Impact and Implications of International Financial Reporting Standards in the UK: Evidence from the Alternative Investment Market

Abstract

This paper investigates implications of the IFRS adoption from the perspective of small and growing companies listed on the UK Alternative Investment Market (AIM). The study considers the cost-benefit issues of the IFRS adoption and investigates its economic consequences. The results reveal that only a small number of comparatively larger AIM companies have voluntarily adopted IFRS for some anticipated economic objectives. The results also suggest that most of the mandatory adopters have done so for regulation compliance purposes and that they would have not adopted IFRS if a choice was available to them. As the existing literature mainly covers the impact of IFRS adoption on large listed companies, the findings of this study will give better insights about extending IFRS to private companies. The findings show an association between the early adoption of IFRS and firm size and conclude that size matters in both the adoption and implications of the IFRS. This study also contributes to the debate on the implication of the new IFRS based UK GAAP for SMEs-FRS 102, which will replace the majority of existing UK accounting standards for SMEs with effect from 2015. Our findings have implications for managers, regulators, market participants, practitioners, and other stakeholders.

Introduction

The globalisation of capital markets and the rapid growth in international trade have prompted improvement in the quality and consistency of financial reporting. In line with this, significant efforts[1] have been devoted for the harmonisation of accounting standards worldwide. It has also been argued that the use of international financial reporting standards improves comparability and enhances transparency in financial reporting of EU publicly-held entities (Hope et al. 2006; Barth et al. 2008; Brown and Tarca 2012). Furthermore, there is consensus that harmonised reporting standards reduce information anomalies by providing consistent, relevant and timely information (Frankel and Li 2004) and thereby enhance accounting quality (Soderstrom and Sun 2007). The new globalised financial reporting standards (IFRS) were therefore expected to provide relevant and reliable information to facilitate economic decisions and reduce information asymmetries around the world.

The European Union (EC 1606/2002) regulation requires all companies listed on London's main stock exchange to follow IFRS for their consolidated financial statements with effect from 1st January 2005. The regulation was regarded as a tool for facilitating the capital market functioning, enhancing transparency and producing comparable financial reporting across the board (EC, 2002). At the same time, the requirement to comply with international accounting standards for companies listed on the Alternative Investment Market[2], was extended to 2007, but the said choice was not given to companies listed on London's main market. However, AIM companies were also granted permission to use international accounting standards (IAS) on voluntary basis from 1st January 2005. These firms are mainly smaller and growing companies, the ASB therefore gave them some time to learn from the experience of large listed companies and then follow IFRS after it became obligatory (LSE, 2005).

In line with the above arguments, it has also been argued in some latest research findings that IFRS deemed to engender better quality financial reporting because it improves financial disclosures and measurement provisions around the world (Barth et al. 2008). At the same time, other studies argue that it will have different economic effects across countries due to heterogeneity in national accounting standards, institutional settings and firms' incentives (Soderstrom and Sun 2007; Christensen et al. 2008). Similarly, Ding et al. (2007) argue that the adoption of IFRS by different countries may not necessarily improve their national accounting systems, until there are fundamental changes in several relevant economic policies in these countries. With respect to the IFRS adoption by UK firms, Aisbitt (2006) argues that as both the IFRS and UK GAAP are based on Anglo-Saxon norms and culture the transition to IFRS is expected to have fewer economic consequences in the UK than other jurisdictions.

In order to provide insights into the economic effects of the change from local GAAP to IFRS we are examining this issue from the perspectives of AIM listed companies. We argue that as compared to larger listed companies, AIM listed companies are different with respect to their size, regulation and ownership structure. There is also evidence in the existing literature which suggests that accounting rules will provide different results in different economic and institutional settings (Ball 2001). In addition, most of the published research papers in this area have focused on the main market, and until now, to the authors' knowledge, no study has examined AIM listed companies' experience with IFRS.[3] This paper therefore intends to investigate the impact and implications of IFRS adoption from the perspective of those with financial expertise[4], working within the sample companies. This is because these experts are expected to have an understating about the technical requirements and impact of IFRS adoption on their companies and are thus better equipped to identify the implications of IFRS for their organisations. By considering the criteria set out in IFRS that determine accounting quality changes, the findings of this paper complement existing literature in this area and provides new insights about the change in accounting regulation and their implications for small and growing companies. Furthermore, by investigating the impact of IFRS on factors such as, external financing, managerial discretion and earning management practices, cost of debt capital and profit and equity of AIM companies, we argue that our findings have implications for managers, regulators, lenders, academics and other stakeholders of AIM listed companies.

After presenting a brief introduction in this section the rest of the paper is organized as follows. The next section provides a brief review of relevant literature. A discussion on the research methodology and data is presented in section 3. Section 4 shows descriptive statistics and results from our data analysis. Section 5 provides an overview of the implications of IFRS. Finally, section 6 concludes this study by presenting a short summary of the main findings, describing the research limitations and specifying avenues for future research.

Literature Review

IFRS Adoption, Firm Size and External Financing

The most common motives for voluntary compliance with IFRS in literature are linked with firm size, magnitude of operations, financing policy of firms, accessing foreign capital or enhancing customer recognition (Weißenberger et al. 2004; El-Gazzar et al. 1999; Gassen and Sellhorn 2006). In this regard, Ashbaugh and Pincus (2001) associate the voluntary compliance with IAS to the analyst followings and/or to the market capitalisation of the reporting firm. Similarly, Dumontier and Raffournier (1998) find that Swiss firms complying with IAS on a voluntary basis are either large, internationally diversified, or have a more diffuse ownership which is similar to the results reported by Gassen and Sellhorn (2006). Furthermore, Murphy (1999) observes that Swiss companies involving foreign-based activities (foreign sales or listings) opted for IAS to facilitate the informational requirements of their global stakeholders.

Over the last few years most of the above mentioned arguments have been supported by different research papers worldwide (e.g., Harris and Muller 1999; Murphy 1999; Leuz and Verrecchia 2000; Ashbaugh 2001; Street and Gray 2002; Tarca, 2004; Cuijpers and Buijink 2005). For example it has been reported in some recent studies that firms, which participate in seasonal equity offerings, have more geographically dispersed operations, and/or which are comparatively larger in size, tend to have more tendency towards voluntarily adopting international reporting standards (Ashbaugh 2001; Cuijpers and Buijink 2005). In addition, there is also evidence which suggests that firms adopt IAS for signalling their commitment to international quality in financial reporting and disclosure which has a positive association with shareholders' value (Tarca 2004). Moreover, Jones and Higgins (2006) argue that financial performance of an entity could also be one of the factors for the voluntary adoption of IFRS. This is supplemented by the Canadian Financial Executives Research Foundation, which argue that "companies with higher revenues were more likely to be further ahead in the IFRS conversion process" (CFERF, 2009).

In light of the above reasons for the voluntary adoption of IFRS, as small and growing firms have fewer resources, they might perceive the additional costs of adoption as proportionally greater than larger firms and may delay the adoption until it becomes mandatory. Moreover, smaller companies also give considerable importance to the need to make additional disclosures. This is because financial statements are the main source of information for their competitors and can thereby place them at a competitive disadvantage if these are disclosed on a unilateral basis (Firth 1979). This study thus examines the reasons for the early adoption of IFRS on a voluntary basis from the perspective of companies listed on the AIM. This is because the ASB has duly considered the size factor in promulgating the EU (1606/2002) regulation on the adoption of IFRS in the EU and requires large listed companies to adopt IFRS from 2005, whereas this requirement was extended for AIM listed companies to 2007. At the same time, AIM listed companies were allowed to follow IFRS on a voluntary basis with effect from 2005. The deferral of this regulatory imposition for AIM companies is because they are small, young or growing companies so were thus given more time to understand and implement the new financial reporting requirement before their mandatory adoption. However, some of these companies adopted IFRS on voluntary basis before the mandatory adoption period. This study therefore predicts that these companies may have adopted IFRS in the voluntary regime for some potential or predetermined objectives. It is also expected that the voluntary adopters could be companies which are comparatively larger in size. We thus form the following hypothesis:

H_1: *Larger AIM companies are more likely to adopt IFRS on a voluntary basis than smaller AIM companies.*

Companies seeking external finance are more likely to adopt IFRS on voluntary basis, in the expectation that it would give a positive signal to the providers of external finance. As banks, financial institutions and other providers of external finance are more concerned with the quality of accounting information in making financing decisions, companies with high gearing may have the incentive to reduce the cost of obtaining external financing by increasing voluntary disclosures under IFRS. Whilst lenders can access or demand any kind of information at any point in time, detailed disclosure under IFRS would mean that without demanding additional information, the audited financial statements would be more reliable, easy to follow and easily accessible to all providers of external finance. In addition, if published financial statements are used as a common information source on which contracts are based then costs of compliance would be reduced. This leads us to our second hypothesis as follows:

H_2: *Companies seeking new external financing are more likely to adopt IFRS on voluntary basis.*

Accounting Discretion, Earnings Management and Economic Consequences of IFRS

There is evidence in the existing literature which suggests that in response to new reporting requirements, managers would exercise the discretion available in the adoption of accounting standards to the extent permissible within financial reporting regulation (Burgstahler and Dichev 1997). Such activities, in devising the financial reports from a managerial perspective, may obscure the actual performance and position of the reporting entity. The

International Accounting Standards Board (IASB) considers such issues and has addressed this in its improvement project. In so doing, IASB has revised many existing accounting standards by limiting managerial discretion (IASB 2003). This endeavour remains successful, to some extent, and is supported in subsequent studies, which argue that the phenomenon of earnings management is comparatively lower in the new, IASB, regime (Renders and Gaeremynck, 2007). Similarly, Iatridis (2010) affirms that the implementation of IAS reduces the scope of earnings management. Furthermore, it has also been argued in more recent findings that IFRS enhances the quality of accounting information (Navarro-García and Madrid-Guijarro 2014).

Quality accounting standards can put restrictions on available alternatives; however, in real world, it is difficult to eliminate earnings management incentives. It is therefore more likely that if there is a strong incentive for managers to manipulate earnings, then it is expected that they would be involved in such activities (Chen et al. 2009). In addition, even if accounting policy choices are limited with IFRS, then firms could utilise other options, such as using discretionary accruals for the manipulation of earnings (Van Tendeloo and Vanstraelen 2005; Goncharov and Zimmermann 2006). There is also evidence in the existing literature which suggests that if the IFRS based required contents are flexible in some aspect then it would provide more opportunities to mangers for managing the target earnings which would mean no improvement in accounting information quality (Barth et al. 2008; Beuselink et al. 2007; Christensen et al. 2008). Similarly, Goncharov and Zimmermann (2006) report that irrespective of the use of German GAAP or IAS, companies are involved in the smoothing activity of their earnings. This was complemented by Jeanjean and Stolowy (2008), who argue that UK companies were involved in managing their earnings both before and after the introduction of IFRS. Furthermore, Ahmed, Neel & Wang (2013) report a significant increase in earnings smoothing activity by firms following the mandatory adoption of IFRS. In contrast to the above mentioned arguments, Capkun et al. (2011) show that the phenomenon of earnings management initially decreased for voluntary adopters, however, due to more flexibilities in the revised international standards such practices were increased in later periods for both voluntary and mandatory adopters.

However, despite the above discussions, the adoption of IFRS is intended to improve reporting quality by providing less flexibility and discretion in the measurement of assets, liabilities, and profits. This leads us to the following research hypothesis:

H_3: *The implementation of IFRS provides less discretion for earnings management practices.*

It is also commonly believed that IFRS reduce information asymmetries between management and investors as well as between informed and uninformed investors. This is because these standards necessitate high volumes of prescribed disclosures, which could affect economic decisions and thereby reduce a company’s cost of obtaining capital for both debt and equity. In this regard, Kiefer (2009) document a considerable decrease in the cost of debt capital following the adoption of IFRS by German, Austrian and Swiss companies. Similarly, Kim et al. (2011) observe that banks charge lower loan rates with less restrictive loan covenants to the IFRS voluntary adopters as compared to non-adopters. Moreover, Kosi and Florou (2009) conclude that IFRS has resulted in positive economic consequences for corporate debt financing, particularly for bond financing, but only for countries with a strong institutional setting. It can thus be argued that adoption of IFRS might have favourably affected the cost of obtaining debt capital for companies listed on the AIM. This leads us to the following research hypothesis:

H_4: *The implementation of IFRS results in a favourable impact on the cost of debt capital of AIM listed companies.*

International accounting standards are devised to meet the needs of both users and preparers across the globe, which is intended to improve firms' competitiveness for accessing foreign capital, and would strengthen investors' relationship (Hope et al. 2006). Consistency in financial reporting also leads to efficient resource allocation and thereby reduces the cost of capital for companies (Choi and Meek 2005). There is also evidence which suggest that the global move to unified international standards could provide more investment opportunities beyond the borders (Covrig et al. 2007; Brown 2011). However, Bradshaw et al. (2004) argue that variation in reporting standards could obstruct foreign investment. It has also been documented in some recently published studies that UK GAAP and IFRS are very close to each other because both are based on the Anglo-Saxon model (Giner and Rees 2001; Comprix et al. 2003; Ding et al. 2007; Aisbitt 2006).

With respect to the economic consequences of the IFRS adoption for UK firms, Christensen et al. (2007) report that some firms benefit while others lose as a result of the adoption of IFRS. This suggests that the adoption of IFRS would not necessarily be advantageous for the adopters. However, in another paper, Christensen et al. (2008) report economic benefits for voluntary adopters and no benefits for the mandatory adopters. In line with the arguments raised in Christensen et al. (2007), this study extends this line of research to companies quoted on AIM and presumes that the adoption of IFRS may not have affected or benefited the sampled companies in a uniform way. It can also be argued that their findings of relative winners and losers, in terms of economic consequences, may also be applicable to London's sub market for small and growing companies. This leads us to the following research hypothesis:

H_5: *In terms of economic consequences IFRS adoption by AIM companies results in relative winners and losers.*

Impact of IFRS adoption on Income Statement and Statement of Financial Position

In recent years a considerable amount of research output is dedicated to assessing the effect of IFRS on the changes in income statements and statement of financial position of companies. The research output is based on the IFRS adoption and its impact on financial statements in different countries. For example, in Europe, Jaruga et al. (2007) investigate the impact of IFRS on Polish firms, Hung and Subramanyam (2007) examine the impact of IFRS on German firms, whereas Tsalavoutas and Evans (2010) cover the impact of IFRS on companies in Greece. Outside Europe, the evidence presented in Goodwin and Ahmed (2006) is based on the Australian market; three other recent research papers (Kabir et al. 2010; Stent et al. 2010; Trewavas et al. 2012) examine the impact of IFRS on firms in New Zealand, and Gray et al. (2009) examine the impact of IFRS on US firms. At the same time there are other studies covering several markets around the world, for example, Barth et al. (2008) have reported volatility in net income during their comparison of accounting quality metrics for firms in 21 different countries.

In the UK, Aisbitt (2006) examines the potential effects of IFRS on equity of FTSE 100 companies on their transition to IFRS; Ormrod and Taylor (2006) investigate the impact of IFRS on the profit and equity of a sample of non-financial FTSE 100 companies; Stenka et al. (2008) examine the impact of IFRS on company profit and equity on a sample of 50 non-financial FTSE 100 companies. All these studies have documented significant relationship of the change to IFRS on various items of income statement and statement of financial position. Similarly, Dunne et al. (2008) assess the IFRS 1 disclosures and reconciliation statements in UK, Italy and Ireland and have identified adjustments to profit and equity. Similarly, Fifield et al. (2011) also examine the extent and nature of IFRS adjustments on the reported profit and equity of firm in UK, Ireland and Italy and document positive adjustments to the profit and equity of their sample companies in three countries. We therefore predict a significant impact of the IFRS on the profit and equity of AIM listed companies.

H_6: *The adoption of IFRS produce a positive impact on the profit and equity of AIM listed companies.*

Methodology and Data

Out of the available research approaches we have chosen the use of an online questionnaire instrument for investigating the impact and implications of IFRS adoption on AIM quoted companies. The research instrument was intended to cover the perspectives of the AIM companies' senior financial executives. The method of distribution was based on an online survey conducted through Survey Monkey. This method is chosen because it reaches the target population with low costs and less efforts (Dillman 1998).[5] Several attempts and revisions were conducted for making the survey instrument reliable and easily understandable. In addition, while participating in the survey it was intended to give respondents a sense of privacy and allowed them to participate only once in the survey. Furthermore, for the generation of an acceptable response rate we followed-up non repondents, sent personalised messages and contacted the concerned companies before sending out the survey instrument (Cook et al. 2000). These efforts enabled the authors to produce a response rate of eighteen percent.

In order to ensure comprehension and improve the quality of questions the questionnaire was circulated to practitioners and a group of financial directors for their comments and suggestions. Their suggestions were incorporated in to the final version of the survey instrument. The questionnaire was then sent electronically to a sample of senior financial executives of AIM quoted companies through Survey Monkey. The sample is based on respondents who were deemed to be financial experts and who had knowledge about the technical nature and implications of IFRS for their firms. The instrument was administered with a personalised cover-letter, detailing information about the study, and web-link to the survey. In addition, stratified random sampling plan was employed for obtaining a representative sample for the study. The sampling frame was devised by two main characteristics of the population, i.e., all the sample companies should be employing at least twenty permanent employees and should also be maintaining minimum market capitalisation of six million UK pounds sterling. This is due to the fact that some of the companies quoted on the AIM are very small and it is unlikely that they would have been in the process of adoption and implementation of IFRS on their own because they are strongly influenced by professional advice from outside. They might have outsourced their transitory phase of the IFRS due to the unavailability of technical expertise within those companies. Therefore, they might not be in a position to comment on the validity or share their on-hand experience on the issue under investigation. We therefore argue that simple random sampling techniques from the population of companies quoted on AIM could have generated misleading results. Contact details of senior financial executives were obtained from FAME database, company websites, and/or through phone calls to AIM listed companies.

The survey instrument was developed on the basis of earlier academic as well as professional work in this area of research, where most of the questions were modified from the perspective of AIM quoted companies (e.g., Jermakowtcz, 2004; Weißenberger et al. 2004; Jermakowicz and Gornik-Tomaszewski 2006; ICAEW 2007). The survey is divided into five different sections. Section 1 is related to the respondent profile including position/title, time employed by the company, qualification and the associated industry. Other sections are related to the IFRS adoption, pros and cons of IFRS, impact of the IFRS adoption and the overall experience of the IFRS. Most of the questions are based on close-form and have been rated on the Likert scale. The Likert scale is used ranging from agree strongly to disagree strongly or major concerns to not applicable.

We also checked the reliability and internal consistency of the selected scale through the through the application of Cronbach (1970) alpha coefficient estimation. The outcome of alpha coefficient estimation showed a value of 0.82 which suggest that the selected scale is reliable and internally consistent. In this regard, DeVellis (2003) argues that an alpha value which is greater than 0.70 is generally regarded as good. This indicates that besides a high reliability level the research instrument also has good internal consistency. Furthermore, in order to identify any missing link where issues were not fully clear from the questionnaire findings or to complement the questionnaire survey, follow-up semi-structured interviews were also undertaken with the sample companies' senior financial executives. We therefore, argue that the mixed-method approach used in this study have provided us with an opportunity to conduct an in-depth analysis of the issues under investigation.

Analyses and Results

IFRS Adoption and Firm size

This study presumes that AIM companies could have adopted IFRS on a voluntary basis for some predetermined objectives. The findings in Table 1 demonstrate that only 22 percent of the sample companies have adopted IFRS on a voluntary basis, while the remaining 78 percent have waited until it became obligatory. Nevertheless, results of the Chi-square statistics indicates that voluntary adopters are relatively more interested in adopting IFRS than mandatory adopters (χ^2 =19.423, p = 0.000, *phi*=0.40) even if it is not obligatory under the regulation. It is also evident from Table 1 that 29% of the early adopters have adopted IFRS for enhancing their credit ratings whereas 37% have adopted IFRS for exceeding capital market expectations. Furthermore, in terms of firm size, the results in Table 1 also suggest, that around 40 percent of the late adopters are comparatively smaller firms, and have no intention to raise capital beyond the UK borders as the majority of their investors are based in the UK. These findings are in line with the prior research findings (e.g., Dumontier and Raffournier 1998; Harris and Muller 1999; Murphy 1999; Leuz and Verrecchia 2000; Ashbaugh 2001; Street and Gray 2002; Tarca 2004; Cuijpers and Buijink 2005) which suggest that size matters in the voluntary adoption of IFRS. Our findings thus support hypothesis (H_1) suggesting that most of the voluntary adopters in our sample are larger companies.

Table 1: Adoption and Justification of IFRS-

IFRS adoption	N	%
Voluntary	29	22
Mandatory	104	78
Reasons for early adoption		**%**
Enhancement of credit rating		29.01
Exceeding capital market expectations		37.40
Intended to apply for full listing in near future		0.00
Intended to issue new share capital in near future		10.80
IFRS are of higher quality reporting standards than UK GAAP		10.11
Others**		12.60
Reasons for non-adoption on voluntary basis		**%**
There were no incentives in adopting IFRS		29.40
UK GAAP was more suitable than IFRS based on familiarity		13.01
Company is comparatively small, main investors and creditors are local and have no intention to access foreign capital		40.39
Others**		17.08

** Respondents own interpretation

Result of the Chi-square statistics (χ^2 = 19.423, *p* =0.000, *Phi* = 0.40) indicates that voluntary adopters are relatively more interested in adopting IFRS than mandatory adopters, even if it is not obligatory under the regulation.

While commenting on the adoption of IFRS, one of the interviewees argued that, "*It is probably the price you have to pay for going into the market and be a listed company, whether you are a FTSE 250 or a small cap company on AIM*". This statement would describe that companies which are larger in size and are intending to list on the main market would have preferred to adopt IFRS on voluntary basis. Similarly, while commenting on the same issue again another interviewee argued, *"It is largely over-engineered for AIM quoted companies".* This would describe the technical nature of the IFRS and the hardship for small firms during the transition period. The analysis of both the questionnaire and interview data also show that although there is some international investment in AIM listed companies, the bulk is largely coming from UK based investors, who prefer the easier route of remaining with the UK GAAP than the IFRS. In addition, about 29% of the respondents have stated that there were no incentives for them to adopt IFRS, while due to their familiarity with UK GAAP, 13% of the late adopters regarded UK GAAP as more suitable for their companies than IFRS.

The respondents were then asked to mention any specific reason for not considering the voluntary adoption option. A few of the respondents mentioned about cost associated with the adoption because non-adoption did not involve any extra cost. One of the respondents commented *"…we are among the small quoted companies where pennies matter."* This suggests that there is cost associated with the voluntary adoption of IFRS because extensive level of disclosures is required under the new regulation. These findings are in line with the arguments raised in Hoogendoorn (2006). In addition, it is also possible, that for the mandatory adopters, their reporting requirements were duly satisfied with UK GAAP which is being recognised and accepted worldwide. In this regard, Gernon and Meek (2001) argue that *"..UK companies use UK GAAP which is also internationally recognised and provides high level of disclosures.."* (p. 58). This may be another reason due to which, many AIM listed companies have taken the option of non-adoption during the voluntary adoption period.

IFRS Adoption and External Financing

The results reported in Table 2 reveal that at the time of IFRS adoption some companies were looking for external sources of finance in the form of debt or equity or both. The results show an association between the IFRS adoption on a voluntary basis and the debt-seeking endeavour of some AIM firms recently ($\chi^2 = 2.535$, $p = 0.111$) or in the near future ($\chi^2 = 3.812$, $p = 0.051$). This can be interpreted as suggesting that the voluntary adopters have either taken more debt finance recently or, are planning to seek further debt in the near future. Our findings therefore partially support hypothesis H_2. However, under the Cohen (1988) classification, the strength of association between the IFRS adoption on a voluntary basis and the cost of obtaining debt capital is considered to be very small.[6] This is because the overall difference in the findings of the two samples is not of any practical significance, which is also identified by the magnitude of the statistical significance. Thus it is difficult to clearly link the IFRS adoption to high gearing ratios of firms.

Table 2: IFRS Adoption and External Financing

	Voluntary adopters		**Mandatory adopters**		**Chi-square (χ^2)**	***P-Value***	***Phi****
	N	**Mean (SD)**	**N**	**Mean (SD)**			
Issue of new share capital, recently	27	1.22 (-0.424)	93	1.28 (-0.451)	0.120	0.729	0.05
Issue of new share capital, in the near future	27	1.3 (-0.465)	92	1.5 (-0.503)	2.721	0.099	0.17
Issue of new debt, recently	28	1.43 (-0.504)	90	1.62 (-0.488)	2.535	0.111	0.17
Issue of new debt, in the near future	26	1.38 (-0.496)	93	1.62 (-0.487)	3.812	0.051	0.20

**Phi*-coefficient denotes the magnitude of association between the two variables

IFRS adoption, level of discretion and earnings management practices

The descriptive analysis reported in Table 3 shows that more than fifty percent of the respondents believe that IFRS give less discretion in the measurement of assets, liabilities and equity. However, among the other respondents around 20% also believe that IFRS provide more discretion than UK GAAP. In addition, another 18% of the respondents believe that the level of discretion in both accounting systems is the same. Furthermore, results of the Kurskall-Wallis test show insignificant differences at the total sample and sub-sample level ($\chi^2 = 11.33$, $p = 0.254$). Results of the Mann-Whitney test ($Z = -0.675$, $p = 0.502$) also show no statistically significant relationship between the median score of voluntary adopters and mandatory adopters. The respondents thus regard flexibility in accounting regulation as something which could be used for the manipulation of accounting information. As a consequence, by tightening accounting standards, in the measurement of assets, liabilities and owner equity, IFRS are better equipped in reducing flexibility in financial reporting and earning management practices.

Table 3: IFRS Adoption and Level of Managerial Discretion

	N	%	IFRS Adoption	
			Voluntary	Mandatory
IFRS allow less discretion	56	50.4	14.4	36.0
IFRS allow more discretion	22	19.8	3.6	16.2
Level of discretion in both IFRS and UK GAAP is at the same level	20	18.0	1.8	16.2
My views are neutral	13	11.7	2.7	9.0
Kurskall-Wallis Test			$\chi^2 = 11.33$, $p = 0.254$	
Mann-Whitney U Test			$Z = -0.675$, $p = 0.502$	

On the level of discretion in financial reporting standards, the analysis of the interview data from the respondents shows a mixed response. For example, one of the interviewees' argues that *'International GAAP is intended to provide greater flexibility that of course, leads to greater opportunity for manipulation, but those determined to manipulate their numbers would do so under either regime'*. However, other commented that IFRS provides more flexibility which could be used for the manipulation of accounting numbers. Similarly, one of the respondents also indicates *'I would say that it gives less discretion in some areas (e.g. revenue) and considerably more in others (e.g. those which involve subjective valuations)... anyways it is putting more restriction on preparers than before'*. We therefore argue that, in general the respondents agree with the notion that IFRS give less discretion in the preparation of financial statements over and above UK GAAP. In light of this and the outcome of our findings from the questionnaire data we find a common conjecture that IFRS exhibit higher accounting quality and are restricting preparers to manipulate accounting number to some extent. Our hypothesis H_3 is therefore supported by the results of this study. These results thus support the findings of previous research findings in this area (e.g., Iatridis and Rouvolis 2010; Barth et al. 2008; Renders and Gaeremynck 2007). The results are also partially supporting the findings of Jeanjean and Stolowy (2008). In contrast, our results are not in line with some other research findings in this area (e.g., Van Tendeloo and Vanstraelen 2005; Capkun et al. 2011; Ahmed et al. 2013).

IFRS Adoption and Cost of Debt Capital

The results presented in Table 4, suggest that IFRS has a marginal effect on firms' cost of debt capital.[7] This would mean that, for the majority of AIM quoted companies, the adoption of IFRS has not affected the debt providers' financing decisions. In this regard, the result of our one-way ANOVA test reveals an insignificant impact on the cost of obtaining debt capital for the whole sample. However, the independent sample t-test shows a significant difference between the score for voluntary adopters (mean= 3.29, SD =0.955) and mandatory adopters (mean=3.72, SD = 0.942) and (t = -1.966, p = 0.052 and Eta squared = 0.031). This suggests that the voluntary and forced adopters had different experiences in relation to the impact of IFRS on their cost of obtaining debt capital. H_4 is therefore supported for voluntary adopters only, that is, IFRS has resulted in a favourable impact on their cost of debt capital. However, the magnitude of differences in the relationship between the two groups falls into a small size effect which is in line with the results of Cohen (1988). We thus argue that the effect of IFRS on the cost of debt capital might not be of a substantive nature.

These findings thus support the observations of Kiefer (2009) which document a decrease in the cost of debt capital of firms following the adoption of global standards. Our results are also consistent with Kim et al. (2011) who argue that in terms of lower loan rates and less restrictive debt covenants banks favours the IFRS adopters over and above the non-adopters. For mandatory adopters, our findings are also consistent with Moscariello et al. (2014) which suggest that IFRS has not affected the cost of capital of UK listed entities. However, while considering the magnitude of the change in cost of debt capital of our sample firms the outcome of findings indicate that the impact of IFRS on the cost of debt capital is low and is not significant enough to be considered of any practical meaning. Therefore, our results are not consistent with Florou and Pope (2009) who report a positive association between the mandatory IFRS adoption and cost of debt capital of firms in a country with strong institutional settings. The outcome of this study thus supports the view that the effect of IFRS on cost of debt capital is very low and is also limited to voluntary adopters only. Our findings seem consistent with Daske (2006), who concludes that IFRS adoption will not necessarily decrease firms' cost of capital.

Table 4: IFRS and its Economic Impact on Sample Companies

	Full Sample				Voluntary vs Mandatory Adopters			
	N	Mean (SD)	ANOVA F (*p.value*)	EtaSqr.	Voluntary adopters Mean (SD)	Mandatory Adopters Mean (SD)	*t-value* (Sig)	EtaSqr.[a]
Improved ability to raise capital from shareholders	119	3.47 (1.111)	1.989 (0.047)**	0.14	2.86 (1.276)	3.6 (1.033)	-2.873 (0.005)**	0.07
Improved ability to raise capital from lenders	119	3.55 (1.087)	1.967 (0.050)**	0.14	2.96 (1.107)	3.7 (1.037)	-3.039 (0.003)**	0.07
Less restrictive loan covenants	120	3.48 (1.152)	0.985 (0.457)	0.08	3.04 (1.083)	3.58 (1.149)	-2.089 (0.039)**	0.04
Attract more foreign investors	121	3.35 (1.138)	1.188 (0.310)	0.09	3.04 (1.042)	3.42 (1.153)	-1.476 (0.143)	0.02
Cost of equity capital decreased	122	3.57 (1.012)	0.872 (0.552)	0.07	3.17 (1.007)	3.67 (0.993)	-2.236 (0.027)**	0.04
Cost of debt capital decreased	119	3.63 (0.955)	1.001 (0.444)	0.08	3.29 (0.955)	3.72 (0.942)	-1.966 (0.052)**	0.03
Broadened investor base	120	3.65 (1.050)	0.670 (0.734)	0.05	3.13 (1.035)	3.78 (1.018)	-2.816 (0.006)**	0.07

Agree strongly = 1, Agree slightly= 2, Neutral= 3, Disagree slightly = 4, Strongly disagree= 5
*, **, ***, represent significance at the 1%, 5% and 10% level respectively
[a]Eta Squared = $t^2/(t^2+ (N_1+N_2-2)$. This formula is used for determining the effect size for independent samples t-test.

Economic Consequences of the IFRS adoption

Results of the analysis reported in Table 4, suggests that majority of respondents have not experienced the claim of the regulators regarding entity-wide economic repercussions following the adoption of IFRS. In this regard, results of the ANOVA statistics reveals that besides the first two statements, there were no significant statistical differences between the mean score of different industrial groups.[8] With respect to the first statement, Table 4 shows that the mean score is significantly different ($F = 1.989$, $p = .047$), in terms of their improved ability to raise capital from shareholders. Table 4 also suggests that majority of the respondents are either neutral or against the statement that the new reporting regime has facilitated AIM listed companies to improve their ability to obtain capital from shareholders. Similar observations are also evident with respect to the AIM listed companies' ability to obtain capital from lenders. These results demonstrate that the sample companies contradict the common supposition that the new reporting regime will improve the AIM companies' ability to raise new capital. The table also show that majority of the respondents do not believe in any benefit derived from the IFRS adoption in terms of: less restrictive loan covenants; attracting more foreign investors; broadened investor base, and reduction in cost of capital.

With respect to the statement that IFRS *"Improved ability to raise capital from shareholders"*, outcome of the two-way ANOVA statistics ($F = 0.694$, $p = 0.696$) describe the effect on firms' ability to raise capital. In terms of the main effect of the IFRS adoption for both the voluntary and mandatory adopters, it is statistically significant ($F = 7.243$, $p = 0.008$). In addition, the effect size test indicates that the strength of association between the groups can be considered at moderate level (Cohen, 1988). In addition, result of the independent sample t-test (see Table 4) indicates that voluntary and mandatory adopters have different experiences. As compared to mandatory adopters, voluntary adopters have shown more favourable response to the given statements because they had some incentives to adopt IFRS on voluntary basis. The statistically significant relationships in Table 4 indicate that voluntary adopters have gained some of the economic benefits from IFRS adoption. However, the analysis also depicts that IFRS has not helped both the voluntary and mandatory adopters to attract foreign capital. Table 4 also shows that the majority of AIM quoted companies rely on local resources, and very few are going beyond the UK borders to seek capital. The analysis suggests that the majority of the respondents have observed *"no change"* in foreign investments in their company with a few exceptions at a mean score of 3.35. This means that investors of AIM quoted companies are satisfied with UK GAAP and are therefore, believing that IFRS-based statements have brought few incremental benefits but increased disclosure costs more for these companies.

The results in Table 4 support the findings of Christensen et al. (2007), which suggest that IFRS do not benefit all UK firms in a uniform way. This statement is thus applicable to firms in the small and growing sector as well. These results are also consistent with previous research findings in this area (e.g., Leuz and Verrecchia, 2000; Christensen et al. 2008; Daske et al. 2008). These observations support our hypothesis H_5 that in terms of economic consequence the adoption of IFRS has resulted in relative winners and losers. Moreover, the analysis also reveals that in terms of economic consequences of IFRS there are relatively more losers than winners. As compared to small firms, larger AIM firms have adopted IFRS on voluntary basis for some of their predetermined objectives. However, the effect size (calculated to ensure that the effect has not occurred by chance) is moderate for all except one of the statements that *'IFRS has attracted more foreign investors'* for which it is of a very small magnitude.

Impact of IFRS on the Profit and Equity of AIM companies

Table 5 presents results of the analysis that explain the impact of various IFRS based accounting measures on the profit and equity of our sample companies calculated under the UK GAAP. In order words this table explains the differences between the profit ad equity of our sample companies calculated under two different accounting systems (UK GAAP vs IFRS). These analyses are again based on the views of our respondents. The results suggest no statistically significant differences on the measures (potential areas of differences) between IFRS and UK GAAP across the sub-samples. However, the mean score indicates that business combination (mean 1.82) goodwill and intangibles (mean=1.68) and investment property (mean =1.87) had more favourable adjustments to the reported profit besides the overall (mean score = 1.77) impact on profit. Based on these observations, it can be argued that there was a common consensus among respondents on the implication of IFRS to their reported profit under UK GAAP.

The results reported in Table 5 also suggest a statistically significant difference at the 10 percent level, across different industrial groups for the overall impact on profit ($F = 1.682$, $p = 0.102$) with a considerable effects size (0.125). In addition, the outcome of independent samples t-test shows statistically significant differences among the mean score of the voluntary and mandatory adopters for business combinations ($t = -3.192$, $p = 0.002$), and goodwill and intangibles ($t = -4.710$, $p = 0.000$), with an overall effect of IFRS on AIM quoted companies ($t = -1.708$, $p = 0.090$). However, the magnitude of differences (effect size) for business combination and overall impact of IFRS between the groups is very small. In contrast, the effect size with respect to goodwill and intangibles is relatively large enough to be of any practical significance. This could mean that the majority of AIM quoted companies were not involved in acquisition activity. However, a few larger firms were involved in such activities which could have affected their profit, due to differences in the accounting treatment of goodwill arising on acquisitions under the UK GAAP. On the basis of these observations, we argue that there was a common consensus among the senior financial executives of AIM listed companies on the impact of IFRS adoption on their reported profit.

Table 5: Impact of IFRS on the Profit and Equity of Sample Companies

Impact of IFRS on Profit	Full Sample				Voluntary vs Mandatory Adopters			
	N	Mean (SD)	ANOVA *F* (*p- value*)	EtaSqr.	Voluntary Mean (SD)	Mandatory Mean (SD)	t-value (*p-value*)	EtaSqr.
Business combinations	115	1.82 (0.744)	0.457 (0.900)	0.04	1.42 (0.578)	1.93 (0.751)	-3.192 (0.002)*	0.08
Share based payment	115	2.45 (0.625)	0.696 (0.711)	0.06	2.46 (0.582)	2.45 (0.640)	0.087 (0.931)	0.00
Deferred tax	114	2.21 (0.645)	0.611 (0.785)	0.05	2.27 (0.667)	2.19 (0.641)	0.527 (0.599)	0.00
Leases	111	2.31 (0.629)	0.959 (0.479)	0.08	2.19 (0.634)	2.34 (0.628)	-1.056 (0.293)	0.01
Employee benefits	112	2.38 (0.645)	1.027 (0.424)	0.08	2.23 (0.710)	2.42 (0.622)	-1.304 (0.195)	0.02
Financial instruments	115	2.07 (0.780)	0.728 (0.682)	0.06	1.88 (0.816)	2.12 (0.766)	-1.379 (0.171)	0.02
Goodwill and intangibles	114	1.68 (0.804)	0.729 (0.682)	0.06	1.08 (0.272)	1.85 (0.824)	-4.710 (0.000)*	0.17
Investment property	114	1.87 (0.782)	0.507 (0.867)	0.04	1.69 (0.679)	1.92 (0.805)	-1.312 (0.192)	0.02
Overall effect of IFRS	115	1.77 (0.776)	1.682 (0.102)	0.13	1.54 (0.811)	1.83 (0.757)	-1.708 (0.090)***	0.03
Impact of IFRS on Equity								
Business combinations	114	1.92 (0.706)	0.761 (0.653)	0.06	1.81 (0.749)	1.95 (0.693)	-0.932 (0.354)	0.01
Share based payment	114	2.11 (0.757)	0.898 (0.530)	0.07	2.17 (0.761)	2.09 (0.759)	0.446 (0.657)	0.00
Deferred tax	115	2.26 (0.727)	0.969 (0.470)	0.08	2.19 (0.694)	2.28 (0.738)	-0.545 (0.587)	0.00
Leases	117	2.2 (0.722)	1.34 (0.225)	0.10	1.88 (0.816)	2.29 (0.671)	-2.557 (0.012)**	0.05
Employee benefits	114	2.43 (0.651)	0.819 (0.600)	0.06	2.38 (0.697)	2.44 (0.641)	-0.401 (0.689)	0.00
Financial instruments	116	2.35 (0.676)	1.568 (0.134)	0.08	2.35 (0.629)	2.36 (0.692)	-0.062 (0.95)	0.00
Goodwill and intangibles	113	1.81 (0.705)	0.821 (0.598)	0.07	1.62 (0.752)	1.86 (0.685)	-1.575 (0.118)	0.02
Investment property	115	1.99 (0.719)	1.111 (0.361)	0.09	2.12 (0.711)	1.96 (0.722)	1.008 (0.32)	0.01
Overall effect of IFRS	115	2.26 (0.750)	1.195 (0.053)**	0.14	2.27 (0.778)	2.26 (0.747)	0.064 (0.949)	0.00

*Positive impact =1, No impact =2, Negative impact = 3, *, **, ***, represent significance at the 1%, 5% and 10% level respectively*

Table 5 also shows results of the impact of IFRS adoption on the equity of sample companies. The results suggest that the overall effect of IFRS on the reported equity is statistically significant for the total sample at the 10 percent level ($F = 1.195$, $p = 0.053$). However, results of the one-way ANOVA indicate no statistically significant differences between the mean scores of the two accounting systems.[9] In addition, the two-way ANOVA test shows that the interaction effect is not significant between the voluntary and forced adopters. Moreover, the independent samples t-test suggests no significant statistical differences for the given accounting measures between the two groups except for leases where the significance level is 5 percent. Moreover, magnitude of the differences between the mean scores is 0.05, which could be hardly of any practical significance (Cohen 1988). It is also evident from the table that the mean scores of both groups are similar for all other accounting measures and, hence, the results show a common consensus among the respondents on the effects of IFRS on reported equity.

In this regard, existing evidence on IFRS adoption by UK companies document that most companies have shown a positive adjustment to profit in respect of business combination, and a negative adjustment to equity arising from employee benefits, in particular, the treatment of defined benefit pension schemes (Aisbitt 2006; Dunne et al. 2008). With respect to business combination we argue that only the larger voluntary adopters may be involved in acquisition activity and as a result the overall impact on both the profit and equity of the full sample is small. In addition, as the majority AIM companies are relatively smaller in size, and do not operate well-defined benefit pension schemes, due to which they show little impact on their profit and equity. We thus argue that IFRS has little impact on reported both the profit and equity of UK firms for the full sample. The sub-sample results show that forced adopters had no explicit effects of IFRS adoption on their profit or equity, while it is the voluntary adopters who have shown positive changes in their profits. The increase in profit is specifically related to goodwill and intangibles, which can be interpreted as suggesting that voluntary adopters have anticipated this increase for some predetermined objectives and have therefore adopted IFRS for enhancing their perceived performance or position. These results thus partially support our hypothesis H_6 with respect to the impact of IFRS on profit only.

Implications of the Study

As a common set of high quality global standards existing literature has documented the benefits IFRS as; reduced information anomalies between the management and investors (Frankel and Li 2004), enhanced accounting quality (Soderstrom and Sun 2007), and greater economic efficiency across countries (Lainez and Callao 2000). Keeping these benefits in mind it is expected that the implementation of IFRS would facilitate investors in making their economic decisions; it will improve competitiveness with more access to foreign capital, and would help in strengthening the investors' relationship with the management (Hope et al. 2006). However, are all these benefits applicable to small and growing companies? This is a question which is not answered by the findings of the existing literature. This study therefore explores the claimed benefits of IFRS and provides further evidence on their impact and implications on small and growing UK companies.

The results of this study show little evidence to support the applicability of the findings of the existing literature based on the main market to AIM companies in the UK, in particular, in case of mandatory adopters. We therefore argue that the above mentioned claimed benefits of IFRS are least relevant to small and growing UK companies. However, when firms have to choose between voluntary and mandatory adoption then our findings suggest that voluntary adoption were only done by those comparatively large firms which had some pre-determined objectives rather the intended objectives as set by the regulators and policy makers. Our results have revealed that IFRS was only adopted by those firms on voluntary basis for which the benefits exceeded the costs of adoption. This study therefore questions the appropriateness of extending the compulsory adoption of IFRS to small and growing companies in the UK and argues that it will be more appropriate to give these companies a choice to adopt or stay with the local GAAP rather than imposing a mandatory change on these companies.

With respect to the accounting regulation for small and growing companies, only limited evidence is available in this area. We therefore argue that the evidence presented in this research is the starting point for researchers in the UK and other countries and has implications for mangers, regulators, lenders and other stakeholders. First, the findings will inform managers of small and growing companies about the appropriate adoption time and practical implications of a change in accounting regulation in future years. As IFRS has several implications on the operation, costing and future prospects of companies, the managers would need to understand the real nature of the IFRS before adopting it in other countries. This would not only help managers in choosing between the voluntary and mandatory adoption time decision but will also be beneficial in their preparations for the change and the resulting implications for their firms.

Second, our findings show that if a choice was made available to them then AIM companies would have opted for not adopting IFRS. These findings have thus implications for policy makers and regulators. As AIM companies constitute a considerable proportion of wealth in the UK economy, the introduction of a complicated and persistently changing accounting regulation has implications on the smooth operation of these companies. Furthermore, a new accounting regulation also has the costs and other resource implications not only for the companies but also for the accounting profession and related industries. The regulation may affect the value of these firms which would produce an impact on the numbers of jobs, tax payments and other relevant activities of these companies. The regulators would therefore need to put an effective mechanism in place before recommending a change in regulation. We suggest that the *Financial Reporting Council* provides support to small and growing companies before imposing a change in accounting regulation for small and growing companies. The support could be about producing awareness about the main content of the new regulation for small and growing companies or other similar activities.

Third, this study covers the impact of IFRS with respect to, firm size, external financing, managerial discretion and earning management, cost of debt capital and the impact on profit and equity of AIM companies. All these factors are linked to the operation and performance of AIM companies and as a result, we argue that our findings also have implications for banks and financial institutions. We suggest that loan officers and other personnel of banks and financial institutions should get full awareness of the new standards for making effective financial decisions. Fourth, being the first evidence of its kind the outcome of this research will produce an understanding of the issues and concerns of AIM companies in relation to the adoption of IFRS, and would therefore encourage more academic research in this area. The findings may also be useful for practitioners, market participants and other stakeholders, in terms the cost-benefit considerations of a change in regulation. Our findings also contribute to the current debate regarding the implementation of FRS 102, which is a single financial reporting standard, applicable to the financial statements of small and medium size entities in the UK and Ireland with effect from 2015. We believe that adoption of FRS 102 by UK companies will produce similar implications and would be an interesting avenue for future research.

Conclusion

This paper examines the impact and implications of IFRS on AIM listed companies. Existing literature on issues related to the adoption of IFRS in the UK and most other countries, is largely based on large listed companies. This study therefore provides new evidence of the costs-benefits issues in relation to the IFRS adoption and its potential implications for AIM quoted companies in the UK. The study reports that the majority of small and growing AIM companies have not observed the most common benefits promulgated by the regulators for disclosing more information under IFRS. Companies are adopting IFRS to comply with the regulatory requirements and most confirm that if it was not required by law then they would have opted for non-adoption. The analysis depicts that IFRS adoption has not helped companies to attract foreign capital nor broadening the investor base. We also affirm and complement the findings of prior literature which suggest that the economic benefits of IFRS primarily occurred to voluntary adopters, rather than forced adopters. Our results show that the new regulatory environment has, for most AIM companies, not added value to financial reporting and the regulations are deemed to be a technical accounting change for these companies, with associated costs on implementation.

The results reveal that only a small number of AIM quoted companies, predominantly those which are comparatively larger in size have adopted IFRS for some anticipated objectives, rather than compliance. Our results reveal that the voluntary adopters were found to be successful in achieving their anticipated economic objectives. For instance, it shows that voluntary adopters are more highly leveraged and needed more loan capital; thereby choosing to adopt IFRS to disclose more for obtaining further loans on more lenient terms and conditions. This could mean that it is in their interests to adopt IFRS and they have therefore self-selected to do so. In contrast, the majority of AIM quoted companies considers IFRS as an extra burden with no sizable benefits. The findings also suggest that there is a common consensus among the respondents that IFRS allow less discretion and put more restrictions on managers. It is therefore believed that by tightening accounting standards IFRS is giving fewer opportunities for earnings management practices.

However, the economic consequences of IFRS vary among the sampled companies which have resulted in relative winners and losers in terms of the impact of IFRS on AIM quoted companies. Our findings also suggest that size of the reporting entities plays an important role in the adoption and implications of IFRS. It is also worth mentioning that earlier studies have shown some trends that size is positively associated with IFRS adoption, while this study document that size matters in both the adoption and implications of IFRS. Overall, the results reveal that IFRS has limited beneficial effects for most AIM quoted companies, and one can therefore argue that the optimism of IFRS is confined to the larger AIM firms who have adopted IFRS on a voluntary basis.

The findings of this study raise questions about the applicability of IFRS to AIM quoted companies, because in cost-benefit terms most AIM companies are not in favour of IFRS. The majority of respondents believe that IFRSs could be useful for large (multinational) companies, in improving the quality of their financial reporting, but have questioned its benefits for AIM companies. It has also been suggested that adopting IFRS does not add value to the reporting process of AIM companies. The results suggest that most of the sample companies have adopted IFRS only for regulation compliance. In this regard, some interviewees reaffirmed that they would have not adopted IFRS if there had been any choice available to them. Moreover, the analysis shows that the difference between the UK GAAP and IFRS profit and equity is smaller than it is for their larger counterparts listed on London Stock Exchange. This is partly due to the different characteristics of small and large quoted companies, but may also be attributable to measurement timing following increased convergence between UK GAAP and IAS from 2005, when IFRS was adopted by quoted companies, and 2007 when IFRS was adopted by AIM companies on mandatory basis.

This study provides evidence on the impact and implications of the most sophisticated form of financial reporting standard for small and medium size UK companies. As this evidence is the first of its kind, we argue that the results may be of interest to managers, policy makers and regulators, academics and practitioners. We also argue that as AIM companies are smaller in size, the findings of this study may give better insights about extending IFRS for SMEs to small private companies in different countries. This debate is current because the new UK GAAP for SMEs (FRS 102) has moved UK GAAP for private companies towards IFRS. This study contributes to this debate on the compulsory application of IFRS-based regulations to small companies, albeit simplified in the case of FRS 102. It remains an open question of whether the adoption of FRS 102 by private companies will raise many of the same cost-benefit issues raised in this study. We therefore argue that a similar investigation on the impact of FRS 102 on small and growing companies is worth doing.

Despite its contributions, this research also has limitations and provides scope for further research in this area. First, despite several efforts the response rate is relatively small. However, the use of mixed-method approach has provided more strength to our analysis and has thus compensated for any potential limitations. Second, during the transition period of IFRS adoption AIM companies were required to prepare a reconciliation statement which explain the differences and similarities between UK GAAP and IFRS figures in the financial statements. We therefore argue that in addition to questionnaire survey and interviews, an investigation of the IFRS 1 based data would help in explaining the transition to IFRS by AIM listed companies. Third, we believe that a similar survey with practitioners, bank loan officers and regulators on the implication of IFRS for SEMs would also be a useful addition to this line of research. Fourth, with respect to the implications of IFRS, the use of case study method would further help in producing a good understanding of the issues in relation to the IFRS adoption for small and growing companies. Investigation of all these issues is therefore left to future research.

Notes:

1 The EC (1606/2002) regulation which requires the consolidated financial statements of all EU listed firms to comply with IFRS for accounting period beginning on or after 1st January 2005. Similarly, the Norwalk Agreement 2002, the Sarbanes Oxley Act of 2002, the Australian Corporate Law Economic Reform Program Act 2004, the reconstitution of IASC as the IASB in 2001, and the waiving of SEC reconciliation requirements for IFRS/IAS compliant firms with effect from 2007 are also considered among the measures necessary to improve accounting quality.

2 Alternative investment market (AIM) has established itself as one of the world's leading stock exchanges for small and growing companies. In order to meet the needs of small and growing companies for raising capital for expansion, the alternative investment market was launched in 1995. Since then it has been regarded as an innovative market for small and growing companies because through this market these firms can access capital markets with reduced regulatory compliance and listing requirements and thereby producing added advantages.

3 A recent study by Durocher and Fortin (2014) examine the timing decision of the adoption of new accounting standards for private enterprises in Canada, and in addition to other factors they regarded the cost-benefit issue as one of the major factors for the early adoption of the new accounting standards by Canadian private companies.

4 The experts mainly include senior financial executives such as; Financial Directors, Financial Controllers, Chief Financial Officers etc.

5 A web-based survey carries three major areas of concerns: coverage, privacy and verifications (Neuman, 2000). However, coverage bias is considered as the biggest concern in a survey which is using the web-based approach (Crawford et al. 2001). As our sample is based on the perspectives of senior financial executives of AIM companies, this issue is of least concern to this study. In addition, while conducting the survey we have also taken care of the privacy and verification issues.

6 The Cohen (1988) criteria for the effect size statistics indicate that *phi* coefficient value of 0.10 show small effect, 0.30 show medium effect, and 0.50 show large effect (see Pallant 2007, for details).

7 We note that only a small proportion of the respondents (9.2%) agreed with the notion that the cost of debt capital decreased as a result of adopting IFRS. In addition, we also observe that majority of the respondents (49.2%) disagree with the most common conjecture that IFRS will lower the firms' cost of equity capital.

8 The respondents belonged to various industrial groups based on standard industrial classification of FTSE 100 and AIM 100 index including, Basic Material, Consumer Goods; Consumer Services; Financials; Healthcare; Industrials; Oil and Gas; Technology; Telecommunication; and Utilities.

9 It is interesting to note that nearly 44% of the total respondents indicated negative effects to their overall reported equity on their transition from UK GAAP to IFRS. This negative impact in their view was mainly due to employee benefits, financial instruments, and deferred tax, respectively. The biggest positive impact on equity was associated with goodwill and intangibles, followed by investment property, and business combinations, respectively.

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