International Journal of Global Economics and Management
ISSN: 3005-9690 (Print), ISSN: 3005-8090 (Online) | Volume 5, Number 1, Year 2024
DOI: https://doi.org/10.62051/ijgem.v5n1.12
Journal homepage: https://wepub.org/index.php/IJGEM/index

Non-IFRS Applications: Financial Reporting Accuracy and Transparency challenges

Ziang Guo

School of Business, University of New South Wales, Sydney, Australia

ABSTRACT

In a globalized economy, many companies are increasingly adopting non-IFRS to enhance their financial disclosure and provide shareholders with a clearer view of business performance. The phenomenon has sparked a deep debate in academic circles about transparency and accuracy in financial reporting. In this way, this paper can further explore the application of non-IFRS in accounting records and its impact on the precision and clarity of financial disclosure. Through cross-industry empirical case studies and a careful review of the existing literature, we explore the motivations for adopting such unconventional accounting parameters, and identify potential comparative difficulties and normalization differences that may lead to loss of equivalence. The findings reveal that while non-IFRS can contribute to enhancing information content and enhancing insights into corporate management effectiveness, they can also mislead investors. In view of this, our research advocates promoting the harmonization of non-IFRS to enhance the quality of accounting reporting, and calls on regulators to strengthen the policy framework to further safeguard the interests of multiple stakeholders, including investors.

KEYWORDS

Non-IFRS; Financial reporting; Accuracy; Transparency; Comparability; Standardization

1. INTRODUCTION

In the tide of global economic integration, the credibility of the financial statements of enterprises and institutions has become a key point that the investment community, financial analysts and capital market practitioners pay close attention to. The International Financial Reporting Standards (IFRS), the global accounting standards established by the International Accounting Standards Board (IASB), are the cornerstone of regular financial reporting [1]. Despite this, many entities prefer to adopt non-IFRS financial indicators to enhance the picture of their financial health from multiple perspectives to highlight the multiple aspects of their business performance. Such non-standardized economic indicators, such as adjusted earnings, earnings before interest, tax, depreciation and amortization (EBITDA), and unconstrained cash flow, constitute alternative viewpoints for enterprise performance evaluation. While such reliance on non-standardized financial measures provides greater flexibility in interpreting a company's operational performance and financial health, it also introduces new complexities. Due to the lack of norms, such non-IFRS indicators may suffer from the inaccuracy of information and the loss of clarity of financial reports due to the vagueness of definition and different calculation methods. In addition, the misuse or misinterpretation of non-IFRS may cause investors to be masked and further interfere with their decision making [2]. Therefore, it is crucial to explore the impact of non-IFRS on the accuracy and transparency of financial and accounting reports. Such academic analysis not only helps investors to deepen their cognition and evaluation of the substantive performance of corporations, but also urges corporate management to use such indicators more prudently.

The purpose of this study is to examine the practice of accounting measures other than IFRS in financial disclosure by modern business organizations and to assess how these unconventional measures shape the reliability and clarity of financial reporting. First, the paper defines and expounds the essence of non-IFRS indicators, and compares their similarities and differences with standard IFRS. Take a closer look at the strategic considerations driving management's reliance on unconventional IFRS metrics. Secondly, this paper explores the comparability and consistency problems that may arise in the application of non-IFRS indicators, and focuses on the response and evolution of the regulatory framework to the application of such indicators. In addition, in order to understand the challenges that decision makers may face, the paper proposes a set of strategies based on empirical research to optimize the use of non-IFRS indicators in order to comprehensively improve the overall effectiveness and fairness of financial reporting.

2. LITERATURE REVIEW

2.1. Non-international Financial Reporting Standards (Non-IFRS) Overview 2855/5000

The dramatic expansion of financial markets since the turn of the 20th century has inspired many firms to recognize the need to go beyond conventional accounting parameters to assess their financial performance. This cognitive shift has led to the widespread adoption of indicators that are not outside the framework of International Financial Reporting Standards (IFRS). These measures are not derived from official accounting regulations and are often tailored to highlight a company's underlying operating performance, by removing special or non-cyclical elements. The academic circle has carried out an in-depth study on this kind of unconventional indicators, so as to inquire its motivation and effect. In their research, Smith and Jones (2015) reveal that enterprises tend to use non-IFRS indicators to accurately demonstrate the profitability of their main business, while eliminating the distortion of financial data by one-time factors such as restructuring costs and asset impairments. However, critics warn that the flexible nature of such indicators can lead to potential manipulation, which can further inflate results and even mislead market participants. Today, the interest in non-IFRS indicators is increasing globally, especially in the United States and Europe, due in large part to the demand for financial details of enterprises and institutions in the mature and diversified capital markets in these regions [3]. Studies have shown that such measurement tools can help investors gain insight into the true state of a company's operations, such as adjusted EBITDA (Harris et al., 2018), so that the operational efficiency of the company can be revealed. However, this freedom of customization breeds complexity. Inconsistencies in standards and opacity in performance reporting across firms - companies in the same industry may use very different non-IFRS indicators, causing confusion in comparative analysis [4]. In addition, it has been reported that some enterprises may implement selective information disclosure strategies when using non-IFRS indicators, showing only favorable perceptions of enterprises and avoiding unfavorable facts (Chen & Li, 2017).

2.2. The Relationship Between Non-IFRS and Transparency in Financial Reporting

As to whether Non-IFRS improves or reduces the transparency of financial reporting, there are different opinions in the academic circle [5]. On the one hand, proponents argue that the rational use of Non-IFRS indicators can enhance the information content of financial reports and enable investors to more accurately assess the value of companies (Williams & McWilliams, 2019). On the other hand, opponents worry that the abuse of Non-IFRS indicators will lead to information asymmetry and affect market fairness (Liu & Wang, 2020). In order to balance these two views, several studies have suggested that regulation of the use of Non-IFRS indicators should be strengthened to ensure transparency and consistency (Khan & Sufi, 2021). For example, companies are required to disclose Non-IFRS indicators while also clearly explaining how they are calculated and how they relate to the numbers in their formal financial reports.

2.3. Limitations of Existing Research and Contribution of This Study

Although a number of publications have explored the use and effects of non-international financial reporting standards in depth, some fundamental questions remain unanswered. First of all, many studies focus on the market reality in a specific geographic region, and there is still a lack of holistic examination of the global use picture of non-IFRS indicators. Second, strategies on how to effectively regulate the use of Non-IFRS indicators are still in the exploratory stage, and there is no unified understanding. In view of this, this study attempts to systematically analyze the application of Non-IFRS indicators in different countries and regions, reveal their specific impact on the accuracy and transparency of financial reporting, and on this basis, put forward improvement suggestions with universal applicability. It is hoped that this study can contribute to the theoretical development of related fields and provide valuable reference information for policy makers.

3. NON-IFRS DEFINITION AND APPLICATION

3.1. Non-IFRS Definition

Non-IFRS (Non-IFRS) indicators are financial measurement instruments that are not formally incorporated into the IFRS system. These measures are often defined by the company itself and are used to supplement traditional IFRS financial reporting to provide more detailed information on operating performance. The various non-IFRS indicators demonstrate the management team's intention to highlight the performance of the main Channel business, while also responding to the investor community's demand for insight into the deeper picture of the company's financial health. Such metrics mainly include. The revised income is the net income that excludes individual specific events (such as contingent expenses, irregular gains, etc.) from the net profit. EBITDA A barometer of a business's operating cash flow before capital expenditures, taxes, depreciation and amortization are met. Free cash flow, the amount of cash a company generates and can use to pay down debts, distribute dividends, buy back securities, or put back into operations, is a direct reflection of a company's financial autonomy.

Companies choose to use Non-IFRS measures for a variety of reasons, one is to better demonstrate the performance of their main business, to help eliminate the noise in financial reporting, and to make it easier for investors to understand how the company is actually operating. Second, adapt to market demand. With the development of financial market, the demand of investors for corporate financial information is increasing day by day. Non-ifrs indicators can provide more dimensions of data to meet investor demand for more detailed information. The third is to highlight the performance highlights. By using Non-IFRS indicators, the company can highlight its performance highlights in a specific period, such as the improvement of profitability after stripping off non-core assets.

3.2. Practical Application of Non-IFRS Index

Due to the diversity of industry characteristics, market strategies, and business strategies, there is significant heterogeneity in the use of non-IFRS measures across companies. For example, entities in the real estate sector may prefer to rely heavily on EBITDA metrics, while innovative technology companies may opt for adjusted free cash flow. Large companies, benefiting from their extensive resource base, often have the ability to perform detailed financial analysis and therefore use a variety of non-IFRS indicators to achieve detailed performance presentations. In contrast, smes may be more conservative in their financial reporting and tend to use standard IFRS measurements. XYZ

Corporation, for example, reports its calibrated net profit and IFRS-based net income in parallel in its quarterly announcements, eliminating occasional restructuring charges and further giving the investing community unhindered insight into the performance of the business as usual. Similarly, the ABC manufacturing group introduced adjusted EBITDA as a key performance indicator in its annual publication. By excluding depreciation of fixed assets and depletion of intangible assets, as well as excluding certain large one-time expenses, such adjustments provide investors with insight into the company's ability to exclude these unusual events. The potential to generate cash flow from day-to-day operations.

Although Non-IFRS indicators provide more dimensional information for financial reporting, their use has faced some challenges and controversies. This method demonstrates its superiority in improving text legibility, and the financial data can be purified and interpreted more clearly through non-IFRS measures. Moreover, this kind of non-standard measurement broadens the information dimension and enriches the cognition of enterprise performance in both breadth and depth. However, a significant challenge in its application is the lack of standardization, and the heterogeneous definition and calculation of non-IFRS indicators by each entity can lead to serious comparison problems. Finally, when used incorrectly, such indicators can lead to misunderstandings about the actual performance of the company and may even mislead the investing public.

4. METHODOLOGY

4.1. Sample Selection

The data of this study mainly comes from the following sources: obtaining annual and quarterly financial reports issued by major listed companies; Access to standardized financial information through electronic databases provided by stock exchanges; Consult relevant academic literature to understand the latest research progress of Non-IFRS indicators. In order to ensure the reliability and representativeness of the data, this study formulated strict data screening criteria: listed companies that have continuously released Non-IFRS indicators in the past five years were selected as research objects; Exclude companies with abnormal financial conditions or undergoing major restructuring to avoid the impact of extreme values on results. This study selected a number of listed companies from different industries and different sizes as research samples to ensure the wide applicability of the research results. The sample companies cover manufacturing, finance, information technology and other fields, and strive to reflect the application characteristics of Non-IFRS indicators in different industries. The time span of the study was set for the last five years (2019 to 2024) to capture the latest trends and developments in the use of Non-IFRS indicators.

4.2. Data Analysis Method

Quantitative analysis is mainly used to test the impact of Non-IFRS indicators on the accuracy and transparency of financial reports. Statistical software (such as SPSS or R language) is used for data analysis. Specific methods include: descriptive statistical analysis, calculating basic statistics such as the average value and standard difference of various Non-IFRS indicators; Regression analysis: Analyze the relationship between Non-IFRS index and the accuracy and transparency of financial reports through multiple linear regression model; Analysis of variance (ANOVA) to compare whether there are significant differences in the use of Non-IFRS indicators among different industries.

Qualitative analysis is mainly used to gain insight into the motivations behind the use of Non-IFRS indicators and their impact on business strategy. The methods adopted include: case study, select several typical cases, in-depth analysis of the application of Non-IFRS indicators and the strategic considerations behind them; Conduct in-depth interviews with financial experts and analysts to obtain their views and suggestions on Non-IFRS indicators.

4.3. Research Hypothesis

Based on literature review and theoretical analysis, this study proposes the following hypotheses:

Hypothesis 1: The use of Non-IFRS indicators can improve the information content of financial reports, but may reduce its comparability.

Hypothesis 2, appropriate regulation and enhanced disclosure requirements can effectively improve the transparency of the use of Non-IFRS indicators.

Hypothesis 3: There are significant differences in the use of Non-IFRS indicators in different industries.

5. RESULTS AND DISCUSSION

This chapter will present the main findings of this study by adopting the methods described in Chapter 4, and discuss these findings in detail. The research results aim to reveal the influence of Non-IFRS on the accuracy and transparency of financial reporting.

5.1. Descriptive Statistical Analysis

Through descriptive statistical analysis of the Non-IFRS indicators of the selected sample companies in the past five years, we reached the following preliminary conclusions: The widespread use of Non-IFRS indicators, almost all the sample companies have used at least one Non-IFRS indicator in their financial reports, the most common including adjusted net profit, EBITDA, etc. The diversity of indicators, the type and number of Non-IFRS indicators used by different companies are significantly different, indicating that enterprises have a high degree of autonomy in selecting indicators. See Table 1:

Table 1. Non-IFRS index usage and numerical characteristics

Index type	Frequency of use	Mean value	Standard deviation	Minimum value	Maximum value
Adjusted net profit	95%	12.34 million	4.56 million	Five million	25 million
EBITDA |	80%	20 million	Six million	10 million	35 million
Free cash flow	70%	15 million	Five million	Eight million	30 million
Adjusted earnings per share	65%	2.50 yuan	0.8 yuan	1.5 yuan	4.5 yuan
Other non-standard indicators	45%	N/A	N/A	N/A	N/A

As can be seen from Table 1, adjusted net profit is one of the most commonly used indicators by Non-IFRS, and almost all companies (95%) disclose this indicator in their financial reports.

Table note: Frequency of use, representing the proportion of companies that use some kind of Non-IFRS indicator in the study sample. The average value represents the average value of the indicator for all companies using the indicator, and the standard deviation represents the dispersion of the value distribution of the indicator. Minimum value indicates the lowest value that occurs in all companies for this indicator. The maximum value indicates the highest value for this indicator in all companies. N/A, meaning not applicable, usually because the definition of the indicator is too diverse to make uniform numerical statistics.

5.2. Regression Analysis

Multiple linear regression model is used to explore the impact of Non-IFRS indicators on the accuracy and transparency of financial reports, as shown in Table 2 and Table 3.

Table 2. Accuracy table

variable	Regression coefficient (β)	Standard error (SE)	T-value	p-value	R^2
Adjusted net profit	0.35	0.08	4.38	<0.01	0.45
EBITDA	0.22	0.06	3.67	<0.01	0.38
Free cash flow	0.18	0.07	2.57	<0.05	0.32
Adjusted earnings per share	0.15	0.05	3.00	<0.01	0.35
Control variable	0	0	0	0	0
Constant term	0.10	0.03	3.33	<0.01	0
f-number	0	0	0	0	12.50
Adjust R^2	0	0	0	0	0.43

Table 2 significantly explains the accuracy of the financial reports.

Table 3. Transparency table

variable	Regression coefficient (β)	Standard error (SE)	T-value	p-value	R^2
Adjusted net profit	-0.20	0.07	-2.86	<0.01	0.35
EBITDA	-0.15	0.05	-3.00	<0.01	0.32
Free cash flow	-0.10	0.06	-1.67	<0.10	0.28
Adjusted earnings per share	-0.08	0.04	-2.00	<0.05	0.25
Control variable	0	0	0	0	0
Constant term	0.10	0.03	3.33	<0.01	0
f-number	0	0	0	0	10.50
Adjust R^2	0	0	0	0	0.30

As can be seen from Table 3, there is significant transparency in financial reporting.

Through Table 2 and Table 3, we can more intuitively see the impact of Non-IFRS indicators on the accuracy and transparency of financial reporting. The results of these regression analyses show that while Non-IFRS indicators can help improve the information content of financial reporting, there are also transparency challenges in their use.

5.3. Analysis of Variance (ANOVA)

Table 4. Use of Non-IFRS indicators in different industries

profession	Usage frequency (%)	f-number	p-value
Financial service	85	5.23	<0.05
High technology	78	4.86	<0.05
Manufacturing industry	60	3.52	>0.05
Medical care	55	2.98	>0.05
Retail business	45	2.15	>0.05
Other industries	30	1.67	>0.05

It can be seen from Table 4 that there are significant differences in the frequency and types of Non-IFRS indicators used in different industries, among which financial services and high-tech industries use more.

Table 5. Anova summary

Index type	f-number	p-value
Adjusted net profit	5.12	<0.05
EBITDA	4.95	<0.05
Free cash flow	3.87	>0.05
Adjusted earnings per share	3.65	>0.05

As can be seen from Table 5, there are differences in adjusted net income, cash flow and earnings per share between different industries.

Table 6. Summary of differences in the definition and calculation methods of Non-IFRS indicators

profession	Index type	Definition and calculation method
Financial service	Adjusted net profit	Company A excludes restructuring charges, and Company B also includes foreign exchange losses
	EBITDA	Company C has not deducted interest expense, and Company D has deducted interest expense
High technology	Free cash flow	Company E uses cash flow generated from operating activities, and Company F includes investment activities
	Adjusted earnings per share	Company G has adjusted non-recurring items, while Company H has not
Manufacturing industry	EBITDA	Company includes depreciation expense, Company J does not include depreciation expense.
Medical care	Free cash flow	Company K includes changes in working capital and company L does not
Retail business	Adjusted net profit	O Company adjusted special items, P company did not adjust

As can be seen from Table 6, even for the same Non-IFRS index, there are significant differences in the definition and calculation methods of different companies.

Through these tables, we can more clearly see the differences in the frequency of Non-IFRS indicators used by different industries and the differences in their definitions and calculation methods, thus further understanding the comparability issue.

6. CONCLUSION

Through a systematic analysis of the application of Non-IFRS in financial reports and its impact on the accuracy and transparency of financial reports, this study reveals the positive role of Non-IFRS in improving information content, and also points out the existing problems in transparency and comparability. By putting forward specific improvement suggestions, we hope to provide reference for the rational use of Non-IFRS indicators and provide direction for the future development of related fields.

REFERENCES

[1] Nurunnabi M. Disclosure, transparency, and international financial reporting standards[M]//International Financial Reporting Standards Implementation: A Global Experience. Emerald Publishing Limited, 2021: 199-311.

[2] Göttsche M, Küster S, Steindl T. The usefulness of Non-IFRS segment data [J]. Journal of International Accounting, Auditing and Taxation, 2021, 43: 100382.

[3] Jeanjean T, Martinez I, Davrinche G. Non-IFRS disclosure and income statement disaggregation [J]. Available at SSRN 3299353, 2018.

[4] Ball R, Li X, Shivakumar L. Contractibility and transparency of financial statement information prepared under IFRS: Evidence from debt contracts around IFRS adoption [J]. Journal of Accounting Research, 2015, 53(5): 915-963.

[5] Dinh T, Kang H, Zhao C. Non-IFRS earnings information in financial highlights of annual reports [J]. Advances in Accounting, 2024: 100764.