

ABSTRACT

The objective of this study is to examine the impact of the adoption of International Financial Reporting Standards (IFRS) on the quality of financial statements in Palestine. The analysis was based on the annual financial data of a sample of 32 Palestinian listed companies for the period from year 2003 to year 2012. All Palestinian listed companies were required to prepare their financial statements in accordance with IFRS in year 2007. Therefore, to identify the influence of IFRS on accounting quality, the ten-year period of the study was divided into two equal periods, the IFRS pre-adoption period and IFRS post-adoption period.

Based on prior literature, this study used three measurement tools for accounting quality which are earnings management (assessed through four metrics), timely loss recognition (assessed through one metric) and value relevance (assessed through four metrics). The methodology of this study is based on multiple linear regression models to explain different accounting quality metrics for the IFRS pre-adoption period and IFRS post-adoption period.

In line with previous studies, the results of this study show mixed results as five out of the nine metrics indicate an improvement in accounting quality, while four metrics indicate a decline in accounting quality. Specifically, one out of the four metrics of earning management improved while the other three declined, the metric of timely loss recognition declined and the four metrics of value relevance improved. Overall, the results suggest that firms that adopt IFRS show more evidence of earnings management, less timely recognition of losses and greater value relevance.