profitability.

In the Colombian context, although different investigations are carried out on the adoption of IFRS, from different perspectives, few analyze their impact on accounting figures or financial ratios. Castaño et al. (2014) executed a case study in a cooperative to analyze the financial effects that the adoption of IFRS transferred to the organization. The results obtained allow us to observe a negative impact on both equity and liabilities due to the application of the financial instruments standard.

3. METHODOLOGY

The sample consists of large companies, in the case of Ecuador, the companies whose level of total assets are equal to or higher than the figure of \$ 5M at the end of 2010, since the second group of

companies with the obligation to adopt IFRS affected companies that had total assets equal or superior to \$ 4M as of December 31, 2007 and no information is available for that year. In the case of Colombia, the obligation, according to Decree 2784 as the development of Law 1314, established 2015 as the year of full adoption, for 1-Group, taking into account those companies whose level of assets is equal to or greater than 30,000 salaries monthly legal minimums. Indicate that the rest of the companies will do so starting in 2017.

Financial and insurance entities have been excluded from the sample, given their particularity and specific regulation; additionally, those companies that did not have information for the entire period under study have been eliminated. Thus the number of companies for Ecuador is 204 and in the case of Colombia the number of companies are 60. The data is expressed for both countries in thousands of dollars, note that so as not to distort the results due to the exchange in the case of Colombia, an average exchange rate has been made for the total period analyzed.

In order to carry out an impact study of the adoption of IFRS, the focus has been placed on two periods before and after the adoption, in the case of Ecuador, the actual adoption takes place in 2012 and

therefore the 2010-2011 as a pre-IFRS period and 2012-2013 as a post-IFRS period. In the case of Colombia, the adoption for the 1-Group is 2015, with 2013-2014 periods remaining before the IFRS and 2015-2016 periods after the IFRS.

For the impact analysis of the adoption of IFRS, accounting figures and a series of financial ratios have been taken, which gives a total of 14 variables to be studied under local standards and IFRS standards, according to the following detail in Table 1.

Table 1. Variables object of study

<i>Balance figures</i>	<i>Financial ratios</i>
Current assets	Indebtedness
Non-current assets	Solvency
Total assets	ROA
Current liabilities	ROE
Non-current liabilities	Acid test
Total liabilities	
Equity	
Inventories	
Cash	

Shown below in Table 2 the descriptive statistics:

Table 2. Descriptive statistics pre and post IFRS

Variable	Ecuador					Colombia				
	N	Min.	Max.	Mean	Sd σ	N	Min.	Max.	Mean	Sd σ
<i>Pre NIIF</i>										
Current assets	408	0	113.811	6.897	8.150	120	159	11.414.668	539.300	1.711.160
Non-current assets	408	0	108.747	3.579	8.158	120	5.627	39.584.651	1.856.820	5.480.077
Total assets	408	3.563	116.781	10.477	10.963	120	6.412	46.070.693	2.396.120	6.953.659
Current liabilities	408	0	85.149	5.218	6.916	120	43	16.060.497	492.684	1.824.887
Non-current liabilities	408	-1.794	23.730	2.234	3.424	120	0	13.609.067	542.192	1.661.568
Total liabilities	408	4	108.878	7.465	8.128	120	43	19.501.948	1.034.876	2.984.128
Equity	408	-553	99.472	3.011	6.243	120	-26.114	27.430.025	1.361.244	4.038.535
Inventories	408	0	85.490	2.582	5.620	120	0	4.551.693	133.348	559.179
Cash	408	0	5.196	507	694	120	0	1.490.533	89.881	221.309
Indebtedness	408	0	1	1	0	120	-3	26	1	3
Solvency	408	0	22	2	2	120	1	213	8	26
ROA	408	0	49	8	8	120	-13	105	5	14
ROE	408	0	259	32	28	120	-158	115	4	24
Acid test	408	0	22	1	2	120	0	193	14	30
<i>Post NIIF</i>										
Current assets	408	18	179.992	9.474	13.435	120	753	11.092.880	563.788	1.751.123
Non-current assets	408	0	88.655	5.267	8.285	120	6.426	39.307.630	1.970.205	5.450.278
Total assets	408	1.904	181.361	14.741	15.071	120	10.407	46.992.191	2.533.993	6.869.143
Current liabilities	408	0	132.565	6.886	10.215	120	111	7.339.885	493.922	1.293.857
Non-current liabilities	408	0	41.613,0	2.762	4.726	120	408	23.046.254	928.657	3.096.531
Total liabilities	408	29	174.179	9.649	13.000	120	1.694	29.710.810	1.422.580	4.147.564
Equity	408	-204	95.002	5.092	7.136	120	-256.474	17.314.983	1.111.413	2.789.409
Inventories	408	0	285.657	7.480	19.649	120	0	4.118.204	144.819	556.549
Cash	408	0	7.022	794	1.085	120	0	3.213.328	111.706	387.925
Indebtedness	408	0	1	1	0	120	-5	8	1	1
Solvency	408	0	67	2	4	120	0	15	3	3
ROA	408	0	60	8	8	120	-15	130	6	14
ROE	408	0	269	25	26	120	-51	166	10	23
Acid test	408	-12	67	1	4	120	-3	193	11	25

The objective set forth in the study is to analyse the impact the adoption of the IFRS has on certain accounting magnitudes and financial ratios in the companies of Ecuador and Colombia. Previous

literature on the adoption of IFRS by certain countries, shows significant effects in the valuation of the different magnitudes of balance of the companies, as well as in the financial ratios, reason why the null hypotheses which are presented next are going to be tested:

H1: There are no significant differences on the values of accounting figures pre-post application of IFRS.

H2: There are no significant differences on the financial ratios pre-post application of IFRS.

H3: There are no significant differences in the relative impact of IFRS on the values of accounting figures and financial ratios in Ecuador and Colombia.

To obtain statistical evidence on the related or dependent samples before and after adoption of the IFRS, the non-parametric Wilcoxon test is used after checking the non-normal distribution of the variables. With respect to the test between the values - between Ecuador and Colombia, the nonparametric test of U Mann-Whitney is used, as they are independent samples.

4. RESULTS

The first two hypotheses under study contrast whether the mandatory adoption of IFRS international standards have an effect on the book values, as well as a series of financial ratios for both countries. As shown in Table 3, *H1* and *H2* are rejected in practically all variables except for solvency and economic profitability in the Ecuadorian case and we cannot reject the null hypotheses in current assets, net worth, stocks, cash, economic profitability, financial and the acid test. These results show that the mandatory adoption of adoption of IFRS has had a greater impact in terms of the number of significant variables in Ecuador than in Colombia.

Based on the positive and negative ranges, as well as the sum of the ranges of each sign provided by the Wilcoxon test, the sign of the variations of the variables after the adoption of IFRS is observed. Focusing on those variables that have significant differences as a result of the adoption of international standards, we conclude the following:

Table 3. Results of Wilcoxon for both countries

Variable	Ecuador		Colombia	
	z-statistic	Sig.	z-statistic	Sig.
Current assets	-9,447	*	-1,413	
Non-current assets	-8,637	*	-3,431	*
Total assets	-10,315	*	-3,090	**
Current liabilities	-7,912	*	-3,806	*
Non-current liabilities	-2,710	*	-5,131	*
Total liabilities	-7,561	*	-5,529	*
Equity	-11,840	*	-1,340	
Inventories	-11,274	*	-0,753	
Cash	-6,205	*	-1,031	
Indebtedness	-7,289	*	-4,829	*
Solvency	-1,393		-6,081	*
ROA	-1,341		-1,649	
ROE	-6,074	*	-1,078	
Acid test	-8,274	*	-1,529	

Note: * - Significant at 1% level, ** - Significant at 5% level

Ecuador:

- Increases in the indebtedness ratio, financial profitability and the acid test.
- Decreases in all accounting figures.

Colombia:

- Increases in the solvency ratio.
- Decreases in non-currents assets, total assets, current liabilities, non-current liabilities, total liabilities and indebtedness.

Regarding *H3*, we can observe the results obtained when applying the non-parametric U Mann-Whitney test, as they are independent samples. The null hypothesis is rejected for 10 of the 14 variables under study. We did not find significant differences between both countries in the variables of current assets, net worth, treasury and finally in the acid test.

Table 4. Results of U Mann-Whitney

Variable	z-statistic	Sig.
Current assets	-0,933	
Non-current assets	-5,601	*
Total assets	-4,391	*
Current liabilities	-3,745	*
Non-current liabilities	-7,592	*
Total liabilities	-7,378	*
Equity	-1,879	
Inventories	-4,189	*
Cash	-0,512	
Indebtedness	-8,461	*
Solvency	-7,542	*
ROA	-3,924	*
ROE	-4,555	*
Acid test	-1,525	

Note: * - Significant at 1% level, ** - Significant at 5% level

Based on the average ranges obtained in the Mann-Whitney test, the results indicate a greater relative impact in Colombia for 10 of the variables: current assets, non-current assets, total assets, current liabilities, non-current liabilities, total liabilities, treasury, indebtedness and both yields. On the contrary, this relative impact has been greater in Ecuador in the remaining 4 variables: net worth, stocks, solvency and acid.

5. CONCLUSIONS

The objective of the research work is to analyze if there are significant differences for certain accounting variables and financial ratios after the mandatory adoption of IFRS by large companies in Ecuador and Colombia. The hypothetical approach is based on the premise that these significant differences will occur as local standards are often far from international standards, one of the reasons being the complexity of the latter. Additionally, research at an international level shows these differences, although it is not conclusive regarding the sign of them and with respect to the benefits (see for example: Cuenca et al., 2017, Cai et al., 2014, Callao & Jarne, 2010, or Cordazzo, 2008).

However, it should be noted in the case of Ecuador that there had already been an approach to IFRS when transcribing the Ecuadorian Accounting Standards (NEC), although the faster pace of international standards, generated problems of adoption and therefore of comparability with other

countries (see for example Pérez et al., 2015). In Colombia in 2009, the Government, through Law 1314, which regulates accounting and financial information principles and standards, orders the Public Accounting Technical Council to achieve accounting convergence based on a classification by type of company within a temporary scenario.

The results obtained reflect a significant difference for 12 of the 14 variables in the Ecuadorian case, which shows that although the country had made an effort to get closer to international standards with the NEC, they had remained at a distance. These results are in line with previous studies, however it should be noted that although there are significant differences in all the variables of the balance, these have a decreasing nature, which raises future lines of research to delve further into these results. It is worth noting that there is an increase in the financial profitability of the companies under study.

In the case of Colombia, the significant differences that we found, although lower than in Ecuador, also reflect decreases in the balance sheet values. Even though there was an increase in the solvency ratio. In order to link these results, it is important to highlight the level of normative application of the different countries, that is, the path followed to make the transition to international

standards, or even the incentives that can be established as an incentive for companies to adopt those standards. In addition, the interpretation of the same should be considered based on the exceptions of IFRS 1 for those companies that adopt the regulations for the first time (see for example Callao et al. (2010) or Daske et al. (2008).

With respect to the relative impact of the adoption of IFRS, the variables of the balance sheet: non-current assets, total assets, current liabilities, non-current liabilities, total liabilities and inventories have been statistically significant in Ecuador and Colombia, as well as debt ratios, solvency and both returns. The average range obtained by the U Mann-Whitney test determines that the relative impact has been greater in Colombia with eight variables: non-current assets, total assets, current liabilities, non-current liabilities, total liabilities, indebtedness and yields; than in Ecuador with two variables: stocks and solvency.

The results provide knowledge in the area about the mandatory adoption of IFRS, complements studies already carried out and should also be of interest to investors, users, public institutions, supervisors and for those institutions responsible for implementing the necessary regulations for the international harmonization of the financial information.

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