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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

RESEARCH TOPIC

THE IMPACT OF NON-COMPLIANCE WITH ACCOUNTING STANDARDS ON THE QUALITY OF FINANCIAL REPORTING

BY

NTULI LINIENT

R12453X

*This dissertation is submitted in partial fulfillment of the requirements of **Bachelor of Commerce (Honours) Degree in Accounting** in the Department of Accounting at Midlands State University*

SUPERVISOR: MS. MHAKA

<div align="center">**RELEASE FORM**</div>

NAME OF STUDENT: **LINIENT NTULI**

DISSERTATION TITLE: **The impact of non-compliance with accounting standards on the quality of financial reporting.**

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SIGNED   **……………………………………………..**

PERMANENT ADDRESS: **9 Magamba Road**

         Fairbridge Park

         Mutare

         Zimbabwe.

DATE: **September 2014**

MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

APPROVAL FORM

The undersigned confirm that they have supervised the student, Linient Ntuli on the dissertation entitled **"The impact of non-compliance with accounting standards on the quality of financial reporting"** that is submitted in partial fulfilment of the Bachelor of Commerce (Honours) Degree in Accounting.

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Supervisor   Date

………………………….   …………………………..

Chairperson   Date

……………………   ……………………………

External Examiner   Date

DEDICATIONS

This research is dedicated to my husband, Cosmas Ntuli and our two sons, Takunda and Trevor Ntuli. I love you all.

ACKNOWLEDGEMENTS

I can do all things through Christ who strengthens me. (Philippians 4: 13)

ABSTRACT

Issues of overnight corporate shut downs have raised some eyebrows. The trust that investors and other stakeholders had in the company executives, independent auditing firms, board of directors, financial analysts and information distributors (Corporate Reporting Supply Chain) is slowly fading away. Mitigation procedures have been dreamt of and conceived but most of them could not be birthed. This research then serves as an evaluation of the impact of non compliance to IFRSs/IASs on the quality financial statements in Zimbabwe. Through questionnaires and interviews to auditors, investment analyst, accounting educators and accountants of the companies listed on the Zimbabwe Stock Exchange, it came to light that listed companies are not yet in full compliance with IFRS disclosure requirements despite the threat of being delisted from the stock exchange. This has resulted in the financial statements failing to represent faithfully the economic phenomena they purport to represent thus not achieving their purpose of providing useful information that enables the users to make informed decisions.

LIST OF ACRONOMIES

B Comm.   Bachelor of Commerce

C.E.O	Chief Executive Officer	
CBZ	Commercial Bank of Zimbabwe	
ZSE	Zimbabwe Stock Exchange	
IFRSs	International Financial Reporting Standards	
IASs	International Accounting Standards	
PAAB	Public Accountants and Auditors Board	
ZSEMP	Zimbabwe Stock Exchange Monitoring Panel	
SEC	Securities Exchange Committee	
G.A.A.P	Generally Accepted Accounting Practices	
I.C.A.Z	Institute of Chartered Accountants of Zimbabwe	
I.S.A	International Standards on Auditing	
I.T	Information Technology	
MSU	Midlands State University	
R.B.Z	Reserve Bank of Zimbabwe	
U.K	United Kingdom	
U.S.A	United States of America	

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICIES

CHAPTER 1: INTRODUCTION

1.1   Background to the study

Globalisation has called for financial reporting harmonisation across international borders (Sharpe, 1994). Zimbabwe having adopted the International Financial Reporting Standards (IFRSs) in 1977 and opted for mandatory compliance (Mbetu, 2014:1), questions are still being raised on why adopting the IFRSs and not using local accounting standards. The current study seeks to evaluate the impact of non-compliance with IFRS on the quality of financial reports of listed companies. The Proposal discusses the background to the study, statement of the problem, the objectives of the study, research questions, the limitations and delimitations of the study

Ernest and Young in their publication (2014) note that there is a perception that current disclosure practices are ineffective in drawing the attention of the users to the most decision-useful information. The publication then goes on to explore some of the ways that can make financial statements more effective in communicating financial information under current IFRS.

Section 8.51 of the ZSE listing requirements requires full compliance with the International Accounting Standards when preparing and reporting on the annual financial statements. Despite that, listed companies on the Zimbabwe Stock Exchange had since stopped using the International Financial Reporting Standards (Tom, 2010). One of the reasons could have been due to the hyperinflation (before 2009). However, the introduction of the US dollar in 2009 could have influenced the companies to revert to compliance with the standards.

According the Big Law (2012), during August 2012, the Securities and Exchange Commission (SEC) (Zimbabwe) and the Public Accountants and Auditors Board (PAAB) (Zimbabwe) held a seminar to highlight the extent of non-compliance with IFRS by listed

companies in Zimbabwe. It was concluded that, out of a sample of forty listed companies reviewed, only 69% indicated compliance with IFRS. This was described by the Chief Executive Officer (CEO) of SEC as "not good enough".

According to the Big Law Team (2012), entities that do not comply with the IFRSs/IASs expose themselves to various financial risks. Financial statements are prone to a lot of manipulation by management. One example was the case of CFX under which the management were manipulating accounts which resulted in the company being put under curatorship management. Internationally, WR Grace and CO., due to their earnings management practices, it was ordered by the Securities and Exchange Commission (S.E.C) to pay huge fines.

Despite the economic challenges in the country, the Zimbabwe Stock Exchange has urged that, IFRS compliance is mandatory to all listed companies. Currently, the ZSE has set a panel of experts that is responsible for checking IFRS compliance and encouraging accurate and correct presentation financial reports (Tom, 2010).

During 2013, eleven companies were delisted from the Zimbabwe Stock Exchange. Among those delisted were Industrial Counters, Apex Corporation, Cairns Holdings, Chemco Holdings, Interfresh, Gulliver, Interfin, Lifestyle Holdings, Phoenix Consolidated and Trust Holdings. According to the Financial Gazette dated 7 July 2014, a significant number of these failed to meet the minimum ZSE listing requirements. In January 2014, PG Industries was suspended from the local bourse for failing to meet ZSE requirements due to a difficult operating environment (ZSE 2014). This shows that not all companies listed on the Zimbabwe Stock Exchange are complying with the IFRSs and there is no consistency displayed by their reporting of financial matters.

1.2   Statement of the problem

Despite the insistence by Zimbabwe Stock Exchange (Section 8.51) on Zimbabwe listed companies to be in full compliance with the International Accounting Standards, and the Big Law Team warning the listed companies not complying with the International Financial Reporting Standards (IFRSs) facing various financial risks, many companies listed on the Zimbabwe Stock Exchange do not comply with the International Standards when preparing and reporting their financial matters. This makes it difficult for the different users to make well informed economic and financial decisions.

1.3   Main research question

What are the effects on the financial reports of listed companies, of not complying with the International Financial Reporting Standards, and how can these effects be mitigated?

1.4   Research objectives

This research will want to achieve the following objectives:

- To establish the effects of non compliance with accounting standards on the quality of financial reports of listed companies.

- To show the financial practices listed companies practise in comparison with IFRS.

- To highlight the views of accounting professionals on compliance with disclosure requirements of IFRS.

- To show challenges faced by listed companies in complying with IFRSs.

- To establish the best practise in compliance reporting.

1.5   Sub questions

- What are the effects of not complying with accounting standards on the quality of financial reports of listed companies?

- What are the financial practices that listed companies are performing in comparison with IFRS?

- How do different accounting professionals view compliance with disclosure requirements of IFRS?

- What challenges are faced by companies listed on the Stock Exchange in complying with international standards?

- What is the best practise in compliance reporting?

1.6 Assumptions of the study

This research will be based on the following assumptions:

- The researcher will be able to access information on all current developments pertaining to the companies listed on the Zimbabwe Stock Exchange.

- Selected individuals and organisations will be willing and able to provide relevant information and afford the researcher time to respond to the questions in time.

- The researcher will have sufficient funds to meet all the costs involved in bringing the research together.

- Management in the companies will allow the researcher to carry out her research.

- The economy will remain stable during the carrying of this research.

1.7 Limitation of the study

- Some target respondents were reluctant to disclose some of the information which they regarded as sensitive and some were not even cooperating with the researcher due to lack of knowledge of the field under study or not just unwilling to assist in providing some information to the researcher. The researcher promised confidentiality.

- There were time constraints since the researcher is on block release and at the same time much labour intensive methods of collecting data were needed to be used which consumed a lot of time. The researcher therefore selected a sample of listed companies.

- Financial constraints may also be experienced since the process may require a lot of stationery and also a lot of travelling to and from college and also around. The researcher made a lot of sacrifices to overcome this.

1.8   Delimitation of the research

The study focused on a sample of companies listed on the Zimbabwe Stock Exchange. The study was limited to those companies in Mutare urban and research interviews and questionnaires was carried out on a sample of thirty officers which consist of accountants of listed companies, auditors, local investors, management and stakeholders at varying levels.

1.9   Research justification

The research is submitted in partial fulfilment of the requirements of Bachelor of Commerce Accounting (Honours) Degree 2014. The study reveals the effects of non-compliance with the IFRSs/IASs on the quality of financial statements in Zimbabwe and the usability of these financial statements in making economic financial decisions. It gives more awareness to financial reports users of the importance of compliance with the International Standards.

The study findings could assist auditors to identify areas within financial statements where management can manipulate. The findings can give them the need to put more emphasis on such areas to address audit related risks and financial misstatements, whether material or immaterial, and if such misstatements are intentional or unintentional (Marx et al 2009).

The study findings can be helpful to Midlands State University and other Universities for the training, teaching and literature on the impact of non-compliance with International Standards on the quality of financial statements. Thus, the findings can be helpful to many people like stakeholders, listed and unlisted companies, local and foreign investors and even regional countries.

1.10   Definition of terms

These terms should be understood within the context of this study.

Financial Statements	These are financial reports intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.
IFRSs	International Financial Reporting Standards. These are Standards and Interpretations adopted by the International Accounting Standards Board.
Conceptual Framework	Is a foundation that sets out the objectives and concepts that underlie the preparation and presentation of general purpose financial statements
IASs	International Accounting Standards
Evaluation	An assessment, appraisal or the making of a judgement about the amount, number, or value of something
Impact	A marked effect or influence on something.
Compliance	The act of following a rule, order or a command.
Non-compliance	Failure to act in accordance with a wish or command.
Stock Exchange	A market in which securities are bought and sold.

Listed Company   A firm whose shares are listed (quoted) on a stock exchange for

public trading.

1.11   Summary

This Chapter gives a comprehensive background of the study, the statement of the problem which prompted the researcher to have a further investigation of the impact of non compliance on the quality of financial statements in Zimbabwe. Window dressing of financial figures has been a concern raising eyebrows of users of such financial statements as to whether such practice is acceptable. Users of financial information have found themselves enticed to figures only to discover that decisions made regarding their interests to companies are not worth implementing. Theoretical and empirical literature review shall be carried out in the following chapters to provide the researcher with a platform for further studies.

CHAPTER 2:   LITERATURE REVIEW

2.0   Introduction

This chapter focuses on reviewing literature on compliance with International Financial Reporting Standards from renowned experts in the field of accounting. Documentation of a comprehensive review of published work was obtained from secondary sources of data from within areas of specified interest to this research. The review, guided by the research objectives, focused on establishing how companies are failing to comply with the IFRSs/IASs. The chapter also analyses other researchers' findings and concludes with other practices in use to manipulate financial statements as practiced by agencies of different organisations.

2.1   The effects of not complying with accounting standards on the quality of financial reports of listed companies

The basic objective of financial reporting is to provide information that is useful in making business and economic decisions. The following are the effects of non compliance with the compliance disclosures:

2.1.1   Violation of qualitative characteristics

According to the IASB (2008), the usefulness of information is enhanced by qualitative characteristics hence violation of the qualitative characteristics will compromise the usefulness of information. The fundamental qualitative characteristics (i.e. relevance and faithful representation) are most important and determine the content of financial reporting information. The enhancing qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness) can improve decision usefulness when the fundamental qualitative characteristics are established. However, they cannot determine financial reporting quality on their own (IASB, 2008).

Beest, Braam and Boelens (2009) agrees with IASB, 2008 that disclosing high quality financial reporting information is crucial because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions that enhances overall market efficiency.

Relevance

Relevance is referred to as the capability "of making a difference in the decisions made by users in their capacity as capital providers" (IASB, 2008: 35). Researchers like Barth et al., (2008) and Krishnan & Parsons (2008) tend to focus on earnings quality instead of on financial reporting quality and have operationalized predictive value as the ability of past earnings to predict future earnings. Predictive value explicitly refers to information on the firm's ability to generate future cash flows: "information about an economic phenomenon has predictive value if it has value as an input to predictive processes used by capital providers to form their own expectations about the future" (IASB, 2008: 36).

In addition to predictive value, confirmatory value contributes to the relevance of financial reporting information. Information has confirmatory value "if it confirms or changes past (or present) expectations based on previous evaluations" (IASB, 2008: 36). It is therefore due to lack of such a characteristic that financial analysts fail to predict the future outcomes of local companies.

Faithful representation

Faithful representation is the second fundamental qualitative characteristic as according to the Exposure Draft. To faithfully represent economic phenomena that information purports to represent, annual reports must be complete, neutral, and free from material error (IASB, 2008: 36). Economic phenomena represented in the annual report are "economic resources

and obligations and the transactions and other events and circumstances that change them" (IASB, 2006: 48).

Willekens (2008) and Kim et al. (2007) in consistent with IASB (2008) noted that faithful representation is measured using five items referring to neutrality, completeness, freedom from material error and verifiability, and corporate governance. They argued that it is difficult to measure faithful representation directly by only assessing the annual report, since information about the actual economic phenomenon is necessary to assure faithful representation. According to Maines and Wahlen (2006), however, estimates and assumptions that closely correspond to the underlying economic constructs the standards pursue can enhance faithful representation.

The first proxy refers to the issue 'free from bias'. An annual report can never be completely free from bias, since economic phenomena presented in annual reports are frequently measured under conditions of uncertainty. Although complete lack of bias cannot be achieved, a certain level of accuracy is necessary for financial reporting information to be decision useful (IASB, 2008).

The other sub notion of faithful representation, neutrality, is defined as "the absence of bias intended to attain a predetermined result or to induce a particular behaviour. Neutral information does not colour the image it communicates to influence behaviour in a particular direction" (IASB, 2008: 37). Neutrality refers to the intent of the preparer; the preparer should strive for an objective presentation of events rather than focusing solely on the positive events that occur without mentioning negative events (Beest, Braam and Boelens, 2009).

Beest, Braam and Boelens (2009) are of the opinion that corporate governance is also related to faithful presentation and can be defined as the mechanisms by which a business enterprise

organised in a limited liability corporate form, is directed and controlled. They went on to argue that several researchers examine the association between financial reporting quality and corporate governance, internal control, earnings manipulations and fraud, and find that poor governance and internal controls reduce the quality of financial reporting. Complying with IFRS disclosure requirements helps companies to present financial statements that faithfully represent the companies they purport to represent.

Understandability

Clear and concise classification and presentation of information increase understandability (Ernst and Young, 2010). This concept insists that the information being provided by the reporting entity be as understandable as possible to the user. Personnel preparing financial statements have to ensure that users are able to follow the financial statements and make them as comprehensive to the layman as possible. Understandability is the ability of users to comprehend the meaning of given information (IASB, 2008). This study therefore seeks to evaluate whether financial reports produced by listed companies are meaningful.

Comparability

This "is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena" (IASB, 2008: 39). This means that, similar situations should be presented the same, while different situations should be presented differently. Comparable information enables users to identify similarities in and differences between two sets of economic phenomena (Ernst and Young 2010).

According to Beuselinck and Manigart (2007) and Cole et al. (2007), consistency refers to the use of the same accounting policies and procedures from period to period within a company while Cole et al. (2007) and Beuselick and Manigart (2007) apply comparability in a single period across companies. Comparability includes consistency. "Consistency refers to the use

of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities" (IASB, 2008: 39). Since investors have a right to choose which companies to invest in, comparability should be possible across companies.

Verifiability

Verifiable information lends credibility to the assertion that financial reporting information represents the economic phenomena that it purports to represent. Financial information is said to be verifiable if it enables knowledgeable and independent observers to reach a consensus on whether a particular depiction of an event or transaction is a faithful representation (Ernst and Young,2010; FASB, 2008). This study therefore seeks to analyse the impact of lack of such a characteristic.

Timeliness

"Timeliness means having information available to decision makers before it loses its capacity to influence decisions" (IASB, 2008: 40). Timeliness refers to the period it takes to reveal the information and is related to decision usefulness (IASB, 2008). When examining the quality of information in financial statements, timeliness is measured using the natural logarithm of amount of days between year-end and the signature on the auditors' report after year end (Beest, Braam and Boelens (2009). Timeliness therefore provides information to decision makers when it has the capacity to influence decisions. However Brown and Tarca (2008) did not agree with the violation of qualitative characteristics while Crawford (2014) was uncertain about it.

2.1.2   Improvement of informational environment

Barth (2008) is of the opinion that complying with the IFRSs will improve the informational environment. Lima et al. (2010) and Hodgdon et al. (2008) are also of the same opinion with Barth (2008) that IFRS compliance reduces information asymmetry and enhances the ability

of financial analysts to provide more accurate forecasts. LaFond and Watts (2008) cited in Hu, Li and Zhang (2014), however, they fail to detect that greater conservatism lowers information asymmetry, and thus do not provide direct evidence to support the information role of conservatism. Crawford et al. (2014) was neutral about this fact. The study will therefore seek to outline the importance of adequate, reliable and relevant information to different users.

2.1.3   Reduced the cost of capital and greater liquidity

According to Ikpetan and Akande (2013) and Barth (2008), IFRSs adoption helps reduce cost of capital. Terantino (2012) also argued that the IFRSs adoption in the European Capital market reduced the cost of sourcing capital by increasing transparency but Lima et al (2010) argued that cost of capital seemed not to be related to any of the compliance measures. The idea of enhancing transparency and comparability of financial statements across countries resulting in reinforcement of cross border equity investments was also supported by Bruggermann (2011) and Ramadhan (2014).

Lima et al. (2010) is of the opinion that there is a statistically significant relationship between the market liquidity variables and compliance disclosures, indicating that companies that best meet the compliance requirements have lower trading costs and greater liquidity, and their share price is less susceptible to the influence of individual investors. He (Lima et al. (2010) went on to argue that, the economic consequence analysis shows that cost of capital does not seem to be related to any of the convergence measures used.

Daske et al. (2007b) examine the economic consequences of IFRS adoption for a sample of 3800 first-time voluntary adopters from 26 countries. They analyze the effects on market liquidity, cost of equity capital and Tobin's q. They find that market liquidity and equity

valuations increase around the time of the introduction of IFRS. However Mbetu et al. (2014) is neutral on the issue of liquidity.

2.1.4 Value relevance of book values and earnings

Alfaraih (2009) is of the opinion that, the higher level of compliance with IFRSs, and the value the relevance of book values and earnings are positively correlated. This implies that companies that comply with IFRS disclosure requirements have more relevant book values and higher earnings compared to non compliant companies.

Barth et al. (2008) examine accounting quality before and after the introduction of IFRS for a sample of 327 firms (1896 observations) that voluntarily adopted IAS between 1994 and 2003. They find evidence of lower earnings management, higher value relevance and more timely recognition of losses after the introduction of IFRS, compared to the pre-transition local GAAP accounting. Their results are consistent with higher accounting quality after the IFRS introduction across countries. However Daske et al. (2007b) was neutral on the issue of value relevance.

2.2 Financial practises that listed companies are practising in comparison with IFRS

Different ways have been brought about by several authors like Musamba (2006), Yadav (2013), Ibanichuka and Ihendinihu (2012) and many more on which the manipulation of company financial statements is/can be exercised. Agents to the company will practice bad accounting practises to fulfil self interests at the cost of the entity as a whole.

2.2.1 Foreign currency translation

Yadav (2013) suggested that another tool used in accounts manipulation is foreign currency translations. According to Musamba, it involves the treatment of gains and losses and the timing of the translation can involve manipulation of records. Ibanichuka and Ihendinihu

(2012) agree with Musamba (2006) that, it is premature to report gains and losses arising from a fluctuation in exchange rates, which may be reserved in a near future period. The translation date of the transaction will produce a different outcome to translation at the reporting date Cosmin (2010) did not agree with the above as he focused on tangible assets and Samone et al. (2012) remained neutral.

2.2.2 Valuation of tangible assets

According to Cosmin (2010), "subjective depreciation" of assets by management creates the ground for manipulation of accounting records for instance; assets with a recoverable value which is lower than net accounting assets are considered impaired. Yadav (2013) went on to say that asset depreciation must be approached in a systematic way that accurately reflects how the asset is consumed and its residual value. An impairment cost must be recognized any time the carrying cost of an asset is greater than the recoverable costs through sale or disposal. Intangible assets are to be measured at initial cost and are expressed as non-monetary assets that have anticipated economic benefit.

Urasaki (2014) noted that, "In accordance with the financial statement data taken from Japanese listed companies, financial asset valuation is becoming a major issue for modern corporate accounting practices to recognize an entity's economic substance". Cosmin (2010) and Musamba (2006) identified some of the ways in which company directors and accountants try to falsify their financial statements. They agreed that overnight sales and repurchase of assets occurs when the company agrees to sell its assets at the accounting year end and repurchase the same assets in the next accounting period. However Samone et al (2012) tend to disagree as he put emphasis on depreciation while Vladu and Martis (2010) remain silent.

2.2.3 Depreciation and Provisions for liabilities and charges

The choice of a depreciation method has impact on the profit and loss during useful economic life of an asset (Samone et al (2012). Hence, a different method of depreciation has different impact on outcome. According to Cosmin (2010) and Yadav (2013), an option on different useful life leads to different expenditure. They also agreed that varying is a management tool for manipulation of accounting records. Samone et al. (2012) also agreed with Yadav (2013) that a practice provision (increase and decrease thereof) is an effective tool for "leveling outcome". Since the establishment of provisions is judgemental or subjective an overstatement of understatement has an impact on the outcome of the financial statements. Musamba (2006) remained indifferent on this while Vladu and Martis (2010) is neutral n issues of provision and depreciation.

2.2.4 Valuation of Inventories

The inventory provides sufficient opportunities of manipulation and subjectivism (Cosmin, 2010). Musamba (2006) agree that debt can be placed off the Statement of Financial position by artificial purchase and repurchase of inventory in trade. This effectively improves the financial position by removing the liabilities and increasing the receivables, at least for a day or two and therefore misrepresenting information and the entity's position. According to Vladu and Matis (2010), the under estimation or over estimation of stock finally has an impact not only on the financial statement of current year but also on the following year.

Cordazzo (2005) cited in Tsalavoutas and Evans (2010) states that most of companies determine the cost of inventories according to the LIFO (Last In, First Out) method. IAS 2 does not permit the valuation of inventories with the LIFO method, and requires alternative valuation according to FIFO (First In, First Out) or the weighted average method. Nevertheless, Yadav (2013) seem to disagree while Samone et al (2012) is neutral.

2.2.5 Construction contracts

According to Cosmin (2010) and Yadav (2013), selecting between the two methods of accounting for construction contracts has an impact on the profit and loss since under the completed contracts, the result will be recognized after the completion of contract, when basing on percentage of completion, it is difficult to come up with a definitive result since different methods will be switched to throughout the progress of the contract. Samone et al. (2012) agreed that this also impact on the statement of financial performance. Vladu and Martis (2010) however, did not agree with Cosmin (2010) and Yadav (2013) and on the other hand Musamba (2006) did not comment on this fact.

2.3   Views of accounting professionals on compliance disclosures

Different professionals has come up with different views concerning compliance disclosures, among them are Tanzi and Nadott 2011, Owusu Ansah and Yeoh (2005), Al Shammari (2011) and many more.

2.3.1   Profitability

Al Shammari (2011), (2008), perceives that the level of compliance disclosure is positively correlated to profitability. According to Wallace and Nasser (1995) cited in Mbetu (2014), in an attempt to attract capital, profitable entities tend to provide more information than less profitable entities. Mbetu (2014) also supported the notion but Daske et al. (2007b) is neutral about the fact that profitability and compliance disclosure are interlinked.

2.3.2   Leverage level and Liquidity

Al Shammari (2011) also relates leverage level to the level of compliance disclosure as high geared firms, in an attempt to assure creditors that they will honour their liabilities, will tend to disclose more information. Alfaraih (2009) is also of the opinion that there is a significant

association between liquidity and compliance disclosures since high liquid companies are prepared to disclose more information. Mbetu (2014) disagree that leverage is related to the level of compliance disclosure and he is also neutral on the opinion that there is a significant association between liquidity and disclosure level.

2.3.3   Size and age of the company

According to Tanzi and Nadott (2011), the disclosure compliance level and the size of the company are related. Alfaraih (2009) and Owusu Ansah (2005) in Mbetu (2014) also agrees with Tanzi and Nadott (2011) that bigger firms disclose more information compared to smaller firms. Al Shammari (2011) together with Alfaraih (2009), think that old companies has no fear of competition hence are not secretive about the information they disclose. Bigger firms have more to disclose compared to smaller firms. However, Mbetu (2014) disagree with the above authors in that he argued that the size and age of the firm has nothing to do with disclosure level of such companies. On the same note, Daske et al. (2007b) remain neutral.

2.4   Challenges faced by listed companies in complying with IFRSs

Non-compliance with IFRSs is being done for several reasons by company directors and accountants. The following can be some of the reasons:

2.4.1   Insider Dealing by Management

Kraft, Lee and Lopatta (2014) argued that some directors engage in 'insider dealing' in their company's shares they delay the release of information for the market, thereby enhancing their opportunity to benefit from inside knowledge. Muller et al. (2009), is also in agreement with Kraft, Lee and Lopatta (2014) on the issue of insider dealing by management. Sturc and Chen (2011) also supported that management misappropriates and trades on the basis of confidential information breaching the duty of trust or confidence that they owe to the source

of the information. However, Salome et al. (2012) disagree with the above authors while Lima et al. (2010) could not comment on this.

2.4.2 Management desire for bonuses

Salome et al (2012) highlighted that in situations where the incentives of company directors are based on profits, it can be likely that the management can manipulate profits upwards for them to gain high incentives. The incentive scheme allows for bonuses that rise with profits or the bonuses come as a result of a certain level of profit (Kraff, Lee and Lopatta, 2014). However, the real world bonus schemes have a lower qualifying level and an upper ceiling. Profits that are attained below the qualifying level earn directors no bonuses. Herbert and Tsegba (2014) disagree with this notion while Adballah (2012) remained silent about the same issue.

2.4.3 Reduction of the Tax Bills

A company is obligated to pay tax that is usually based upon the profits as attained in a particular year of assessment of accounting period. This implies that, the higher the profits of an entity, the more tax payable to the government and vice-versa. For this reason, according to Yadav (2013) the company accountants seek to manipulate profits downwards to reduce the tax bill. Salome et al. (2012) also agreed with him by adding that the methods applied seek to understate profits or to overstate expenses which result in reduced profits or greater losses by playing around assets, expenses and liabilities. Crawford (2012) did not agree on the issue of reduction of the tax bills as a cause of manipulation and Daske et al (2007b) is neutral on this.

2.4.4 Meeting the expectations of external users (bank's expectations for loans)

According to Kraft et al. (2014), every company would probably like to depict a good picture of itself to the external environment. When the real scenario within the accounting books

does not provide for a good picture to company contacts such as suppliers and trade creditors, company financial officers are then forced directly or indirectly to manipulate areas within and surrounding the current assets and liabilities so as to reflect a good working capital figure or a healthy short-term financial position (Ibanichuka and Ihendinihu, 2012). However, the researcher believes that this manner of handling books can easily be detected especially through a detailed audit approach and detailed analytical procedures.

According to Vladu and Matis (2010), when companies seek a loan from a bank, the bank normally requires financial statements of a company so as to assess the credit worthiness or the company's ability to pay interest and repay loans or the overdraft on time. As a way of convincing the banks, directors and/or accountants of the company will manipulate the figures to either show higher profits or adequate assets which can be used as collateral security (Yadav, 2013). All these procedures are set to create a strong basis for the loan request approval by the bank. However, Crawford (2014) does not agree with this while Adah (2014) was not very sure about it.

2.4.5 For the purpose of Mergers and Takeovers

Creative accounting can be attractive to a new management team that has just taken over a company as according to Ikpetan and Akande (2012) and Kraft et al. (2014). It is of common practice for the existing directors to be sacked and new directors appointed. When a new team is appointed, it would be under pressure to prove that they are more successful than their predecessors. Vladu and Matis (2010), in support of Kraft further went on to say that the new boards may seek to utilise the opportunity of reporting a loss in the financial accounting period covering the change of management. The new management may seek to manipulate results downwards thereby reporting a bigger loss and simply blame the previous management for the poor results while withholding profits for future years. These profits

become useful in the consequent years as they can be used to inflate the year's profits as proof that they are doing a terrific job by turning a poor performing company into a profitable and prosperous one.

Yadav (2013) also brought to table the issue of income smoothing as a motive for creative accounting. In the years when a company's performance is very good, the temptation to understate profits and keep something back to supplement profits when the leaner years arise. This can be practiced because investors are impressed by the company that has managers that increase profits every year than that which seems to swing from profits to losses repeatedly. However, Salome et al (2012) did not support the issue of mergers and takeovers and went to pointing a decline in the company as cause of manipulation and Lima et al. (2012) remain neutral on this.

2.4.6   Reduction of the wage bill

Analysing the company financial statements, with regard to the state of profits, can be a good tool to assess the ability of a company to meet the wages and salaries demands for its employees and trade unions. Based on Musamba's ideology, profits may be manipulated downward as a way to reduce the wage demands to fend off worker's demands and by reducing their wage bill. Kraft et al (2014) agrees with Musamba (2006), that, company directors are usually on a profit related bonus scheme and bonus schemes have a lower qualifying level and an upper ceiling. Any profits reported below the qualifying level earns the directors no bonus at all, while profits in excess of the ceiling attract no further bonus since this is seen as excessive reward which may well result from manipulation of accounting records.

Hodgdon et al. (2008) and Musamba (2006) present the same ideas in terms of performance related bonuses but Musamba (2006) concentrated on downward manipulating while

Hodgdon (2008) was on upward manipulation. However, the researcher has the feeling that such a practice may endanger the existing worker's job security. Thus, they feel insecure with regards to the company's ability to pay future wages and salaries increments resulting in high employee turnover in search of better working environment.

However, Herbert and Tsegba (2013) did not agree with the above authors and he went on to argue that lack of education, understanding and experience by preparers of financial reports with the use of IFRSs and lack of coverage of IFRS in financial accounting/auditing textbooks are the major obstacles towards its compliance in Nigeria while Abdallah (2012) is remained silent on this.

2.5   The best practise in compliance reporting

A number of ways have been brought up by several researchers to solve the problems of manipulation of accounting records. These are:

2.5.1   Compliance with IFRS disclosure requirements

IKpetan and Akande (2012) suggested that, a uniform application of principles (same language) should be put in place to define the quality of financial reporting, transparency and accountability for listed companies. Hodgdon et al (2008) also agrees with Musamba (2006). Brown (2011) argued that IFRS, with its related notions of transparency, optimism, professional judgment, and flexibility, are contrary to accounting standards characterized by secrecy, conservatism, uniformity and statutory control.

Hodgdon et al (2008) emphasises that the more detailed the standards, the more loopholes in which to seek opportunities for abuse. Both Musamba (2006) and Hodgdon et al (2008) placed more emphasis on the weaknesses of the Generally Acceptable Accounting Practices (G.A.A.P) as a breathing space for the potential malpractices by companies in presenting financial information. However, Adah (2014) disagree with the above authors on the issue of

compliance with IFRS disclosure requirements. Brown and Tarca (2008) argue that some countries may not adopt IFRS because their national interest is violated whereas Crawford (2014) was unsure on this. However, Jeanjean and Stolowly (2008) is in disagreement when he highlighted that pervasiveness of earnings management did not decline after IFRS introduction, but infact increased in France. It might be because he was concentrating on Australia, France and UK only, otherwise in Zimbabwe it could have resulted in a different outcome.

2.5.2 Reduction in choice of accounting methods and policies

Vladu and Matis (2010) suggested that, the choice of accounting methods can be reduced by limiting the number of permitted accounting methods or by specifying circumstances in which each method should be used. Hodgdon et al. (2008) states that, if a company chose a method which produces the desired picture in one year , it will then be forced to use the same method in future circumstances where the result may be less favourable. The latest developments in International Accounting Standards are pursuing the objective of reduction in accounting choice. (IASB, 2008)

Choice of accounting policies should also be reduced since they are more judgemental and according to Vladu and Matis (2010), two ways in which abuse of judgement can be curbed are to draft rules that minimise the use of judgement and to prescribe 'consistency' so that if a company chooses an accounting policy that suits it in one year it must continue to apply it in subsequent years when it may not suit so well. Of late, preparers of financial statements tended to use the 'extraordinary item' part of the profit and loss account for items they wished to avoid including in operating profit (Ramadhan (2014). Though the present rules of the International Accounting Standards have nearly abolished the category of 'extraordinary

item', auditors also have a part to play in identifying dishonest estimates. While Brown and Tarca (2008) are in disagreement with this notion, Abdallah (2012) is silent.

2.5.3   Adherence to the King III report

The establishment of the corporate governance code of best practices takes into account those areas which were initially neglected by most business organisation. According to Ramadhan (2014), the audit committee should have the expertise and be commensurately rewarded to perform effectively. This was a way of addressing what, in accordance to the King Code of Governance of South Africa (2009), should be the composition of the audit committee, to be having a majority of independent non-executive directors who are financially literate. Being financially literate was not clearly spelt out but for the purpose of this study, it shall be considered to mean, having adequate knowledge of the business financial issues and this can be deduced by the qualifications a member holds.

Olango and Kerongo noted that, apart from changes in accounting regulation, ethical standards and governance codes must be properly enforced in the corporate world. Regulation without thorough enforcement techniques is likely to be ineffective in preventing individuals from employing misleading reporting practices. Hodgdon et al. (2008) is in full support of this matter but however Crawford (2012) did not agree with King III report adoption and Adah (2014) is neutral.

2.5.4   Timing of genuine transactions

According to Olango and Kerongo (2014), the timing of genuine transactions is clearly a matter for the discretion of management. However, Alfaraih (2009) argued that the scope to use this can be limited by requiring regular revaluations of items in the accounts so that gains or losses on value changes are identified in the accounts each year as they occur, rather than only appearing in total in the year that a disposal occurs. The International Accounting

Standards Board is tending to move towards valuation at fair value rather than based upon historical cost in several recent accounting standards and discussion papers. Therefore the enforcing of International Accounting Standards is likely to curb all these challenges.

Vladu and Matis (2010) are of the opinion that, the concept of "substance over form" helps tackle the problem of artificial transactions. This is whereby the economic substance rather than the legal form of transactions determines their accounting substance. Thus linked transactions would be accounted for as one whole. Brown and Tarca (2008) did not agree with the issue of timing of genuine transactions while Crawford (2014) is not very sure on this.

2.5.5 Ethical practices by management and auditors

Ramadhan (2014) suggested that directors of a company be appropriately qualified and be principled. The board should have independent directors and the board should have a unitary structure which implies that a significant proportion should consist of the non executive directors to ensure independence throughout the whole decision making process (King III, 2009). Ramadhan (2014) agrees with King III (2009) that the directors should be people of credibility and should have the necessary skills and expertise to effectively carry out their duties. Both Ramadhan (2014) and the King III (2005) place more emphasis on the importance of relevant experience of the directors to adequately run the daily activities of an entity and to be able to effectively make decisions through the utilization of past experiences and foresight.

Cadbury (1992) cited in Crow (2013) gave some exceptions to the rule by Ramadhan (2014) that the board should not be dominated by one individual person and the roles of the chairman and the chief executive should be separated. Ramadhan (2014) agrees with King III (2009) that any decision to combine roles should be justified each year in the annual report

otherwise it may compromise the entire decision making process. He further went on to say that the company secretary must be adequately qualified and should report to the board and not to the chief executive officer which complies with the King III (2009) code that the company secretary should be empowered to fulfil his or her duties. The issue of good corporate governance has been over emphasised as the ultimate solution to non compliance with IFRSs as Olango and Kerongo (2014) suggest.

Vladu and Matis (2010) noted that, auditors have some ethics to the society and managers have also some ethics not to show the manipulated figures but to show true and fair view of the company. They (Vladu and Matis) went to say, while managers should take responsibility of bad position of the company, auditors should provide good information to shareholders and check all the transactions and can ask from the managers any suspicious account or dubious transactions. Apostolos and Konstantinos (2009) also supported that an auditor should be confident, and have knowledge of existing law and regulations and he should be updated. Jeanjean and Stolowly did not take this notion and Gebharat and Farkas (2010) is neutral.

2.6   Summary

The chapter reviewed different authors and researchers on compliance disclosures in general, the forms of window dressing and the qualitative aspects of financial reporting. The chapter also incorporates some views of different accounting professionals on compliance disclosures. By so doing a handicap in the existing body of knowledge has been identified whereupon much on the implementation of IFRSs still needs to be done. It concludes by analysing the best practise on compliance reporting.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0   Introduction

The chapter provides a description of the activities and methods that are performed to collect data for this research. The chapter looks at the research design, research instruments, data collection procedures, population, sample and sampling procedures, and tools and methods used in presentation and analysis of data.   The merits and demerits of research instruments and justification of sampling techniques are discussed and finally the summary of the chapter.

3.1 Research Design

According to Kumar (2009), a research design is a plan, structure and strategy used to collect data in a systematic and orderly approach in a most economical and feasible manner and includes measures adopted to safeguard the validity of the findings. The research design is the conceptual structure with which research would be conducted. Experiment, survey, case study and case study series are the four designs that can be used. A case study series will be used in this study.

3.1.1   Case study series

 A case study series according to Dekkers (2012) is a descriptive study of a small group in which the possibility of an association between an observed effect and a specific environmental exposure is based on detailed evaluations and histories of the individuals. Case series helps to provide clues in identifying an adverse from an exposure.

According to Dekkers (2012) case series are observational, descriptive research designs generally conducted two or more companies. As the name implies, a case series is a descriptive analysis of a series of companies with common characteristics. Case series are most useful for describing the potential effectiveness of new interventions, for describing the

effectiveness of interventions, and for describing unusual responses (either good or bad) to interventions. Case series are often conducted prospectively. The primary distinction between case series and the single-subject experiment is that the researcher does not manipulate the intervention in a case series but merely describes or documents what happened during the normal course of the intervention.

Interviews and questionnaires will be used and the fact that data is standardised means that it is easy for comparison. It is easily understood hence perceived to be authoritative in general and it also gives the researcher more core control over the research process. However, Saunders et al (2009) also noted that there is a delay due to dependence on others for information and more time is spent designing and piloting a questionnaire. Also data collected is usually limited to questions in the questionnaire.

A case study series enables gathering of both qualitative and quantitative information. The issue of compliance with IFRS disclosure requirements is privy only to the financial accountants, auditing firms and investment analysts. Therefore a case study series is considered suitable for the research. The case study series method is less expensive considering financial resources and available time to complete the research.

3.2   Primary Data

Primary data were used to complement secondary data already available. These sources provide direct description of the study by the individual who actually observed or witnessed the occurrence and carried it out. The justification for use lies in the idea that data is gathered from the original source, hence more reliable. Interviews and questionnaires were used to gather both quantitative and qualitative data.

Qualitative and Quantitative Data

Data can be grouped as quantitative and qualitative. The relationship of these types of data according to Trochim, 2008, is that all quantitative data is based upon qualitative judgements and all qualitative data can be described and manipulated numerically.

3.2.1 Qualitative Data

This is in the form of explanations obtained from direct interviews and a few questions, which are presented in a questionnaire. It is based upon qualitative judgements. Saunders et al (2009) described qualitative data as data that does not include numbers but descriptions. Kalaian (2008) stated that qualitative research is dependent on observations and descriptions of pinions, behaviour and events that existed through data collected by way of interviews and questionnaires.

The descriptive survey has the advantage of using a sample and research instruments such as, interviews, questionnaires and observations. The sample that would represent the characteristic of the whole population and descriptive write up of the findings would be used.

3.2.2 Quantitative Data

Quantitative data is obtained mainly from the questionnaire with a number of responses achieved. Saunders et al (2009) defined quantitative data as numerical data, which is measureable. The quantitative research uses numeric data and statistical methods to measure differences and relationships and to make conclusions about certain aspects.

3.3 Population

Ott and Longnecker (2010) defined a population as the entire group that the research is interested in and from which the researcher shall draw a conclusion from. A target population of study is a target group from which a sample for the study is to be drawn. For the purpose

of this study, the target population constituted all financial accountants of selected listed companies on the Zimbabwe Stock Exchange, auditing firms, investment analysts and the Zimbabwe Stock Exchange officials.

The techniques which are used to select the sample enable the researcher to come up with a sample representative of the entire population. As a way of encouraging participation, the names the participants in the research are not disclosed except where the respondents freely indicated that it is not a problem to do so.

3.3.1   Research sample

A sample is defined as a representative of, or any subset of measurements selected from the population (Ott and Longnecker, 2010). A sample must be a true representation of the population it purports to represent. Sampling is cheaper, requires less time and energy compared to census and bias is minimal.

3.3.2 Sample size

A number of units included in a sample is referred to as the sample size by The International Statistical Institute (2005). Information about the whole population is estimated without having to survey each member of the population. Expected response rate and requirements for statistical analysis, time and resources are considered to decide the sample size.

A sample of 30 respondents from listed companies, auditing firms and accounting firms were selected.

Table 3.1   Research sample

Key Respondents	Sample	Primary Source
Auditors	13	Questionnaires
Accountants	10	Questionnaires and interviews
Accounting educators/others	5	Questionnaires
Investment analyst	1	Interview
ZSE Officer	1	Interview

Since the researcher was not familiar with the respondents, the sampling technique involved the researcher choosing the respondents according to their knowledge and willingness to contribute to the study. Limited time to undertake the study was considered in coming up with the sample. The sample can be taken as adequate to provide information required to make conclusion about the study.

3.3.3   Sampling technique

Kothari (2009) defined a sample as a group of subjects from whom the researcher collected information. A sample is a strategically and systematically identified group of people or events that meet the criteria of representativeness of a particular study. A representative sample reflects the characteristics of the population that is important to the researcher.

3.3.3.1 Judgemental Sampling

Judgemental sampling is used in selecting various stakeholders since the researcher's area of study required those individual with accounting knowledge. The researcher's personal judgement is used to select people to be included in the sample. Within an industry,

companies differ in size, operating capacity and activity therefore companies listed on the Zimbabwe Stock Exchange became ideal candidates for the purpose of the research which was undertaken. Judgemental sampling is also used to select an investment analyst.

3.3.3.2 Purposive Sampling

This research techniques hand-picks subjects on the bases of specific characteristics they possess. The researcher chose purposive sampling in the selection of Auditing firms. The reason is that small firms tend to be quite closed and not willing to share their views, whereas, big firms have experience and are open therefore the researcher expected them to provide information sought for.

One member of the Zimbabwe Stock Exchange was chosen since the researcher felt he would be able to represent the organisation well and information would be gathered from his colleagues in areas that he could not be very sure of therefore providing information needed for the research.

3.3.4   Criteria set for a respondent to be included in the sample

To be included in the sample, the respondents should possess the following characteristics and should have at least three years experience in the accounting or auditing field. One should be a holder of diploma as minimum qualification, be at a supervisory level, be willing to contribute to the research.

3.4   Data sources

3.4.1   Primary data

This is data collected by the researcher in the field specifically for a project through questionnaires and interviews, (Hox and Boeije, 2008). The researcher specifically used survey because it enabled him to use some of the techniques of collecting primary data which

include questionnaires and personal interviews. Since primary data is collected by the research herself sorely for the purpose of the study, it tends to be accurate and reliable for use in the study. If primary data is carefully collected the data is depicted in great detail.

3.4.2 Secondary Data

Hox and Boeije (2008,593) also defined secondary data as data which has been originally collected and analysed earlier for a different purpose and reused for another research question. It is readily available from other sources. Secondary data in this research will be obtained from text books, audit reports, publications and journals.

Secondary data provides basis for comparison of the data since it is data collected by the researcher from what has already been collected by other researchers. Since it has been already documented, it requires less time and thereby becoming quick and inexpensive. The understanding of the problem is enhanced since it data requires a lot of reading.

3.5   Data collection Instruments

The devices that are used to collect data were defined by Kothari (2009) as data collection instruments. These are questionnaires, tests, interview schedules and checklists. The choice of data collection methods is depended on the accuracy of information that will be obtained and practical considerations such as, time, personnel, equipment. Bias is reduced and quality is enhanced by the ability to use a combination of different data collection techniques in a skilful manner. (Dengu, 2008).

3.5.1 Questionnaires

A questionnaire is a systematic compilation of questions that are directed to a sample of population from which relevant information is desired. Saunders et al, (2009:360) defined questionnaire as a technique of data collection in which each person is asked to respond to the

same set of questions in a predetermined order. For the purpose of this research, hand-delivered questionnaires were used and were collected after completion by respondents.

As compared to a face to face interview, this tool of collecting data is much cost effective. Information contained on questionnaires is easy to analyse and it can be presented using tables and various computer software packages. Questionnaires are not intrusive because the respondent is left to complete on her own and data is capable of being collected from actual preparers financial records.

The researcher used questionnaire because it is relatively quick to collect information using questionnaires. Using questionnaires is more cost effective and less biased since the more willing to answer sensitive issues that could be difficult answered verbally.

3.5.2 Likert Scale

LaMarca (2011) defined a Likert scale as an ordinal technique used to measure attitudes, beliefs and opinions. A five point scale with a statement is used by individuals to make their decisions.

The research will be based on a five point scale to collect data. The scale ranges from strongly disagree to strongly agree depending on the participant's degree of agreement as illustrated in table 3.3 below.

Table 3.2   Likert scale

Ranking	5	4	3	2	1
Response	Strongly agree	Agree	Unsure	Disagree	Strongly disagree

The Likert scale allows the respondents to give quick responses since it is easily understood by respondents. It is also cheap, quick and efficient when collecting data. Data collected using a Likert scale can be easily quantified and analysed. The researcher also hinted the respondents on the importance of unbiased responses at the same time urging them to give responses that are a faithful representation of their attitudes, opinion and beliefs.

3.5.3 Interviews

An interview entails gathering of data from knowledgeable persons in an informal way Saunders et al. (2009). The researcher used this method to collect information from people picked from the sampling groups who were deemed to be knowledgeable.

Interviews have excellent response quality as compared to other data collection instruments. A researcher can probe through asking more questions and by reading body language as well as the dress code. The researcher is also able to rephrase and reframe questions that appeared to be vague where it was necessary. The results of interviews depend on the style in which an interviewer phrases questions when conducting the interview.

Telephone interviews will be used where direct interviews were not possible. Structured interviews will be used by the researcher since it is time saving because it gives guidance on what to ask. Open ended interview questions tend to provide more information to the researcher hence were preferred. Interviews are cheap and faster to administer and they enable immediate feedback to questions.

3.6   Validity and reliability

Knapp (2008) defined reliability of an instrument as the extent to which the technique is consistent or dependable in measuring any object. A reliable instrument should produce precise and stable results. Reliability is directly related to the number of questions used to measure the variable interest. Participant observation helped in avoiding distortion of data

while an optimal number of questions were crafted into the questionnaires and interviews to cross validate data obtained. The questionnaires enabled the respondent time to interpret the questions hence giving valid well thought answers.

A pilot study to test validity, reliability, integrity and ambiguity of the research instruments was carried out by the researcher. It aimed to confirm whether the research questionnaire was in consistence with measuring what it was designed to measure. The purpose of the pre - test is to determine the strength and weaknesses of the study as far as question format, wording and order is concerned.

3.7   Data presentation and analysis

All the data gathered was presented from the findings obtained through the use of questionnaires, interviews and secondary sources of data. A qualitative presentation was more suitable for the researcher to use considering the need to bring the qualitative effects on financial statements brought about by bad accounting practices. Also, wherever appropriate, quantitative presentation was used. Data will be analysed categorically or interpreted directly. A narrative of how data were evaluated is data analysis (Anderson, 2010). Data analysis also takes into consideration issues raised by participants not necessarily anticipated or important information only. Data will be presented on graphs and tables.

3.8   Summary

This chapter dealt with the research methodology, it detailed how data is to be collected, sampling procedures, design of the study, and finally data presentation and analysis. The chapter concludes with a summary.

CHAPTER FOUR: DATA PRESENTATION AND ANNALYSIS

4.0   Introduction

This chapter presented, analysed, interpreted and discussed data collected on the impact of non compliance with international standards on the quality of financial reporting of listed companies. As highlighted in chapter 3, data was collected through questionnaires and interviews seeking to fulfil the objectives of the research as set out in chapter. Graphs, figures and tables are used to illustrate the results obtained.

4.1   Questionnaires

The questionnaire was mainly used in the collection of data. Out of a total of thirty questionnaires that were administered and distributed to the targeted respondents, twenty seven (24) were returned representing a response rate of 80%. The targeted respondents did not return three (6) questionnaires.

Basing on Nadimias and Frankfort (2008)'s view that a response rate of more than 70% is justified as a representation of the sample. The findings that were presented and discussed in the chapter were based on the response rate of 80% which was considered significant enough to justify the study and give credibility to the findings. Table 4.1 illustrates the response rate obtained from use of questionnaires.

Table 4.1   Questionnaire response rate

Respondent Group	Questionnaires sent	Questionnaires received	Response rate (%)
Auditors	13	11	85%
Accountants	10	7	70%
Accounting educators/others	5	5	100%
Investment analyst	1	1	100%
ZSE Officer	1	0	0%
TOTAL	**30**	24	80%

4.2   Data Presentation and Analysis

Questionnaires and interviews were used by the researcher as method of collecting data. Graphs and tables were then used to analyse the collected data.

4.2.1   Analysis of questionnaires responses

The following are the results of the questionnaires which were administered:

Question 1 – What are the effects of non compliance with the International Financial Reporting Standards?

The purpose of this question was to identify the effects that non compliance with the IFRS disclosure requirements poses on financial reporting and the companies in general. It is important to assess such effects so that they can be managed.

Table 4.2   The effects of non compliance with International Reporting Standards

Effects	Rating	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree	Mean
	Rating	5	4	3	2	1	
Violation of qualitative characteristics	Frequency	8	11	2	2	1	3.96
	Percentage	33%	46%	8%	8%	4%	
Information asymmetry	Frequency	4	15	3	1	1	3.83
	Percentage	17%	63%	13%	4%	4%	
Increased cost of capital	Frequency	2	7	8	4	3	3.04
	Percentage	8%	29%	33%	17%	33%	
Suspension from stock Exchange	Frequency	5	12	2	3	2	3.63
	Percentage	21%	50%	8%	13%	8%	

Violation of qualitative characteristics

Table 4.2 above shows that, 8/24 (33%) strongly agree that not complying with IFRS disclosure requirements violates the qualitative characteristics of financial reporting and 11/24 (46%) agree. These are in agreement with IASB (2008) that non compliance with IFRS disclosure requirements violates the qualitative characteristics of financial reporting. 2/24 (8%) were unsure, thus being in consistence with Crawford (2014) who is also neutral to the notion. 2/24 (8%) disagree and 1/24 (4%) strongly disagree, this concurred with Brown and Tarca (2008) who are from the literature did not agree the issue of violation of qualitative characteristics. Brown and Tarca agree with Ball (2006)'s observation that superior accounting standards do not necessarily translate into higher quality reporting, since reporting

quality may be largely shaped not only by accounting standards, but also by economic/political forces and firm-level economic incentives. The mean is 3.96.

Overall 19/24(79%) agree, 2/24(8%) were unsure while 3/24(21%) disagree. The mode of 19/28(79%) agree, meaning that qualitative characteristics are violated if IFRS disclosure requirements are not complied with. This conforms to IASB (2008) in the literature and basing on the questionnaire response, non compliance with IFRS disclosure requirements violates the qualitative characteristics of financial reports.

Information asymmetry

Table 4.2 above shows that 4/24(17%) of the respondents strongly agree, 15/24 (63%) agrees that non compliance with IFRS causes information asymmetry whereby information is concealed at the expense of the users. These concurred with Barth (2008) that IFRS compliance reduces information asymmetry and enhances the ability of financial analysts to provide more accurate forecasts. 3/24 (13%) are unsure, thus in agreement with Crawford et al. (2014). 1/24 (4%) disagree and 1/24(4%) strongly agree thus concurring with Hu, Li and Zhang (2014) who fail to find direct evidence to support the information role of conservatism. The mean is 3.83.

In total 19/24 (79%) agree, 2/24(21%) disagree and 3/24(13%) were unsure. The mode of 19/24 (79%) agree to information asymmetry as an effect of non compliance. This implies that Barth (2008)'s idea about information asymmetry is proven to be true.

Increased cost of capital

Table 4.2 above shows that 4/24(17%) of the respondents disagree, 3/28 (13%) strongly disagrees that cost of capital tend to increase as different accounting standards are applied thus agreeing with Lima et al. (2010) that cost of capital does not seem to be related to any disclosure requirement. 8/24 (33%) are unsure just like Mbetu et al. (2014) who is also

neutral on the matter. 7/24 (29%) agree whilst 2/24(8%) strongly agree to increased cost of capital as an effect of non compliance, concurring with the idea of Terantino (2012) and Ramadhan (2014) that cost of capital is negatively correlated to non compliance with IFRSs. The mean is 3.04.

Overally 7/24(29%) disagree, 8/24(33%) are unsure while 9/24(40%) agree to increased cost of capital as an effect. The mode of 8/24 (33%) are unsure, showing that the majority of the respondents are neutral as to whether the issue of cost of capital is influenced by compliance disclosure or not.

Suspension from Zimbabwe Stock exchange

From table 4.2 above, it shows that 2/24(8%) of the respondents strongly disagree and 3/24 (13%) disagrees that non compliance with IFRS can cause suspension from Zimbabwe Stock Exchange. 2/24 (8%) are unsure, whilst 12/24 (50%) agree and 5/24(21%) strongly agree. In total 17/24 (71%) agree and 7/24(29%) disagree that suspension from the ZSE is one of the effects of non compliance with IFRS. The mode of 17/24 (79%) agree. In conclusion the majority of the respondents are aware of the ZSE requirement that listed companies should comply with the international standards. The mean is 3.63.

Question 2 – Which areas in the financial statements are mostly affected by non compliance with IFRS?

All items of the financial statements are not equally affected by non compliance to IFRS disclosure requirements, but there are some which are mostly affected due their complexity.

Table 4.3   Areas mostly affected by non compliance with IFRS

Areas	Rating	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree	Mean
	Rating	5	4	3	2	1	
Foreign Currency Translation	Frequency	7	12	1	2	2	3.83
	Percentage	29%	50%	4%	8%	8%	
Inventory Valuation	Frequency	13	5	3	2	1	4.13
	Percentage	54%	21%	13%	8%	4%	
Valuation of of tangible Assets	Frequency	5	10	4	3	2	3.54
	Percentage	21%	42%	17%	13%	8%	
Provision For Liabilities	Frequency	2	10	6	3	3	3.21
	Percentage	8%	42%	25%	13%	13%	
Construction contracts	Frequency	1	6	10	5	2	2.96
	Percentage	4%	25%	42%	21%	8%	
Depreciation	Frequency	3	9	5	4	3	3.21
	Percentage	13%	38%	21%	17%	13%	

Foreign currency translation

Table 4.3 above indicate that 7/24(29%) strongly agree and 12/24(50%) agree to foreign currency translation as an area mostly affected by non compliance to the disclosure requirements. This is in agreement with Yadav (2013) and Ibanichuka and Ihendinihu (2012) that foreign currency translation has never been easy especially in financial institutions such as banks. 1/24(4%) were indifferent concurring with Samone et al. (2012) who is also undecided about the matter. 2/24(8%) do not agree and 2/24(8%) strongly disagree to the issue in supporting the idea of Cosmin (2012) who is in disagreement with the fact that

foreign currency translation pose a challenge in the preparation of financial statements. The mean is 3.83.

This gives a total of 19/24(79%) of the respondents agreeing, 1/24(4%) being unsure and 5/24(21%) disagreeing to foreign currency translation as a problem area. The mode of 19/24(79%) agree, this means the translation of foreign currency is one area where non compliance is being practised.

Inventory valuation

Table 4.3 above shows the information on what respondents say about inventory valuation. A significant number of 13/24 (54%) strongly agree and 5/24(21%) agree thus being in the same line of thinking with Cosmin (2010) and Cordazzo (2005) cited in Tsalavoutas and Evans (2010) inventory valuation is still a challenge in some of the listed companies. 2/24(8%) did not agree while 1/24(4%) strongly disagree to be having any problems with valuing inventory thus concurring with Yadav (2013). 3/24(13%) are not sure just like Samone et al. (2010) in the literature who is also uncertain on this matter. The mean is 4.13.

Of the 24 accountants and auditors who responded to the question, 5/24(21%) disagree, and a total of 18/24(75%) are in agreement. The mode of 15/24(63%) disagree thereby giving a conclusion that inventory valuation is highly affected by non compliance with international standards.

Valuation of tangible assets

The results shows that 2/24(8%) strongly disagree and 3/24(13%) disagree that valuation of intangible assets is one of the areas mostly affected by non compliance with IFRS. This concurs with Samone et al. (2012) that valuation of tangible assets is not a problematic area. 4/24(17%) are not sure whether valuation of intangible assets is a challenge or not as Vladu and Martis (2010) are also uncertain about it. On the other hand 10/24 (42%) agree and

5/24(21%) strongly agree that valuing assets is a problem thus concurring with the idea of Cosmin (2010) and Urasaki (2014) in the literature. The mean is 3.54.

In overall 15/24(63%) are in agreement to valuation of intangible assets as challenging, 4/24(17%) were unsure, while5/24(21%) of the respondents disagree to the notion. The mode of 15/24(63%) clearly points to the fact that valuing intangible assets is an area where manipulation is done.

Depreciation

As shown above in Table 4.3 above, 3/24(13%) strongly agreed and 9/24(38%) agreed this supports the ideas if Samone et al. (2012) and Yadav (2013) that due to more subjectivity in the subject, a lot of challenges are being faced with to come up with accurate figures for depreciation. 5/24 (21%) was uncertain as to whether depreciation is affected by non compliance just like Vladu and Martis (2010)in the literature. 4/24 (17%) disagreed and 3/24(13%) strongly disagreed thus concurring with Musamba (2006) who was also in disagreement with the issue of depreciation. The mean is 3.21.

On the whole 12/24(50%) agreed, 5/24(21%) were unsure whilst 7/24 (50%) disagreed. The mode of 12/24(50%) implies that indeed depreciation is also a problematic area where different methods are applied which is not in line with the IFRS disclosure requirements.

Provision for liabilities and charges

The results shows that 2/24(8%) strongly agree and 10/24(42%) agree that provision for liabilities and charges is equally affected by non compliance with IFRS. Their ideas are concurrent to the ideas of Samone et al. (2012) and Yadav (2013) that subjectivity in determining provisions for liabilities and charges imposes a lot of challenges in coming up with accurate or reliable figures for such charges. 3/24(13%) disagree and 3/24 (13%) strongly disagree supporting Musamba (2006) who is also in disagreement with this. On the

other hand 6/24(25%) are not sure as to whether provision for liabilities and charges is affected or not just like Vladu and Martis (2010) in the literature. The mean is 3.21.

In overall half of the respondents (50%) which is the mode are in agreement to provision for liabilities and charges as an area of manipulation, while 6/24(25%) are unsure and the other 6/24(25%) disagree.

Construction contracts

The results indicate that the majority of respondents, 10/24(42%) are not sure whether construction contracts is mostly affected by non compliance with international standards or not following the idea of Musamba (2006) who is also not sure about the notion. 5/24(21%) do not agree while 2/24(8%) strongly disagree thus in agreement with Vladu and Martis (2010) who are also in disagreement. 6/24 (25%) of the respondents agreed and only 1/24 (4%) strongly agreed thus agreeing with Cosmin (2012) in the literature that construction contracts poses a lot of problems in financial reporting. The mean is 3.21.

Overall 7/24(29%) disagree, 10/24(42%) were uncertain and 7/24(29%) agree with construction contracts being a challenge. This comes to the conclusion that construction contracts are neutral to non compliance.

Question 3 – What factors influence the extent of disclosure by listed companies?

The purpose of the question was to determine the issues that influence the level of disclosure. It sought to identify some factors that limit the extent of information disclosure by listed companies. Figure 4.3 below shows the responses

Table 4.4   Factors that influence the extent of disclosure by listed companies

Factors	Rating	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree	Mean
	Rating	**5**	**4**	**3**	**2**	**1**	
Profitability	Frequency	12	10	2	0	0	4.42
	Percentage	50%	42%	8%	0%	0%	
	Frequency	7	12	1	2	2	3.83
Leverage	Percentage	29%	50%	4%	8%	8%	
Liquidity	Frequency	8	10	3	2	1	3.92
	Percentage	33%	42%	13%	8%	4%	
Company size	Frequency	3	4	6	8	3	2.83
	Percentage	4%	19%	27%	35%	15%	
Company Age	Frequency	3	3	5	4	9	2.46
	Percentage	13%	17%	21%	17%	38%	
Geographical Spread	Frequency	2	4	6	10	2	2.75
	Percentage	8%	17%	25%	42%	8%	

Profitability

In table 4.4 above, 12/24 (20%) strongly agree and 10/24 (42%) agree that profitability has a positive correlation with the extent of disclosure. This is in line with the ideas of AlShammari (2011) and Mbetu et al. (2014) that high profitable companies disclose more information compared to low profitable ones. Of the 24 respondents to this question, 2/24 (8%) are unsure as to whether profitability and level of disclosure are related or not just as Daske et al. (2007b) is also unsure about it. 0/24(0%) of the respondents disagreed and strongly disagreed

just as the researcher fail to come up with literature that is against the fact that profitability and disclosure level are positively correlated. The mean is 4.42.

Overall a total of 0/24(0%) disagree, 2/24 (8%) were unsure whether disclosure and profitability are related while a total of 22/24(92%) agree to it as a factor influencing disclosure. The mode of 22/24(92%) agree meaning that high profitability companies tend to disclose more information compared to low profitable ones.

Leverage level

Figure 4.4 above shows that 7/24 (29%) strongly agree and 12/24 (50%) agree that high geared firms disclose more information that low geared firms. This is concurrent to the idea of AlShammari (2011) that high geared firms disclose more information to try and convince creditors that they are able to honour their debt. 1/24 (4%) of the respondents were unsure just like Daske et al. (2007b) in the literature. 2/24(8%) disagreed and 2/24(8%) strongly disagreed to that note thus in agreement with Mbetu et al. (2014). The mean is 3.83.

On the whole 19/24(79%) agreed, 1/24 (4%) as uncertain whilst 4/24 (17%) disagreed that Disclosure level and leverage level has a positive correlation. The mode of 19/24(79%) shows that the majority of the respondents believe that as debt increase companies would want to assure creditors that they will honour their liabilities by disclosing more information.

Liquidity

Of the 24 respondents to the question only 2/24(4%) disagreed and 1/24(4%) strongly disagreed to the statement that liquidity and disclosure level are interlinked. These shared the same idea with Deske et al. (2007b). 3/24(17%) could not express an opinion just as Mbetu et al. (2014) was also neutral. 8/24(33%) strongly agreed and 10/24(42%) agreed that high liquidity influences high disclosure thus concurred with Alfaraih (2009) that high liquid firms have more to disclose. The mean is 3.92.

In total 4/24(17%) disagreed, 3/24(13%) were unsure and 18/24(75%) agreed that high liquid companies disclose more information that than low liquid companies. The mode of 18/24(75%) clearly show that liquidity and disclosure level are interlinked.

Size of the company

As shown above in the table above 3/24(13%) strongly agreed and 4/24(17%) agreed that the size of an organisation influences the level of information that the same organisation discloses. These agreed with the view of Tanzi and Nadott (2011) that bigger firms disclose more information compared to smaller firms. 6/24 (25%) were uncertain, 4/24 (17%) disagreed, 9/24(38%) strongly disagreed thus being in agreement with Mbetu et al. (2014) who disagreed that size of the company is not linked to disclosure level. This implies that most of the respondents are of the opinion that even smaller firms can disclose more information depending on their size compared to other bigger firms. The mean is 2.83.

On the whole 7/24(29%) agreed, 6/24 (25%) were uncertain, whilst 13/24 (54%) disagreed that there is a positive link between disclosure level and the size of the company. The mode of 13/24(54%), means that most respondents could not link the size of the organisation and the amount that the same organisation discloses.

Age of the company

Of the 24 respondents to the question 3/24(13%) strongly agreed and 3/24(13%) agreed that the age of a company influences the amount of information to be disclosed by such company. These respondents are in agreement with the view of Alfaraih (2009), that old companies has no fear of competition hence are not secretive about the information they disclose. 5/24(21%) were unsure. 4/24(17%) disagree and 9/24(38%) strongly disagreed thus sharing same thinking with Mbetu et al. (2014) who is also in disagreement. The mean is 2.46.

In total 6/24(25%) agreed, 5/24(21%) were unsure while 13/24(54%) disagreed that the age of an organisation and the level of information to be disclosed are positively linked. The mode of 13/24(54%) disagree shows that size of the firm has nothing to with disclosure level.

Geographical spread of the company

As shown in the above table 4.4, a total of 2/24(8%) strongly agreed, 4/24(17%) agreed thus agreeing with AlShammari (2011) that the geographical spread of the company is of much influence to the level of disclosure. 6/24 (25%) were uncertain and 10/24 (42%) disagreed while 2/24(18%) strongly disagreed buying Mbetu et al. (2014)'s idea that the geographical spread of the company is not of much influence to the disclosure level. The mean is 2.75.

On the whole 6/24(25%) agreed, 6/24(25%) were neutral whilst 12/24 (50%) disagreed to geographical spread as an influence of information disclosure. The mode of 12/24 (50%) disagreeing implies that information disclosure and geographical spread are not related.

Question 4 – What are the motives behind non compliance with IFRS disclosure requirements?

The question was asked to establish the possible motives behind manipulation of financial reports.

Management desire for bonuses

As shown by table 4.5 below 5/24(21%) strongly agreed and 12/24(50%) agreed buying Salome et al. (2012)'s idea that in situations where the incentives of company directors are based on profits, it can be likely that the management can manipulate profits upwards for them to gain high incentives. 3/24(13%) were not certain just like Abdallah (2012) whether management desire for bonuses is one of the motives behind manipulation of financial reports. 2/24(8%) disagree and 2/24(8%) strongly disagreed thus in concurrent with Herbert

and Tsegba (2014) that management bonuses has nothing to do with non compliance. The mean is 3.67.

As an overall analysis 17/24(71%) agree, 3/24(13%) were unsure and 4/24(17%) disagree. The mode of 17/24(71%) agree meaning that the reason why management manipulates financial records is because they would want to boost their bonuses.

Table 4.5   Motives behind non compliance with IFRS disclosure requirements

Motives	Rating	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree	Mean
	Rating	5	4	3	2	1	
Desire for bonuses	Frequency	5	12	3	2	2	3.67
	Percentage	21%	50%	13%	8%	4%	
Insider dealing	Frequency	4	10	5	3	2	3.46
	Percentage	17%	42%	21%	13%	8%	
Reduction of tax bills	Frequency	10	11	1	2	0	4.21
	Percentage	42%	46%	4%	8%	0%	
Reduction of wage bill	Frequency	3	5	7	5	4	2.92
	Percentage	13%	21%	29%	21%	17%	
Bank's Expectation	Frequency	4	7	6	3	4	3.17
	Percentage	17%	29%	25%	13%	17%	
Mergers & Takeovers	Frequency	2	8	10	3	1	3.29
	Percentage	8%	33%	42%	13%	4%	

Insider dealing by management

4/24(17%) strongly agree, 10/24(42%) agree that insider dealing is one the factors behind non compliance with IFRS disclosure requirements. This is in agreement with Kraft, Lee and

Lopatta (2014) in literature. 5/24(21%) could not express an opinion just as Lima et al. (2012) could not comment on the issue. 3/24(13%) strongly disagree and 2/24(8%) disagree to the statement thus agreeing with Salome et al (2012) who is also in disagreement with the fact. The mean is 3.46.

This gives a total of 14/24(58%) agree, 5/24 (21%) neutral and 5/24 (21%) disagree that insider dealing is one of the motives behind the delay and manipulation of financial information. In conclusion respondents with a mode of 14/24(58%) agree to the statement meaning that insider dealing is a motive behind non compliance.

Reduction of tax bills

Table 4.5 above shows that of the 24 respondents to this question none of them strongly disagree to the point that the reason for non compliance with IFRS disclosure requirements is to reduce liability to ZIMRA, 2/24(8%) disagree thus having the same idea with Crawford (2012) who is also against this issue of reduction of tax bills. 1/24(4%) are unsure just as Daske et al. (2007b) could not comment and 10/24(42%) strongly agree while 11/24(46%) agree thus in agreement with Yadav (2013) that reduction of tax bills is also a motive behind non compliance. The mean is 4.21.

Overally 21/24(88%) agree, 1/24(4%) were unsure while 2/24(8%) disagree, resulting in a mode of 21/24(88%) agreeing meaning that manipulation of financial records has something to do with the reduction of tax bills.

Reduction of the wage bill

As shown in the above table 4/24(17%) strongly disagree and 5/28(21%) disagree thereby supporting Herbert and Tsegba (2013) in the literature who disagree the issue of reductionof wage bill as a motive behind manipulation of financial records. 7/24(29%) shows no position the same with Abdallah (2012). 3/24(13%) strongly agree, 5/24(21%) agree that in an attempt

to reduce the wage bill, management will manipulate financial records so that profits will be low. This is in the same line of thinking with Hodgdon et al. (2008). The mean is 2.92.

In total 9/24(38%) disagree, 7/24 (29%) were neutral and 8/24(33%) agree resulting in a mode of 9/24(38%) disagreeing that statement. This means that management do not manipulate financial records to reduce the wage bill.

Meeting bank's expectation for loans

6/24(25%) strongly agreed, 7/24(29%) agreed thus in agreement with Kraft et al. (2014) who highlighted that since most companies needs financial assistance, financial records are manipulated in an attempt to meet the expectation of the financial assistance providers. 4/24 (17%) were uncertain thus in agreement with Crawford (2014). 3/24 (13%) disagreed, 4/24(17%) strongly disagree to the fact records are manipulated to meet expectations for banks and other financial providers thus same line of thinking with Adah (2014). The mean is 3.17.

In total 11/24(46%) agreed, 6/24(25%) whilst 7/24 (29%) disagreed. The mode is 11/24(46%) agree. This means that, to obtain bank loans management in most cases fixes the financial position of the company as well as the statement of cashflow so as to be credit worthy.

Mergers and takeover purposes

As shown in the table 4.5 above, of the 24 respondents to the question 1/24(2%) strongly disagree to mergers and takeovers being a motive behind non compliance with IFRS disclosure requirements and 3/24(13%) disagree. This shares same thinking with Salome et al (2012). 10/24(42%) were uncertain the same with Lima et al (2012) who is neutral about the issue. 2/24(8%) the respondents strongly agreed and 8/24(33%) agreed thus in agreement with Ikpetan and Akande (2012) and Kraft et al (2014). The mean is 3.29.

In total 10/24(42%) agreed, 10/24(42%) are neutral while 4/24(16%) disagreed. The mode is 10/24(42%) meaning those that agree are equal to those that are neutral.

Question 5 –What is the best practice in compliance reporting?

The purpose of the question was to establish what respondents considered to be the best practice in compliance reporting. Table 4.6 below shows results for best practice which are:

Compliance with IFRS disclosure requirements

The table 4.6 below shows that 12/24(50%) strongly agree and 9/24(38%) agree that compliance with International Financial Reporting Standards is the best practise thus in agreement with IASB (2008) while 1/24 (2%) is uncertain just Crawford (2014) is also unsure. None 0/24(0%) of the respondents strongly disagree and 2/24(8%) disagree just as Jeanjean and Stolowly (2008) is in disagreement when he highlighted that pervasiveness of earnings management did not decline after IFRS introduction, but infact increased in France. The mean is 4.29.

Overall a total of 2/24(8%) disagree, 1/24(4%) was neutral and 21/24(87%) agree. The mode of the analysed data is 21/24(87%) agree. This means that the majority of the respondents understand that the compliance with the IFRS disclosure requirements is an important element which enhances quality financial reporting.

Table 4.6　The best practice in compliance reporting

Best practice	Rating	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree	Mean
	Rating	5	4	3	2	1	
Compliance with IFRSs	Frequency	12	9	1	2	0	4.29
	Percentage	50%	38%	4%	8%	0%	
Reduced accounting methods	Frequency	5	8	6	3	2	3.46
	Percentage	21%	33%	25%	13%	8%	
Adherence to King III report	Frequency	7	10	2	4	1	3.75
	Percentage	29%	42%	8%	14%	4%	
Managemen ethical practices	Frequency	8	7	6	1	2	3.75
	Percentage	33%	29%	25%	4%	8%	
Ethics by auditors	Frequency	6	9	4	2	3	3.54
	Percentage	25%	38%	17%	8%	13%	
Timing of transactions	Frequency	6	8	4	4	2	3.5
	Percentage	25%	33%	17%	17%	8%	

Reduction in choice of accounting methods

Table 4.6 above shows that 5/24(21%) strongly agree and 8/24(33%) agree thus in agreement with Hodgdon et al (2008) and IASB (2008) that reduction in choice of accounting methods is the best practice. 6/24(25%) are uncertain whether reduction in choice of accounting methods may be regarded as best practice in compliance reporting just as Abdallah (2012) was also uncertain. 3/24(13%) disagree and 2/24(8%) disagree strongly to the fact thus sharing same views with Brown and Tarca (2008). The mean is 3.46.

In total 13/24(54%) agree to that few accounting methods enhances quality financial reporting, 6/24(25%) is unsure while 5/24(46%) disagree. The mode of 13/24(54%) agree, it then means that the majority of the respondents know that quality in financial reporting is brought about by reducing the choice in accounting methods.

Adherence to the King III report

Of the 24 respondents, 7/24(29%) strongly agree and 10/24(42%) agree thus concurring to the views of Hodgdon et al (2008) in literature. 2/24(8%) were unsure whether adherence to King III report can be regarded as best practice to compliance reporting just as Abdallah (2012) perceived. 1/24(4%) of the respondents strongly disagreed and 4/24(17%) disagreed. Crawford (2014) in literature also disagrees with the adherence to the King report. The mean is 3.75.

Overall 17/24(71%) agreed,2/24(8%) are unsure and 5/28(21%) disagreed that quality reporting can be enhanced by adhering to the King III report. The mode of 17/24(71%) agreed meaning that if the King code is adhered to then quality in financial reporting will be guaranteed.

Ethical practices by management

As shown above in the table above 8/24(33%) strongly agreed, 7/24(29%) agreed thus agreeing with Olango and Kerongo (2014) that quality and ethics have a positive relation and if ethics be practiced by management then manipulation of accounting records will be reduced. 6/24 (25%) were uncertain just like Gebharat & Farkas (2010) whether ethical practices by management enhances quality reporting and 1/24 (4%) disagreed and 2/24(8%) strongly disagreed. The mean is 3.75.

On the whole 15/24(63%) agreed, 6/24(25%) were uncertain whilst 3/24 (13%) disagreed that if management be highly ethical then quality of financial reporting may be improved. The

mode of 15/24(63%) implies that ethical practices by management is a leeway to quality reporting.

Ethical practices by auditors

Table 4.6 above shows that 3/24(13%) strongly disagree and 2/24(8%) disagree that ethical practices by auditors also play an important role in enhancing quality reporting, thus Vladu and Martis (2010) argued that quality and ethics have a positive relation and if ethics be practiced by auditors then material misstatements will be reduced. 9/24 (38%) agreed and 6/24(25%) strongly agreed while 4/24 (17%) were uncertain as Gebharat and Farkas (2010) were also uncertain on the issue. The mean is 3.54.

On the whole 15/24(63%) agreed, 4/24(17%) were unsure whilst 5/24 (21%) disagreed. The mode of 15/24(63%), means that most respondents agrees with the notion that if auditors are highly ethical in their operations then quality of financial reporting may be enhanced.

Timing of genuine transactions

The above table shows that 6/24(25%) strongly agree and 8/24(33%) agree taking the views of Orlango and Kerongo (2014) and Alfaraih (2009) that timing of genuine transactions is the best practice. 4/24(17%) are uncertain as Crawfold (2014) is also unsure whether timing of genuine transactions may be regarded as best practice in compliance reporting. 4/24(17%) disagree and 2/24(8%) disagree strongly to the fact as Brown and Tarca (2008) also disagreed. The mean is 3.5.

In total 14/24(58%) agree to that if genuine transactions are accounted for in the correct period then quality financial reporting is enhanced, 4/24(17%) are unsure and 6/24(25%) disagree. The mode of 14/24(58%) agree, it then means that the majority of the respondents know that quality in financial reporting is also contributed by accounting for genuine transactions in the correct period.
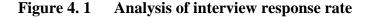
In an endeavour to solve the challenges of varying accounting methods, Vladu and Matis (2010) and many others puts forward the above factors as the building blocks for quality financial reporting. The above results confirm that they are indeed a way of enhancing financial reporting quality.

4.3 Summary and Analysis of interview responses

4.3.1 Interviews

From a total, of five (5) scheduled interviews, four (4) were conducted and one (1) could not be conducted. The targeted interviewees were one Investment analyst, ZSE Officer and three Accountants. The response rate was 80% which was quite significant enough to justify the study and therefore gave credibility to the findings, which according to Howards et al (2008) should be 75% of the targeted population ,were presented and discussed hereafter.

Interviews were conducted as per schedule except for one interview which could not be conducted. The responses are presented and analysed in figure 4.1 below.

Figure 4. 1   Analysis of interview response rate

Question 1: What are the effects that non compliance with IFRS disclosure requirements imposes on the quality of financial reporting?

The first respondent stated that complying with IFRS helps standardise the diverse accounting policies and eliminate any incomparability in the financial statements in an entity and across them. He highlighted that different accounting policies do not only hinder comparability but also increase the cost of capital which is in agreement with Adah (2014). The respondent pointed out that management should very consistent in their operations and of high transparency.

The second respondent agreed to the same points with respondent 1 and further explained that international standards facilitate the preparation and presentation of high quality, transparent and comparable information in an entity's financial statements. The respondent further

explained that listed companies should not engage in activities that would compromise the quality of their financial statements. The respondent also stated the role of providing to users of financial statements high quality information.

However the third respondent stated that quality is guaranteed with the adoption of IFRS disclosure requirements since accounting alternatives are reduced thereby eliminating the element of subjectivity in the financial statements. The respondent further explained that higher level of compliance is associated with higher earnings as suggested by Lean Jean and Stolowy (2008).

The final respondent states that complying with the international standards improves the informational environment. He also agreed with Lima et al. (2010) that, companies that best meet the compliance requirements have lower trading costs and greater liquidity. The respondent further pointed out that management should try as much as possible not to violate the qualitative characteristics to be able to provide useful information. The respondent concurred with other respondents that I.A must not impose a risk management framework to the management on the issue of reduced cost capital that is brought about by compliance.

Question 2: What factors hinder listed companies from complying with IFRS disclosure requirements and how can they be addressed?

The question was asked so as to explore the factors given in question 4, on the questionnaire.

In addition the respondent 1 expanded on the issue of management incentives that whenever management incentives are linked to performance chances are high that it will difficult for such management to comply with the IFRS disclosure requirements because they would want to earn more at the expense of the company. This is in agreement with Salome et al. (2012) that if incentives are based on profits, artificial profits will be experienced. The other factor

by the respondent was resistance from management to change, wanting to continue with their old ways of doing things.

The other respondent explained the issue of reduction in tax bills whereby financial records are manipulated in attempt to reduce liability to Zimbabwe Revenue Authority. Besides the issue of tax bills, the respondent also noted that management knows what different users would want to know about a company and therefore would try as much as possible through manipulation of financial records to meet those expectations. This is in line with Kraft et al. (2012)'s thinking.

The third respondent highlighted the issue of insider dealing by management but ruled out the issue of reduction of the wage bill. In all other respects the respondent concurred with respondent 1. He further pointed out that at times management tend to conceal or delay with some information because of some insider dealing which will be taking place. This was in agreement with Kraft, Lee and Lopatta (2014) that management delay the release of information to enhance their opportunity to benefit from insider knowledge.

This last respondent tends to differ with the others by not highlighting the same factors pointed out by others respondents. He noted that listed companies do not comply with international standards because the accountants do not know the IFRS disclosure requirements. Accountants need to be educated and trained on the issues of international standards so that they are well equipped and are aware of what they are expected of.

Question 3: What are the areas that are mostly affected by non compliance with the IFRS disclosure requirements?

The first respondent pointed out inventory valuation as one of the problematic areas, where either different policies are being applied or a lot of subjectivism is used as noted by Cosmin (2010). He went on to blame depreciation, were varying policies can also be applied.

Different methods of depreciation has different impact on outcome as stated by Samone et al. (2012) and therefore prepares of financial statements tend to take advantage of that.

Valuation of tangible assets was pointed by the second respondent as a challenging area where a lot of manipulation is also practiced. Company assets are not being depreciated the way Yadav (2013) explained that asset depreciation must be approached in a systematic way that accurately reflects how the asset is consumed and its residual value. The third respondent noted foreign currency translation as a problematic area, where manipulation of financial records is practiced through the treatment of gains and losses and timing of transactions. Some of the companies' reporting dates are their translation date and not the transaction date. As Ibanichuka and Ihendinihu (2012) stated that it is premature to report gains and losses arising from a fluctuation in exchange rates, which may be reserved in a future period.

The last respondent added that the provisions for liabilities and construction contracts are not a simple task in the preparation of financial statements. Since the establishment of provisions subjective or judgemental, overstatement and understatement are likely to impact the outcome of financial statements.

Question 4: What are the factors that influence the extent of disclosure by listed companies?

The respondent pointed on leverage level and liquidity as the factors that influence the extent of disclosure. He explained that in a different way from that of AlShammari (2011) who stated that high geared firms disclose more information to assure creditors of their ability to honour their debt. The respondent took it in a different way that, high geared firms conceal may conceal some of the information so that they maintain their leverage level as favourable as possible. However he agreed with Alfaraih (2009) that high liquid firms disclose more

information than low liquid firms since they have nothing to hide unlike the low liquid firms which would want to conceal their liquidity problems.

The other respondent further supported that liquidity and level of disclosure has positive correlation. He further noted profitability as a factor that influences disclosure level. High profitable firms have more to disclose since they would want to inform the users how best it is performing. Low profitable companies on the other hand do not disclose more, instead some information will be concealed and a lot of manipulation will be happening to boost the level of profits. This idea was in agreement with Wallace and Nasser (1995) cited in Mbetu (2014).

The third respondent concurred with respondent 2 that profitability and disclosure level are interlinked. He went on to note size of the company as a factor that influences disclosure level. Bigger firms have more to disclose compared to smaller firms. A group of companies has a lot to disclose about the subsidiaries, joint ventures or associates compared to a single entity that discloses its own operations. Tanzi and Nadott (2011) noted the same.

The final respondent had major variation in response when he stated that size of the firm does not influence the disclosure level but each firm has disclose high quality information concerning its operations regardless of its size. Some small firms disclose all the necessary information about themselves whereas some big entities conceal and manipulate financial records for them to appear as favourable as possible. The respondent however agreed with Al Shammari (2011) on the fact that older companies has no fear of competition hence disclose more and valuable information compared to new firms. Older firms have since passed the test of competition and therefore are not afraid of sharing valuable information.

Question 5: What should best practice financial reporting entail?

The respondent supported the majority of the questionnaire respondents that compliance with IFRS disclosure requirements is the best practice in compliance reporting. He explained that comparability and transparency are guaranteed with IFRS implementation. This was in agreement with Ikpetan and Akande (2012). The other respondent stated that timing of transactions as the best practice in compliance reporting. He explained that if transactions are accounted for in the correct period issues of overnight sales and purchases of assets and inventory might be mitigated. He also agreed with respondent 1 on compliance with IFRSs.

The third respondent stated adherence to King III report as an additional to what the other respondents had noted. He explained the adherence to the corporate governance code as the best practise to compliance reporting. The issue of the composition of the board and the audit committee were highlighted as stated in the King III report (2009) and also in line with Ramadhan (2014) that the board should be independent, dominated by non executive members. The last respondent stated that the reduction in the choice of accounting methods is also abest practice in compliance reporting. He explained that preparers of financial statements should be limited to choice of accounting methods to enhance quality reporting which is complemented by transparency and comparability. This is in agreement with IASB (2008)'s latest developments of pursuing the objective of reduction in accounting choice.

4.4 Summary

This chapter looked at the research findings, data analysis and presentation. Findings revealed in this research have been clearly presented, interpreted and analysed in this chapter and these have formed a basis of making an overall conclusion on the impact of non compliance with accounting standards on the financial reporting quality of listed companies.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0   Introduction

The previous chapter focused on the presentation and analysis of data from the research carried out. This chapter gives a summary of the research and the conclusions based on the findings that the researcher has made, on the impact of non compliance with IFRS disclosure requirements. Recommendations to improve current practices are cited at the end.

5.1   Chapter Summaries

Chapter one outlined the background of the study where the researcher explained the issues that prompted her research. Some of the issues were overnight shutdowns by big companies, liquidity crunch as well as stories of companies being delisted from the stock exchange. The statement of the problem was also outlined which is the fact that companies listed on the Zimbabwe stock exchange are not in full compliance wi.th the IFRS disclosure requirements despite the insistence by the ZSE regulations (Section 8.51). The associated sub-research questions as well as the objectives of the study which are to establish the effects of non compliance with accounting standards on the quality of financial reports of listed companies, to show the financial practices listed companies practise in comparison with IFRS, to highlight the views of accounting professionals on compliance with disclosure requirements of IFRS to show challenges faced by listed companies in complying with IFRSs and to establish the best practise in compliance reporting were also tabled. The delimitations, limitations and significance of the study were also stated.

Chapter two explored literature on effects of non compliance where IASB (2008) pointed violation of qualitative characteristics and Lima et al. (2010) and Hodgdon et al (2008) noted increased information asymmetry. Motives behind manipulation of financial records, the challenges faced by listed companies in complying with international standards, professional

views concerning compliance disclosures and the best practise in compliance reporting were well argued by Ibanichuka and Ihendinihu (2012),AI Shammari (2011) and IKpetan and Akande (2012).

Chapter three focused on the methods or techniques that were to be used in conducting the research, that is, methods to be used by the researcher in conducting the research operations which are questionnaires and interviews, with emphasis on the research design in this case, case study series. Data collection and the justification on the use of the identified methods in order to achieve the stated research objectives in this case primary data which include both qualitative and quantitative data was used to complement secondary data. The researcher use questionnaire as the main data collection method and also conducted interviews. Data was collected from auditors, accountants, investment analyst, accounting educators and ZSE officer.

Chapter four was on data presentation techniques, discussion and interpretation of research findings on the study which was done both qualitatively and quantitatively. The results of all research questions were analysed and discussed with the aid of tables and graphs. Data was analysed on a percentage basis and the mean was used as a measure of central tendency in data presentation while the mode was used on data analyses.

5.2   Findings on research objectives

Non compliance with accounting standards violates the qualitative characteristics of useful information. This will mean that the characteristics of being relevant and faithfully representing the economic phenomena will be lost thereby rendering information useless. Complying with IFRS disclosure requirements reduces information asymmetry and this enhances the ability of financial and investment analysts to provide more accurate forecasts.

The major challenges facing the preparers of financial statements were identified as: inventory valuation, depreciation, valuation of tangible assets, foreign currency translation as well as provision for liabilities and charges. There are a variety of methods which are being applied in different periods for example on depreciation, more than one depreciation policy is used in different periods which does not comply with the issue of consistence with accounting policies. Last in first out (LIFO) is still being used as a method of inventory valuation and due to subjectivity in coming up with provisions some understatements and overstatements are still being experienced. Most financial institutions (banks) are still having some challenges in foreign currency translations due to the nature of their transactions that involve more than one currency.

Profitability, liquidity, leverage level and age of the company are positively correlated to the level of disclosure of such companies. High profitability and liquid companies would as much as possible want to advertise themselves while low profit and liquid companies would as well want to conceal all the bad about themselves while the age and size of the company proved not be much of an influence.

Management desire for bonuses and reduction of tax bill remain the challenges that companies are faced with in complying with IFRS disclosure requirements. Where management incentives are based on performance changes of manipulation upwards are high and management want to get rid of the tax bill manipulation downwards is common. A delay in the release of information is more likely to be as a result of insider dealing by management whereby they would want to benefit from inside knowledge before the public does. A lot of companies need financial assistance and therefore to meet the expectations of those financial providers, a lot of manipulation happens along the way.

Compliance with International Financial Reporting Standards requirements is best practice in quality financial reporting. Best practice also encompasses the adoption of IFRSs, adherence to the corporate governance code, reduction in choice of accounting methods, ethical practices by management and auditors as well as timing of genuine transactions.

5.3 Summary of findings

Basing on the research findings it can be concluded that to curb the challenges of high information asymmetry and suspension from the stock exchange, listed companies need to comply with the requirements of IFRSs. This will enhance comparability and transparency thereby attracting investors who will through funding activities help reduce liquidity problems.

5.4 Recommendations

- In order to improve the quality of financial reporting, listed companies should adopt the IFRS disclosure requirements in full. This will enhance comparability. The Zimbabwe Stock Exchange should put punitive measures to deal with those companies that do not comply with IFRS disclosure requirements.

- The corporate governance code should be introduced in companies to equip management on high ethical standards they are expected of as well as a high degree of professionalism.

- Internal Audit should be made a standalone department in different companies so that it enhances its contribution to the organization. The department will assist by monitoring that all the disclosure requirements are adhered to.

- It is necessary to conduct training of both accountants and auditors to enhance understanding of IFRS disclosure requirements. Training removes resistance and bias thereby adding knowledge and skill.

- Companies should adopt a proper organizational structure with observed reporting lines to enhance accountability.

5.5   Suggested areas of further study

The researcher suggests that further research could be carried on the impact of creative accounting on the quality of financial reporting. The findings of this study might be of interest to standard setters and regulators, as well as academic researchers and educators, and the investment community at large.

5.6   Chapter Summary

The chapter looked at the summary of the research and the conclusions from the study. It rounded up the research by making some research-based recommendations to the ZSE and listed companies. The chapter is concluded by recommendations of possible areas requiring further study.

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APPENDIX 1: COVER LETTER

Midlands State University

P.O. Box 9055

Gweru

22 September 2014

Dear Sir/ Madam

RE: QUESTIONNAIRE ON THE IMPACT OF NON-COMPLIANCE WITH ACCOUNTING STANDARDS ON THE QUALITY OF FINANCIAL REPORTING.

My name is Linient Ntuli, a student at Midlands State University doing Bachelor of Commerce (Honours) Degree in Accounting. I am carrying out a research for the partial fulfillment of the requirements of the aforesaid degree programme.

The research is to evaluate the impact of non-compliance with accounting standards on the quality of financial reporting of companies listed on the Zimbabwe Stock Exchange listed companies.

Your assistance in answering the questions in this questionnaire will be greatly appreciated. I assure you that your responses will be held confidential and will not be used for any other purpose other than for this research. Thank you in advance for your assistance.

The following are my contact details for any clarifications which may be needed:

Mobile 0774 021 271

Email lientntuli@gmail.com

Yours faithfully

Linient Ntuli (R12453X)

QUESTIONNAIRE

Dear respondent, my name is Linient Ntuli, a student undertaking a research project on the impact of non compliance with International Financial Reporting Standards (IFRSs) on the quality of financial reporting of companies listed on the Zimbabwe Stock Exchange. May you kindly assist by answering the questions below. You are advised of honesty when answering the questions below and the information provided will be treated with utmost confidentiality and will be used solely for academic purposes.

Instructions

Please answer all questions.

Please provide answers to the following questions by ticking in the boxes given and filling in the spaces provided.

1. What are the effects of non compliance with International Financial Reporting Standards?

	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
Violation of qualitative characteristics					
Information asymmetry					
Increased cost of capital					
Suspension from stock exchange					

2. Which areas are mostly affected by non compliance with IFRS disclosure requirements in the financial statements?

	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
Foreign currency translation					
Inventory valuation					
Valuation of tangible assets					
Depreciation					
Provision for liabilities and charges					
Construction contracts					

3. What are the factors that influence the extent of disclosure by listed companies?

	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
Profitability					
Leverage level					
Liquidity					
Size of the company					
Age of the company					
Geographical spread of the company					

4. What are the motives behind non compliance with IFRS disclosure requirements?

	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
Management desire for bonuses					
Insider dealing by management					
Reduction of the tax bills					
Reduction of the wage bill					
Meeting bank's expectations for loans					
Mergers and takeover purposes					

5. What is the best practice in compliance reporting?

	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
Compliance with IFRS disclosure requirements					
Reduction in choice of accounting methods					
Adherence to the King III report					
Ethical practices by management					
Ethical practices by auditors					
Timing of genuine transactions					

END OF QUESTIONNAIRE: THANK YOU

Appendix 3

INTERVIEW QUESTIONS TO ACCOUNTANTS OF LISTED COMPANIES AND INDEPENDENT AUDITORS

1. What are the effects that non compliance with IFRS disclosure requirements imposes on the quality of financial reporting?

2. What factors hinder listed companies from complying with IFRS disclosure requirements and how they can be addressed?

3. What are the areas that are mostly affected by non compliance with IFRS disclosure requirements?

4. What are the factors that influence the extent of disclosure by listed companies?

5. What should best practise financial reporting entail?