Indonesian Journal of Law and Economics Review

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756



ISSN 2598-9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo
Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Indonesian Journal of Law and Economics Review

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

Table Of Contents

Journal Cover 1
Author[s] Statement 3
Editorial Team 4
Article information 5
Check this article update (crossmark) 5
Check this article impact 5
Cite this article 5
Title page 6
Article Title 6
Author information 6
Abstract 6
Article content 7

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Indonesian Journal of Law and Economics Review

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

Originality Statement

The author[s] declare that this article is their own work and to the best of their knowledge it contains no materials previously published or written by another person, or substantial proportions of material which have been accepted for the published of any other published materials, except where due acknowledgement is made in the article. Any contribution made to the research by others, with whom author[s] have work, is explicitly acknowledged in the article.

Conflict of Interest Statement

The author[s] declare that this article was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

Copyright Statement

Copyright © Author(s). This article is published under the Creative Commons Attribution (CC BY 4.0) licence. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this licence may be seen at http://creativecommons.org/licences/by/4.0/legalcode

Indonesian Journal of Law and Economics Review

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

EDITORIAL TEAM

Editor in Chief

Dr. Wisnu Panggah Setiyono, Universitas Muhammadiyah Sidoarjo, Indonesia (Scopus) (Sinta)

Managing Editor

Rifqi Ridlo Phahlevy , Universitas Muhammadiyah Sidoarjo, Indonesia (Scopus) (ORCID)

Editors

Noor Fatimah Mediawati, Universitas Muhammadiyah Sidoarjo, Indonesia (Sinta

Faizal Kurniawan, Universitas Airlangga, Indonesia (Scopus)

M. Zulfa Aulia, Universitas Jambi, Indonesia (Sinta)

Sri Budi Purwaningsih, Universitas Muhammadiyah Sidoarjo, Indonesia (Sinta)

Emy Rosnawati, Universitas Muhammadiyah Sidoarjo, Indonesia (Sinta)

Totok Wahyu Abadi, Universitas Muhammadiyah Sidoarjo, Indonesia (Scopus)

Complete list of editorial team (link)

Complete list of indexing services for this journal (link)

How to submit to this journal (link)

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Indonesian Journal of Law and Economics Review

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

Article information

Check this article update (crossmark)



Check this article impact (*)















Save this article to Mendeley



(*) Time for indexing process is various, depends on indexing database platform

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Indonesian Journal of Law and Economics Review

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

Same Standards, Different Quality: Class-of-Firm Heterogeneity in Earnings Quality

Ali Thamer Mutasher Nawafly, Ali.th.alhdeede@nahrainunive.edu.iq (*)

Al-Nahrain University, Baghdad, Iraq

(*) Corresponding author

Abstract

General Background Contemporary industrial environments require modern administrative approaches to address rising expenditures and competitive pressures. **Specific Background** Standard costing procedures compare actual outcomes with predetermined benchmarks, while Management by Exception focuses leadership attention exclusively on significant operational deviations. **Knowledge Gap** Many Iraqi manufacturing organizations demonstrate limited reliance on modern variance analysis frameworks, which unnecessarily burdens administrative leaders with routine operational oversight. **Aims** This study demonstrates how variance indicators encourage leadership to adopt exception-based oversight for rationalizing administrative decisions within the State Company for Leather Industries in Baghdad. **Results** Analysis of 2025 production data utilizing Time-Driven Resource Consumption Accounting revealed critical unfavorable deviations in material prices and labor rates alongside unused resource capacities. These variance reports successfully isolated critical inefficiencies from routine activities, allowing leaders to redistribute labor and revise procurement strategies swiftly. **Novelty** The research integrates traditional variance analysis with time-driven capacity measurement to establish a precise threshold mechanism for exception-based industrial oversight. **Implications** Adopting this integrated framework provides timely financial intelligence that reduces administrative time consumption, streamlines operational control, and accelerates corrective decision-making in industrial facilities.

Highlights:

- Integrating time-driven resource analysis isolates unused capacity expenses from general production expenditures.
- Variance reporting mechanisms successfully direct administrative attention toward critical material price and labor rate deviations.
- Establishing predetermined tolerance limits accelerates corrective decision-making and reduces routine operational oversight burdens.

Keywords: Variance Analysis, Resource Consumption Accounting, Operational Control, Industrial Performance, Administrative Leadership

Published date: 2026-11-14

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Indonesian Journal of Law and Economics Review
Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

I. Introduction

The effect of adopting International Financial Reporting Standards (IFRS) on earnings quality remains a contested topic in accounting and finance research. Proponents argue that adoption enhances the transparency of accounting information, reduces variation in accounting policies, increases the comparability of financial statements, and limits accounting manipulation by narrowing management's discretionary flexibility. Another line of research, however, indicates that accounting standards alone do not guarantee higher earnings quality, because their effect depends on the strength of legal and regulatory enforcement, the effectiveness of external auditing, ownership structure, and the institutional incentives that push management either toward faithful disclosure or toward exploiting accounting flexibility [1].

International evidence on the effect of IFRS is mixed. Chen et al. [2] found that mandatory adoption in the European Union was associated with an improvement in most accounting-quality indicators, including less accruals-based earnings management, although it was accompanied by more earnings smoothing and less timely loss recognition. In contrast, Ahmed et al. [3], studying twenty mandatory-adoption countries, documented increased income smoothing and more aggressive accruals after adoption, with the negative effects concentrated in strong-enforcement countries. Daske et al. [4] found that the benefits of adoption are not evenly distributed but are concentrated in countries and firms with strong reporting incentives and effective enforcement. These results confirm that formal adoption does not necessarily produce a uniform improvement in earnings quality and that differences in firms' incentive and monitoring environments may matter more than the accounting standard Itself.

This issue is particularly important in emerging markets, where IFRS often coexists with weak enforcement, uneven audit quality, concentrated ownership, and limited investor protection [5]. Florou and Pope [6] show that institutional investors respond more strongly to mandatory IFRS adoption where enforcement and governance are stronger and where the gap between domestic and international standards is wider. Li et al. [7] report that mandatory adoption improves the usefulness of accounting information in predicting future earnings and cash flows. Studies of the Middle East and North Africa nevertheless show that improvements in earnings quality may be conditional on governance quality [5], while Al-Enzy et al. [8] report a decline in earnings quality as IFRS experience accumulates in Gulf Cooperation Council (GCC) countries. Together, this evidence indicates that the relationship between IFRS and earnings quality is neither linear nor automatic but depends on institutional and market context.

The Iraqi context offers a suitable setting to test this institutional conditionality. In 2016, the Central Bank of Iraq (CBI) issued instructions requiring banks to use IFRS as the basis of accounting under Article 42 of Iraqi Banking Law No. 94 of 2004, and this requirement was strengthened in 2019 when banks were required to apply IFRS 9 (Financial Instruments). In contrast, IFRS adoption by non-financial companies listed on the Iraq Stock Exchange (ISX) remains essentially voluntary, with clear differences in the consistency of application and disclosure [9]. Banks are subject to direct and frequent supervision by the CBI, whereas non-financial companies differ in external audit quality, ownership, exposure to oversight, and incentives for high-quality reporting. This produces a heterogeneous institutional structure within the same market.

Previous Iraqi studies report conflicting results. Ali and Flayyih [10] concluded that adoption did not improve earnings quality in a sample of Iraqi banks. In contrast, Chouaibi and Mutar [11] report that mandatory adoption increased the value relevance of accounting information in Iraqi private banks, and Khalaf and Chakroun [12] report a significant positive relationship between the transition to IFRS and earnings quality. These local studies, despite their importance, were mostly limited to the banking sector, relied on a single earnings-quality measure, and did not differentiate firms according to the strength of their monitoring and governance environment.

Accordingly, this study examines the class-of-firm heterogeneity in the effect of IFRS adoption on earnings quality among ISX-listed firms. Firms are classified as incentive-rich when they meet at least two of three conditions (exposure to regulatory oversight, a Big Four auditor, and foreign or governmental institutional ownership) and as incentive-poor otherwise. The classification rests on the premise that reporting quality is shaped by the interaction between the accounting standard and the institutional environment, not by the standard in isolation [1], [4]. Using a panel of 31 firms (19 banks and 12 non-financial firms) over 2011–2025, the study measures earnings quality through performance-adjusted absolute discretionary accruals and through value relevance, and it separates the effect of voluntary adoption from that of the 2016 CBI mandate.

The main research question is: Does the effect of IFRS adoption on earnings quality differ among ISX-listed firms according to the strength of their monitoring and governance environment? Three sub-questions follow: (1) Do absolute discretionary accruals decrease more for incentive-rich firms after adoption? (2) Does the value relevance of earnings increase more for incentive-rich firms? (3) Is the effect of the 2016 CBI mandate on earnings quality stronger for incentive-rich banks?

The study makes theoretical and practical contributions. Theoretically, it moves beyond estimating the average effect of adoption toward a class-based analysis that reveals differences in responses within a single market, which a pooled coefficient may conceal, and it combines several earnings-quality measures rather than relying on one indicator. Practically, it provides evidence that the ISX, the CBI, and auditors can use to judge whether a formal obligation to apply IFRS is sufficient to improve earnings quality or whether it must be accompanied by enforcement and supervision that ensure substantive application.

II. Literature Review and Hypothesis Development

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

A. Theoretical Framework

1) Agency theory. Agency theory, established by Jensen and Meckling [13], is a prominent framework for explaining the relationship between IFRS adoption and earnings quality. An agency relationship arises when owners entrust management with the firm's resources. This creates two problems: a divergence of interests, as management may maximise its own benefits at the owners' expense, and information asymmetry, as management holds private information about the firm's performance. These problems generate agency costs, and management may resort to earnings management to meet compensation-linked targets, avoid debt-covenant violations, or protect its market reputation [14]. IFRS adoption is therefore expected to reduce information asymmetry by imposing more detailed and comparable disclosure, strengthening owners' ability to monitor management. Governance mechanisms such as high-quality external auditing, institutional ownership, and regulatory oversight act as direct controls that limit management's discretion [15].

2) Signalling theory. Signalling theory, developed by Spence [16], holds that insiders have more precise information about the firm's performance and prospects than outside investors, which can lead to mispricing. Management addresses this asymmetry by sending signals through disclosure decisions and accounting policies. In the IFRS context, adoption serves as a positive signal of commitment to higher-quality and more transparent reporting, reducing information asymmetry and strengthening investor confidence. Ahmed et al. [17] note that the more rigorous disclosure requirements of IFRS reduce information asymmetry and send positive signals to investors, and firms audited by a Big Four firm are better positioned to send credible signals to the market [18].

3) Institutional theory. Institutional theory posits that rganizational behaviour is shaped not only by economic incentives but also by institutional pressures and prevailing social norms. Firms seek legitimacy by complying with rules imposed by regulators, markets, and society. This theory explains variation in corporate responses to IFRS: firms facing strong institutional pressure, such as direct central-bank supervision or capital-market requirements, tend to implement the standards substantively and to disclose more [19]. The theory is particularly relevant in Iraq, given the clear difference between banks supervised by the CBI and non-financial firms facing weaker regulatory obligations.

4) Disclosure theory. Disclosure theory complements the framework by focusing on the role of accounting information in reducing information asymmetry and improving market efficiency. The higher the quality and comprehensiveness of disclosure, the lower the information asymmetry, the more efficient the pricing of securities, and the lower the cost of capital. Owing to their detailed disclosure requirements, IFRS are expected to raise the quality of information available to investors and enable better-informed investment decisions [20], [21].

B. Prior Research

1) IFRS adoption and earnings quality. Global evidence divides into two strands. The first supports the view that adoption improves accounting quality. Chen et al. [2], examining listed firms in 15 EU member states before and after full adoption in 2005, found less earnings management toward targets, smaller absolute discretionary accruals, and higher accrual quality, although they also documented more earnings smoothing and less timely recognition of large losses. The second strand questions any automatic improvement. Ahmed et al. [3] found increased income smoothing and accrual aggressiveness and less timely loss recognition in twenty mandatory-adoption countries, particularly where enforcement was strong. Daske et al. [4] found that benefits are concentrated in firms and countries with strong reporting incentives and effective enforcement. In a comprehensive review, De George et al. [1] conclude that the effect of IFRS depends on the interaction between the standard and the institutional environment, including legal enforcement, audit quality, ownership structure, and incentives for transparent disclosure.

2) IFRS adoption and discretionary accruals. Absolute discretionary accruals (|DA|) are among the most widely used measures of accruals-based earnings management because they capture the extent to which management uses accounting flexibility to influence reported earnings. Chen et al. [2] report lower |DA| after EU adoption, whereas Ahmed et al. [3] report more aggressive accruals in mandatory adopters. Yang et al. [22] document a shift from accrual to real earnings management in strict-enforcement environments, suggesting that IFRS may redirect earnings management from the accounting channel to the operating channel rather than eliminate it. These conflicting findings show that the relationship between adoption and discretionary accruals is shaped by the institutional and regulatory environment.

3) IFRS adoption and value relevance. The second dimension of earnings quality concerns the ability of accounting numbers to explain share value. Devalle et al. [23] found that the influence of earnings on share prices increased in Germany, France, and the United Kingdom after adoption, with differences in explanatory power across countries. Li et al.

[7] report that adoption improves the usefulness of accounting information for predicting future earnings and cash flows. In Turkey, Temiz and Güleç [24] documented an increase in the value relevance of book value but not of earnings. These results suggest that adoption may improve value relevance, but to a degree that varies with institutional context and enforcement quality.

4) Regulatory mandate and corporate governance. Direct regulatory intervention, such as a central bank requiring banks to adopt IFRS, is a different channel from a firm's voluntary choice. Florou and Pope [6] show that institutional

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

investors respond more strongly to mandatory adoption where enforcement and governance are stronger, and Daske et al. [4] find that the capital-market benefits of adoption are concentrated where enforcement and reporting incentives are strong. In Iraq, the 2016 CBI mandate was a direct regulatory intervention for banks, while adoption by non-financial firms remained voluntary. This temporal and sectoral distinction allows the effect of regulatory intervention to be examined separately from voluntary adoption.

ISSN 2598-9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo
Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

5) Research gap. Iraqi evidence on IFRS and earnings quality is conflicting [10], [11], [12], and it has been mostly limited to banks, to single earnings-quality measures, and to designs that do not distinguish firms by the strength of their monitoring environment. This study addresses a gap with three dimensions not combined in previous work: (1) a class-based estimate conditional on the monitoring environment within the Iraqi market; (2) a separation of the 2016 regulatory mandate from voluntary adoption; and (3) the use of more than one earnings-quality measure.

C. Hypothesis Development

H1. Agency theory predicts that IFRS adoption reduces information asymmetry and restricts management's discretion, lowering absolute discretionary accruals. Institutional theory adds that this effect will not be uniform: incentive-rich firms, which are exposed to regulatory oversight, audited by Big Four firms, or held by foreign or governmental institutions, have stronger monitoring that constrains opportunistic behaviour more effectively. The post-adoption decline in |DA| is therefore expected to be more pronounced in this class.

H1: IFRS adoption is associated with a greater decrease in absolute discretionary accruals in incentive-rich firms than in incentive-poor firms.

H2. Signalling and disclosure theories predict that adoption signals a commitment to higher-quality reporting and increases the explanatory power of accounting numbers for share value. Incentive-rich firms are better able to send credible signals because of their stronger governance, which should make their earnings more informative to investors.

H2: IFRS adoption increases the value relevance of earnings to a greater extent in incentive-rich firms than in incentive-poor firms.

H3. Institutional theory views direct regulatory intervention as strong pressure toward substantive implementation, and agency theory views external regulatory control as a monitoring mechanism that constrains opportunistic behaviour more effectively than self-regulation. The effect of the 2016 CBI mandate is therefore expected to be stronger for banks that combine regulatory obligation with strong governance.

H3: The effect of the 2016 Central Bank of Iraq mandate on absolute discretionary accruals is stronger for incentive-rich banks than for incentive-poor banks.

III. Method

A. Research Design

The study uses a quantitative, quasi-experimental panel design that compares pre- and post-adoption periods and exploits variation in the timing of adoption across firms and sectors. Multivariate regressions with firm and year fixed effects isolate the adoption effect from other determinants of earnings quality. A difference-in-differences (DID) design examines the 2016 CBI mandate by comparing mandated banks with non-financial firms that were not subject to the mandate, and a class-of-firm analysis distinguishes incentive-rich from incentive-poor firms.

B. Population and Sample

The population comprises companies listed on the ISX during 2011–2025, including banks and non-financial firms in industry, telecommunications, hotels and tourism, and agriculture. The sample consists of 31 listed companies (465 firm-year observations), selected on the basis of the availability of complete audited financial statements throughout the period; firms with missing data or suspended trading were excluded. Table 1 shows the distribution of the sample.

Table 1. Distribution of the sample by firm type and incentive class

Firm type	Number of firms	Incentive-rich	Incentive-poor	Firm-year observations	Share of panel
Banks	19	12	7	285	61.3%
Non-financial firms	12	7	5	180	38.7%
Total	31	19	12	465	100%

Banks constitute the largest part of the sample (61.3%), reflecting the dominance of the banking sector on the ISX. The incentive classification does not coincide with firm type, since both banks and non-financial firms appear in each class, which permits within-market comparisons while preserving the institutional distinction between sectors.

C. Classification by Incentive Class

Firms are classified into an incentive-rich class and an incentive-poor class using three criteria drawn from international research on governance and monitoring [4], [6]: (1) exposure to regulatory oversight, i.e., direct supervision by a regulator such as the CBI; (2) a Big Four auditor (Deloitte, PwC, EY, or KPMG); and (3) significant foreign institutional or governmental ownership. A firm is classified as incentive-rich if it meets at least two of the three criteria and as incentive-poor otherwise. These mechanisms act as monitoring and governance tools that constrain managerial discretion and enhance reporting quality [13], [25].

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Indonesian Journal of Law and Economics Review
Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

D. Data Sources

Data were collected from (1) audited annual reports of ISX-listed firms, for assets, liabilities, net income, accruals, book value, and earnings per share; (2) ISX market data, including share prices three months after fiscal year-end; (3) audit reports, to identify Big Four auditors; (4) accounting-policy disclosures, to determine the timing and type (voluntary or mandatory) of IFRS adoption; and (5) regulatory documents issued by the CBI and the ISX.

E. Variables and Measurement

1) Dependent variables (earnings quality). Absolute discretionary accruals (|DA|) are estimated with the performance-adjusted modified Jones model [26], which regresses total accruals on the change in revenues net of the change in receivables, the level of property, plant and equipment, and return on assets (ROA) to control for operating performance. The absolute value of the residual is used, with higher values indicating more earnings management and lower earnings quality. Value relevance is measured by the ability of earnings per share (NI) and book value per share (BV) to explain share price (P), following Ohlson [27]. The model is estimated separately for each incentive class and for the pre- and post-adoption periods, and the earnings coefficient is compared across periods within each class.

2) Independent variables. IFRS is a dummy variable equal to 1 if the firm-year is reported under IFRS and 0 if reported under local standards. POST_BANK equals 1 for bank observations after 2016, when the CBI instructions applied, and 0 otherwise. CLASS_RICH equals 1 if the firm belongs to the incentive-rich class and 0 otherwise.

3) Control variables. Table 2 defines the control variables.

Table 2. Control variables

Variable	Symbol	Definition	Theoretical basis
Firm size	SIZE	Natural logarithm of total assets (millions of Iraqi dinars)	Larger firms have stronger monitoring and governance resources
Financial leverage	LEV	Total liabilities ÷ total assets	Leverage increases earnings-management pressure
Return on assets	ROA	Net income ÷ total assets	Operating performance affects accruals
Loss	LOSS	1 if net income is negative, 0 otherwise	Loss-making firms tend toward more earnings management
Big Four audit	BIG4	1 if audited by a Big Four firm, 0 otherwise	Audit quality affects earnings quality

F. Empirical Models

Model 1 (baseline pooled model) estimates the average effect of adoption on |DA|:

$$|DA|_{it} = \alpha + \beta_1 IFRS_{it} + \gamma X_{it} + \mu_i + \tau_t + \varepsilon_{it} \quad (1)$$

where Xit is the vector of control variables (SIZE, LEV, ROA, LOSS, BIG4), μi and τt are firm and year fixed effects, and εit is the error term.

Model 2 (interaction model, H1) adds the incentive class and its interaction with adoption:

$$|DA|_{it} = \alpha + \beta_1 IFRS_{it} + \beta_2 CLASS_RICH_i + \beta_3 (IFRS_{it} \times CLASS_RICH_i) + \gamma X_{it} + \mu_i + \tau_t + \varepsilon_{it} \quad (2)$$

where β1 is the adoption effect for incentive-poor firms and β3 the additional effect for incentive-rich firms, so that the total effect for incentive-rich firms is β1 + β3.

Model 3 (regulatory mandate model, H3) uses a DID design for the 2016 CBI mandate:

$$|DA|_{it} = \alpha + \beta_1 POST_BANK_{it} + \beta_2 CLASS_RICH_i + \beta_3 (POST_BANK_{it} \times CLASS_RICH_i) + \gamma X_{it} + \mu_i + \tau_t + \varepsilon_{it} \quad (3)$$

where β1 is the mandate effect for incentive-poor banks and β3 the additional effect for incentive-rich banks.

Model 4 (value-relevance model, H2) is estimated separately by class and period:

$$P_{it} = \beta_0 + \beta_1 BV_{it} + \beta_2 NI_{it} + \varepsilon_{it} \quad (4)$$

where Pit is the share price three months after fiscal year-end, BVit is book value per share, and NIit is earnings per share. H2 is tested by comparing β2 across periods within each class.

Supplementary smoothing measure. As a triangulation measure without a formal hypothesis, earnings smoothing is measured as the correlation between the change in accruals (ΔACC) and the change in operating cash flows (ΔCFO) within

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

each class and period; a more negative correlation indicates more smoothing and lower earnings quality.

G. Econometric Considerations

Because adoption is staggered across firms, two-way fixed-effects estimators may be biased. Baker et al. [28] show that staggered DID estimators can be biased when treatment timing differs across units, leading to Type I or Type II errors. The results are therefore interpreted alongside event-study diagnostics and cohort-specific estimates rather than relying on a single average effect. Standard errors are clustered at the firm level to address serial correlation and heteroskedasticity.

IV. Results and Discussion

A. Descriptive Statistics

Table 3 shows that mean |DA| is 0.071, while mean signed DA is close to zero (−0.006), indicating that positive and negative accruals roughly offset each other. The mean of IFRS is 0.585, so more than half of the available observations are reported under IFRS.

Table 3. Descriptive statistics

Variable	N	Mean	Median	Std. dev.	Min	Max
|DA|	390	0.071	0.064	0.041	0.004	0.214
Signed DA	390	−0.006	−0.004	0.038	−0.167	0.152
SIZE	420	14.394	14.448	1.373	10.443	17.815
LEV	420	0.518	0.538	0.171	−0.041	0.913
ROA	420	0.011	0.012	0.020	−0.061	0.069
LOSS	420	0.191	0.000	0.394	0.000	1.000
BIG4	420	0.355	0.000	0.479	0.000	1.000
IFRS	420	0.585	1.000	0.493	0.000	1.000

Note: |DA| is absolute discretionary accruals; SIZE is the logarithm of total assets; LEV is total liabilities divided by total assets; ROA is net income divided by total assets; LOSS, BIG4, and IFRS are binary variables.

Table 4 compares mean |DA| before and after adoption by class. Incentive-rich firms show a significant decrease (from 0.0856 to 0.0521, a decline of 0.0335, $p < 0.01$), whereas incentive-poor firms show no significant change (−0.0046, $p = 0.451$). The difference in changes between the classes (−0.0289) is significant at the 1% level, providing preliminary evidence that the effect of adoption is concentrated in incentive-rich firms.

Table 4. Mean absolute discretionary accruals before and after IFRS adoption by incentive class

Class	|DA| pre-adoption (2011–2015)	|DA| post-adoption (2016–2025)	Change	p-value
Incentive-rich	0.0856	0.0521	−0.0335	<0.001***
Incentive-poor	0.0856	0.0810	−0.0046	0.451
Difference (rich − poor)	—	—	−0.0289	0.004***

Note: The p-value for the difference tests whether the decline is greater for incentive-rich firms. *** denotes significance at the 1% level.

B. Baseline Regression

Table 5 reports the baseline pooled model with firm and year fixed effects. The IFRS coefficient is negative and significant at the 1% level (−0.0265), indicating that reporting under IFRS is associated with a 0.0265 reduction in |DA| after controls. BIG4 is also negative and significant (−0.0091), indicating an independent association between audit quality and lower discretionary accruals.

Table 5. Baseline panel regression of absolute discretionary accruals

Variable	Coefficient	Clustered SE	t-statistic	p-value
Constant	0.0503	0.0160	3.15	0.002***
IFRS	−0.0265	0.0039	−6.80	<0.001***
SIZE	0.0026	0.0012	2.18	0.030**
LEV	0.0053	0.0097	0.55	0.587
ROA	−0.0019	0.1020	−0.02	0.985
LOSS	−0.0016	0.0058	−0.28	0.782
BIG4	−0.0091	0.0035	−2.60	0.010***
Firm fixed effects	Yes			
Year fixed effects	Yes			
Firms / firm-years	31 / 390			
Within R^2	0.286			

Note: The dependent variable is |DA|. Standard errors are clustered at the firm level. ***, **, and * denote significance at the

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

1%, 5%, and 10% levels, respectively.

C. Interaction Model (H1)

Table 6 adds the incentive class and its interaction with IFRS. The IFRS coefficient for incentive-poor firms is −0.0090 and significant only at the 10% level, while the IFRS × CLASS_RICH interaction is −0.0269 and significant at the 1% level, implying a total adoption effect of approximately −0.0359 for incentive-rich firms. The reduction in discretionary accruals is thus concentrated in incentive-rich firms.

Table 6. Interaction model: IFRS adoption and incentive class

Variable	Coefficient	Clustered SE	t-statistic	p-value
Constant	0.0562	0.0148	3.80	<0.001***
IFRS	−0.0090	0.0048	−1.88	0.063*
CLASS_RICH	−0.0011	0.0043	−0.26	0.803
IFRS × CLASS_RICH	−0.0269	0.0061	−4.41	<0.001***
SIZE	0.0021	0.0011	1.91	0.062*
LEV	0.0023	0.0095	0.24	0.810
ROA	−0.0238	0.0987	−0.24	0.810
LOSS	−0.0013	0.0056	−0.23	0.822
BIG4	0.0005	0.0029	0.17	0.857
Firm fixed effects	Yes			
Year fixed effects	Yes			
Firms / firm-years	31 / 390			

Note: CLASS_RICH is fixed over the study period. BIG4 is retained as a separate control variable.

D. Regulatory Mandate Models (H3)

Table 7 reports the DID model for the 2016 CBI mandate. The POST_BANK coefficient is negative and significant at the 1% level (−0.0226), indicating a decrease in |DA| after the mandate. Given the structural differences between banks and non-financial firms, this result is interpreted together with the class interaction in Table 8.

Table 7. Difference-in-differences: 2016 Central Bank of Iraq mandate

Variable	Coefficient	Clustered SE	t-statistic	p-value
Constant	0.0157	0.0199	0.79	0.432
POST_BANK	−0.0226	0.0047	−4.77	<0.001***
BIG4	−0.0115	0.0035	−3.32	<0.001***
SIZE	0.0042	0.0013	3.28	0.001***
LEV	0.0159	0.0093	1.70	0.089*
ROA	0.0309	0.1012	0.31	0.760
LOSS	−0.0009	0.0060	−0.15	0.881
Firm fixed effects	Yes			
Year fixed effects	Yes			
Firms / firm-years	31 / 390			

Note: POST_BANK equals 1 for bank observations after the CBI mandate. Standard errors are clustered at the firm level.

Table 8 adds the interaction between the mandate and incentive class. The DID coefficient for incentive-poor banks is not significant (−0.0020), whereas the DID × CLASS_RICH interaction is negative and significant at the 1% level (−0.0213), implying a total mandate effect of approximately −0.0233 for incentive-rich banks. Responsiveness to the regulatory mandate therefore depends on the strength of the monitoring environment.

Table 8. Difference-in-differences with incentive-class interaction

Variable	Coefficient	Clustered SE	t-statistic	p-value
Constant	0.0834	0.0161	5.18	<0.001***
DID	−0.0020	0.0036	−0.56	0.578
CLASS_RICH	−0.0106	0.0053	−2.00	0.045**
DID × CLASS_RICH	−0.0213	0.0055	−3.87	<0.001***
SIZE	−0.0007	0.0011	−0.64	0.526
LEV	0.0172	0.0075	2.28	0.022**
ROA	0.1149	0.1214	0.95	0.344
LOSS	0.0066	0.0056	1.18	0.239
BIG4	0.0017	0.0048	0.36	0.721
Firm fixed effects	Yes			
Year fixed effects	Yes			
Firms / firm-years	31 / 390			

ISSN 2598-9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo
Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

Note: DID × CLASS_RICH measures the additional mandate effect for the incentive-rich class.

E. Value Relevance (H2) and Smoothing

Table 9 reports the price regressions. The earnings coefficient (NI) does not move in the expected direction: it decreases for incentive-rich firms (from 5.370 to 3.153) but increases for incentive-poor firms (from −1.299 to 6.585). H2 is therefore not supported.

Table 9. Price regressions by incentive class and period

Class and period	BV coefficient (t)	NI coefficient (t)	Adjusted R^2	N
Incentive-rich, 2011–2015	0.947 (44.50)	5.370 (8.09)	0.973	95
Incentive-rich, 2016–2025	0.840 (95.38)	3.153 (9.53)	0.980	190
Incentive-poor, 2011–2015	0.870 (48.21)	−1.299 (−2.05)	0.976	60
Incentive-poor, 2016–2025	0.766 (42.07)	6.585 (9.46)	0.973	120

Table 10 shows that the correlation between ΔACC and ΔCFO is negative for both classes in both periods and becomes less negative after adoption, but the table alone does not show that the change differs significantly between the classes.

Table 10. Correlation between the change in accruals and the change in operating cash flows

Class and period	Correlation	p-value	N
Incentive-rich, pre-adoption	−0.394	<0.001***	76
Incentive-rich, post-adoption	−0.259	<0.001***	190
Incentive-poor, pre-adoption	−0.344	0.017**	48
Incentive-poor, post-adoption	−0.265	0.003***	120

Note: A negative correlation is consistent with earnings smoothing. *** and ** denote significance at the 1% and 5% levels, respectively.

F. Robustness and Diagnostic Tests

Table 11 summarises robustness tests examining whether the main result holds under reasonable changes in sample, timing, and inference. The negative association persists in the matched sample and after excluding the IFRS 9 transition years, while the insignificant placebo estimate is consistent with the absence of an effect at a false adoption date.

Table 11. Summary of robustness tests

Robustness check	Estimate	p-value	Interpretation
Matched incentive-rich sample: |DA| pre vs. post	−0.0349	<0.001***	Consistent with main result
Placebo timing: adoption shifted to 2013 (signed DA)	0.0037	0.592	No significant placebo effect
Excluding 2019–2020 IFRS 9 transition years	−0.0201	0.009***	Consistent with main result
Narrow window: 2013–2018	−0.0175	0.041**	Weaker but directionally consistent
Wild-cluster bootstrap for POST_BANK	−0.0226	0.018**	Inference remains similar

Note: ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 12 reports Pearson correlations. IFRS has a moderate negative correlation with |DA| (−0.326), consistent with the regression results. The relatively high correlation between ROA and LOSS (−0.697) reflects the mechanical link between losses and profitability.

Table 12. Pearson correlation matrix

Variable	|DA|	SIZE	LEV	ROA	LOSS	BIG4	IFRS
|DA|	1.000						
SIZE	−0.103	1.000					
LEV	−0.019	0.471	1.000				
ROA	0.042	0.020	0.051	1.000			
LOSS	0.011	−0.033	−0.061	−0.697	1.000		
BIG4	−0.150	0.030	0.028	−0.079	0.075	1.000	
IFRS	−0.326	0.154	0.116	−0.012	−0.026	0.105	1.000

Table 13 shows that the sign and significance of the DID × CLASS_RICH interaction remain stable across the modified Jones model [29], the original Jones model [30], the performance-matched model [26], and alternative sample windows.

Table 13. Robustness of the incentive-class interaction across accrual models and sample windows

Specification	DID × CLASS_RICH coefficient	SE	p-value	Conclusion
Modified Jones model	−0.0209	0.0071	0.004***	Consistent
Jones model	−0.0217	0.0041	<0.001***	Consistent
Performance-matched model (base case)	−0.0213	0.0055	<0.001***	Consistent
Sample window: 2012–2025	−0.0194	0.0047	<0.001***	Consistent

ISSN 2598-9928 (online), https://ijler.umsida.ac.id, published by Universitas Muhammadiyah Sidoarjo
Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

Specification	DID × CLASS_RICH coefficient	SE	p-value	Conclusion
Sample window: 2013–2025	−0.0247	0.0050	<0.001***	Consistent

Note: *** denotes significance at the 1% level.

Table 14 shows that matching improves balance in SIZE and LEV but does not fully balance ROA, so ROA is retained as a control in the matched regressions and the result is interpreted with caution.

Table 14. Covariate balance before and after matching (incentive-rich subsample)

Covariate	SMD before matching	SMD after matching	Assessment
SIZE	−0.008	0.002	Balanced
LEV	0.319	0.046	Balanced
ROA	−0.312	−0.201	Not fully balanced

Note: Standardised mean differences (SMD) below 0.10 are generally treated as indicating adequate balance.

G. Discussion

1) First hypothesis. The results support H1. The IFRS × CLASS_RICH interaction is −0.0269 ($p < 0.01$), so the total effect of adoption is approximately −0.0359 for incentive-rich firms compared with −0.0090 for incentive-poor firms. This is consistent with agency theory, under which governance mechanisms such as high-quality auditing, institutional ownership, and regulatory oversight constrain managerial discretion [13], and with institutional theory, under which firms facing stronger institutional pressure implement standards substantively while less-exposed firms may settle for formal adoption [19]. The finding also agrees with Daske et al. [4], who find that the benefits of adoption are concentrated where reporting incentives and enforcement are strong, and with De George et al. [1], who conclude that the effect of IFRS depends on the interaction between the standard and the institutional environment. It further complements Chen et al. [2], who report improved accounting quality after EU adoption.

2) Second hypothesis. H2 is not supported. The earnings coefficient decreases for incentive-rich firms (5.370 to 3.153) and increases for incentive-poor firms (−1.299 to 6.585), contrary to the theoretical expectation. The relationship between adoption and value relevance therefore appears more complex than signalling and disclosure theories alone suggest. The increase for incentive-poor firms may reflect their very low pre-adoption value relevance, leaving more room for improvement, whereas incentive-rich firms already had high value relevance before adoption. The result may also reflect market factors such as price volatility or changes in liquidity that the price model does not fully capture. This pattern is consistent with the cross-country variation reported by Devalle et al. [23] and with Temiz and Güleç [24], who found increased value relevance of book value but not of earnings in Turkey. It also supports the view of De George et al. [1] that the effect of adoption depends on the dimension of reporting quality being measured.

3) Third hypothesis. The results support H3. The DID × CLASS_RICH interaction is −0.0213 ($p < 0.01$), giving a total mandate effect of approximately −0.0233 for incentive-rich banks, compared with an insignificant −0.0020 for incentive-poor banks. This agrees with institutional theory, which views direct regulatory intervention as strong pressure toward substantive implementation, and with agency theory, which views external regulatory control as a stronger constraint on opportunistic behaviour than self-regulation. It is also consistent with Florou and Pope [6], who find stronger responses to mandatory adoption where enforcement and governance are stronger, and with evidence that mandatory adoption produces stronger effects when combined with strong governance [4], [3]. In Iraq, the result reflects the relative effectiveness of the CBI instructions in prompting incentive-rich banks to improve their reporting.

4) Divergence among earnings-quality measures . While |DA| shows a clear pattern consistent with H1 and H3, value relevance does not, and the smoothing measure shows no significant difference between classes after adoption. Earnings quality is therefore a multidimensional construct that cannot be reduced to one measure: discretionary accruals capture accounting earnings management, value relevance captures the ability of accounting numbers to explain share value, and smoothing captures the management of the timing of reported earnings. IFRS may restrict accrual flexibility without necessarily improving the market pricing of earnings or eliminating smoothing, consistent with Yang et al. [22], who document a shift toward real rather than accrual earnings management in strict-enforcement environments.

5) Comparison with previous Iraqi studies. The lower discretionary accruals of incentive-rich banks are consistent with Khalaf and Chakroun [12], who report a positive relationship between the transition to IFRS and earnings quality in Iraqi banks, but differ from Ali and Flayyih [10], who found no improvement; this difference may reflect variation in sample, period, and method. The value-relevance result differs partly from Chouaibi and Mutar [11], who report higher value relevance after mandatory adoption in Iraqi private banks; in the present sample the increase appears only for incentive-poor firms. By decomposing the effect by class within the Iraqi market, this study adds a dimension that previous local studies have not addressed explicitly.

V. Conclusion

This study examined whether the effect of IFRS adoption on earnings quality differs among ISX-listed firms according to the strength of their monitoring and governance environment, using a panel of 31 firms over 2011–2025, several earnings-quality measures, and multiple econometric designs. The relationship between IFRS adoption and earnings quality is neither uniform nor automatic but conditional on the institutional and regulatory environment. The post-adoption decline in absolute discretionary accruals is concentrated in incentive-rich firms, and the effect of the 2016 CBI mandate is stronger for incentive-rich banks. In contrast, value relevance does not increase more for incentive-rich firms, and smoothing measures

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

show no significant difference between classes. IFRS adoption should therefore be evaluated not as a stand-alone technical reform but as an institutional reform whose outcomes depend on enforcement, auditing, ownership, and governance.

Two recommendations follow. First, the ISX and the CBI should strengthen enforcement to ensure substantive rather than formal application of IFRS, and should encourage non-financial firms to adopt IFRS through regulatory and market incentives that account for sectoral differences. Second, high-quality external auditing should be reinforced as a complementary monitoring mechanism, especially for firms lacking strong institutional ownership, together with specialised training for accountants and auditors on demanding standards such as IFRS 9. The study is limited by its relatively small sample of 31 firms and by the binary incentive classification; future research could use larger samples, continuous measures of governance strength, and measures of real earnings management.

Acknowledgment

The author thanks Al-Nahrain University for its support. [Author to confirm or revise.]

Funding

This research received no external funding. [Author to confirm; if funded, state the funder name and contract number.]

Conflict of Interest

The author declares no conflict of interest.

References

1. E. T. De George, X. Li, and L. Shivakumar, “A review of the IFRS adoption literature,” Review of Accounting Studies, vol. 21, no. 3, pp. 898–1004, 2016.
2. H. Chen, Q. Tang, Y. Jiang, and Z. Lin, “The role of International Financial Reporting Standards in accounting quality: Evidence from the European Union,” Journal of International Financial Management & Accounting, vol. 21, no. 3, pp. 220–278, 2010.
3. A. S. Ahmed, M. Neel, and D. Wang, “Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence,” Contemporary Accounting Research, vol. 30, no. 4, pp. 1344–1372, 2013.
4. H. Daske, L. Hail, C. Leuz, and R. Verdi, “Mandatory IFRS reporting around the world: Early evidence on the economic consequences,” Journal of Accounting Research, vol. 46, no. 5, pp. 1085–1142, 2008.
5. A. A. Klish, M. F. Shubita, and J. Wu, “IFRS adoption and financial reporting quality in the MENA region,” Journal of Applied Accounting Research, vol. 23, no. 3, pp. 570–603, 2022.
6. A. Florou and P. F. Pope, “Mandatory IFRS adoption and institutional investment decisions,” The Accounting Review, vol. 87, no. 6, pp. 1993–2025, 2012.
7. S. Li, T. Sougiannis, and S. I. Wang, “Mandatory IFRS adoption and the usefulness of accounting information in predicting future earnings and cash flows,” The International Journal of Accounting, vol. 60, no. 1, Art. no. 2450016, 2025.
8. N. S. Al-Enzy, R. Monem, and S. Nahar, “IFRS experience and earnings quality in the GCC region,” International Journal of Managerial Finance, vol. 19, no. 3, pp. 670–690, 2023.
9. International Monetary Fund, “IMF Annual Report 2021: Build Forward Better,” IMF, Washington, DC, USA, 2021. [Online]. Available: https://www.imf.org/external/pubs/ft/ar/2021/eng/downloads/
10. Z. N. Ali and H. H. Flayyih, “Empirical study on the effect of adopting the International Financial Reporting Standards (IFRS) on the quality of earnings using Beneish model in a sample of banks listed in the Iraqi Stock Exchange,” Studies of Applied Economics, vol. 39, no. 11, 2021.
11. J. Chouaibi and S. M. Mutar, “The impact of mandatory IFRS adoption on the value relevance of published accounting information: Evidence from Iraqi private banks,” Asian Journal of Economics, Business and Accounting, vol. 24, no. 3, pp. 125–138, 2024.
12. M. F. Khalaf and R. Chakroun, “Impact of the transition to IFRS on improving the quality of accounting earnings: An applied study on a sample of Iraqi banks,” Arab Journal of Administrative Sciences, vol. 33, no. 1, pp. 193–215, 2026.
13. M. C. Jensen and W. H. Meckling, “Theory of the firm: Managerial behavior, agency costs and ownership structure,” Journal of Financial Economics, vol. 3, no. 4, pp. 305–360, 1976.
14. P. M. Healy and J. M. Wahlen, “A review of the earnings management literature and its implications for standard setting,” Accounting Horizons, vol. 13, no. 4, pp. 365–383, 1999.
15. R. L. Watts and J. L. Zimmerman, “Positive accounting theory: A ten year perspective,” The Accounting Review, vol. 65, no. 1, pp. 131–156, 1990.
16. M. Spence, “Job market signaling,” in Uncertainty in Economics, P. Diamond and M. Rothschild, Eds. New York, NY, USA: Academic Press, 1978, pp. 281–306.
17. D. M. Ahmed, Z. Azhar, and A. J. Mohammad, “Integrative impact of corporate governance and international standards for accounting (IAS, IFRS) in reducing information asymmetry,” Mitanni Journal for Humanities and Social Sciences, vol. 5, no. 1, pp. 567–582, 2024.
18. R. D. Morris, “Signalling, agency theory and accounting policy choice,” Accounting and Business Research, vol. 18, no. 69, pp. 47–56, 1987.
19. P. J. DiMaggio and W. W. Powell, “The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields,” American Sociological Review, vol. 48, no. 2, pp. 147–160, 1983.
20. R. E. Verrecchia, “Discretionary disclosure,” Journal of Accounting and Economics, vol. 5, pp. 179–194, 1983.

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).

Vol. 21 No. 4 (2026): November
DOI: 10.21070/ijler.v21i4.1756

21. C. Leuz and R. E. Verrecchia, “The economic consequences of increased disclosure,” Journal of Accounting Research, vol. 38, pp. 91–124, 2000.
22. Y. J. Yang, Y. Hsu, Q. L. Kweh, and J. Asif, “Accrual vs. real earnings management in internationally diversified firms: The role of institutional supervision,” Journal of Risk and Financial Management, vol. 18, no. 7, Art. no. 404, 2025.
23. A. Devalle, E. Onali, and R. Magarini, “Assessing the value relevance of accounting data after the introduction of IFRS in Europe,” Journal of International Financial Management & Accounting, vol. 21, no. 2, pp. 85–119, 2010.
24. H. Temiz and Ö. F. Güleç, “Mandatory adoption of IFRS in emerging markets: The case of Turkey,” Accounting and Management Information Systems, vol. 16, no. 4, pp. 560–580, 2017.
25. M. DeFond and J. Zhang, “A review of archival auditing research,” Journal of Accounting and Economics, vol. 58, no. 2–3, pp. 275–326, 2014.
26. S. P. Kothari, A. J. Leone, and C. E. Wasley, “Performance matched discretionary accrual measures,” Journal of Accounting and Economics, vol. 39, no. 1, pp. 163–197, 2005.
27. J. A. Ohlson, “Earnings, book values, and dividends in equity valuation,” Contemporary Accounting Research, vol. 11, no. 2, pp. 661–687, 1995.
28. A. C. Baker, D. F. Larcker, and C. C. Y. Wang, “How much should we trust staggered difference-in-differences estimates?,” Journal of Financial Economics, vol. 144, no. 2, pp. 370–395, 2022.
29. P. M. Dechow, R. G. Sloan, and A. P. Sweeney, “Detecting earnings management,” The Accounting Review, vol. 70, no. 2, pp. 193–225, 1995.
30. J. J. Jones, “Earnings management during import relief investigations,” Journal of Accounting Research, vol. 29, no. 2, pp. 193–228, 1991.

Copyright © Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY).