

Evidence on the Impact of International Financial Reporting Standards in New Zealand

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Abstract

Purpose – This paper examines the financial impact of the adoption of international financial reporting standards (IFRS) on New Zealand (NZ) companies. It analyses the effects of IFRS on the accounting numbers reported in financial statements. It also compares the association of NZ IFRS versus NZ GAAP book value and equity numbers with market values.

Design/methodology/approach – The paper examines a sample of New Zealand listed companies that adopted NZ IFRS. Financial statement data under NZ IFRS and the previous generally accepted accounting practice were hand collected from annual reports. The data is analysed using descriptive statistics and linear regression.

Findings – Consistent with value relevance results from common-law based countries we find the adoption of IFRS has had little impact in New Zealand on the association between earnings and equity with market values. In fact, there has been a marginal decrease in value relevance.

Originality/value – The study examines the impact of a major regulatory change in financial reporting by documenting New Zealand's experience with the changeover. It extends the research of IFRS implementation overseas by providing evidence from Common Law based jurisdictions. The findings are of relevance to the accounting profession and regulators as they debate whether IFRS should be required for to prepare general purpose financial statements for small to medium-sized enterprises.

Keywords International financial reporting standards, value relevance, earnings, equity, New Zealand.

1. Introduction

In 2002, the New Zealand Accounting Standards Review Board (ASRB) announced that New Zealand listed companies would be required to adopt International Financial Reporting Standards (IFRS) by 1 January 2007. However, firms were allowed to adopt the standards as early as 1 January 2005. The move to the New Zealand equivalent of International Financial Reporting Standards (NZ IFRS) is one of the most significant changes in New Zealand financial reporting for a number of years. A regulatory accounting change of this magnitude requires the consideration of benefits and costs.

This paper examines the New Zealand experience with the changeover. We report on the nature and materiality of the financial effects of NZ IFRS reported in published financial statements. We also examine the extent to which NZ IFRS financial statements reflect information which is useful to the sharemarket beyond that provided by New Zealand generally accepted accounting practice (NZ GAAP). The findings should be of interest to the accounting profession, the Ministry of Economic Development which is responsible for the statutory framework for financial reporting, the New Zealand Securities Commission, which oversees New Zealand's capital market, and New Zealand's financial reporting standards-setter, the Accounting Standards Review Board. The results are particularly relevant to the debate as to whether the application of IFRS should be extended to small and medium sized enterprises.

The results of this study are consistent with prior studies in the United Kingdom and Australia. (Horton and Serafeim, 2008; Goodwin *et al.*, 2008). The value relevance of IFRS earnings and book value of equity reported by New Zealand listed companies differ only marginally from those using the prior New Zealand standards. Thus the benefits from switching to IFRS appear to be minimal

The paper is structured as follows. Section 2 summarizes research on the impact of IFRS adoption observed in other countries. Section 3 provides a brief historical review of the adoption of IFRS in New Zealand and the potential financial impacts of the change to IFRS. Section 4 details the data and sample used in this study. Financial statement impacts and value relevance results are presented in section 5, and section 6 concludes.

2. Value Relevance of IFRS Adoption

One of the key objectives of the IASB is to develop a set of globally accepted standards which provide high quality, transparent and comparable information to capital markets and other users (IASB 2002). The move to international adoption of IFRS began in 2002 when the European Union (EU) Parliament became the first regulatory body in the world to require the use of IFRS. It mandated the use of IFRS for all EU listed companies from 1 January 2005. The aim was for listed companies to have a single set of high quality standards that would ensure a 'high degree of transparency and comparability of financial statements' (European Parliament 2002: Article 1).

IFRS adoption is envisaged as a move that will improve accounting quality and provide a better reflection of economic reality, but the views of the academic community are mixed. Ball (2006) argues that accounting quality will depend on how well the standards are applied - which will depend on the financial reporting incentives within the institutional environment and on the enforcement of standards. Daske *et al.* (2008) also argue that capital market effects from IFRS adoption will vary depending on the enforcement of standards and the financial reporting incentives for more transparent earnings. In addition, they argue that the effects of IFRS adoption will be smaller for countries where there are fewer differences between local GAAP and IFRS because of a previous convergence strategy (Daske *et al.*, 2008).

La Porta *et al.* (1998) found a close alignment between a country's legal system and the quality of its accounting standards[1]. Their study showed that Scandinavian countries have the highest quality accounting standards. Common-law countries (England, USA, Canada and Australia) have the second highest quality accounting standards and give greater legal protection to investors compared to German, Scandinavian and French civil-law countries. French-civil-law countries have the lowest quality accounting standards and law enforcement of the four groups.

Studies of EU countries have shown that common-law countries are less conservative than civil-law countries in their accounting practices (Arce and Mora, 2002; García and Mora, 2004). Hence the diversity in legal systems has partnered with diversity in accounting systems. With harmonisation to

IFRS, one may expect to see significant differences in the effects from IFRS adoption. The following sections summarise existing value relevance research on the impact of IFRS adoption in various countries.

2.1 Europe

For many companies in Continental Europe, financial reporting incentives are regulatory rather than market driven (e.g., taxation requirements, determination of profit distribution and financial services supervision) (Jermakowicz, *et al.*, 2007).

Nordic Studies

Schadewitz and Vieru (2007) examined 86 Finnish first-time IFRS adopters in 2004. Incremental value relevance showed that IFRS equity adjustments impair value relevance while earning adjustments improve value relevance. Gjerde *et al.* (2007) also found no significant improvement in value relevance for 145 firms listed on the Oslo stock exchange. In incremental analysis they report a marginal increase in the value relevance for equity adjustments but not for earnings adjustments.

European Union

All listed EU companies have been required to use IFRS since 2005. Capkun, *et al.* (2008) analysed the impact of IFRS adoption for 1,722 firms that transitioned in 2004-2005. The association of the accounting numbers with market prices was higher under IFRS than for local GAAP but no test of significance was given. In incremental analysis IFRS equity adjustments were not value relevant while IFRS earnings adjustments were positive and strongly significant. Unfortunately Capkun *et al.* (2008) did not provide value relevance results by country.

The Institute of Chartered Accountants in England and Wales (ICAEW) (2007) on behalf of the European Union (EU) undertook a major investigation of the impact of IFRS for a number of EU countries including tests of value relevance. The overall results show that IFRS earnings adjustments are value relevant but not IFRS equity adjustments. In a breakdown by country, IFRS earnings adjustments are value relevant for listed companies in France, Italy and the United Kingdom but not

Spain. IFRS equity adjustments are not value relevant for any of the countries except for Spain where the adjustments impair value relevance.

Tsalavoutas and Andre (2008) found no statistically significant change in the value relevance of equity and earning after the adoption of IFRS in Greece.

2.2 Common-law Countries

Common-law based jurisdictions have capital markets that drive financial reporting incentives. Studies from two of these countries yield different results. In the UK, Horton and Serafeim (2008) found that changes in earnings between UK GAAP and IFRS are value relevant, especially earnings adjustments relating to share-based payments, deferred tax and goodwill amortisation. However, changes in equity are not value relevant.

In relative analysis, Goodwin *et al.* (2008) found no evidence that IFRS earnings and equity are no more value relevant than under local Australian GAAP. They also undertook incremental value relevance analysis and reported that earnings and equity adjustments are not value relevant, but in more detailed analysis found that changes to intangibles and provisions weakens value relevance while changes to goodwill improves it.

3. Adopting IFRS in New Zealand

3.1 Background to New Zealand Harmonisation

New Zealand's focus on harmonising with international standards goes back to 1974 when the New Zealand Society of Accountants became a member of the International Accounting Standards Committee (IASC) (Bradbury and van Zijl, 2005). In the 1990s further moves to harmonise came with a legal requirement for New Zealand's Accounting Standards Review Board (ASRB) to liaise with the Australian Accounting Standards Board (AASB) to harmonise New Zealand and Australian standards (Financial Reporting Act section 24(f))[2].

On 3 July 2002, the Australian Financial Reporting Council decided that IFRS would be adopted in Australia on or after 1 January 2005. This was the catalyst for New Zealand to adopt IFRS and a proposal for adoption was made by the ASRB in October 2002. This was followed by an extensive process of consultation with a range of interested parties[3]. (Hickey *et al.*, 2003). The ASRB announced the decision to adopt IFRS in December 2002.

There has been debate about whether or not the benefits of IFRS adoption outweigh the costs for small and medium-sized entities (SMEs). In September 2007 the Minister of Commerce announced a government review of financial reporting for SME's. This resulted in the Accounting Standards Review Board (ASRB) delaying adoption of NZ IFRS for small and medium-sized entities. The government's financial reporting reforms proposals have now been issued and recommend that IFRS will only be applicable to entities that have public accountability, economic significance and separation of owners and managers (ASRB, 2009). This will mean that only a small number of SMEs will be required to apply IFRS to prepare general purpose financial statements.

3.2 The Transition to IFRS

The requirements for transitioning to NZIFRS were provided in Financial Reporting Standard 41 (FRS-41) *Disclosing the Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards* (FRSB, 2005a) and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* (FRSB, 2005b). The purpose of FRS-41 was to inform users of how the transition to NZ IFRS was being managed and to provide the expected date of adoption. Entities also had to explain the key differences in accounting policies that were expected to arise from adopting NZ IFRS and the potential impact of the change on the financial reports (FRSB, 2005a).

NZ IFRS 1 set out the disclosure requirements for companies on transition to NZ IFRS. IFRS companies in the year of adoption were required to provide reconciliations of equity and earnings as reported under the previous NZ GAAP and NZ IFRS at both the date of transition and the reporting date. Sufficient detail was required to enable users to understand the material adjustments to the balance sheet and to the profit and loss (FRSB 2005 a & b).

3.3 Potential Financial Reporting Impacts

It was understood that the adoption of IFRS would change the structure and content of financial statements. It was also anticipated that the adoption of a new set of financial reporting standards might change the reported results and financial position of reporting entities (Hickey *et al.*, 2003).

Although the financial impact from the adoption of IFRS would vary for each entity, commentators highlighted the areas where the effects were likely to be significant. Teixeira (2004) and Bradbury and van Zijl (2005) identified the following reporting areas where the impact on a number of entities was expected to be major: (a) income tax, because of fundamental changes in the concepts and method for recognising deferred tax assets and liabilities; (b) property plant and equipment, where offsetting revaluation decreases and increases could no longer occur within an asset class; (c) employee benefits, revenue recognition and intangibles because there were no equivalent New Zealand standards; (d) financial instruments, for which derivative financial instruments must be recognised at fair value and detailed rules applied to account for hedges; (e) business combinations,

because of the change in accounting treatment for goodwill on consolidation; (f) agricultural assets, where fair value accounting was required; and (g) share-based payments transactions which were required to be recognised in the financial statements.

There was also speculation about the potential financial impact for specific entities. Vaughan (2004 and 2005) and Kwong *et al.* (2005).

Although there were a number of anticipated differences between IFRS and NZ GAAP there were also a number of areas where treatment was expected to be similar; for example, in the measurement and recognition of inventories, as well as the depreciation on property, plant and equipment.

3.4 Hypotheses

A summary of results from the value relevance research described in Section 2 is shown in Table 1. The majority of studies have tested incremental value relevance and not relative value relevance. In moving from local standards to IFRS the research indicates that earnings adjustments are value relevant for code law countries except for Spain but the results for common-law and Nordic countries are mixed. Equity adjustments provide no additional information in both code and common-law countries with mixed results for Nordic countries.

Take in Table 1

The findings suggest that if there is any increase in value relevance from the change to IFRS, it lies with earnings. It appears that earnings reported under IFRS are less conservative than under prior national GAAP. This holds true without regard to whether the country's legal systems is code or common-law based. The anticipated financial impact of IFRS on earnings of NZ listed companies was unclear. In some areas the effects were expected to be small while in other areas they were expected to be substantial.

Given the mixed results from IFRS adoption elsewhere and the conflicting arguments for the anticipated impact in New Zealand, we adopt the following null hypotheses:

H1: There is no difference in the value relevance of the book value of equity and net income reported under NZ IFRS versus the previous NZ GAAP.

H2: NZ IFRS adjustments to NZ GAAP earnings do not provide additional information to the market.

H3: NZ IFRS adjustments to NZ GAAP equity do not provide additional information to the market.

4. Data and Sample

The population for the study was all companies listed on the New Zealand Stock Exchange (NZX) as at August 2006[4]. Thirty listed unit trust and funds were excluded as the financial impact of IFRS would be quite different for these entities. Thirty-two overseas registered companies cross-listed on the NZX were also excluded as the date of IFRS adoption differed from New Zealand registered companies. Three companies in financial difficulties and 15 companies that delisted were also excluded. Four companies that disclosed insufficient data were rejected, resulting in a sample of 92 companies. Table 2 summarises the sample selection.

Take in Table 2

Financial statement data on earnings, assets, liabilities and equity reported under NZ GAAP and NZ IFRS were collected from annual reports. Share price data was obtained from the NZX Deep Archive.

Table 3 shows the year in which the companies produced the first IFRS annual report. Three companies produced the report for the year ending 31 December 2005. Twenty companies (21.7 per cent) adopted in 2006 and 17 companies (18.5 per cent) in 2007. The majority of companies (52 companies – 56.5 per cent) adopted in the financial reporting period after the mandatory date of January 1 2007.

Take in Table 3

5. Results

5.1 Financial Statement Impacts

Table 4, Panel A lists the differences between NZ GAAP and NZ IFRS for reported earnings. Average earnings before interest and taxation (EBIT) increased by 9.54 per cent while net profit after taxation (NPAT) increased by 16.95 per cent. The differences in the mean and median earnings are statistically significant different for both NPAT and EBIT. There is considerable variation in the earnings as indicated by the large standard deviations. An analysis of the differences between NZ GAAP and NZ IFRS earnings by sector[5] were also made. There are no significant differences except for the services sector. The increase in earnings under IFRS is consistent with Australia's experience. Goodwin et al (2008) report that IFRS earnings are higher compared with Australian GAAP but that the differences are not significant.

Take in Table 4

The changes reported in Table 4, Panel A are net changes, with increases and decreases offsetting each other and thus the absolute changes are understated. Table 4, Panel B records the nature of material adjustments to NPAT reported by the companies, categorised into positive and negative changes. Fifty-six companies report NPAT earnings increases, twenty-eight report earnings decreases, and eight companies report no change in earnings.

The material adjustments to earnings relate primarily to goodwill, financial instruments and property plant and equipment. The write-back of goodwill accounts for \$244.7 million (42 percent) of the net increase in earnings. Thirty nine out of the 92 companies (42 percent of the total sample) made goodwill adjustments - all but one had a positive impact on earnings. Adjustments to financial instruments reduced net earnings by \$83.2 million. Forty companies reported adjustments (43 per cent of the sample) with twenty three of these companies reporting earning decreases. Adjustments to property, plant and equipment (primarily fair value adjustments to investment properties) increased earnings by \$294.1 million.

Table 5, Panel A reports the impact of NZ IFRS adoption on the balance sheet. Average total assets increased by \$21.8 million (3.5 percent) and average total liabilities by \$32.7 million (9.8 percent). The increases are significantly different for both elements with p-values ≤ 0.01 . The net effect on equity is an average decrease of \$10 million (-3.4 percent) which is not significant. The balance sheet impacts are similar to those reported in Australia by Goodwin, *et al.*, (2008).

Take in Table 5

Table 5, Panel B summarises the adjustments to equity. Changes in recognition of employee benefits and deferred taxation reduced equity by a total of \$1,059 million. This was offset by goodwill increases of \$315 million. The impact of IFRS adjustments for financial instruments varied for companies with 33 companies reporting increases in equity and 17 companies reporting decreases in equity.

Take in Table 6

Table 6 reports the means of selected financial ratios under both NZ GAAP and NZ IFRS. Under NZ IFRS the mean return on equity increased by 1.1 per cent as a result of the mean increase in earnings and a decrease in equity. The return on assets decreased by 1.1%. Both changes are significant. The mean proportion of liabilities to total assets increased significantly from 42.3 percent to 44.7 per cent. Earnings per share increased by 3 cents under NZ IFRS which is significant while the ratio of market to book value of equity remained unchanged.

In summary, the adoption of NZ IFRS resulted in significant increases in reported earnings, total assets and liabilities. In addition there were significant changes in mean return on equity, assets, gearing and earnings per share for the sample of companies. The next part of the study examines whether the changes provided additional information to the market.

5.2 Value Relevance

We apply two value relevance models used by Hung and Subramanyam (2007) to evaluate the change in value relevance of accounting information from IFRS adoption in New Zealand. The first

model compares the value relevance under NZ GAAP with NZ IFRS. The second model compares the incremental value relevance of NZ IFRS adjustments to earnings and equity.

Model 1

The first model compares the extent to which NZ GAAP and NZ IFRS financial reports reflect information incorporated into share prices by comparing the adjusted R² from the following two estimates of the model.

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it-1}^{NZGAAP} + \alpha_2 NPAT_{it-1}^{NZGAAP} + \varepsilon_{it} \quad (1)$$

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it-1}^{NZIFRS} + \alpha_2 NPAT_{it-1}^{NZIFRS} + \varepsilon_{it} \quad (2)$$

Where:

MV_{it} = market capitalisation three months after the balance date in the year of adoption.

BV_{it-1}^{NZGAAP} = carrying amount of shareholders' equity under NZGAAP at the balance date in the year prior to adoption.

$NPAT_{it-1}^{NZGAAP}$ = net profit after tax under NZGAAP in the year prior to adoption.

BV_{it-1}^{NZIFRS} = carrying amount of shareholders' equity under NZIFRS at the balance date in the year prior to adoption.

$NPAT_{it-1}^{NZIFRS}$ = net profit after tax under NZIFRS in the year prior to adoption.

ε_{it} = error term

Model 2

The second model directly examines the additional information that IFRS adjustments provide beyond that in NZ GAAP financial reports.

$$MV_{it} = \alpha_0 + \alpha_1 BV_{it-1}^{NZGAAP} + \alpha_2 NPAT_{it-1}^{NZGAAP} + \alpha_3 BV_{it-1}^{IFRS-NZGAAP} + \alpha_4 NPAT_{it-1}^{IFRS-NZGAAP} + \varepsilon_{it} \quad (3)$$

Where:

$BV_{it-1}^{IFRS-NZGAAP}$ = the difference between the NZ IFRS and NZ GAAP carrying amount of shareholders' equity in the year prior to adoption.

$NPAT_{it-1}^{IFRS-NZGAAP}$ = the difference between the NZ IFRS and NZ GAAP net profit after tax in the year prior to adoption.

The models are estimated using both the gross value and scaled variables. Consistent with Hung and Subramanyam (2007) the models are run using the share price three months and five months after the balance date in the year of adoption, as by this time all information from the transition to IFRS should have been in the market[7].

The value relevance of NZ GAAP and NZ IFRS equity and earnings to the market three months after the balance date is shown in the first two rows of Table 7, Panel A. The models have significant f-statistics and high explanatory power. The coefficients for equity and profit are positive and highly significant for both NZ GAAP and NZ IFRS models. However, the coefficients for equity and profit are lower for NZ IFRS compared with NZ GAAP. The adjusted R² values of 90.1 per cent for NZ GAAP and 88 percent for NZ IFRS are higher than those reported by Gjerde *et al.* (2007) for Norway (79.2% for Norwegian GAAP and 80.5% for IFRS) and Goodwin *et al.* (2008) in Australia (68%) for Australian GAAP and 62% for IFRS). The Akaike Information Criterion (AIC)[6] is used to test the goodness-of-fit of each of the regression models (Akaike, 1974). The NZGAAP model has the lower AIC score of 2,620 compared with NZ IFRS of 2,638. Although the AIC value for NZ GAAP is lower, the difference is negligible, suggesting no real difference between the models. Thus the null hypothesis H1 is not rejected.

The results of the incremental value relevance analysis are reported in the third row of Table 7, Panel A. The adjusted R² of 90.10% is the same as the value estimated for the NZ GAAP model (see

row 1 Panel A), indicating that the incremental variables added no explanatory power. The coefficient for equity differences between NZ GAAP and NZ IFRS is positive but not statistically significant while the coefficient for the earnings difference is negative and not significant. Overall, the results of the incremental value relevance model suggest that the IFRS adjustments have not provided additional information to the market. Thus hypotheses H2 and H3 are also not rejected.

Take in Table 7

The value relevance analysis is repeated using the market value at five months after the year of adoption. The results are reported in Table 7, Panel B. The results are similar to the value relevance results at three months. The explanatory power of the NZ GAAP model is 88.7 percent and is higher than the NZ IFRS of 85.7 percent). The coefficients of NZ IFRS equity and earnings are lower than for NZ GAAP which is consistent with the results at three months after the balance date. In the incremental analysis the coefficient for the earnings adjustment is negative and weakly significant while the coefficient for the equity adjustment is not significant.

The relative and incremental value relevance models are repeated using scaled data. The results (see Table 8) and inferences are consistent with the market value models. The introduction of industry dummy variables (not shown) does not impact the results.

Take in Table 8

In summary, the adoption of IFRS resulted in no more value relevance than NZ GAAP and thus suggests that adopting NZ IFRS has not improved the quality of accounting information presented to the market. In addition, the incremental value relevance model shows that IFRS earnings adjustments do not provide additional information to the market. The results are consistent with the Australian findings of Goodwin *et al.* (2008).

6.0 Conclusion

Studies in a variety of reporting jurisdictions worldwide have shown considerable difference in the impact from the adoption of IFRS. We find that the average IFRS earnings, assets and liabilities values are significantly higher than NZ GAAP. Overall the average value of IFRS equity declines but not significantly so.

However, the adoption of IFRS does not appear to have provided additional information to the market as NZ GAAP is more value relevant compared with NZ IFRS. These findings raise concern about the potential value of requiring IFRS for smaller entities. Currently in New Zealand the application of IFRS for small and medium entities (SMEs) has been deferred with proposal that it only be applied to general purpose financial statements of selected SMEs. Our findings cast doubt on whether the adoption of IFRS for SMEs will provide significant benefit. However, these results need to be interpreted with caution. The value relevance results may reflect short term effects as preparers and users adapt to the new accounting system.

Notes

1. The quality is estimated from an index of the inclusion or omission of 90 items covering financial statements and general information in the 1990 annual reports of a minimum of at least three companies in each country sampled.
2. The Accounting Standards Review Board is a government appointed entity charged with approving financial reporting standards in New Zealand.
3. The parties included national and local government, New Zealand Securities Commission, the New Zealand Exchange Limited, and professional organisations of bankers, finance professionals, small and large accounting firms (Hickey , Spencer, van Zijl & Perry, 2003).
4. Listed companies were able to adopt NZ IFRS for accounting periods commencing 1 January 2005. Thus the earliest annual reporting period for adoption would have been 31 December 2006.
5. The population was analysed into four sectors: services, primary, investment and energy.
6. The AIC is used as a tool for model selection when competing models are applied to the same dataset. The lowest AIC value indicates the best model.
7. Under New Zealand's Financial Reporting Act 1993, section 10 reporting entities must prepare financial statements signed off by directors within five months of the balance date.

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Table 1. Value Relevance Comparisons

	Common Law			Code Law				Nordic	
	Goodwin <i>et al.</i> (2008)	Horton & Serafeim (2008)	ICAEW (2007)	Capkun <i>et al.</i> (2008)	ICAEW (2007)	ICAEW (2007)	ICAEW (2007)	Gjerde <i>et al.</i> (2007)	Schadewitz & Vieru (2007)
Country	Australia	UK	UK	EU	France	Italy	Spain	Norway	Finland
Relative Analysis (independent samples) IFRS versus local GAAP	not sig	not tested	not tested	not tested	not tested	not tested	not tested	not sig	not tested
Incremental analysis (IFRS less local GAAP)									
Equity adjustments	not sig	not sig	not sig	not sig	not sig	not sig	-ve sig	+ve sig	-ve sig
Earnings adjustments	not sig	+ve sig	+ve sig	+ve sig	+ve sig	+ve sig	not sig	not sig	+ve sig
Sample size	1,020	297		1,528				145	86
Sample years	2006	2006	2004-2005	2004-2005	2004-2005	2004-2005	2004-2005	2004-2005	2004
Source/Exchange	Aus Stock Exchange	London FTSE350	EU listed	EU listed	EU listed	EU listed	EU listed	Oslo	Helsinki

This table summarises the results of overseas value relevance studies for sample of firms adopting IFRS.

Table 2. Description of Sample

	N
NZSX number of securities as at August 2006	176
<i>Less</i> Unit trusts, funds and warrants	30
<i>Less</i> Companies reporting under foreign GAAP	32
<i>Less</i> Companies with financial difficulties (receivership or negative equity)	3
<i>Less</i> De-listed companies	15
<i>Less</i> Companies lacking data	4
	<hr/> 92 <hr/>

Table 3. NZ IFRS Adopters First NZ IFRS Financial Statements

Financial Year	No of Companies	%
2005	3	3.3
2006	20	21.7
2007	17	18.5
2008	52	56.5
	92	100.0

This table reports the year in which companies produced their first set NZ IFRS financial statements

Table 4. Financial Impacts of NZ IFRS Adoption on Earnings

Panel A. Differences between NZ GAAP and NZ IFRS earnings (n=92)

	NZ GAAP	NZ IFRS				NZ GAAP	NZ IFRS			
	EBIT	EBIT	Change	Change	Sig t or z	NPAT	NPAT	Change	Change	Sig t or z
	\$000	\$000	\$000	%	(p-value)	\$000	\$000	\$000	%	(p-value)
Total Sum	5,826,459	6,382,485	556,026	9.54%		3,387,472	3,961,563	574,091	16.95%	
Mean	63,331	69,375	6,044	9.54%	-2.74 (0.01)	36,820	43,060	6,240	16.95%	-2.70 (0.01)
Median	15,238	15,787	549	3.60%	-3.72 (0.00)	7,610	7,674	64	0.84%	-3.94 (0.00)
Std Dev	185,842	193,625	7,783	4.19%		105,979	115,204	9,225	8.70%	

This table reports the differences in earnings reported under NZ GAAP and NZ IFRS. The p-values are two-tailed. Mean differences compared with paired t-test, median differences compared with Wilcoxon signed rank test. NZ GAAP NPAT, NZ GAAP EBIT = Net profit after taxation, Earnings before interest and taxation reported under generally accepted accounting principles. NZ IFRS NPAT, NZ IFRS EBIT = Net profit after taxation, Earnings before interest and taxation reported under the New Zealand equivalents of international financial reporting standards.

Panel B. Adjustments to net profit after tax (n=92)

	Employee Benefits	Goodwill	Financial Instruments	Property Plant & Equipment	Deferred Taxation	Other Adjustments	Total Adjustments
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Mean	13	2,660	-905	3,197	64	1,211	6,240
Std Dev	985	12,205	13,082	18,487	5,264	12,855	22,184
Total Net Change in Profit	1,169	244,674	-83,233	294,144	5,905	111,432	574,091
Comprising:							
- Profit increases	11,816	245,390	62,141	315,386	72,965	216,452	924,150
- Profit decreases	-10,647	-716	-145,374	-21,242	-67,060	-105,020	-350,059
	No (%)	No (%)	No (%)	No (%)	No (%)	No (%)	No (%)
Entities reporting adjustment	41 (45%)	39 (42%)	40 (43%)	22 (24%)	60 (65%)	66 (72%)	84 (91%)
- Profit increases	10 (24%)	38 (97%)	17 (43%)	17 (77%)	35 (58%)	29 (44%)	56 (67%)
- Profit decreases	31 (76%)	1 (3%)	23 (57%)	5 (23%)	25 (42%)	37 (56%)	28 (33%)
- Profit unchanged	51 (55%)	53 (58%)	52 (57%)	70 (76%)	32 (35%)	26 (28%)	8 (9%)

This table reports the nature of the differences in earnings reported under NZ GAAP and NZ IFRS

Table 5. Financial Impacts of NZ IFRS Adoption on Balance Sheet Items (n=92)

Panel A: Differences between NZ GAAP and NZ IFRS balance sheet elements

	NZ GAAP	NZ IFRS	Sig t or z			NZ GAAP	NZ IFRS	Sig t or z			NZ GAAP	NZ IFRS	Sig t or z		
	Total Assets	Total Assets	Change	Change	(p-value)	Total Liabilities	Total Liabilities	Change	Change	(p-value)	Equity	Equity	Change	Change	(p-value)
	\$000	\$000	\$000	%		\$000	\$000	\$000	%		\$000	\$000	\$000	%	(p-value)
Total Sum	57,551,963	59,563,191	2,011,228	3.49%		30,712,698	33,721,097	3,008,399	9.80%		26,850,424	25,927,909	-922,515	-3.44%	
Mean	625,565	647,426	21,861	3.49%	-2.20 (0.03)	333,834	366,534	32,700	9.80%	-3.17 (0.00)	291,852	281,825	-10,027	-3.44%	1.07 (0.29)
Median	167,637	181,352	13,715	8.18%	-5.36 (0.00)	74,882	83,809	8,927	11.92%	-6.68 (0.00)	67,614	64,502	-3,112	-4.60%	-1.52 (0.13)
Std Dev	1,295,647	1,303,539	7,982	0.61%		798,552	832,299	33,747	4.23%		566,864	520,197	-46,667	-8.23%	

This table reports the difference in balance sheet items reported under NZ GAAP and NZ IFRS. The p-values are two-tailed. Mean differences compared with paired t-test, median differences compared with Wilcoxon signed rank test. NZ GAAP Total Assets, NZ GAAP Total Liabilities and NZ GAAP Equity = Total assets, Total liabilities and Equity reported under generally accepted accounting principles. NZ IFRS Total Assets, NZ IFRS Total Liabilities and NZ IFRS Equity = Total assets, Total liabilities and Equity reported under the New Zealand equivalents of international financial reporting standards.

Panel B: Adjustments to equity

	Employee Benefits	Goodwill	Financial Instruments	Property Plant & Equipment	Deferred Taxation	Other Adjustments	Total Adjustments
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Mean	-1,175	3,424	-1,052	-965	-10,343	83	-10,027
Std Dev	7,187	13,146	25,869	46,540	88,562	39,760	90,175
Total Net Change in Equity	-108,089	315,049	-96,780	-88,767	-951,527	7,599	-922,515
Comprising:							
- Equity increases	6,140	329,973	175,300	426,735	567,626	440,895	1,946,669
- Equity decreases	-114,229	-14,924	-272,080	-515,502	-1,519,153	-433,296	-2,869,184
	No (%)	No (%)	No (%)	No (%)	No (%)	No (%)	No (%)
Entities reporting adjustment	41 (45%)	45 (49%)	50 (54%)	19 (21%)	59 (64%)	69 (75%)	84 (91%)
- Equity increases	5 (12%)	43 (96%)	33 (66%)	9 (47%)	24 (41%)	30 (48%)	35 (42%)
- Equity decreases	36 (88%)	2 (4%)	17 (34%)	10 (53%)	35 (59%)	39 (52%)	49 (58%)
- Equity unchanged	51 (55%)	47 (51%)	42 (46%)	73 (79%)	33 (36%)	23 (25%)	8 (9%)

This table reports the nature of the differences in equity reported under NZ GAAP and NZ IFRS

Table 6. Key Ratios

	NZ GAAP	Std Dev NZ GAAP	NZ IFRS	Std Dev NZ IFRS	Change	Sig <i>t</i> (<i>p</i> -value)
Mean Return on Equity	8.12%	30.54	9.25%	30.48	1.13%	0.01 (0.00)
Mean Return on Assets	9.42%	21.39	8.33%	19.16	-1.09%	0.53 (0.04)
Mean Total Liabilities to Total Assets	42.32%	23.07	44.72%	23.17	2.40%	0.00 (0.00)
Mean Earnings per Share	0.17	0.18	0.20	0.22	0.03	0.01 (0.00)
Mean Market to Book Value Equity	3.01	4.71	3.01	4.74	0.00	0.98 (0.28)

The p-values are two-tailed. Mean differences compared with paired t-test. Return on Equity = NZ GAAP (IFRS) Net Profit after Taxation (NPAT) as a proportion of NZ GAAP (IFRS) Equity. Return on Assets = NZ GAAP (IFRS) Earnings before interest and taxation (EBIT) as a proportion of NZ GAAP (IFRS) Total Assets. Total Liabilities to Total Assets = NZ GAAP (IFRS) liabilities as a proportion of = NZ GAAP (IFRS) Total Assets. Earnings per share = NZ GAAP (IFRS) Net Profit after Taxation per issued share. Market to Book Value Equity = Market price per share times number of outstanding shares as at balance date as a proportion of NZ GAAP (IFRS) Equity.

Table 7. Relative and Incremental Value Relevance of NZ GAAP and NZ IFRS Market Capitalisation

Panel A: at three months (n=92)

	Intercept (p-value)	Equity (p-value)	Profit (p-value)	Equity Adjusts (p-value)	Profit Adjusts (p-value)	F-value (p-value)	Adj R²% VIF	AIC
NZ GAAP	21,291 (0.62)	0.79 (0.00)	6.97 (0.00)			415.56 (0.00)	90.10% 1.8	2,620
NZ IFRS	17,646 (0.71)	0.75 (0.00)	6.48 (0.00)			333.92 (0.00)	88.00% 2.5	2,638
Incremental	-228 (1.00)	1.07 (0.00)	6.42 (0.00)	1.24 (0.14)	-4.31 (0.17)	209.21 (0.00)	90.10% 2.9-9.2	

Panel B: at five months (n=92)

	Intercept (p-value)	Equity (p-value)	Profit (p-value)	Equity Adjusts (p-value)	Profit Adjusts (p-value)	F-value (p- value)	Adj R²% VIF	AIC
NZ GAAP	23,152 (0.63)	0.80 (0.00)	7.60 (0.00)			358.27 (0.00)	88.70% 1.8	2,645
NZ IFRS	21,787 (0.69)	0.75 (0.00)	7.03 (0.00)			274.56 (0.00)	85.70% 2.5	2,666
Incremental	20 (1.00)	1.14 (0.00)	6.98 (0.00)	1.30 (0.18)	-6.53 (0.07)	182.86 (0.00)	88.90% 2.9-9.2	

This table reports the value relevance results using share market data three and five months after balance date. The p-values are two tailed. NZ GAAP Equity and NZ GAAP Profit = Equity and Net Profit after Taxation (NPAT) reported under generally accepted accounting principles. NZ IFRS Equity and NZ IFRS Profit = Equity and Net Profit after Taxation (NPAT) reported under the New Zealand equivalents to international financial reporting standards. Equity Adjusts = the differences between NZ IFRS Equity and NZ GAAP Equity. Profit Adjusts = the differences between NZ IFRS NPAT and NZ GAAP Net Profit after taxation.

Table 8. Relative and Incremental Value Relevance of NZ GAAP and NZ IFRS Price per Share**Panel A: at three months (n=92)**

	Intercept (p-value)	BVPS (p-value)	EPS (p-value)	BVPS Adjusts (p-value)	EPS Adjusts (p-value)	F-value (p-value)	Adj R²% VIF	AIC
NZ GAAP	0.63 (0.02)	0.47 (0.00)	5.59 (0.00)			37.39 (0.00)	44.40% 1.4	355.81
NZ IFRS	0.90 (0.00)	0.45 (0.01)	3.56 (0.00)			26.46 (0.00)	35.90% 1.7	368.99
Incremental	0.62 (0.02)	0.52 (0.00)	5.59 (0.00)	0.27 (0.66)	-2.01 (0.48)	18.52 (0.00)	43.50% 1.4-2.6	

Panel B: at five months (n=92)

	Intercept (p-value)	BVPS (p-value)	EPS (p-value)	BVPS Adjusts (p-value)	EPS Adjusts (p-value)	F-value (p-value)	Adj R²% VIF	AIC
NZ GAAP	0.63 (0.03)	0.46 (0.00)	5.81 (0.00)			33.12 (0.00)	41.40% 1.4	370.08
NZ IFRS	0.93 (0.00)	0.42 (0.01)	3.68 (0.00)			22.27 (0.00)	31.90% 1.7	383.93
Incremental	0.62 (0.03)	0.48 (0.01)	5.92 (0.00)	-0.04 (0.95)	-1.53 (0.62)	16.50 (0.00)	40.50% 1.4-2.6	

This table reports the value relevance results using price per share three and five months after balance date. p-values are two tailed. BVPS NZ GAAP and EPS NZ GAAP = the firm's accounting book value per share and earnings per share reported under generally accepted accounting principles (GAAP). BVPS NZ IFRS and EPS NZ IFRS = the firm's accounting book value per share and earnings per share reported under the New Zealand equivalents to international financial reporting standards.