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MSc IN FINANCE & FINANCIAL INFORMATION SYSTEMS

“Domestic Accounting Standards, International Accounting Standards
and the Predictability of Earnings”

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1. Introduction

Every day millions of international transactions are done between enterprises being the result of the globalization of markets. It is a common fact that there are tremendous opportunities for companies which are involved in worldwide business. Corporations are in the need of enlargement in order to be the market winners between many and touch competitors. To achieve that goal they must raise capital from the global market place. In the proceeding of that effort a problem arise dealing with the demand of a new accounting system that would be same between all companies worldwide.

Multinational companies have share holders worldwide. According to Leuz and Verrecchia (2000) “Information asymmetry creates costs by introducing adverse selection into transactions between buyers and sellers of firm shares” This need made International Accounting Standards (IAS) to curry out.

Already from the early 1970s the rapid growing of international investment and the development of global markets increased the importance of the IAS development. So on June 1973 international Accounting standards Committee was set up in London and was replaced by International Accounting Standards Board on April 1, 2001. The Committee was responsible for creating international accounting standards and promoting the use of them. These standards would harmonize the information asymmetry which is created in the accounting of companies wanting to have stockholders worldwide or who wish their shares to be traded internationally. On the 31st of December 2001 the European Union came to the decision that all listed companies in Europe are obliged to issue their balance sheets and financial reports with compliance to International Accounting Standards (Bellas et al, 2007). January 2005 was the obligatory starting date for all listed companies to issue their financial reports according to International Accounting Standards (IAS) (M. Agostino, D. Drago and D. B. Silipo, 2008).

According to Ashbaugh and Pincus (2001) “IAS are a set of accounting standards promulgated by the International Accounting Standards Committee (IASC). The IASC’s goal is to develop an internationally acceptable set of reporting standards that will generate more comparable financial information across national boundaries by minimizing, if not eliminating, differences in countries’ domestic generally accepted accounting principles (domestic- GAAP) (FASB [1996])”.
Several parties are interested in IAS like investors who are trading stocks belonging to companies’ worldwide, financial institutions, lenders and banks which are operating across national borders. Moreover financial statement prepares and probably auditors, consultants and accounts would be interested in these new standards. During 1970s an important process would be recognized toward the international harmonization in the accounting standards, but in the 1980s IASC was criticized because of the lack of comparability across country borders that IAS had and their deficiency in flexibility.

It is a common belief that financial reporting in every country is related with the political circumstances and forces that are present. Moreover it is also related with the market demands, from these facts it is obvious that one set of requirements for companies located in different countries could not be enough. It is more unlike when there are differences between the investors’ profile across capital markets. Consequently when across countries investors differ there is a lack of optimality in the harmonization of financial reporting requirements.

If it is thought that harmonization is the most important fact in the international financial reporting system then another momentous fact in accounting is development. It is significant for anyone involved to have the knowledge what causes accounting to be developed. People with that information can show the right directions in the line of financial reporting development. As said above accounting is also a matter of each nation’s requirements meaning that legal, economic, political and cultural environments differ between countries. The above fact is leading to classification. The main aim of classification is to find countries that have more similarities in their financial accounting systems and to group them. According to Nobes (1992) “Classification may short-circuit the process of learning about and dealing with international variations in practices by clarifying important differences and similarities”.

The aim of the present study is to provide a comprehensive analysis on the adoption of IAS by listed Greek companies and the impact of the adoption on the predictability of earnings. This goal is achieved by examining and analysing publicly available financial data of the Greek companies listed in Athens Stock Exchange (ASE) before and after the adoption of IAS. Secondary data has been employed and retrieved from annual financial statements and electronic archives of the Athens Stock Exchange for the needs of the research of this study.
The structure of the existing academic work is separated into chapters; the first chapter is the introduction where in general the aims and objectives are presented, a brief literature review is made and the methodology used is discussed shortly. The second chapter is the literature review where past readings are presented dealing with this specific subject. In the third chapter past methodologies are presented whose aims are related with the present study. Moreover the methodology and the data used are shown. The next chapter is the forth providing the results and the analysis named by Empirical Results. Finally in the fifth chapter concluding remarks and additional research are provided.
2. Literature Review

2.1 Introduction

The situation of global markets described above resulted in the necessity of a “common code” in financial reporting in companies worldwide and in the same corporation across countries in relation with its shareholders. This fact made up the genesis of International Accounting Standards (IAS) promulgated from the International Accounting Standards Committee (IASC). This Committee was founded on June 1973 with primary participants Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Nederland, the United Kingdom, and the United States. Its main scope was to synthesize the general accounting standards and promote their acceptance in the global market. Over the years the tough criticism on IACS resulted in a new project with main target the further comparability these standards have with the General Acceptable Accounting Standards (GAAP) on each country.

2.2 IAS in comparison to domestic GAAP

IAS are a set of standards which can be referred as the ordinary encrypt used from companies in order to successful perform their financial transactions and all accounting particular events across countries in the global market.

Above a conversation is made about IASC and its role is fully analyzed; now another forum associated will be presented. This entity is the successor of IASC with name “International Accounting Standards Board” (IASB) and its members are the same as these listed in the introduction of the literature review. This board was found on April 2001 and its goal is to further shorten the differences between the domestic and international accounting standards in order this set to be more and more acceptable from companies across national boundaries. The proposition IASB made is related with the replacement of the IAS with the international Financial Reporting Standards (IFRSs). Moreover the board suggested new standards in reporting areas where no previous evidence was available in the IAS. Nevertheless the board except the above innovation was faithful to the overall spirit of the IASC, meaning that the goal was again the formation and publication of the international accounting standards, the financial reporting presentation. Finally its most important target is to ameliorate the standards’
harmonization in the reporting of financial statements in order to enlarge their acceptance worldwide.

Nowadays it is a fact that companies have been transformed from domestic enterprises to multinational, moreover acquisitions and mergers are situations that take place very often. Ventures rapid growth in parallel with the use of the advantages that information technology and computers have brought in the data transmission made IAS an important demand (Rivera and Salva, 1995). It is in great importance that with the use of IAS investors can extract information about the companies’ performance making a rational comparison using the companies’ financial statements that are edited in the same accounting language. With that capability they can estimate the internal value of the companies’ stocks (Ashbaugh and Olsson, 2002). The market efficiency is defined by how reliable information about market can be acquired. If the market is efficient, shareholders have motives to invest in the stock market rather to accumulate their savings. “However, entrepreneur typically has better information than savers about the value of business investment opportunities, and they may have an interest in overstating their value or expropriating the assets that savers invest” (Agostino et al, 2008). As said above IAS are a set of rules that companies have to take into account in order to edit their financial reports, so all ventures which perform using as prospects this new accounting system are obligated to prepare their financial statements with the requirements set from the IAS (IASB, 2001).

IAS will contribute in eliminating duplicative costs of national and international standards. This is very important and helpful to developing nations who possibly would not be able to afford the cost of national accounting standard setting. This is one reason why IAS are popular among developing nations (Bayless, et. all, 1996; Tang, 2000).Further reason for IAS to be popular among developing countries are presented in the following. More specific, the implementation of IAS will contribute in reducing inconsistencies among countries with dissimilar accounting principles (Chen, Gul, &Xijia, 1999). Moreover it is expected firms to lower their cost of capital by implementing the new standards. Lower cost of capital is achieved by improved accounting information since it eliminates estimation risk data considering future equity returns (Barry and Brown, 1985) and because complete knowledge reduces asymmetries between managers and shareholders. Information asymmetries do cost investors since they lead to unfavourable selection into transactions between purchaser and seller of firm
shares (Leuz, and Verrecchia, 2000). In real institutional settings, adverse selection is typically. Therefore, required rates of return are reduced (Diamond and Verrecchia, 1991).

Domestic GAAP is the generally known set of financial reporting principles, used in every country separately. In modern years this term can be found in the practice of accounting, on auditing and in the business literature connected with facts that definitely answer to questions for different nations’ entities. As far as domestic GAAP is concerned it is a consequence of the interrelationship of multiple objects. These factors can be historical, institutional, cultural and economical different for each country. It is a common truth that the accounting reporting system in a country can be influenced from several factors. These contributes can be tax laws, the legal system, the level of economic progression, inflation levels, the relationship between business establishments and producer of capital, political and economic ties and the level of education (Saudagaran and Meek, 1997).

Many countries have already declared that they have left beside their domestic GAAP for reporting assuming that they know use IAS in order to prepare their financial statements. When we want to compare the concepts with which IAS and local GAAPs are operating it is resulted that they are in common. These approaches are consistency, historical cost, materiality, conservation, recognition, matching accruals, measurement, dual aspect and disclosure (IASB, 2001).

Opposing arguments can be traced in Ampofo and Selani’s (2005) scripts. They use the expression Global GAAP meaning IAS believing that the International Accounting Standards are not in the capability of eliminating in total the differences in accounting reporting worldwide but they will save costs that are arising through to incompatibilities. Moreover business decision makers will ease their jobs auditing financial statements that are prepared with comparability. In addition more saving costs will come in front in the preparing and monitoring area of accounting reporting. While it is true to say that above authors are also expressing some arguments in their documents against the adoptions of IAS. These confrontation are dealing with the low level of education in the new standards that companies’ accounting staff have, the high level of costs coming from the adoption of IAS. As said above accounting reporting except others is a matter of culture, but the differences in that area in companies nowadays is another prickle in IAS’ adoption.
Finally the complexity of the system and the lack of political power from the side of IASB to solve all above problems is a setback in the whole development of IAS’ establishment.

Another study made by Ding et al (2005) is focusing to the fact that there are differences in the level of harmonization of reporting requirements across countries. This study is mentioning the differentiations between IAS and the local GAAP and furthermore is explaining the cause of above fact as a consequence of modulations in cultural facts, the legal system and conventional incentives between countries.

Other composers of written work like Sharpe (1998) claim that the introduction of IAS is the forerunner of the lowering of costs in many areas. To mention them, according to Sharpe (1998), cost of capital is gained from the reducing investment risks through to the elimination of multiple reporting methods, the reduction of confusion when auditing financial position and performance via financial statements that are prepared in the same “accounting language”.

It is a broad feeling that not all nations are capable to be introduced into the new system. There are many obstacles in the adaptation of IAS. This knowledge is extracted from several studies which agree that the most important hitch is the absence of a broad support for corporations in adapting these international reporting principles. On the other hand the fact that IAS have become very important and desirable is transforming their use into a necessity meaning that all related problems have to be solved.

At this point some studies will be presented take into account the difficulties in the adaptation of IAS. Some of them argue that these problems occur through to the less communication between the domestic accounting principles setters and the IASC. They claim that if this relation was more close then there would be a way to eliminate to differences between IAS and each country’ s domestic GAAP (Street et al, 1999).

The research made from McGee and Preobragenskaya (2003) studied the implementation problem of IAS in Russia. After a careful examination made using a sample of Russian companies the result extracted indicated difficulties in the adaptation of IAS from these enterprises for a number of reasons. First of all, the root of the problem starts from Russian universities. These foundations do not educate Russian students in the new international accounting standards. And something like that is impossible when they
have started little years ago to train their students to the domestic GAAP. From that students are come of accountants who are unable to introduce the modern reporting principles to the Russian companies. Second, another obstacle is that IAS are only in English meaning that native speakers cannot understand and operate with IAS. Consequently it is a necessity IAS to be translated also in the Russian language. In order to speak in general IAS must be translated in non-English languages to help all people related to harmonize international accepting standards with their domestic GAAP.

The incompatibility that companies’ reporting methods have with the IAS is evidenced in the research of Street et al. (1999). Authors wanted in his study to investigate how enterprises who claim to have adapted IAS have done that in practice. In this study 49 leading companies from 12 different countries were used as sample and the result extracted was disappointing for the IAS adaptation from these companies. Only 41 per cent of these entities have prepared a note which was fully in compliance with all IAS. This outcome indicates the long way that companies’ reporting system has in order to be harmonized with the international accounting standards.

Another research made from Ashraf and Ghani (2005) indicated that IAS are not operating well in developing countries. Their intention through this research was to study the size of disclosure and the progress of accounting reporting in accordance with the use of IAS in Pakistan. The sequences of the present research indicate that there was no amelioration in the quality of financial reporting with the use of IAS instead of the local accounting standards in Pakistan. The major objectives that are affecting the accounting reporting system in Pakistan are the magisterial inefficiencies, the absence of investor’s conservation and the low level of prosecution mechanisms.

In addition in the research made by Taylor and Jones (1999) the companies used as a sample referred in their financial statements notes to IAS. This result is very promising, but only the 50 per cent of these firms used IAS in the preparation of their original accounting report. This shows that there are some important steps that must be taken in order this problem to be solved. Another result they have extracted from their study was that companies are using a mixture of domestic accounting principles and IASs. Finally they found that companies used in their study only use IAS in order to eliminate the differences and incompatibility between financial statements which is not the target of the IAS.
Another speculation made by Mir and Rahaman (2005) investigated the reasons why the developing country’s Bangladeshi government has decided all firms to adopt the IAS. The main reason for that declaration was the institutional legitimization. These two researchers mentioned also in their study that this decision from the side of Bangladeshi’s government was a result of international pressure from different institutions and accounting establishments.

From the international investors’ side it is extremely important all major companies which shares can be traded worldwide to have imported in their financial departments the new accounting principles. This signification is an outcome of the portfolio loss that can be resulted from the false decisions that can be taken when financial statements are audited in several and different accounting methods. IAS is called to solve above problem because it is further not surprising that local GAAPs have several differences with the IAS.

Above researches mentioned the difficulties in adapting the IAS and explained the problem in its existence. Except these obstacles there are also many advantages from the maintenance of the IAS from firms worldwide, since there are many gains when companies perform using the same rules in their accounting reporting methods. At that point studies will be presented which have in common an encouraging feeling about the IAS’ international adaptation. And it is not an illusion when reading the results extracted from below researches.

According to Aljifri and Khasharmeh (2006) there are many advantages from the use of IAS against domestic GAAP as international accounting reporting method. They have ranked those advantages from the most to the less important using as statistical evidence the mean and the standard deviation resulted from the enterprises’ annual reports to confront to the IAS. Those advantages ranked can be summarized as follows:

1. IAS’s flexibility again the domestic GAAP is evidenced because of the fact that the first one can be easily adjusted to the particular desires its country has.
2. With the use of IAS companies which act worldwide have a high level of comparability in their financial statements.
3. Financial planning has become easier from the government’s side with the use of information provided by the IAS.
4. With the use of IAS the development and enlargement of overseas investments have been facilitated.
5. The operations of international business have become more understandable using the new accounting standards.
6. Domestic financial sides, jurisprudence and community conditions become consistent to the highest level with the spread of the IAS worldwide.
7. With the use of IAS time is saved in the developing of countrywide principles.
8. With the use of IAS the development and enlargement of domestic investments have been facilitated.
9. Costs in setting up new accounting standards have been minimized when IAS are present.

Another encouraging message is coming from the study made by Ashbaugh (2001). In his research the accounting standards choice from non US companies is investigated. The options available were the IAS, the US GAAP and the domestic accounting principles. Disclosing differences between IAS or US GAAP and the domestic GAAP were evidenced in the financial statements of the sample of enterprises used. The selection used was information extracted from 211 companies’ financial reports and the model used to give the above result was multivariate logic regression. In the outcomes the likeliness of IAS and the US GAAP is prevailing against the local GAAP. Moreover another encouraging result is that large-scale firms have a preference in using the IAS rather than the domestic GAAP. Finally it is documented that the level of disclosure each company has to the IAS is related with the number of overseas capital marketplaces the company has operations with.

As also said above multiplicity among societies are evidenced as a consequence of several differences in cultural, political, legal, economical, technological, business and social surroundings. Taking into consideration above fact Ding et al (2005) documented that there are two differences between the IAS and the local GAAP. Firstly declination meaning that although there are many common accounting principles between the IAS and the local GAAP there are some differences in the method used as financial reporting is concerned. Secondly nonexistence meaning that the local accounting principles are sometimes not covering a financial reporting issue at all. Ding et al (2005) used for their research a sample of companies from 52 countries. The outcome of the study showed that cultural motives are affecting the most, more than the legal system, the adaptation of the
IAS. The main result from that study was that except all other factors that are important and related with the IAS adaptation like the legal system and the methodological dominance, the adaptation is affected the most by civilizing dynamics.

Another study that illustrates the importance of the IAS adaptation is that made by Choi and Levich (1999). Investors from all over the world are used as sample and their investment decisions are examined in accordance to the accounting principles used in the financial statements their audit. As it is concluded investors have to transform the financial statements in the “accounting language” they know in order to take the correct judgment in order to invest. It could be very easier, less time spending and more profitable if the companies to which they invest had adapted the international accounting standards.

Researches about the IAS’s topic are several in number because it is an issue which with huge interest worldwide. Moreover this subject has become obligatory because it is in relation with financial practices from multinational companies. As modern and innovative also it has gained the interest of many authors. The mainstream of these researches have been made for particular nations but these are also available studies which take as a sample companies that are acting in more than one country making that studies more complete in their conclusion extracted.

2.3 The Greek Situation

A radical change in the history of accounting and financial reporting in the Greek economic sector was occurred from the early quarters of 2005. This change appeared of the way the Greek companies listed in the Athens Stock Exchange where required to inclose their financial statements. In other words Greek accountancy had to comply with the International Accounting Standards (GAAP 2001).

After the situation and the importance of international accounting standards was made clear to all related entities, IASC was in the position to announce the final date at which all companies are required to audit their financial statements with the new “reporting language”. Final date announced was the economic year 2005 at which all countries belonging to the European Union had to use the international accounting standards in order to report their financial statements. Greece also faced that truth and as all non Anglo-Saxon countries it was a necessity to use the new accounting standards having at the same time an effect to cultural matters except the devolution to the new bookkeeping
In Greece gradually same companies started to obtain the IAS before 2005 but all Greek enterprises listed in the Athens Stock Exchange adapted the new accounting standards in the same year. From 2005 IAS are a reality in Greece and this adaptation helped firms in many sides. To mention these advantages, first of all the attractiveness to overseas investments is extended in a great volume because of the fact that Greek companies are now working in equivalent conditions with foreign businesses. To add companies are performing better, can now better decide on their representative faculties and finally all these circumstances are leading Greek economy to a better future. 

While this transaction was welcomed and adopted by many firms from its first stages, for other companies it was very difficult to overcome the problems that arise and to succeed to operate smoothly. As far as the progress it was a hard way for Greek companies to overcome the important difficulties that were present. These obstacles had to do with the absence of well prepared training staff, the lack of information from the accounting personnel of each company, the limited guidance from the government side; all these caused some companies to face problems in operating with the new accounting system while others were ready on time. Moreover these difficulties were mainly caused due to the lack of knowledge and experience of the IAS reporting requirements. This was not only from the side of Greek companies due to their lack of IAS familiar accountants but also from the side of the Greek Ministry of Economics which was insufficient to provide adequate support and information. With the adoption of IAS, financial reporting investors had greater amount of useful information in their hands rather than with the Domestic Accounting Standards which only concerned about taxation and profits.

It is important to mention here that domestic Greek accounting standards differed in a great extend to the IAS. There were specific accounting areas where the Greek system treated particular issues in a different way. To present some of them there are differences in the disclosures of the FIFO, discounting operations, the reasonable values of assets and liabilities, the treatment of joint ventures, the inventory value process. Differentiation also occurred in the trading of derivative liabilities. To add it is a necessity to point out that before the adaptation of the IAS the Greek reporting system was in a great extend influenced by the law demands.

More than a few authors occurred in Greece wanting to make researches on that issue. The sample used in the study of Athianos et al. (2004) was four leading companies in the Food and Beverages sector. From these companies information is extracted in the way they face the adaptation of the new accounting standards. Many differences between the
IAS and the Greek accounting standards were evidenced like the treatment of goodwill, brands and trademark, the methods of depreciation, the valuation of the fixed assets and the valuation of inventories. Again Athianos et al. (2005) in an additional study examined the effects on the financial statements that occurred as a consequence of the transition from the Greek GAAP to the IAS. More specific the most significant financial ratios and the value relevance of financial information were examined. The sample used was 40 companies operating in the Greek market, these companies adopted gradually the IAS before 2005 and it was resulted that there is a large divergence in their financial statements prior and after the implementation of the international accounting standards.

Tsalamoutas et al, (2008) examined the impact on Greek listed companies that the adoption of IFRSs made. More specific, the paper investigated how net profit, liquidity, gearing and equity were affected by the adoption of IASs and which IAS affected these ratios most. Furthermore, they investigated book-to-market ratio before and after the adoption of IASs. Moreover, the impact of audit firms’ size is explored as substitute for accounting quality (DeAngelo, 1981 & Watts and Zimmerman, 1986) on the impact of transition on companies’ financial statements and on book-to-market ratio. It is found that implementation of IFRSs did indeed have a significant impact on the financial position, reported performance as well as on gearing and liquidity ratios of Greek listed companies. Corporation that had auditors with non-‘Big 4’ auditors faced significant impact on net profit and liquidity on transition to IFRSs. They also faced a significantly greater impact on gearing than companies with ‘Big 4’ auditors. We were however surprised by the large number of companies materially affected with reference to all measures examined.

With respect to equity, our findings do not support GAAP is more conservative than IFRSs as applied (de facto) in this context of transition. We identify a large number of companies with material negative changes and provide explanations for this. We identify seven standards which cause significantly negative impact on companies’ net assets and which appear to be reducing certain creative accounting practices previously followed under Greek GAAP (Polychroniadis, 2002; Spathis, 2002; Spathis et al., 2002; Baralexis, 2004). For some of these standards the impact was either significant only or greater for companies with non-‘Big 4’ auditors. This suggests that reporting quality has improved under the new accounting regime.

Bellas et al, 2007 also examined the transition of Greek companies from national accounting standards to international and the effects of the transition. This paper
examined over a hundred listed Greek companies their published financial statement for years 2004 and 2005. Their study examined the impact of some accounting measures and levels on the use of descriptive statistics. Moreover, they examined the value relevance of net income and book value of these companies by applying Greek Accounting Standards and by applying IASs. They concluded that applying IASs contributed in recording higher values in tangible, fixed assets and in total liabilities compared to values when GAS where applied. Additionally, the introduction of the IAS amplified the inconsistency most of the balance sheet measures (i.e. fixed assets, total assets, total liabilities, and book value) among companies. Greek Accounting Standards are considered to be adjusted to stakeholders’ needs. One of the purposes of this study was to investigate how stakeholder oriented countries are affected by IASs which are considered shareholder oriented countries.

Ampofo and Sellani (2005) examined the differentiation of the U.S. accounting principles from the international accounting principles. There are certainly many differences between these two accounting systems and these differences are an expression of the diverse financial, communal, educational, industrial, technical and legal structure that US has, compared to Europe (Carslaw, 1999; Chang & Khumawala, 1994; Dzinkowski, 2001; Holgate, 1997). More particular, these differences between these two accounting systems are decreasing as there is a movement towards convergence (Street et al, 2000). Ampofo and Sellani (2005) concluded that even if IASs differ from US GAAP they present great similarities in the way provisions and contingencies are treated. They also present similarities in their theoretical structure and in the way post balance sheet events and correlated party transactions are treated. Furthermore, they underlined the benefits of adopting IASs. More particular, if all countries will adopt IASs there would be no necessity and no extra cost for the companies to present their financial statements in more than one form. Moreover, adopting IASs by all countries will contribute in comparability of financial statements of all the companies all over the world. In their study, Ampofo and Sellani (2005) emphasized mainly the advantages of adopting IASs globally.

2.4 Predictability of Earnings

In today’s worldwide marketplace, earnings are in top significance for each company. When talking about earnings it is meant that they are equivalent with all profits before
losses and all other operating costs. Investors often claim that the companies’ earnings are the key for them to build their portfolio. It is a common truth that companies with low earnings’ viewpoint per share have also in a very regular level low share prices. The particular stock attractiveness to the every specific shareholder is increased with the enlargement of profits. Moreover the ability that each firm has to breed income plays a very significant future function in its share value determination. Investors and financial analysts are using as a tool the companies’ earnings.

Besides they are used in the valuation of many models, which is meaning that models can estimate future earnings helping the financial analyst’s department of each company to predict future and present movements that are important to be made. Past financial statements are used in order information to be collected about past years. Using that data and with a specific forecasting method that could be financial modeling future estimates are extracted. With that process the predictability of earnings are forecasted, it is important to point out here that this procedure is very difficult because many obstacles have to be overcome but on the other hand it is very important for the company’s potential.

To add as also said above major investment decisions are taken by the earnings predictability. In order to be more specific analysts are using a particular method in order to make their determinations. They are first collecting all important information then they are making the evaluation and finally they are making their recommendations. From the evaluation they are taking into consideration in a high extent the earnings forecasts and the target of the share price in order to suggest the timing of the buying or selling shares. The key financial ratio which used from financial analysts for the management of earnings is the earnings per share (EPS). This tool is depended on the profits each company has in each particular economic year. The forecasting estimation about the EPS is extremely related with the market potentials so it is clearly that the use of that ratio is been a necessity in the forecasting and future movements’ determination.

It is important to mention at this point that earnings have quality which is a multi dimensional conception including the global bookkeeping multiplicity, the type of the data collected and the available bookkeeping structure. Nowadays it is a common truth that bookkeeping and finance studies are using in a great mass the forecasting of earnings in order to be the mandate for the invisible marketplace prospects of potential earnings recognition. Various forecasts about earnings are always present and can be used from the
companies’ financial development stuff but the important part is for them to select the most profitable choice (O’ Brien P., 1987).

It is common act for financial analyst to publish the forecast about the earnings they have extracted before the company is publishing its financial statements so as to help stockholders taking the right choice of investment also to engage in earnings managing in order to accomplish the objective that is been predicted.

Earnings management is something very common used from the financial analysts of a company in order to increase the stock value of their firm. As it is well known the enhancement of a share price is directly related with the earnings. With use of the power of financial statements analysts can “cook the books” and presenting the earnings to be very near with the aim set in the beginning. The whole above process can enlarge the price of a stock to enormous amounts.

Above procedure is very important for each company because of the fact that above process can increase its share price. Firms are manipulating numbers wanting to show that the company is profitable and a continue growing one. They are picturing out a false image in order to pull the attention of investors. There are many ways for enterprises to generate earnings. They can postpone the presentation of expenses and at the same time to publish the profits earned from the expenses made. Moreover they can lift the profits with the indirect method of “cook the books”, meaning that they are manipulating the numbers of the financial statements with bookkeeping methods. There is also another method with which companies can show to the public that their earnings are high by making financial analysts to declare earnings forecasts that are lower. To summarize all above facts have a direct effect on the investors’ choice that can make them decide in a wrong way taking into consideration fake numbers extract from the financial statements of every specific company.

2.5 Forecasting of Earnings using Information Extracted

It is a common truth that analysts use information in order to predict future earnings and to determine the important moves that the company must make to be an advantaging entity. Past evidence has shown that the use of information as a tool have proved to be very useful many times but also on the other hand there are cases where information is confirmed to be incompetent to be the only implement used.
According to Siougle (2003) earnings forecasts are a superior information chamber that can be used from the shareholder side when pricing the company’s value, in the intention to invest on that specific company. In that research companies listed in the Athens stock exchange were used as a sample. The hypothesis made is associated with the superiority the company’s financial management staff has in forecasting the company’s earnings in addition to the prediction in earnings that can be made by the investor side using a simple random forecasting model. Moreover in this research the predicted earnings, predicting error and the market worth are associated and studied.

In another study Liu and Su (2005) investigated how predictable financial analyst’s errors are in forecasting. They used two methods in the error detection, first of all the traditional one named by OLS and secondly the LAD method which means least absolute error). In order to examine the effectiveness of the information extracted by the forecasts made by analysts’ in and out of sample tests were made. It was concluded that the two methods are equal efficient when in sample tests. But in the out sample tests the second method LAD has a more predictive power. Moreover the consequences of this research point out that in the out of sample tests analysts’ earnings forecasts do not resourcefully take possession of openly accessible information.

Another study examining the issue of forecasting of earnings and the errors that can occur in the forecasts are investigated by Das et al (1998). In this study it is resulted that when the predictability of earnings is becoming less then financial analysts are auditing more promising forecasts. Moreover another issue investigated in this research was how past earnings’ predictions influence analysts to forecast future profits. It is resulted that market analysts used to issue more optimistic forecasts for companies with minor predictability rates than for enterprises with senior predictability. To add the decrease of the earnings is continuing when the exactness of the certainty enhanced. It is a common fact that the underestimation of the earnings expectations that occurs systematically make investors to believe that above fact is made by purpose. When something like that is in the mind of the investor then the optimistic earnings surprise has less positive results then the negative outputs from a pessimistic earnings estimation. Above incidents affect mainly the price of the stock, so in the second occasion the negative earnings estimation is resulting on a higher decrease on the share value. On the other hand in the share valuation also information is playing an important role because of the fact that these are new evidence and must be incorporated at any time since they are innovative. Moreover
in this research it is believed that the size of the investors’s reaction to above facts and earnings' surprises defer and is something that relates with each investor separately.

It is a truth that nowadays when so much information is available there should no wrong forecasts been present. Nevertheless the harmony in the accuracy of the earnings predictability is present because of the fact of preconceived notions. The roots to the above fact are many and different; to mention same of them these are the dispersal of earnings forecasts, the large amount of forecasters, the marketplace capitalization, and the instability of profits are some we can mention.

Another issue analysts are dealing with is the results retrieved in the earnings forecasts done by other analysts and the way the last are presenting these retrievals. Many investors are feeling that enterprises do not easily publish pessimistic predictions about their profits because of the fact that this information can discourage all potential investors to put their money on this specific company. According to Das et al. (1998) financial analysts intend to present openly earning forecasts that go above their own prospects in order to increase the managers’ positive feeling in the company’s profitability and the in general forecasting truthfulness. Again in that research it is found that the hopefulness in forecasting earnings is increased according to the size of the profits’ improbability.

To add on an additional study made by Lev and Penman (1990) is it concluded that companies that intend to have optimistic profits are revealing more information in addition to companies that are negative in their forecasting profits.

Moreover in the study made by Patell (1976) is it found that companies that have optimistic forecasts are publishing them more often in contrast to firms having pessimistic earnings’ predictions having as a result a seldom forecast presentation by their side.

In the research made by McNichols (1989) it was found that the publishing of the earnings’ forecasts from each company is related neither with the positive nor with the negative earnings predictions. Enterprises will announce their forecasts regardless the good or bad news presented in them because they believe that forecasts have no impact in the decisions potential investors will make.

To add in the research made by Pincus (1983) the distinctiveness of information declarations related with the bookkeeping profits publication are examined and their effect to the market. To be more concrete the consequences retrieved proposed that the
“Precision of earnings announcement is associated with differences in the rapidity of stock market adjustments in the variability of unexpected returns” (Pincus, 1983). In this study the sample used consists of 136 enterprises. It was concluded from the author that a profits’ potentials model is important to be used for the research. In order to predict the market’s profits prospects a model was used which is forecasting the profits per stock. This model is shown below as it is found in the article written by the author.

\[ \ln V_t - \rho \ln V_{t-1} = \ln a(1-\rho) + \beta_1(\ln V_{os} - \rho \ln V_{os-1}) + \beta_2(T_t - \rho T_{t-1}) + e_i \]

Where:
- Number of share of firm i traded in period t
  \( V_{it} \)
- Number of shares of firms’ outstanding in period t
  \( V_{os} \)
- Number of all shares traded in period t
  \( V_{mt} \)
- Number of all shares outstanding in period t
  \( T_t \) = time index
- \( a \), \( \beta_1 \), \( \beta_2 \) = estimated regression coefficients
- \( \rho \) = estimated correlation coefficient
- \( e \) = estimated error
- \( \ln \) = natural logarithm

From the research it is found that there are differences in the time it takes for shares’ returns to be present in relation to the profits publications and moreover the publications are divided in two categories, the one with the smaller and the one with the higher grade of profits expectedness. Further research is also made up from this study related with investment marketplace studies and more specific about the shares performance. In all
these additional investigations making an allowance for the expectedness of profits could be a useful tool.  

Furthermore in the study of Gleason (2006) an examination is made on the presence in the relationship of the accuracy in the earnings’ forecast and the prediction of the target price made by potential investors. In the study it is evidenced that investors using customary forecasting methods have an increased accuracy level. In order to determine this relation future market prices are used and their returns. The sample used in this research was 766000 price targets edited by potential or already shareholders associated with 314 companies. The result extracted is shown an affirmative association between the accuracy in the earnings forecast and the precision in the target price estimation. To add there is a positive involvement between the profits estimate accurateness and the prosperity of operating approach put together from analysts’ value goals. Finally in this research it is summarized that there is a strong connection between the earnings per share forecasting factors and the precision in the price goal.  

On that point some studies will be examined as a literature review but also their models used will be presented. To start a research made by Alford et al (1993) was examined. In this study a comparison is made between the data substance and the appropriateness of bookkeeping profits in a quantity of nations using the USA as a point of reference. The research is separated in two analysis’ sides. In the first one further venture approaches are investigated when the fact of unpredicted profits is present. The second type of analysis used is related with a financial regression model of fifteen months share profits and the simultaneously alter and level of alter in profits. Dismilar factors are used on the predicting model. To mention them these are the disclosure manners, differentiations in principal marketplaces, business supremacy and the bookkeeping principles. For the foremost information companies were used who audited their economic testimonials with the domestic accounting principles. Seventeen different nations were used and information was collected between 1984 and 1990 in order to grant an accurate sample of domestic bookkeeping principles and to terminate in the majority potential pragmatic outcomes. Moreover another set of countries were used but that time these nations were non domestic accounting principles users. Below the regression model used is presented as given in this article:  

\[
R_u = a + \Sigma \delta D_i + \beta_1 \delta NI / P_u + \beta_2 NI / P_u + \epsilon_u
\]
Where:

\[ R_i \] is the return of the share for the company \( i \)

\[ D_t \] is the "dummy" variables for each year (1984-1990)

\[ \Delta NI_i \] is the change in the annual net income

\[ NI_i \] is the annual net income

\[ Pit \] is the market value of equity of the company \( i \) in the beginning of the year.

To sum up in this study much dissimilarity have found between the appropriateness and the information of bookkeeping profits in the midst of the nations in the trial. To make it more exact the yearly bookkeeping profits in the United Kingdom, Australia, Nederland and France information and appropriateness are more precise than the United States. To add the outcomes for Hong Kong, South Africa, Belgium, Norway, Canada, Japan, Switzerland and Ireland are not so obvious. Finally on the other hand yearly bookkeeping profits from Germany, Sweden, Italy, Denmark and Singapore are less opportune or less worth significant than United States bookkeeping profits.

Another research made by Richardson et al. (2004) used as a sample 225 enterprises from 1971-2000. These companies restated their yearly profits, so it was found that firms making above procedure have broad sell expectations for upcoming profits enlargement and the main profits management is made in order to catch the attention of foreign investors to finance their company. In this study the importance of the earnings manipulation is made clear in the effort of making a company attractive to external investors. Moreover it is important to mention that the major indicators in the management of profits are investing and operating accruals. It is documented that companies can obtain considerable worth from watchful data presented on their annual economic statements.

An additional study mentioned here is that made by Barron et al. (1988). In this research a model was used in order to retrieve determination about earnings’ forecasts by ordinary data, meaning the purpose of the study was how information influenced the forecasting of earnings. The results have shown that the trustworthiness of the communal
data by using the IAS were fewer than it was using the local GAAP, so the accurateness on profits will reduce by using the IAS.

To add another study is that made by Kinnunen et al, (2001) in this research the earnings were documented in relation with the information substance audited either with the domestic GAAP or with the IAS. The sample used in this research was Finish firms listed in the Helsinki Stock Exchange market. It was resulted that both accounting methods, the IAS and the local GAAP are giving out significant data for the profits of the company to potential investors. Nevertheless the IAS in this research were found to be more informative in contrast to the domestic GAAP for foreign investors. However it is recommended by the authors’ investors to take right their financial decisions according to the profits’ information. Moreover in this study it is summarized that overseas investors are more interested in earnings’ information audited with the international accounting system. According to above fact it is an advantage when forecast are restated from the domestic GAAP to the IAS making the firm more attractive to foreign potential shareholders.

A further meaning was found in the research made by Lev and Penman (1990) and head to do with the quality of earnings. This study projected additional investigation on the quality of earnings. It is a common fact that the quality of profits mentioned in this study is a multifaceted perception and is in addition affected by global bookkeeping multiplicity.

The target of the study made by study Auer (1996) was to investigate the subject of information of profits pronouncements. A fact presented in this research was the unusual returns from unforeseen profits that where evidenced in a sample of Swiss enterprises when they changed the method of accounting auditing from the domestic Swiss GAAP to either the EC-Directives or the International Accounting Standards. From these companies twenty switched to the IAS and seventeen to the EC-Directives from the local Swiss accounting standards. This situation took place between 1985 and 1993. Below the methodology used in order to build the model is presented:

\[ AR_i = R_i - E(R_i) \]

\( AR_i \) is the abnormal return for the share i in time period t
\( E(R_i) \) is the expected return for the share \( i \) in time period \( t \).

\[
R_u = \ln(P_t) - \ln(P_{t-1})
\]

\( R_u \) is the actual return for share \( i \) and \( P_t \) and \( P_{t-1} \) are the share prices for the years \( t \) and \( t-1 \).

The above model is used in order to conclude on the probable return for the stock \( i \) in the phase \( t \). Moreover the model assumes that the statistical depiction that follows among the stock’s \( i \) return in time period \( t \) and \( R_i \), the market’s index in time period \( t \).

\[
R_u = a_i + (\beta_i \times R_m) + \epsilon_i
\]

Where:

- \( a_i \) is the normal unsystematic return for the share \( i \)
- \( \beta_i \) is the systematic risk for share \( i \)
- \( R_m \) is the return for the market index
- \( \epsilon_i \) is the forecast error for the share \( i \), in the time period \( t \)

The results given from this research point out that investors behave in a different way to earnings’ publications with the use of different accounting standards. The two categories examined in this study are firstly the Swiss GAAP and secondly the IAS and the EC-Directives. When comparing the unusual returns of shares belonging to companies listed in the Swiss stock Exchange market it is concluded that there are no significant differences in these returns for the investors. To add taking into consideration the variance approach when switching from domestic GAAP to IAS then the information content for the earnings is enlarged. Another result maintained from this research is that there are no considerable differences in the earnings’ information that are retrieved from the use of IAS and the EC-Directives.
2.6 The forecasting of earnings in accordance to the accounting changes

Before the appearance of the IAS when in the bibliography it was quoted about modification in accounting it was meant changes in the bookkeeping ethics or the bookkeeping guidelines. All prior studies investigated issues that were related with the above fact.

The major quantity of past researches deals with the mistakes made by analysts' forecasting earnings and the modifications made in the bookkeeping technique. Miscalculations that were merely overestimations in the profits’ evaluation were present in many forecasts and were optimistically linked with the alterations made in the bookkeeping methods. Moreover it was found that average degree of the mistakes done were less when the modifications in accounting methods were made prior to the profits’ declaration date.

The study made by Joos and Lang (1994) was established in three different European countries these nations were Germany, France and the United Kingdom. In these three countries the accounting system was either according to the Anglo-Saxon or the Continental. The reason for the study made was to examine the differences in the bookkeeping dimension practices in these three nations. The sample used was a great amount of companies from the three above countries and the information extracted was created between the years 1982 and 1990.

The model they employed was established according to the Returns Regression theory. In their returns regression examination they used the bookkeeping information they had in relation to the value by calculating the involvement between the profits and the returns. In order to guarantee that the yearly financial statements are made obtainable to potential investors they used their calculated returns that were obtained for 18 months period 6 months after the finish of the financial year. The profits variable is calculated on yearly basis. In order to calculate the regression below model is used:

\[
\frac{P_t + d_t - P_{t-1}}{P_{t-1}} = a_m + a_n \frac{A_t}{P_{t-1}} + a_o \frac{A_{t-1}}{P_{t-1}} + e_{jt}
\]

where:
$P_{jt}$ is the price per share of common stock of firm $j$ at time $t$,

$A_{jt}$ is net income before extraordinary items for firm $j$ at time $t$,

$d_{jt}$ is dividends for firm $j$ at time $t$, (Joos and Lang, 1994)

Moreover they calculated an additional regression model based on the relation between prices, profits and book value:

$$P_{jt} = b_{0j} + b_{1j}A_{jt} + b_{2j}B_{jt} + U_{jt}$$

where:

$P_{jt}$ is the price per share of common stock of firm $j$ at time $t$,

$A_{jt}$ is net income before extraordinary items per share for firm $j$ at time $t$;

$B_{jt}$ is book value of equity per share for firm $j$ at time $t$, and

$U_{jt}$ is the residual term.

Agostino et al (2008) examine whether listed banks in Europe paper have increased their value relevance after adopting IAS/IFRS. They have studied the value relevance of over two hundred listed banks earnings and book values from year 2000 to 2006. Since January 2005 the adoption of IFRS was obligatory, so this study focuses on the change that the adoption brought about. Banks were strongly influenced by the adoption since IAS 39. More specific, the influence was great since IAS 39 concerns evaluating financial assets and liabilities according to fair their value and not according to historic cost. This study concluded that the adoption of IFRS have contributed to the increase of the value relevance of earnings. Particularly, the adoption had greater effect to the countries that did not present satisfactory disclosure (e.g Italy). On the contrary, countries like UK did
not present great difference by adopting IFRS since their accounting standards quality was equal to IFRS.

From the study it is concluded that in the United Kingdom the changes in profits are stronger related with the returns than in Germany and in France. In contrary the profits’ stage is stronger related with the returns in Germany less in France and least in the United Kingdom. The second result found in this study is contrasting the one above giving resemblances between the three nations. Actually the differences mentioned above are obvious because of the fact that from country to country there are dissimilarities in bookkeeping point of view and performances.

Another research is that made by Frost and Kinney (1996) in this study explanatory verification is provided on the character and timing of notifications of overseas registrants in attaching with the United States Securities and Exchange Commission (SEC). The first issue examined is the disclosure methods that companies use and not how value is related with the method of disclosure for example the use a specific type of accounting principles that could be the international accounting standards or the United States GAAP. The factors set in this study are not strict meaning that overseas companies used as a sample could not definitely furnish reconciliation in the way they disclose. Moreover it was also not strict in the sample to be firms using specific bookkeeping principle distinctiveness. Secondly this research is comparing particularly companies that are located overseas in contrast to enterprises operating in the United States, in contrast to other researches that center their attention only on companies been outside the United States. Thirdly proof is presented on publication dissimilarities equally among and within filing rank divisions.

Their findings indicate that there is considerable variation among the profits returns and the profits transformation return associations between residence and revelation factions. The information used was returns of stocks in a period of fifteen months with mutually profits and profits transformations for the overseas companies, their United States equals, a range of residence and disclosure based divisions. Because of the fact that the sample used in this research is petite including only 43 firms the outcomes are only indicative of the probable associations between disclosures of profits and return correspondence. An additional result of this study is that overseas companies within filing class grouping made dissimilar disclosure alternatives and the information that made an impact on the returns of the enterprise.
Another research made by Brown (1983) wanted to examine the influence on the investigator’s capability to predict the profits of a firm correctly in relation with the bookkeeping adjustments occurring. At that point in time the most familiar technique used in order to estimate the bookkeeping transformations was that given from Dopuch and Watts (1972) and Collins (1976). The method is based on the proposal they mentioned in their studies evaluate whether the modifications guide to notably dissimilar distinctiveness of the time series of profits statistics.

In the study of Brown (1983) two important standards were set, firstly five modifications in bookkeeping ethics were observed as a replacement for one. Secondly transformations in bookkeeping philosophy were linked to the capability of definite investors to evaluate the affected companies’ potential profits statistics. In this study as bookkeeping transformations are measured modifications in oversea bank notes’ dealings, interest capitalization, leasing capitalization, implementation of LIFO, and actuarial adjustments. Analysts’ used as information the predictions made on the size of earnings per share (EPS) in a yearly basis. The correctness of analysts in predicting was measured comparing the year before and after the transformation in profits. Brown used below model in order to calculate the metric inaccuracy that was resulted from his research:

\[ \frac{|A_t - P|}{A_t} \]

where:

- \( A_t \) = actual annual earnings per share for year \( t \)
- \( P|A_t - 1 \) = prediction of year \( t \)'s annual EPS, conditional upon knowledge of year \( t - 1 \) annual EPS, but prior to receiving any year \( t \) quarterly reports and
- \(||\) = absolute value

In order to evaluate the market analysts’ predicting correctness before and after the transformation in accounting below model was used where \( t \) is used as the transformation year:
\[ \Delta PE_t = PE_{t+1} - P_t + 1 \]

From the last model it is important to mention that the forecasting correctness is increased, remain stable or decrease whenever \( \Delta PE_t \) is positive, zero or negative. The outcomes point out that bookkeeping modifications are not affecting the accurateness in situations where further financial statement publications permit analysts to put a major pressure on potential profits statistics. Another result extracted indicates that investors could advantage from further publications of financial statements when companies transform their bookkeeping philosophy.

To add, another study made by Ricks and Hughes (1985) used a sample of 75 companies which altered the method in their bookkeeping from cost to equity of extended period investments. From the study it is found that analyst’ made regular miscalculations in the predicting of profits. The documentation provided in prior researches indicates little proof of regular mistakes made by analysts when predicting future profits. It is important to mention here that profits’ predictions made for 1974 LIFO adopter were not in average negative but besides considerably interrelated with mutually the surplus of returns observed close to the profits publication dates and the profits effects of the bookkeeping modification. As a consequence the pessimistic returns which have been observed in close proximity to the profits publication dates of the 1974 LIFO adopters come out to be a result of regular profits miscalculates.

Moreover an additional research made by Elliot and Philbrick (1990) was examining the relation between the bookkeeping transformations and the correctness in the analysts’ predictions. The research is based on different hypothesis which investigate the degree of analysts’ miscalculations in predicting that are bigger in amount on a yearly basis that engage a transformation in bookkeeping system. The sample used is extracted between the years 1976 until 1984 and were 1273 companies that made bookkeeping transformations. Data about the influence that bookkeeping adjustments, predicting profits and actual profits were available for 500 companies that made 612 bookkeeping modifications. Genuine earnings per share (EPS) are prior to exceptional items, suspended procedures and the collective impacts of bookkeeping transformations as announced in the available yearly reports. The presented earnings per share (EPS) contain the present year impact of the modification in bookkeeping system. The outcomes are unobvious whether the modification in bookkeeping guidelines manipulate the capability
of analysts to correctly predict the profits of the firm as they incompletely modify their predictions for the present year's profits impact of modifications in bookkeeping routine.

This outcome could be probable to come in front when analysts have no information about the upcoming modification and as a consequence make inaccurate predictions on the impact of the transformations or are not in the position to make effective updates on their forecasts following to problematic evaluation on the profits impacts of the transformation. Even thought there is presented a positive relation between prediction miscalculations and the profits impact of transformations the relation is generally inconsequential. Together the prediction miscalculations and the spreading of predictions are more in the year when a bookkeeping modification occurs rather than in a non-modification year and more distinctively when no prior data is available for the modification. Additionally there is a considerable negative involvement between the reconsideration in the analysts’ predictions and the influence of a bookkeeping modification on the earnings.

An additional study which investigates the influence of the dissimilarities of bookkeeping guidelines in profits’ prediction was audited by Biddle and Ricks (1988). In this research the overestimation in the profits of 279 different companies were examined. To give a detail these enterprises used LIFO as valuation system. The overestimation in profits that was created by analysts’ predicting miscalculations was optimistically related with the existing modification in the bookkeeping system. Furthermore the average size of the predicting mistake was lowered whenever the modification took place before the profits publication date.

Prior above study Ricks (1982) with another research of his discovered that share takings in close proximity to the profits' publication date of 1974 LIFO maintainers were pessimistic and considerably lower that takings close to the profits publication dates of companies that were not operating with LIFO. The answer to this study was given by another of his piece of written work established in 1988 supplying proof for the pessimistic surplus of returns that were available owing to analysts’ regular overvalued profits about companies that maintained LIFO in 1974. Biddle and Ricks (1988) having the intention to recognize the pessimistic returns of the 1974 LIFO maintainers an examination was made on the relation between the predicting profits miscalculations and the surplus of returns. The predicting miscalculations made by analysts were estimated to
be considerably associated with the surplus of returns and the profits diminutions owing to the maintenance of LIFO.

To conclude two potential justifications are presented in the research in order to substantiate the pessimistic surplus of returns, the optimistic relation between surplus returns, predicting profits miscalculations made by analysts and profits impacts of the maintenance of LIFO in 1974. To explain above justifications first of all the presence of data was inadequate as long as profit impacts of maintainers of 1974 LIFO are concerned. The outcome extracted was that potential users of financial statements and analysts made the same mistake to misjudge the impacts of LIFO’s profits. Secondly the size of LIFO profits impacts were a consequence by an additional element which was significant in pricing the company. As it is known the research was established in 1982 and at that time this factor was unidentified and complicated for potential users of financial statements to forecast. This element was inflation. This research suggests additional proof concerning the users of financial statements’ responses particularly to LIFO maintenance and presents a situation where investors and analysts regularly overvalue the profits of the companies by transforming intentionally their bookkeeping system.

Ausbahng Pignun conducted a quite interesting study on how different accounting standards can provide better information and better forecast on companies’ earnings accuracy. Furthermore, they investigated the impact of adopting IASs on companies’ earnings predictability. IASs are a set of financial principles that involve restrict disclosure. Their sample was consisted by eighty companies from all over the world excluding US companies, companies without fully financial data and companies that could apply IASs by choice. The results of their empirical research present that after adopting IASs the errors in predicting earnings are significantly reduced. IASs provide better information about changes in market capitalization and this is the main reason for reducing analyst’s errors. Furthermore, they reached the conclusion that analysts' errors on predicting earnings are positive correlated to the

Another sector which appears to be related to the IAS is the subject of creative accounting or earnings management and how much this is limited depending on the accounting standards that are applied. In analytical terms, Zimmermann and Gontcharov (2003) showed that the German companies resort to the equal manipulation of their profits, with both the German standards and the International Accounting Standards. Conversely, the German companies that apply the American accounting standards (US
GAAP) present more precise, hence of higher quality profits. In contrast with the analysis of Zimmermann and Gontcharov (2003), the analysis of Barth, Landsman and Lang (2005), which supported the examination of sample companies coming from various countries, led to the conclusion that the companies manipulate their profits less when the IAS are applied.

2.7 Empirical Evidence

The exactness of the profits predictions is examined in relation to many elements and in several altered researches.

O’ Brien (1988) in his research used the comparative virtues of various complex forecasts as predicting information. The major outcomes extracted from the study were that the most resent predictions are more precise than the mean or the median of all obtainable predictions. Above result evidence the most significant fact in the predicting progress meaning that improved forecasts are related in a great extend with the factor “time”. The second result extracted is related with the first. On that occasion the author maintained only comparatively current forecasts using their means and medians. It is found that this method enlarge the accurateness by aggregating crosswise distinctive particular miscalculation. Another subject that O’ Brien investigated was the comparison between the time series models and the analysts in predicting of profits. The points of reference used were time series models of profits in addition to predictions made by analysts. The finding indicated that the predictions of analysts are more precise than the time series models.

The sample has taken between the years 1975 and 1982 and maintained individual analysts’ predictions of earnings per share (EPS) that were extracted from 1000 to 2500 companies. Predicting miscalculations were the major information in order to estimate the predictions. The forecast error $e_i$, is defined as the difference between $A_i$, actual earnings per share of firm j in year t, and $f_i$, the forecast of EPS from source at horizon t prior to the realization:

$$e_i = A_i - f_i$$

(Forecast error = actual EPS - forecast EPS)
An approach analogous to the preconceived notion assessment in order to estimate qualified prediction correctness is used. Exactness is defined as supreme or tetragonal predicting miscalculation. For the complete miscalculation situation, the model is as shown below.

\[ |e| = \delta_1 + \delta_2 + \xi \]

For the tetragon miscalculation situation, a analogous model is projected, with \(|e|\) as the left-hand-side factor. In the equation, the \(\delta_1\) determine average correctness crossways years for each company \(j\), and the \(\delta_2\) determine average correctness crossways enterprises for each year \(t\). The \(\xi\) are variations from the average correctness in this sample for company and for year \(t\).

In the present sample the predicting miscalculation from the most recent prediction is strongly related with surplus returns over the predicting prospect than the miscalculation from the mean or median prediction, but the differentiation in the relation is not, ordinarily, statistically considerable. The predictions of Earnings Per Share (EPS) made by analysts ordinarily are considerably more precise than those given by time-series models.

Ashbaugh and Pincus (2001), investigated two assumptions in order first to determine whether the variation in bookkeeping principles crosswise countrywide limits in relation to the International Accounting Standards are influencing the capability of economic analysts to predict the profits of companies outside the United States precisely. Their second assumption was whether the prediction of analysts’ correctness transforms after the implementation of the International Accounting Standards. These two hypothesis were set to study the bookkeeping methods so as to recognize the dissimilarities in reporting requirements and measurement practices between the domestic accounting principles and the international accounting standards (IAS). The sample used was enterprises which maintained IAS between the years 1990 and 1993 from 13 different nations. They produced indexes of dissimilarities in nations’ bookkeeping reporting and measurement guidelines related to International Accounting Standards and recognized that dissimilarities in bookkeeping principles related to International Accounting Standards are considerably and optimistically connected with the total value of analysts’
profits prediction miscalculations. The model they used in order to predict the miscalculations is seen below.

\[
\begin{align*}
FERROR_t &= a + \beta_1 NUM_t + \beta_2 MVE_t + \beta_3 X_t + \epsilon_t \\
FERROR_{t-1} &= a + \beta_1 NUM_{t-1} + \beta_2 MVE_{t-1} + \beta_3 X_{t-1} + \epsilon_{t-1}
\end{align*}
\]

Where:

\[FERROR_t = |EPS_t - Median\ EPS_t|/share\ price_t\]

\[NUM_t = \text{expected Earnings per Share for the year 2005}\]

\[MVE_t = \ln \text{market value}\]

\[t = \text{year 2005}\]

\[t-1 = \text{year 2004}\]

\[FERROR_{t-1} = |EPS_{t-1} - Median\ EPS_{t-1}|/share\ price_{t-1}\]

\[NUM_{t-1} = \text{expected Earnings per Share for the year 2004}\]

\[MVE_{t-1} = \ln \text{market value}\]

Where \(\beta_1, \beta_2, \beta_3\) are the coefficients

The outcomes from the research designate that analysts’ prediction correctness enhanced following the companies’ implement the IAS. Moreover the dissimilarities in reporting and measurement principles between different nations comparative to IAS are powerfully associated to the analysts’ predicting miscalculations. In addition they recognized a reduce in the total worth of predictions’ miscalculations after the company maintained the IAS.

Leuz and Verrecchia (2000) acknowledged that the maintaining of IAS or IFRS is an indication of further clearness by companies publishing motivations made up by marketplace forces. Moreover in this research it is said that companies which choose as a reporting method either IAS or IFRS be supposed to produce financial paybacks. The model used by the authors in order to investigate their examination target was the one seen below.
Discretionary accruals = $b_0 + b_1 \text{ earnings} - \text{forecast deviation} \times \text{IAS/IFRS}$

With the use of above model points of views can be presented which have to do with the rapidity of the market adaptation to data disclosures that are depended on their accuracy. Moreover in the present model the market ought to decide the quantity to pay out for data processing prior to the publication of data which is predicted to be pertinent in evaluating the worth of the model’s identical company. The same model was adopted later by Cormier and Martinez (2006) who tried to examine the administrators’ stimulus to scrimmage in profits administration throughout focused involvements in the setting of discretionary accruals in the framework of preliminary communal contributions in France. The outcomes substantiate the optimistic bookkeeping speculation in surroundings where predictions are recognized as an agreement between the company and its constricting associates. To add coefficients of fortitude acquired from the regression analysis propose that agreements and domination might impact in a great extend principles a company is using when there are eager motivation for executives.

Another research made by Lang and Lundholm (1996) examined the exactness of profits predictions by investigating an assumption. The accurateness of analysts’ profits predictions is optimistically related with the informativeness of a company’s reporting principles. Companies which offer data and publishing are more likely to attain correctness of profits prediction by analysts. The authors in order to accomplish their study used depended variables. There variables are the following: The standard deviation of predictions which is given by dividing the inter analysts standard deviation of the predictions with the stock price. The prediction accurateness, meaning the negative of the total worth of the prediction miscalculation divided with the stock price.

$$-\left(\frac{|\text{EPS} - \text{AF}|}{\text{P}}\right).$$

Where EPS are the earnings per share, AF is the median of analysts’ predictions, P is the stock price and the revision volatility which is the standard deviation of the changes in the year, divided by the share price at the beginning of the year. The number of analysts, meaning the persons who present the yearly profits forecasts. The prediction miscalculation that is given with the below equation:

$$FE = \text{ActualEPS} - \text{LastforecastEPS} / |\text{LastforecastEPS}|$$
And the Prediction Revision given by:

\[ REV = \text{LastforecastEPS} - \text{InitialforecastEPS} / |\text{LastforecastEPS}| \]

The outcomes extracted from their research are that absolute predicting miscalculations in addition to the dispersion of analysts’ predictions are calculated to be superior in the year of bookkeeping alter than in a year that bookkeeping modify is not present. The outcomes point toward that analysts do not in total change their predictions for the recent year’s profits consequence of alterations in bookkeeping technique. On the other hand a positive relation is obtained among the prediction miscalculations and the profits consequence. Together the prediction miscalculation and the dispersion of predictions are superior in the year in which no data is available about the transformation in the bookkeeping technique. Moreover there is a considerable pessimistic relation between the revision in analysts’ predictions and the influence of a bookkeeping transformation on the income. Furthermore profits’ predictions are supplementary dispersed and in a reduced amount precise in a year with a bookkeeping transformation. There tend to be considerable carefulness in predictions and optimistic relations among the size of the predicting miscalculations of the year end period and the earnings per share impact of bookkeeping transformations. Pessimistic relation among the bookkeeping transformations and the size of the prediction revisions throughout the year are indicative of profits.

Another study that deals with the administration of profits predictions is examining particularly the topic of the influence of the stock’s return on the correctness of profits predictions. The above issue was investigated in the study

In their empirical analysis they used six descriptive variables which are clustered in firstly performance variables which are returns and analyst prediction miscalculation, secondly structural variables which are the company’s magnitude, the return changeability and the correlation among yearly returns and profits and finally the offer variable meaning the degree to which the company is dynamic in issuing securities.

The outcomes extracted for the performance variable confirm that the relation among disclosure achievement and performance are commonly dependable on the variety intention for disclosure in addition to the premature study on administration predictions. The pessimistic relation among the profits and the returns correlation and disclosure
achievement is dependable on the profits and returns correlation take into custody data asymmetry in the background of an adverse assortment model.” (Lang and Lunholm, 1993). The experiential proof on the relation among company’s achievement and disclosure is varied.

Another study made by the same authors dated on 1996 related with the involvement among data disclosure methods and the number of analysts chasing the company and the attributes of their predictions, they point out that there is a smaller amount of dispersion among each analyst’s prediction plus fewer volatility in predictions. Moreover it is advocated that analysts answer to the disclosure of the company and that analysts’ are crucial players in the formation of capital. In addition it is argued that companies can catch the attention of analysts to enhance the correctness in their predictions plus the marketplace prospects. Additionally firms who are offering disclosure are helping analysts in order to generate improved predictions. Again these two authors found that the connection among disclosure and correctness is obvious and positive. When it is a fact that the company publishes data about the awaiting profits then the analysts; prediction’s correctness will be enlarged. The relation among the policy of the company to offer disclosures and the correctness of the profits prediction is extremely strong. Finally the outcomes recommend that the correctness of the analysts’ predictions is optimistically related with the marketplace worth and analysts’ predictions are additional accurate for outsized companies.
3. Methodology

3.1 Introduction

In the following section some of the most important methodologies employed by other scholars about the transition from national accounting standards to international are presented and the effects of it. These studies explore the impact of the transition on some accounting measures (e.g., EPS, Market Value) and consequently the impact on the earnings predictability. In specific we present the studies of Ashbaugh and Pincus, (2002), and Agostino et al (2008) which are studies closely related to our study. Moreover in the present segment our methodology is presented and the data used in order to retrieve results which are maintained in section 4.

3.2 Relevant Methodologies

As said above in the present section the most important methodologies of past authors are presented which helped as in our research. To start, the methodology used by Ashbaugh and Pincus (2002) is given below.

The authors tested two hypotheses, exactly these two propositions as obtained from their research are seen below:

H1: The absolute values of analyst earnings forecast errors are positively associated with greater differences in countries’ accounting measurement and disclosure standards relative to IAS.

H2: The accuracy of analyst earnings forecasts changes after firms adopt IAS.

The sample was 163 companies that adopted the IAS by the 1993 and were located outside the United States. After some important eliminations 80 companies remained which consisted the final sample. They used companies from 13 different countries and more specific 5 companies from Australia, 12 from Canada, 2 from Denmark, 6 from Finland, 17 from France, 2 from Hong Kong, 3 from Japan, 4 from Malaysia, 1 from Norway, 1 from Singapore, 2 from Spain, 2 from Sweden and finally 23 from Switzerland. Moreover they used three indexes in order to study the differentiation between each country domestic accounting standards related to the international accounting standards. In order to measure this variation in the accounting standards and to
compare the IAS and the different domestic GAAP’s the three indexes used where DISCLOSE, METHODS and IASSET. The dissimilarities in disclosure necessities which is given with (DISCLOSE) and measurement methods (METHODS) of each country’s general accounting principles versus the international accounting standards are counted with numbers. Furthermore another index is maintained named by IASSET which is the synopsis determinative of probable disclosure and dimension guidelines adjustments a company in a given nation commended to by implementing the IAS. IASSET is the sum of DISCLOSE and METHODS. From the numbers the authors have retrieved it is found that Finland has the largest differentiation in disclosure between IAS and the domestic accounting standards are evidenced with a IASSET numbered by 10. On the other hand the smallest is found in Canada numbered by 0. Alphabetically the other countries numbers where Australia 3, Denmark, France 7, Hong Kong 4, Japan 4, Malaysia 2, Norway 8, Singapore 2, Spain 4, Sweden 7 and finally Switzerland 8.

All these data presented above are available in order to examine if reporting dissimilarities in relation to IAS weaken analyst’s prediction correctness before to IAS implementation. After the implementation of IAS the differentiations in bookkeeping systems ought to be considerably abridged. Consequently, the authors use a differentiation in disclosure guidelines (CHDISCLOSE), the modification in measurement methods (CHMETHODS) and the transformation in bookkeeping guiding principles taken as an entirety (CHIASSET) so as to examine the implications of IAS implementation on analyst prediction miscalculations. The authors are using descriptive statistics using above indexes. As prediction miscalculation (FERROR) index is used which is explaining the complete worth of the dissimilarity between the Earnings Per Share in year t and the median analyst prediction of Earnings Per Share for the same year, divided by the company’s share price in time t. They divided time in two periods the Pre and Post IAS adoption period where the Mean, Standard deviation and Media of DISCLOSE, METHODS and IASSET were found. For this part of the research they also used 80 companies and the results have shown that for DISCLOSE the numbers are 3.12, 1.79 and 2.00 respectively, for METHODS 2.45, 1.55 and 2.00 and finally for IASSET 5.56, 3.16 and 7.00.

Now the models the authors used are presented in order to test the hypothesis set. For the examination of H1, maintaining the proposition if dissimilarities in IAS versus the domestic accounting standards influence the analyst’s correctness in the prediction of
earrings they use regression model seen on figure 1. Moreover in order to test the Hypothesis 2 the model seen in figure 2 was used.

*Figure 1: Examination of Hypothesis 1 in the article of Ashbaugh and Pincus (2002)*

\[
\text{ERROR}_{t-1} = \alpha + \beta_1 \text{NUM}_{t-1} + \beta_2 \text{MVE}_{t-1} + \beta_3 X_i + \epsilon_{t-1}
\]

where
- \( t - 1 \) = the year prior to IAS adoption;
- \( \text{ERROR}_{t-1} = |\text{EPS}_{t-1} - \text{Median Analyst Forecast}_{t-1}|/\text{Price}_{t-1}; \)
- \( \text{NUM}_{t-1} = \) the number of analysts providing earnings forecasts of firm \( i \) for year \( t - 1; \)
- \( \text{MVE}_{t-1} = \) the natural log of firm \( i \)'s market value of equity at December 31 of year \( t - 1, \) measured in millions of U.S. dollars;
- \( X_i = \) the index of differences in firm \( i \)'s disclosure polices (DISCLOSE), measurement methods (METHODS), or overall reporting standards (IASSET) relative to IAS.

The outcomes from the examination of Hypothesis 1 are summarized here. As seen above the \( H1 \) is centering its attention on the coefficient on DISCOSE, METHODS and IASSET. The coefficient (b3) will be positive whenever the differentiations in reporting principles lower the ability of the analysts to precisely forecast the company's profits.

*Source: Ashbaugh and Pincus (2002)*

*Figure 2: Examination of Hypothesis 2 in the article of Ashbaugh and Pincus (2002)*

\[
\text{CHERROR}_t = \sigma + \beta_1 \text{CHNUM}_t + \beta_2 \text{CHMVE}_t + \beta_3 \text{CHX}_t + \epsilon_t
\]

where
- \( \text{CHERROR}_t = \text{ERROR}_t - \text{ERROR}_{t-1}; \)
- \( \text{CHNUM}_t = \) the change in the number of analysts providing earnings forecasts of firm \( i \) in year \( t + 1 \) relative to year \( t - 1; \)
- \( \text{CHMVE}_t = \) the change in the natural log of firm \( i \)'s market value of equity at December 31 of year \( t + 1 \) versus December 31 of year \( t - 1, \) measured in millions of U.S. dollars;
- \( \text{CHX}_t = \) the change in the index of differences in firm \( i \)'s disclosure polices (CHDISCLOSE), measurement methods (CHMETHODS), or overall reporting standards (CHIASSET) relative to IAS (i.e., \( \text{CHX}_t = 0 - X_i \)).

*Source: Ashbaugh and Pincus (2002)*
Furthermore, superior profits prediction miscalculations be supposed to be linked with bigger differentiations among International Accounting Standards and the domestic GAAP. From the results retrieved it is concluded that analysts’ profits predictive correctness reduces as companies make available less disclosures in reference to their domestic GAAPs in addition to those reporting using IAS. Similarly the optimistic and noteworthy coefficient on METHODS show that the complete significance of analyst predicting errors enlarge as the elasticity in the alternatives of calculation methods under firms’ domestic GAAPs enlarges. In conclusion bearing in mind the deposit of disclosures and calculations principles as a total the optimistic coefficient on IASSET evidence that analysts’ profits prediction errors are superior the more companies’ domestic GAAP head off the IAS. When authors used the mean predictions instead of median to figure FERROR the outcomes are the same. Consequently all outcomes affirm the hypothesis that analysts’ profits prediction correctness is weakening by differentiations in bookkeeping principles comparative to IAS.

The next theme researched by the authors was the impact of International Accounting standards on analysts’ prediction correctness. The unqualified change in analysts prediction correctness was calculated after the companies implemented the IAS. It is found that the total worth of the prediction declines considerably from a mean of 3.58% in the year prior the IAS implementation to a mean of 1.73% after the IAS implementation. The next step was to divide the companies in the sample into two clusters, firstly 68 companies whose bookkeeping principles where affected in their majority by the implementation of the IAS and secondly the 12 companies from Canada whose CHIASSET was zero. For the first group of companies prediction miscalculations are constantly lesser following the implementation of the IAS. In addition for the companies from Canada the mean and the median FERROR continues to be fundamentally unaffected over the implementation phase.

As said above in order to test Hypothesis 2 the model seen in figure 2 was used by the authors. In H2 an examination of the connection among IAS implementation and the modifications in analysts predicting miscalculations would like to be researched. For this purpose 80 companies were used as a sample and a regression analysis was made. In Hypothesis 2 the variables used were CHDISCLOSE, CHMETHODS and CHIASSET. It is found that companies who increase their market value have as a result to decrease the errors made in predictions by analysts. Moreover researching the coefficients of
CHDISCLOSE and CHMETHODS they were found to be positive and significant, the same also occurs for CHIASSET. These outcomes indicate that predicting miscalculations made by analysts are decreased as the number of bookkeeping principles differentiations from International Accounting Standards reduce as a result of the companies implementation the IAS. This proposes that companies located in nations with bookkeeping principles that necessitate less disclosure as well as have additional calculation technique choices as contrasted to IAS gain comparatively additional from implementing IAS since professional users of their economic publications are at this time capable to forecast with larger correctness a key evaluation applicable factor.

To summarize in the study of Ashbaugh and Pincus (2002) it is concluded that the magnitude of dissimilarities in nation’s disclosure and measurement guidelines in relation to International Accounting Standards is optimistically linked with analysts’ earnings prediction miscalculations. To add the authors found that after the IAS implementation from companies and the lesser of dissimilarities in bookkeeping measurement and disclosure guidelines a decrease in the miscalculations made by analysts in the prediction of profits is evidenced. Finally they assume that after the implementation of International Accounting Standards the companies’ economic data are more unsurprising and the deviation in measurement and disclosure methods is reduced.

The next methodology examined is the one used by Agostino et al (2008). The authors’ intention was to examine whether the transition to IAS from the local accounting standards is increasing the magnitude of earnings. They used accounting information about listed European banks from 2000 to 2006 in order to examine if the innovative bookkeeping principles are truly more worth applicable. With the above intention and with the framework written by Ohlson (1995) the authors created a model seen in figure 3 below:

**Figure 3**

\[
P_t = \alpha_0 + \alpha_1 BVPS_t + \alpha_2 EPS_t + \alpha_3 postIAS + \alpha_4 BVPS_t \times postIAS + \alpha_5 EPS_t \times postIAS + \delta T + \epsilon_t
\]

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Explanation</th>
</tr>
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<tbody>
<tr>
<td>Pit</td>
<td>stock price six months after the end of the fiscal year</td>
</tr>
<tr>
<td>BVPSs</td>
<td>Book value per-share</td>
</tr>
</tbody>
</table>
The sample used in this study is including banks whose stocks are traded on a stock exchange of the EU-15. The number of banks from each country used as a sample are given: 10 banks from Austria, 4 from Belgium, 40 from Denmark, 4 from Finland, 34 from France, 30 from Germany, 13 from Greece, 5 from Ireland, 31 from Italy, 3 from Luxembourg, 7 from Netherlands, 5 from Portugal, 14 from Spain, 4 from Sweden and 17 from the United Kingdom (Agostino et al, 2008). They used the available data extracted from the annual reports of each bank and finally concluded to use 1201 annual reports for 221 banks included in the above category.

The authors used 3 different samples in order to estimate their model. Their first sample included all accessible data and as they mentioned it the “unbalanced panel”. The nation by nation investigations expose some heterogeneity in the marketplace responses to the beginning of IFRS but a familiar prototype does come forward. The profits interrelations phrase is constantly optimistic in addition the book is habitually pessimistic and the subsidiary outcome of book value is likely to turn out to be unimportant in the years after the IFRS implementation. Moreover there is proof that the collision of profits enlarged after IFRS were made essential. This is dependable on the established observation that International Accounting Standards or the IFRS necessitate further disclosure than local policies in the continental European nations and that the excellence of bookkeeping data under the GAAP used in the United Kingdom is at the time speaking no less than International Accounting Standards (e.g. Christensen et al. 2007).

In the next stage authors built up a second sample in which only banks are included which publish information in all 7 sample years and also both profits and book value are optimistic and generally significant earlier to the implementation of the IFRS. In this part authors built a “balanced panel” meaning that they use banks for which they have information for every year. This method is significantly reducing the available information but on the other hand it is suitable in comparing the consequences of the IFRS implementation on the equivalent deposit of banks. Calculating approximately the model simply for banks that testimony information in each of the seven taster years, together the profits and the book value coefficients are optimistic and important earlier to IFRS implementation. The profits interrelation period is always optimistic; the book value relations

| EPS | Earnings Per Share | postIAS dummy coded 1 when IFRS become mandatory | T Trend | Composite error |
period is at all times pessimistic. For this reason the insignificant result of profits what's left optimistic and superior than in the pre-implementation phase. Additionally it is constantly statistically noteworthy. On the other hand the subsidiary consequence of book value is on no account considerable in the post-implementation period.

Finally they used another different sample that was divided in two categories including from the one side banks low and on the other side banks with high capitalization. The second separation they made was according to their authorized structure, so on the one side banks were present with cooperatives and on the other side banks were present organized as public limited corporations. Moreover they separated rated an unrated banks. These differentiations have the purpose to ask into the likely dissimilar answer of small, cooperative, and unrated banks, which are commonly considered as more solid and so possibly less powerfully exaggerated by the implementation of global bookkeeping principles. Concluding the employment of dissimilar boards allow superior assurance above the key conclusions of the analysis and in addition grants additional impending into the effects below dissimilar situations that are supposed to be applicable. They differentiate among public limited firms and cooperative banks, as the last are predictable to be additional solid due to their peculiar possession configuration. Cooperatives, in reality, have a tendency to provide restricted customers who are in addition affiliate (possessors), with whom they normally set up long-standing dealings. Consequently, cooperative banks possibly will be fewer aggravated to disclose data openly to the public market. As soon as the ground is limited to this grouping, the outcomes for the whole sample have a propensity to be established with book value fetching pessimistic and statistically important following the implementation of IFRS in 2005. Authors believe that this sample of banks ordered as public limited firms, the enlargement in the collision of profits and the reduce in that of book value once more come into view, nevertheless the two factors bring to bear a optimistic trivial consequence consequent to IFRS implementation.

The results for the first segmentation made by the authors, evidence that the implementation of the new International Accounting Standards is significant neither for the profits nor for the book value of the low capitalization banks included in the first sub-sample. On the other hand these two variables are significant for the high capitalization second sub-sample. In addition the coefficients are superior for the greater than the minor banks. After the implementation of the IAS banks with low capital evidence an outline
that converge with the whole sample, meaning that profits are more likely to have a larger encounter and book value to turn pessimistic and statistically unimportant. On the other hand banks with high capital evidence on both profits and book value coefficients that are enlarging and these two variables have an optimistic and noteworthy consequence on the stock price.

About the second differentiation made including the separation between cooperative banks and public limited the first category is in smaller amount aggravated to release data to the marketplace. Book value is becoming pessimistic and statistically significant after the implementation of IAS in 2005. On the other hand when the second sub-sample is mentioned, the enlargement in the consequence of profits and the reduction in that of book value come into view again but the two variables apply an optimistic marginal effect following to IAS implementation.

Finally authors divided the sample into banks that are rated from a credit rating agency like Standard and Poor, Fitch and Moody and the second sub-sample are banks unrated. When centering the attention on rated banks results are in parallel with banks having high capital but again differentiations can be found. So, on the one side profits and book values coefficients enlarge in unconditional worth and together an optimistic minor consequence on the market price after the implementation of IAS. On the other side for unrated banks the profits coefficient is enlarging and the book value coefficient is becoming lower and lower and statistically insignificant after the implementation of the International Accounting Standards.

To sum-up, this separated consequences propose that the information for the supplementary solid banks may explain the pessimistic marginal result of book value for the complete tester after the implementation of IFRS. Controlling the ground to the major banks the worth importance of equal profits and book value become visible to enlarge with the transition. The target of the authors was to verify if the implementation of IAS enlarge the worth of financial data dealing with prices of stocks belonging to European banks being a part of the union. As it was assumed the outcome on the profits are enlarged for the whole sample. For the book value the conclusions are in a smaller amount comprehensible. Different samples are used but it is obvious that after the implementation of IAS profits on stocks are enlarged. On the other hand the book value has a tendency to reduce and to be unimportant. From the proof extracted from their study
they assume that overall the implementation of IAS has improved the data constituent of profits and book value for more translucent intermediaries. In contrast bodies having a reduced amount of transparency appear to have knowledgeable noteworthy enlargement in the worth relevance of book value.

3.3 Proposed Data And Methodology

3.3.1 Data

In order to make the present research Athens Stock Exchange market helped as in order to extract the important information. More specifically the online web site was used in order to obtain the data. Thirty three Greek companies were used which had fully implemented the International Accounting Standards among 2004 and 2005. These enterprises were used as sample and their data was used so as to retrieve results.

Some of the companies selected had started to use the IAS before 2005 that was the year in which all enterprises were obligated by law to have implemented the IAS. On that period the companies’ annual reports and financial statements were announced using both financial languages, the IAS but also the Greek GAAP. These companies come from a wide area of branches, for example, telecoms, information technology, media, energy, food and beverage, building and constructions, betting and gaming, retailers, utilities, others. All these firms are considered to be the leaders in their branch and have many prospects for further development in the future.

On table 1 below the randomly selected 9 different sectors in which the 33 companies are included are presented. From these particular 33 companies the annual reports were collected and used in order to accomplish our research.
According to the financial analysts’ predictions the companies used have a high rate of future success. These accomplishments include also overseas investments, imports or exports and further maintenance in the outer boards markets. Moreover these enterprises consists a powerful competitor for other in the same sector in Greece but also in the foreign markets.

In order to collect data for the share of each company included in the research the Athens Stock Exchange’s online website was used. First of all information about the stock price was obtained for two dissimilar points of time, next the Earnings Per Share (EPS) for the years 2004 and 2005 were used. To add in order to make some comparisons the expected EPS for the years 2004 and 2005 are obtained and moreover the market value of the shares again for the same years. In addition the ln of the prognostic Earnings Per Share is calculated for the above years.

3.3.2 The Used Methodology

In order to point out the dissimilarities between the bookkeeping languages each enterprise is using three indexes are used. These indexes are DISCLOSURE, METHODS.
and IASSET. DISCLOSURE, incorporate the dissimilarities that are present in disclosure necessities. METHODS incorporates the dissimilarities in the calculating methods. IASSET incorporates the calculations of disclosure and measurement guidelines modifications of a nation that implements the IAS. The higher the indexes are the higher the dissimilarity necessities of an enterprise between the domestic GAAP and the International Accounting standards. These three indexes are used in to measure the dissimilarities that arise in the correctness of the predictions after the implementation of the new accounting standards.

FERROR as seen below is the forecast error and is defined as the unconditional assessment of the dissimilarity among Earnings Per Share in year t and the analyst’s median prediction of Earnings Per Share for year t, divided by the company’s share price in time t. The financial statement of “Egnatia SA” for the year 2004 was used in order to collect the real price of the Earnings Per Share. Moreover the expected 2004 Earnings Per Share was found and furthermore the share price and market value.

With the intention of analyzing the impact of the implementation of the IAS from the Greek companies that before were using the domestic Greek GAAP the below regression model was estimated for the years 2004 and 2005.

\[
FERROR_{t=1} = a + \beta_1NUM_{t=1} + \beta_2MVE_{t=1} + \beta_3X_{t=1} + \epsilon_{t=1}
\]

\(t= year\ 2005\)

\(t-1= year\ 2004\)

\[
FERROR_{t=1} = |EPS_{t=1} - MedianEPS_{t=1}| / shareprice_{t=1}
\]

\(NUM_{t=1} = expected\ Earnings\ per\ Share\ for\ the\ year\ 2004\)

\(MVE_{t=1} = market\ value\)

\[
FERROR_t = |EPS_t - Median\ EPS| / share\ price_t
\]

\(NUM_t = expected\ Earnings\ per\ Share\ for\ the\ year\ 2005\)
MVE^t = market value

Where \( \beta_1, \beta_2, \beta_3 \) are the coefficients

In the above model NUM according to Lang and Lundholm (1996) is used so as to manage the dissimilarities in the disclosure observations of the enterprises which possibly will impact the expected Earnings Per Share. Furthermore MVE is used in order to have power over the discrepancy of data having to do with the volume of the enterprise. The meaning of a negative coefficient for these indexes means more correctness of the forecast of profits predicted by analysts. Finally \( \beta_3 X_1 \) is another index that is used in the model in order to show the dissimilarities among disclosure (DISCLOSE), dimension methods (METHODS) and a synopsis of International Accounting standards (IASSET). Whenever \( \beta_3 \) coefficient is positive it is meant that dissimilarities in the reporting principles obstruct analysts to predict profits with correctness about a company’s performance. From the last it is concluded that the more differences are present among the domestic GAAP and the IAS the more forecasting errors will be present.

4. Empirical Results

**DISCLOSE: Variation in Disclosure Standards of IAS versus Domestic-GAAPs.**

In the below table 2.\( X \) means that the domestic GAAP has no disclosure requirement, or that the domestic GAAP need less disclosure than IAS. Disclosure items are the following: 1) statement of cash flow, 2) disclosure of accounting policy, 3) disclosure of the effect of a change in the accounting policy, 4) disclosure of the effect of a change in the accounting estimate, 5) disclosures of prior period adjustments, 6) disclosure of post balance sheet events, 7) disclosure of related party transactions and 8) disclosure of segment information.
Table 2: The variation in Disclosure Standards of IAS versus Greek GAAP

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<th>4</th>
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</table>

The next table 3 reports the variation in the measurement methods of IAS versus Greek GAAP. In the table, X is appeared when IAS restricts the accounting measurement methods available under domestic GAAP. Comparisons are based on standards in effect as in June, 2005.
### Table 3: The variation in measurement methods of IAS versus Greek GAAP

**METHODS: Variation in Measurement Methods of IAS versus Domestic-GAAPs**

<table>
<thead>
<tr>
<th>Companies</th>
<th>Additional</th>
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<th>Accounting</th>
<th>Research &amp;</th>
<th>Total</th>
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</table>

*Table 4: Variation in Accounting Standards: IAS versus Greek-GAAP*
The above table 4 reports the variations in IASSET. IASSET is the sum of DISCLOSE and METHODS. Table 5 reports the correlations given in our sample. There is high correlation (0.62) between DISCLOSE and METHODS (0.941) between DISCLOSE and IASSET and (0.837) between METHODS and IASSET, precludes including both variables in the same regression.

Table 5: Correlations

<table>
<thead>
<tr>
<th>METHOD</th>
<th>DISCLOSE</th>
<th>IAS-SET</th>
<th>FERROR</th>
<th>METHODS</th>
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<tr>
<td>Pearson</td>
<td>.038</td>
<td>.621</td>
<td>.837</td>
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<td>Sig. (2-tailed)</td>
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<td>.000</td>
<td>.836</td>
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<tr>
<td>N</td>
<td>22</td>
<td>22</td>
<td>22</td>
<td>22</td>
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</table>

The above table 4 reports the variations in IASSET. IASSET is sum of DISCLOSE and METHODS.

Table 5 reports the correlations given in our sample. There is high correlation (0.621) between DISCLOSE and METHODS (0.941) between DISCLOSE and IASSET and (0.837) between METHODS and IASSET, precludes including both variables in the same regression.
Table 6 presents descriptive statistics of firm characteristics for 33 sample firms.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Pre IAS Adoption</th>
<th>Post IAS Adoption</th>
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<tr>
<td></td>
<td>N</td>
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<tr>
<td>MVE</td>
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</table>

A t-test of paired differences rejects the hypothesis of no difference from zero

* two tail p-value <.10
** two tail p-value <.05
*** two tail p-value <.01.

The findings of the comparison between IAS versus Greek GAAP, indicates an additional required disclosures in about five reporting areas (i.e., mean DISCLOSE = 5.3907 and median = 5) and restricts management’s choices of measurements standards in an average of three areas (i.e., mean METHODS = 2.5452 and median = 3). There is a correlation of 0.610 among DISCLOSE and METHODS, which suggests that firms’ disclosure and measurement standards are relative to IAS (see table 6).
Moreover IASSET show that the firms included in the sample make approximately eight (median = 8) disclosure and measurement changes after the adoption of IAS.

In the year before IAS NUM is approximately 14, while in the year after the IAS adoption the mean is 16 and the median number of analysts following a firm is 15.

MVE is defined the firm size as the log of market value of equity. The findings indicate that the firm size increases from the pre IAS period to after IAS period, from six (mean =5.76 and median = 5.40) to seven (mean = 6.30 and median 6.14).

Table 7 indicates the results of our hypothesis, which is equation (1).

The models have adjusted $R^2$ of 25.12%, 26.76% and 31.65% for the disclosure, measurement and differences in accounting policy, respectively. The coefficient of NUM are negative but not significantly and different from zero in any of the regression models, while the coefficients of MVE are negative as it is expected in a significant level of 5% for models a and b, and 1% for model c. For the accounting standards indexes , the coefficient for DISCLOSE is positive ($t=1.7912$ , one tail $p$-value <.05 . This mean that analysts forecast accuracy in earnings declines as the firm provide fewer disclosures in accordance to Greek GAAP and those that are required from IAS. There is also a positive coefficient in METHODS ($t=1.985$ , one tail $p$-value <.10), which means that the absolute value of analysts forecast errors increases as the flexibility in measurement methods with Greek GAAP increases.

Finally , there is a positive coefficient for IASSET ($t=2.9602$ , one tail $p$-value <.01) which means that analysts earnings forecast errors are higher if the Greek GAAP depart from IAS. As we see the results support the hypothesis , meaning that analysts earnings forecast accuracy is impaired by cross-firm differences in accounting standards relative to IAS.

Table 7: Results of Testing H: The Impact of differences in Greek GAAPs and IFRS’s / IAS’s on Analyst Earnings Forecast Accuracy

(a) Disclosure Model: $FERROR_{it} = \alpha + \beta_1 NUM_{it-1} + \beta_2 MVE_{it-1} + \beta_3 DISCLOSE_{it-1} + \epsilon_{it-1}$

(b) Methods Model: $FERROR_{it} = \alpha + \beta_1 NUM_{it-1} + \beta_2 MVE_{it-1} + \beta_3 METHODS_{it-1} + \epsilon_{it-1}$

(c) Set Model: $FERROR_{it} = \alpha + \beta_1 NUM_{it-1} + \beta_2 MVE_{it-1} + \beta_3 IASSET_{it} + \epsilon_{it-1}$
<table>
<thead>
<tr>
<th>Model</th>
<th>Predicted Sign</th>
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<th>b</th>
<th>c</th>
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<tr>
<td>(2.466)**</td>
<td>(3.745)**</td>
<td>(3.7946)**</td>
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<td>-0.032</td>
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<td></td>
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<td>[-3.6214]**</td>
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</table>

t-statistics are in parentheses for two tail tests; ***, two tail p-value <.05.

Table 8 reports the Univariate tests.

**Table 8: Univariate Tests of Change in Analysts’ Forecast Errors**

Panel A: All Firms

Variable FERROR

<table>
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<th>Year</th>
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<td>0.0643</td>
<td>0.0000</td>
<td>0.3016</td>
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</table>
A t-test of paired differences rejects the hypothesis of no difference from zero (two-tail p-value <.01).

##

A Wilcoxon rank sum test rejects the hypothesis of no differences in the distributions (two-tail p-value <.05).

In this table is presented the absolute value of forecasted earnings declines significantly from a mean of 4.28% and median 1.46% in the year before the IAS adoption, to a mean of 1.97% and median 0.82% in the year after the adoption. The above results are presented in table 8.

5. Conclusions

International Accounting Standards are a innovative subject in the ground of economics and book-keeping and have already be a actuality in the contemporary marketplaces around the globe. Although an amount of complications, the carrying out of an ordinary book-keeping structure is an important movement forward getting better the economic data availability to shareholders and commercial domination universal.

Greece is a nation that implemented the IAS and operates on that on a reasonable rank. In this study, we have offered a literature review about the International Accounting Standards (IAS), the Domestic Greek GAAP and the Domestic GAAPs in general.
Moreover the similarities and differences between IAS and the Greek GAAP are presented. To add earnings predictability was mentioned as the key point of the transition from the domestic GAAP to the new bookkeeping reality, the function of data and the impact of the book-keeping transformations in the correctness of profits’ predictions.

After these, we observed the consequence of the implementation of IAS in a sample of Greek firms to the capability of analysts’ to predict the profits of these earnings precisely by using a quantity of definite reproduction and indicators.

The outcomes of this research point out that the Greek enterprises, employing a taster of 33 firms previous to the implementation of the International Accounting Standards the level of dissimilarities in firms disclosure and measurement guiding principles associated to IAS is optimistically linked with analysts’ profits predicting miscalculations.

References


