Decision Usefulness of International Financial Reporting Standards (IFRS) in Financial Reports: Evidence from Australian Bank-lending Officers

Adel Dhaher Alresheedi

A thesis submitted to fulfil the requirements for Master of Research

Faculty of Business and Economics
Department of Accounting and Corporate Governance
Macquarie University
Sydney, Australia

October 2016

STATEMENT OF CANDIDATE

I certify that the work in this thesis entitled "**Decision Usefulness of International Financial Reporting Standards (IFRS) in Financial Reports: Evidence from Australian Bank-lending Officers**" has not previously been submitted for a degree nor has it been submitted as part of the requirements for a degree to any other university or institution other than Macquarie University.

I also certify that the thesis is an original piece of research and it has been written by me. Any help and assistance that I have received in my research work and the preparation of the thesis itself have been appropriately acknowledged.

In addition, I certify that all information sources and literature used are indicated in the thesis. The research presented in this thesis was approved by Macquarie University Ethics Review Committee, reference number **5201600245,** on **13/04/2016**.

Adel Dhaher Alresheedi (43880983)
29/09/2016

TABLE OF CONTENTS

LIST OF TABLES

ACKNOWLEDGMENTS

First, I would like to say thanks to my supervisors, Dr Rajni Mala and Professor Lorne Cummings, for their support and guidance in my first research journey. Second, a special thanks to everyone at Macquarie University who helped in administering my Master of Research (MRes). Finally, many thanks to all my family and friends who supported and motivated me along the way.

SUMMARY

The International Accounting Standards Board (IASB) reports that the objective of the International Financial Reporting Standards (IFRS) is to ensure that the financial information provided by companies is useful for the economic decision-making for a variety of users (IASB, 2015). It is anticipated that bank-lending officers may not perceive all the disclosures, recognition and measurement concepts in IFRS financial reports and the subsequent amendments relating to disclosures as being primarily useful for assessing the credit risk or creditworthiness of companies when granting a term loan. Therefore, two primary objectives guide the overall study – determining whether bank-lending officers perceive the accounting disclosures and measurement requirements of the IFRS useful for making their lending decisions, and whether the bank-lending officers perceive the subsequent amendments to the IFRS to be useful. The study employs a mixed methods approach of data collection, that is, a combination of quantitative data, collected through questionnaire surveys, and qualitative data, collected through semi-structured interviews.

CHAPTER 1
INTRODUCTION

1.1 Introduction

The quality of financial information plays a vital role in determining the economic reality of a company by providing detailed and standardised financial statements and disclosures. The International Financial Reporting Standards (IFRS) have been essential in improving the quality of financial reporting because they reduce information asymmetry between the perceptions of company management and the users of the financial statements (Jara, Ebrero, & Zapata, 2011). IFRS financial statements offer standardised disclosures, better comparability, and more reliable information for financial statement users to inform their decision-making, and for the benefit of the entire accounting profession (Jara et al., 2011).

Governments benefit from the adoption of IFRS because it allows them to cut the cost of accounting standard-setting bodies (Haswell & McKinnon, 2003). Investors benefit even more because, according to financial theory, returns to investors increase and risks are reduced by holding an international portfolio of investments (Sendi & Bellalah, 2010), and adopting IFRS enables investors to compare the performance of international companies, despite diversity in the accounting standards used in different countries (Sendi & Bellalah, 2010).

Lending institutions, such as banks, are also interested in IFRS financial statements. Lending decisions are typically based on assessments about a company's creditworthiness or credit risk, including its capacity to repay a loan, its liquidity and its profitability, using the information provided in financial statements (Kitindi, Magembe, & Sethibe, 2007). Moreover, it has been argued that the adoption of IFRS is associated with a reduction in the cost of capital for firms (Charitou, Louca, & Panayides, 2007; Epstein, 2009).

In Australia, the adoption of IFRS began in 1996, and became mandatory for listed companies on 1 January 2005 (McGregor, 2012). Australia's adoption of IFRS has led to higher global comparability of financial reports, the provision of higher quality information to lenders, and has helped multinational companies reduce the cost of financial reporting (McGregor, 2012).

Many researchers have analysed the use of IFRS financial statements from an investor's perspective (Byard, Li, & Yu, 2011; Hodgdon, Tondkar, Harless, & Adhikari, 2008; Landsman, Maydew, & Thornock, 2012; Lourenço, Branco, & Castelo, 2015; Palea, 2013; Sendi & Bellalah, 2010; Stanko & Zeller, 2010; Tucker, Misirlioglu, Gonis, & Yukselturk, 2012). For example, research conducted by Palea (2013) identifies the differences in the quality of financial reporting, from an investor's perspective, in the European Union (EU) after the adoption of IFRS and finds that detailed and higher quality disclosures in financial statements reduce investor apprehensions about the possibility of inside information. Similarly, Lourenço et al. (2015) indicate that mandatory IFRS adoption, and particularly the removal of multiple accounting treatments from different countries, enables investors to make more well-informed decisions about their investments.

However, limited research has been undertaken on the relationship between the quality of IFRS-compliant financial statements and a loan officer's decision to grant a loan. Loan officers are highly concerned with whether financial statements provide a true and fair view and are free from material misstatements, given they are used to identify and analyse interest coverage, the capacity to generate cash flow, profitability, and the economic reality of the applicant (Lagrange, Viger, Anandarajan, & de coopération Guy-Bernier, 2015). McGregor (2013) argues that IFRS allows users, such as loan officers, to better understand a company's financial position which may, in turn, lead to increased debt financing. However, there is limited research in this area and, as a result, which financial information is actually useful for a loan officer's decision-making purposes is unclear.

Additionally, amendments have been made to the nature of disclosures surrounding the contribution of assets to a firm, its associates, or any other joint ventures, along with added guidelines for exemptions to the consolidation of assets (Gornik-Tomaszewski & Larson, 2014). The assumption that such changes directly impact various aspects of financial statements, and have the potential to impact lending decisions, forms another key consideration of this study.

In this thesis, decision usefulness theory is deployed to analyse the usefulness of financial information, based on IFRS that companies in Australia provide to the users of financial statements – especially banks. Decision usefulness theory focuses on the needs of users and how they use the information provided (Florou & Kosi, 2015). Given that loan officers analyse financial information to determine the credit worthiness of the borrower and the risks involved in granting a loan (Florou & Kosi, 2015), this theory is critical for explaining the relevance of IFRS to loan officers.

This thesis uses a mixed methods approach to provide a comprehensive analysis of these issues. A questionnaire survey of lending officers was undertaken, followed by interviews with three senior officers. The survey is designed to garner the lending officers' perceptions about the decision usefulness of IFRS financial reports on their lending decisions. The follow-up interviews serve to gain richer insight into the appropriateness and economic consequences of the requirements of IFRS on lending decisions in banks. Triangulation of these results with the survey data allows an in-depth analysis of the usefulness of the information provided by IFRS financial reports.

1.2 Background

The move by many countries to adopt IFRS accounting provisions has resulted in much research that investigates the implications of these regulations to business operations. This thesis maintains that most of this literature concerns investors, with very few researchers examining the perspective of lending institutions. A 2008 study investigating the impact of IFRS accounting on investors observes a reduction in the cost of capital and an increase in market liquidity and equity valuations in countries that embrace the IFRS system (Daske, Hail, Leuz, & Verdi, 2008). The study also observes that firms in these nations are more likely to be transparent in their financial documentation if there is a legal framework to enforce observance of the regulations. Investors also cite a decrease in the asymmetry of information in their relations with businesses (Tucker et al., 2012).

Hodgdon et al.'s (2008) study of investor experience in interactions with firms in IFRS-compliant nations establishes that investor forecasts are more accurate. However, an important factor arising from the study is the kind of legislation that supports IFRS regulation. Better outcomes are realised when oversight bodies are stricter in ensuring that firms comply. Additionally, Byard et al. (2011) notes that investment forecast errors occur when IFRS is used with non-compliant accounting systems, and therefore these errors are also reduced when strict enforcement bodies are in place. Another investor-centric study of IFRS finds that firms in countries that mandate IFRS provide more information on earnings as a result of the ban on delays in reporting (Landsman et al., 2012).

A review of historical data on the kind of information that financial analysts use to evaluate their clients reveals that their focus is primarily on earnings and cash flow (Govindarajan, 1980) – the same criteria that the modern day lenders use. Previts, Bricker, & Young (1994) also indicate that recommendations on whether clients qualify for loans is informed by the information they provide, especially the balance sheet and cash flow statement.

In a study that analyses perceptions toward adopting IFRS accounting in Australian firms, Pawsey (2008) finds a difference in the positivity shown in 2005 and the positivity shown in 2008. Respondents to the study's 2005 survey were more negative about its usefulness, with the majority indicating that adopting IFRS accounting had resulted in a decline in the quality of financial reporting. However, a few respondents did support the notion that IFRS would lead to improvement in the future (Pawsey, 2008). This negative perception can be attributed to the fact that in 2005 compliance with IFRS was still at the novelty stage, and the majority of firms did not understand how the system worked. When the same survey was conducted in 2008, the perception of a majority of business leaders had changed (Pawsey, 2008). By then, the Australian government had put enforcement bodies in place, and the firms had gained familiarity with their obligations. The results of the survey show two profound outcomes. First, the quality of financial statements produced by Australian firms had increased between 2005 and 2008, and the usefulness of the financial statements to their users had also increased (Pawsey, 2008). The implication for this research is that IFRS resulted in better outcomes for financial statement users

The limited amount of research on the usefulness of financial reporting to lenders comes as a surprise, given that historical data shows debt providers have always based their judgements on the accounting records of their clients (Beaulieu, 1994). In addition, banking institutions have historically made use of financial statements in lending agreements (Leftwich, 1983). Given that IFRS compliance is the norm for the modern day business, it is important for Australian lenders to have a clear understanding of how useful the financial statements they receive are.

A review of the literature on the operation of banks reveals that the lenders use the accounting information provided by their clients to predict the likelihood of repayment defaults (Tucker et al., 2012). Lenders analyse financial information from two perspectives. Quantitative information is audited for information about profitability, cash flow and liquidity (Tucker et al., 2012). Their analysis methods have developed over time to accommodate the lack of consistency in accounting systems that firms used in the past (Balcaen & Ooghe, 2006). Before the adoption of the IFRS accounting framework, lenders were left to choose models to inform their lending decisions (Beyer, Cohen, Lys, & Walther, 2010). Some persisted with the gathering of qualitative information from financial records, integrated with non-financial risk factors (Günther & Grüning, 2000). Others added multiple factors, such as market share, positioning, and collateral to make lending decisions (Grunert, Norden, & Weber, 2005).

Given this background, why the IASB does not view lenders as essential users of financial statements is inconceivable. Given this study focusses solely on the Australian market, it will offer essential insights into the usefulness of IFRS financial statements to the lending decisions made by loan officers in Australia, and the Australian firms that employ IFRS standards. In addition, this study will be instrumental in soliciting the views of loan officers on the coming amendments to IFRS 9 *Financial Instruments* in 2018. According to scholars, these amendments are expected to bring a number of changes, especially to the treatment of credit losses (Basford & Leung, 2015). This study will establish whether lenders believe that further integration of accounting systems, credit risk management systems and segmented portfolios will translate to additional effects on lending decisions (Basford & Leung, 2015). Overall, this study will be instrumental in exploring the question of which information is most useful to loan officers' decision-making processes.

Furthermore, there were many amendments made to the IFRS. IAS 28 *Investments in Associates and Joint Ventures* was subject to various amendments that regulate the disclosure of sales and the contribution of assets to a firm, its investors, and other joint venture associates (Deloitte, 2016). They aim to highlight areas exempt from consolidation requirements (Deloitte, 2016). Changes to IFRS 12 *Disclosure of Interests in Other Entities* reflect the new approaches firms are taking in reporting investments in various entities or areas where consolidated financial information is required (Deloitte, 2016). Amendments to IAS 16 *Clarification of Acceptable Methods of Depreciation and Amortisation* address the proportionate restatement of accumulated depreciation on revaluations. The changes also offer guidelines for reporting depreciation and amortisation, which are expected to have had an impact on lending decisions (Deloitte, 2016).

The amendments to IFRS 9 *Financial Instruments* will come into effect in 2018. They point towards the introduction of hedge accounting for firms when presenting entity profits or losses on financial liabilities (Jain, 2011), and require accounting information to be prepared in a fair value structure (Basford & Leung, 2015). They also provide guidance on how firms should account for acquisitions made through joint ventures (Kvaal & Nobes, 2012) and are expected to have influenced lending decisions given the requirements for a higher level of disclosure.

This study investigates whether the amendments will positively or negatively impact borrowers (Loyeung, Matolcsy,Weber, & Wells, 2016).

1.3 Aims and objectives

The aim of this study is to examine whether IFRS financial statements and the subsequent amendments in IFRS relating to disclosures are useful for lending officers in making their lending decisions. It is anticipated that lending officers may not perceive all the disclosures, recognitions and measurement concepts in IFRS financial reports and in the amendments as being primarily useful for assessing the credit risk or creditworthiness of companies when granting a term loan. Therefore, this thesis aims to provide empirical evidence about the decision usefulness of IFRS financial statements and its amendments on lending decisions.

The specific objectives of this study are as follows:

- To determine whether the bank-lending officers perceive that the accounting disclosures and measurement requirements of IFRS are useful for making their lending decisions.
- To determine whether the bank-lending officers perceive that the amendments to IFRS are useful for making their lending decisions.

1.4 Motivation

The motivation behind this study is a lack of information about the perception of some of the main users of IFRS accounting information – namely, lenders – and the information they need to make their lending decisions. The aim of this study is to increase our understanding of how differences in IFRS accounting information influence loan officers' judgements. The findings from this study will be useful not only to scholars but also to the Australian listed companies that employ IFRS standards, as they will have the necessary information for securing loan approval.

The subsequent amendment of the IFRS may have affected the ability of Australian listed companies to acquire loans and loan officers' decisions to grant such loans. This provides an opportunity to investigate how and to what extent such a change in standards has affected the loan officers' decisions to grant loans to Australian listed companies. Thus, an examination of the subsequent amendment of the IFRS will be helpful for determining the usefulness of the recent changes in loan officers' lending decisions. The scholarly research on the subsequent amendment of the IFRS and its effects on various stakeholders is quite limited. Therefore, this study provides an opportunity to investigate how, and to what extent, these changes have affected the decisions by lending officers to grant loans to listed companies in Australia.

1.5 Contributions

This study will be instrumental in guiding future theoretical, empirical, and practical relationships between lenders and Australian listed companies that have adopted IFRS accounting. The study's theoretical contribution is to provide evidence about the usefulness of IFRS financial statements in the context of lenders. First, it will either support or contradict ongoing theoretical discussions about the usefulness of IFRS accounting information to lenders in making their lending decisions. Various studies regarding the impact of voluntary and mandatory adoption of IFRS from an investor's perspective have been conducted (Byard et al., 2011; Hodgdon et al., 2008; Landsman et al., 2012; Lourenço et al., 2015; Palea, 2013; Sendi & Bellalah, 2010; Stanko & Zeller, 2010; Tucker et al., 2012). However, scholarly research into the impact of IFRS adoption upon the decisions of lending institutions is quite limited (Beaulieu, 1994; Leftwich, 1983; Mamdouh, 2015). The IASB focuses on investors because they provide equity capital for companies, and therefore the decision-making needs of investors are a high priority. Other stakeholders – particularly lenders – are not a focus for the IASB as potential users of financial statements (Mamdouh, 2015).

This study is conducted in an Australian context with the aim to overcome this shortcoming. The research identifies and analyses the relationship between mandatory adoption of IFRS in Australia and the decision-making needs of loan officers. Further, this study contributes to the existing literature by providing a detailed analysis of the relationship between the decision usefulness of IFRS financial statements and loan officers' decisions.

This study's empirical contribution offers evidence about three features of IFRS. First, it seeks to confirm the role and the effects of IFRS accounting information for loans officers, to answer the ongoing argument surrounding this topic. Second, it investigates evidence for the validity of the decision usefulness framework provided by the IASB (2015) in explaining the usefulness of IFRS for loans officers. Third, this study explores the effects of recent IFRS amendments for listed companies which prepare their accounting information in accordance with the requirements of IFRS to meet lenders' needs.

Additionally, before the adoption of the IFRS in 2005, Australia was already recognised as having accounting standards amongst the best in the world (APRA, 2005). Therefore, given the controversies and the concerns raised by different stakeholders, and as highlighted in the reviewed literature, this study will be key to documenting whether IFRS adoption has been beneficial for lending institutions. With Australia's voice on the International Accounting Standards Board – the body responsible for the establishment of IFRS accounting – the insights from this study may help to identify possible areas of weakness regarding the usefulness of IFRS financial statements (APRA, 2005).

1.6 Organisation of the thesis

The remainder of the thesis is organised as follows. Chapter 2 draws upon the relevant literature and formulates the research questions. Chapter 3 outlines the research methods, followed by the results and discussion in Chapter 4. Chapter 5 provides the conclusion, implications, limitations and avenues for future research.

CHAPTER 2
LITERATURE REVIEW

2.1 The use of financial statements

Financial statements and their impact on lending decisions are key to this study. In many financial institutions, the insights garnered from financial statements are essential to a variety of economic decisions, including lending decisions (IASB, 2010). Information on cash flow, financial position, and the results of an organisation's various operations in the form of financial statements are used to guide decisions regarding the allocation of resources – especially for lenders (Zager & Zager, 2006).

In a study that reviews the use of specific financial statements, Kuchta & Sukpen (2014) establish a definitive purpose for each type of financial statement. The income statement, for instance, offers insights into attributes like profitability, the volume of sales an entity deals with, and the expenses a firm incurs when running its operations (Kuchta & Sukpen, 2014). Additionally, a review of income statements over a period of time can show the trends that defines a company's operations.

In a study that sought to shed light on the major uses of financial statements among American business firms, Young (2006) establishes they have broad uses. The first, and the focus of this thesis, is using financial statements to make credit decisions. Banks, in particular, use financial statements to determine the level of credit they extend to firms (Young, 2006). Second, financial statements inform investment decisions. The insights provided help investors decide whether or not to invest in particular businesses, provide information about the likelihood of their investments being successful or not, and/or determine the price at which they purchase shares or businesses outright. (Franco, Kothari, & Verdi, 2011).

2.2 The usefulness of IFRS and accounting information

2.2.1 Evidence in support of mandatory IFRS adoption

Both users of financial statements and reporting entities place emphasis on the quality of accounting information presented. With many countries mandating the use of IFRS, there has been a considerable increase in the quality of financial statements and disclosure (Jarva & Lantto, 2012). Brochet, Jagolinzer, & Riedl (2013) argue that this is due to the improved comparability that results from firms employing the same standards of financial reporting across different countries.

Previous studies examining the impact of IFRS adoption have concentrated on the EU (Ball, 2008; Palea, 2013; Soderstrom & Sun, 2007). Even before the EU's inception of IFRS in 2005, investors, and especially the equity investors, had anticipated the positive impacts of mandatory adoption. In a survey that tracked the performance of various stock markets within the EU, Chen, Tang, Jiang, & Lin (2010) identified that good performance coincided with the release of news about IFRS adoption. The implication is that most investors were sure that the adoption of IFRS would lead to better outcomes for the investors.

In a study by Soderstrom & Sun (2007), the quality of accounting information was discovered to be the combined result of the overall institutional setting and the political and legal environment of the country where the company is located. According to their survey, voluntary adoption of IFRS results in a higher quality of accounting information in financial statements. A drawback of their study, however, is that voluntary adoption occurs after cost and benefit analysis, so cannot be generalised to mandatory adoption (Wolk, Dodd, & Rozycki, 2013).

Other research suggests that mandatory adoption of IFRS has better outcomes than voluntary adoption. In a post-2005 study on the effects of mandatory adoption in the EU, Jara et al. (2011) realised that mandatory regulation leads to even better quality financial documentation than voluntary regulation. Their study analysed the period between 2007 to 2010 and found that a country's enforcement laws and the company's motivations and incentives to adopt IFRS play an important role in producing high quality financial information. The results are supported in the findings by Hail (2013). In another EU study, Palea (2013) analyses the quality of financial reporting after mandatory adoption of IFRS, and concludes that adopting IFRS has resulted in accounting standardisation in all European countries, and has led to a considerable increase in the quality of information presented in financial statements (Palea, 2013). Aubert and Grudnitski (2011) conducted a survey of 13 EU countries to identify the value-relevance of IFRS financial statements for investors. The results indicate that the improved quality of financial reporting stemming from IFRS adoption results in better outcomes for investors. Yet, despite the variety of actors that use of financial statements, most studies on the benefits of IFRS have concentrated on investors (Daske & Gebhardt, 2006; Holthausen & Watts, 2001; Jermacowicz, Kinsey, & Wulf, 2007).

Daske & Gebhardt (2006) conducted a study in Germany, Switzerland, and Austria that sought to examine the impact of IFRS on the quality of accounting disclosures. Their findings indicate an increase in the quality of accounting disclosures in these countries post-adoption. Their results were subsequently confirmed by a survey conducted in Germany by Jermacowicz et al. (2007). Additionally, in another study examining the qualitative changes in financial reporting after the adoption of IFRS, Barth, Landsman, Lang, & Williams (2008) discovered that IFRS results in more timely loss recognition, improved relevance of financial statements for investors, and a reduction in earnings management.

The diverse outcomes of IFRS-adoption can be seen clearly in an investigation of the relationship between the cost of debt and mandatory adoption of IFRS in the UK and Italy. According to this study, conducted by Moscariello, Skerratt, & Pizzo (2014), the cost of debt was not influenced by mandatory adoption of IFRS; however, the efficiency of the debt-contracting process was improved. Their study also found that IFRS adoption had different impacts in the two countries. They explain that the UK already had a strong financial reporting framework while, in sharp contrast, Italy had weak financial reporting laws and therefore, post-IFRS, interest coverage reporting was higher. As a result, Italian lending institutions placed more reliance on the financial ratios calculated through published financial statements, and particularly the interest coverage ratio, since it is an effective tool to measure risk. Reduced managerial discretion also improved quality of disclosures, resulting in higher transparency and improved reliability of financial statements. Consequently, Italian banks were found to have better estimates of the credit rating of borrowers. The study concludes that, since the Italian Genarlly Accepted Accounting Principles (GAAPs) were faulty prior to IFRS adoption, and the UK GAAP's were more effective and better enforced even before IFRS, Italy was the major beneficiary of IFRS, while the UK saw no considerable difference (Moscariello et al., 2014).

2.2.2 Criticisms of IFRS adoption

Apart from the research that shows different outcomes for countries that adopted IFRS, there are other studies that showed mixed results about the significant of the difference between Local GAAPs and IFRS in terms of value relevance for users of financial statements (Callao, Jarne, & Laínez, 2007; Jarva & Lantto, 2012; Morais & Curto, 2008). In a survey conducted in Spain, Callao et al. (2007) found no improvement in the relevance of financial statements, and that the comparability of financial statements was actually reduced after the IFRS mandate. Another study, conducted in Portugal, yielded a similar negative effect on the relevance of financial statements (Morais & Curto, 2008). According to their study, the GAAP used in Portugal before IFRS was more effective in ensuring the quality of financial reporting. In further support of these arguments, studies by Paananen & Henghsiu, 2009, and Jarva & Lantto, 2012 express disapproval of the IFRS. According to their research, there is no strong verification for improvement in the quality of financial statements in Finnish companies as a result of IFRS.

Devalle (2010) and Moscariello et al. (2014) both post mixed results on the quality improvements gained by mandatory IFRS adoption. Other studies indicate that the IFRS do not positively impact the quality of financial reporting, with some surveys indicating a reduction in quality (Callao et al., 2007; Morais & Curto, 2008; Jarva & Lantto, 2012).

The contrasting empirical evidence is an indication that, despite mandatory IFRS adoption's potential to improve the quality of financial statements, it does not improve the quality on its own. Other factors, such as a country's legal system, the enforceability of financial regulations, and the incentives for companies to report financial information, all have an impact on the quality of financial reports. Moreover, most of the literature takes the perspective of equity investors, which presents an information gap (Allen & Jane, 2005).

According to a study by Shima & Yang (2012), the extent to which the benefits of quality financial reporting can be attributed to IFRS has not been clearly established. There is an information gap in whether other institutional changes may be responsible for the improvements in the quality of financial reporting. Previous research has focused on providing proof that accounting information is used by banks to make various credit decisions (Maria, 2014). However, research indicates that different countries and different regions place different levels of importance on accounting information (Zager & Zager, 2006). Generally, most studies have looked into the ways that various forms of accounting information are exploited (Zager & Zager, 2006). Few studies have explored the quality of financial statements, and the impact they have on users (Zager & Zager, 2006). Some researchers have also investigated the factors that affect IFRS-adoption (Palea, 2013; Paananen & Henghsiu, 2009; Wu & Zhang, 2014).

This study looks to build on the arguments of existing research that investigates the consequences of adopting IFRS guidelines, and specifically offers insight into how banks have been affected by their clients' use of IFRS and its subsequent amendments, in the context of lending decisions. These are areas that the scholarly world has not conclusively dealt with.

2.3 IFRS adoption and lending institutions

This thesis is built on the understanding that most research on the impact of IFRS adoption has focussed on the perspective of investors. Banks and other lending institutions are major users of financial statements and therefore deserve to have their perspectives on IFRS explored (Kim, 2009). Modern day firms need credit services from banks and other lending institutions for growth purposes. Billings & Morton (2002) demonstrate that companies depend more on equity than debt to finance their operations, highlighting the need to explore their creditors' information needs and which accounting information is useful to them.

Dependence on banks can be clearly seen in the USA, where companies finance 30 percent of their capital structure through debt financing (Ewing & Bhatia, 2009). Banks, therefore, play a very important role in the credit market, and contribute to growth in the economy. Historically, banks have depended on accounting information when making lending decisions, and several studies have examined which accounting information is useful to lending decisions (Covrig, Defond, & Hung, 2007; Wu & Zhang, 2014; Kosi, Pope, & Florou, 2010). These studies establish that lending decisions are informed by a combination of accounting information and background data. In addition, results show that the insight gained from accounting statements is critical in identifying the risk of dealing with certain entities.

A study by Danos (1989), that examines the usefulness of the entire spectrum of accounting information for lending decisions by banks, suggests that loan officers highly rely on the analysis of financial statements, and reach a high level of confidence for granting loans when they find the financial analysis appropriate. Unlike Danos' study, this thesis focuses on the usefulness of IFRS in financial reporting and its impact on credit decisions by banks.

2.3.1 Evidence in support of the usefulness of IFRS in lending decisions

Asymmetric information is one of the biggest problems lending institutions face when making lending decisions. If financial information is asymmetrical, estimation risk for lenders increases and, as a result, the price of loans increases to compensate (Lambert, Leuz, & Verrecchia, 2007). In a review of the studies on agency costs, Zhang (2008) establishes that agency costs related to loans decrease as the quality of financial information improves. In addition, Dhaliwal, Khurana, & Pereira (2011) find that conservative reporting results in lesser interest rates on loans. Both Zhang and Dhaliwal et al. agree that firms with poor financial disclosure cannot secure loans in the form of public bonds.

The IFRS and other financial reporting regimes are tools that attempt to eradicate these problems. Lending institutions are highly interested in the changes in financial reporting regimes because they rely on financial statements to calculate important ratios such as debt to equity, debt to assets, interest coverage, financial leverage, and ultimately the solvency of a company. In a study that analyses the implications of IFRS in the credit market, Wu & Zhang (2014) establish that the sensitivity of credit ratings based upon financial statements significantly increases with the adoption of IFRS. The implication is that Moody's credit ratings are highly sensitive to the accounting information in financial statements published post-IFRS. Their study also establishes that mandatory adoption of IFRS results in an increase in the sensitivity of credit ratings only in those countries where an enforcement regime is strong (Wu & Zhang, 2014).

Another study by Florou & Kosi (2015) sought to establish the relationship between debt financing and mandatory IFRS adoption using an international sample of private loans and public bonds between 2000 and 2007. The results indicate that there is no relationship between loan interest rates and the mandatory adoption of IFRS. However, the mandatory adoption does lead to lower bond yield spread payments and IFRS-adopting companies are more likely to secure debt financing through public bonds rather than private loans (Florou & Kosi , 2015). Florou & Kosi (2015), when exploring the mandatory adoption of IFRS over debt financing, find an 8.4% increase in access to the bond market. Moreover, they find mandatory IFRS adoption results in savings of $ 1.5 million per annum on bond issues due to the lower cost of bonds. The findings of both their surveys show positive economic impacts for companies adopting IFRS, and particularly for the companies opting for public bond financing. Another study by Kosi et al. (2010) also provides empirical evidence that firms have access to higher levels of credit after adopting IFRS.

From an international perspective, scholars have established that IFRS adoption results in better access to debt financing, especially from the international capital markets due to better comparability and transparency of financial statements (Covrig et al., 2007; Jeong-Bon, Tsui & Yi, 2011). A survey by Jeong-Bon et al. (2011) reveals additional credit advantages for voluntary IFRS adopters. They conducted two surveys, sampling 40 countries excluding the USA, and found that IFRS-compliant firms receive lower interest rate loans, better non-priced loan terms, larger loan amounts and longer maturity periods. The requirement for collateral against the loan amount was, however, found to be the same for both IFRS adopters and non-adopters. Moreover, voluntary loan adopters have better access to foreign loans. The results of their study build on findings by Covrig et al. (2007) who determine that the cost of capital is also reduced for voluntary IFRS adopters. Beneish, Billings, & Hodder (2012), in their analysis of mandatory IFRS adoption in debt vs. equity markets, conclude that mandatory adoption of IFRS affects foreign debt more than foreign equity because foreign debt providers are more concerned with greater comparability and transparency in financial statements.

Researchers have also established a healthy relationship between the adoption of IFRS and timely loss recognition. A study by Ball (2006) establishes that mandatory adoption of IFRS results in an increase in loss recognition on a timely basis. Ball further argues that timely loss recognition results in a reduction to the cost of debt finance. The recognition of a loss in the income statement on a timely basis is beneficial for lenders because it helps to increase the debt contracting efficiency of lenders. Moreover, Ball asserts that mandatory IFRS adoption will lead to better international comparability of financial statements. Ball's findings and predictions were confirmed by Barth et al. (2008) and Chan, Lee, Petaibanlue, & Tan's 2015 survey on the links between IFRS and timely loss recognition in the EU, both of which also find that IFRS improves timely loss recognition.

2.3.2 Evidence against the usefulness of IFRS in lending decisions

Despite the positivity toward IFRS with regard to lending decisions, some empirical studies argue that mandatory adoption of IFRS does not result in favourable debt financing or loan decisions by lenders. According to Ball, Li, & Shivakumar (2015), mandatory IFRS adoption increases the use of non-accounting-based debt covenants, and reduces the use of accounting-based debt covenants. Their findings are based on IFRS' higher level of flexibility in accounting treatments and greater emphasis on fair value accounting, which results in unfavourable debt contracting. Greater reliance on fair value accounting has decreased the value of financial statements for lending institutions, because fair value accounting does not present a clear picture of a firm's financial health (Ball et al., 2015). IFRS provides a fair value option in many accounting treatments such as IFRS 2 *Share-based Payments*, IFRS 9 *Financial Instruments*, IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Properties* (Ball et al., 2015).

An investigation by Lin (2015) reveals further negative effects post-IFRS such as an increase in bank interest rates, third party lenders retaining higher portions of a loan as security, higher collateral requirements for loan approval, and a reduction in the use of financial covenants. Lin shows a decrease in the quality of financial information due to significant differences between local GAAPs and the IFRS. In addition, the information asymmetry between banks and borrowers has increased due to IFRS' relatively complex reporting framework and the subjective nature of fair value accounting recommended by the IASB. This, in turn, has resulted in increased monitoring and renegotiation costs for the banks (Lin, 2015).

A study by Maria (2014), analysing the relationship between the accounting information of borrowers and the lending decisions made by the banks, sheds more light on the shortcomings of IFRS. The study uses a sample of banks and loan contracts in 32 countries to determine that lending decisions are characterised by non-performing and mispriced loans. Financial institutions calculate ratios related to financial leverage and solvency from the borrower's published financial statements to decide whether or not to grant a loan. Moreover, these statements are also used in later periods to monitor the borrower's ability to meets its stream of principal and interest payments. Maria (2014) points out that the accounting frameworks that rely less on fair value accounting result in fewer non-performing and mispriced loans. The results also show a 31% increase in non-performing loans in countries where mandatory IFRS has been applied (Maria, 2014). Moreover, the size of loans also decreases with a systematic increase in non-performing loans after IFRS adoption. This means banks must rely more on private information instead of publicly available financial statements in lending decisions (Maria, 2014).

An argument can, therefore, be made that mandatory adoption of IFRS has no clear effect on loan officers' decisions, because of the fair value measurements supported by IFRS. Fair value accounting, as per IFRS 9, recognises unrealised gains and losses, and can result in more conservative and less reliable financial statements in the lenders' view (Ball et al., 2015). Another reason for criticisms of IFRS adoption and fair value accounting is the value of assets. Banks use the value of assets to determine the level of collateral for a loan and the firm's ability to service future debt. IAS 16 and IAS 40's fair value model allows for assets to be valued at either cost or fair value. If companies choose a historical cost model for asset valuation, asset values become more reliable but less relevant to lending institutions. On the other hand, if companies value assets at fair value, asset values become more relevant, but less reliable (Florou & Kosi, 2015).

The contradictory nature of the empirical evidence regarding the impact of IFRS adoption leaves top lending decisions as an open avenue for more research. This is the information gap this thesis seeks to fill.

2.4 Amendments to the IFRS

The IFRS framework has seen a variety of changes since its inception. This study seeks to establish the kind of impact that amendments to the IFRS have had on lending decisions. The specific IFRS requirements that bear potential to impact lending decisions are identified and analysed.

2011 saw the IASB introduce a new standard, IFRS 13 *Fair Value Measurement.* The amendment defines fair value as a measure that fundamentally applies to all assets and liabilities – both financial and non-financial items and offers guidelines on which assets require fair value measurement and how it can be measured (Knott, Richardson, Rismanchi, & Sen, 2014). The amendment is based on an exit price principle, with a fair value measurement placing more emphasis on observable inputs and less emphasis on unseen inputs (Knott et al., 2014). Its expected impact is a considerable change in the presentation of a firm's assets by offsetting risks, but fair value measures should provide banks with a better understanding of the way their clients value assets (Ernst & Young Limited, 2013). Additionally, given that loans are a bank's largest asset, determining the exact value of their loans is an area of major emphasis for most banks. To this end, most banks would probably apply the insight provided by fair value measurement to determine aspects such as maturity periods and amounts of the loans offered (Knott et al., 2014).

IAS 16 *Property, Plant and Equipment* (PPE) IAS 16's objective is to offer direction on accounting approaches to PPE (Deloitte, 2015a). It outlines the three measures that firms should apply. PPE is initially measured in terms of cost, then through revaluation, and then by taking depreciation into account (Deloitte, 2015a). IAS 16 has undergone a number of amendments over the years, with the latest amendments in 2015 giving firms the options to either use fair-value accounting or historical cost accounting. The historical approach to cost accounting takes impairment testing into consideration. In a review of the behaviour of firms as a result of the new amendments to IAS 16, Mazboudi (2012) discovers that firms that choose to apply the historical cost accounting approach are less interested in over-investment in PPE. For banks, the kind of information provided by borrowers depends on whether they use fair-value or historical cost accounting (Mazboudi, 2012).

IAS 28 *Investments in Associates and Joint Ventures* guides the form of accounting to follow when firms engage in investments with associates. IAS 28 was introduced in 2005 and is closely related to IFRS 12 which discusses *Disclosure of Interests in Other Entities* (Deloitte, 2015b). There are three key definitions in IAS 28 (Deloitte, 2015b). The first defines an 'associate' as any entity an investor significantly influences with no joint control. 'Significantly' is defined as the ability to influence the financial operations of an entity, but the influence does not amount to control. The 'application of the equity method' is determined to be the cost of equity investment gradually adjusted to show the stake of the investor. The amendment to IAS 28 brought about a new understanding of how the equity method could be applied differently to associates and joint ventures (Deloitte, 2015b). In addition, introducing significance to the definition of an associate has major ramifications for the accounting practices of firms. In lending decisions, the amendment of IAS 28 results in more disclosure by stakeholders with vested interests in the operations of a firm. Knowing these associates should have a profound influence on the routes lending decisions take.

The amendments to IFRS 9 *Financial Instruments*, scheduled to become effective at the start of 2018, also have major implications for the relationships that banks have with potential borrowers. These amendments primarily cause a shift from an incurred loss model to an expected loss model. According to Agnew (2014), the amendment is expected to heavily impact banks, insurance companies and a variety of users of financial statements. It will become necessary for banks to consider both the losses in credit that have occurred and those expected in the future. The new expected loss model will replace the incurred loss model, commonly practiced by banks, where insurance against expected losses was not effectively dealt with (Agnew, 2014), and will force the banks to become more prudent in their approach to potential credit losses.

This is an area with potential to heavily influence lending decisions, since banks will need to be careful when issuing loans secured against real estate, Irvine (2015). In a study carried out by Deloitte to establish the kind of anticipation banks had in regards to IFRS 9, 40% of respondents saw bank supervisors as the most involved in the implementation and interpretation of the new provisions (Irvine, 2015). The study, however, establishes that the requirement to deal with expected losses early will have a profound impact on the lending decisions that banks make.

The 2011 amendments to IFRS 10 *Consolidated Financial Statements* led to the introduction of a single model to control a variety of entities, whether special purpose entities or structured entities (Ernst & Young Limited, 2013). The changes require firms to exercise more judgement in separating the entities, which are consolidated or controlled by a parent (Ernst & Young Limited, 2013). The IASB further directed amendments to IFRS 10 in 2012, where clarification was given to entities that may be exempt from the consolidation clause (Ernst & Young Limited, 2013). According to the IASB, such entities are the ones that fit the definition of investment entities, whose fair value will be dealt with under IFRS 9 *Financial Instruments* (Ernst & Young Limited, 2013). As these amendments pertain to lending decisions, banks and other users of financial statements should receive higher quality statements from consolidated entities. In conventional settings, firms lack a centralised accounting system to track all their investments (Grant Thornton LLP, 2012). The amendment to IFRS 10, however, requires diligence by firms to ensure that all the entities associated with a firm are considered. Much effort is required by firms, however banks will have an easier time when making lending decisions.

IFRS 11 *Joint Arrangements* offers accounting direction for entities involved in the joint control of any arrangement. Joint control is defined as a contractually defined share of control for both joint ventures and joint operations. The accounting measures for joint ventures consider shared assets and equity, while accounting for joint operations considers shared assets and liability obligations (Deloitte, 2015c). Amendments to IFRS 11 were made in 2011 and became operational at the beginning of 2013. A further set of amendment to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* were made in 2014 to ensure that every party involved in a joint agreement clearly understands their rights and obligations within their arrangements became operational in 2016 (Deloitte, 2015c).

These amendments have resulted in changes to the classifications of joint ventures. First, a combination of assets controlled jointly and jointly controlled operations has resulted in a single classification; joint operation. In addition, entities that are controlled jointly are now defined as both joint ventures or joint operations (BDO network, 2012). The implication for lending decisions is that the new classifications will make the analysis of financial statements more complex. Combining joint assets and operations leads to a lack of clarity in financial analysis, and lending decisions are, therefore, expected to take longer to finalise.

IFRS *12 Disclosure of Interests in Other Entities* is designed to improve disclosures by a firm's entities, joint arrangements and a variety of other unconsolidated entities. The original provisions of IFRS 12 offer a number of guidelines for how to satisfy high levels of disclosure (Deloitte, 2015d), and further amendments in IFRS 12 *Applying the Consolidation Exception* that became operational at the start of 2016 ask for further disclosure (KPMG, 2014). As a result, users of financial statements are more likely to be fully furnished with the risks or implaications of a firm's interests in other entities (Deloitte, 2015d). For banks, these disclosures will be instrumental in guiding whether loans are approved or otherwise.

CHAPTER 3
RESEARCH METHOD

3.1 Introduction

This chapter outlines the research method, the subjects and the data analysis methods used in this study. The methodology is the most important part of a study, as it ensures the research is conducted in the correct manner. Research method(s) are selected to provide a path of research towards the study's aims, purposes and objectives (Lewin, 1939; Yin, 2013). Use of an incorrect or inappropriate method can yield meaningless or unclear outcomes or could hamper the major objectives of the study (Bryman & Bell, 2015; Kothari, 2004).

3.2 Research method

A number of considerations must be taken into account when selecting the research method most appropriate to the study. The researcher should assess whether a qualitative, quantitative or mixed methods approach is most suitable. The sources of data collection such as primary or secondary data must also be considered. Taking the specific factors and requirements of the study into account, the researchers should then select the appropriate method, whether quantitative, qualitative or a mix, and the preferred data collection source from a choice of either primary or secondary data (Snieder & Larner, 2009). In the present research, a mixed methods approach was chosen, which includes both quantitative and qualitative data. Data collection focuses on primary data[1] to ensure reliability. The methods used to collect the primary data: A quantitative survey and a semi-structured interview were deemed the most suitable for achieving the objectives of this study because the variety and flexibility these methods afford will increase the validity of the results compared to either a solely qualitative or quantitative approach (Johnson & Onwuegbuzie, 2004).

---

[1] Primary data is classified as the collection of data that did not previously exist and thus can add new and unique information to the research field (Goddard & Melville, 2004).

The survey – the quantitative method – is used to statistically measure reactions and responses to a fixed set of questions, while semi-structured interviews – the qualitative method – provides further insights into the survey data to fully support the study's findings on the usefulness of IFRS financial reports (Crabtree, 1992). A quantitative method is appropriate for identifying measurable relationships between independent variables, in this case the usefulness of the disclosures and familiarity with the measurement concepts in IFRS financial reports, and dependent variables – the bank officers' lending decisions (Maylor & Blackman, 2005).

3.2.1 The survey

A survey offers the best method for collecting information from a group of respondents (Beiske, 2007). A survey is an appropriate technique for collecting primary quantitative data, as it is the simplest, easiest and least costly method of collecting statistical data for obtaining measurable results (Pelissier, 2008). Further, given this research targets lending banks, administering a survey allowed participation by more respondents, was less time consuming, and more cost effective. Observations, focus groups and experiments are time-consuming techniques. They were deemed inappropriate for this particular research, as these techniques would not shed light on the experiences and personal opinions of the respondents in the field who use IFRS financial reports.

3.2.2 The semi-structured interviews

Semi-structured interviews were conducted to further explore and support the findings of the survey (Beiske, 2007). Semi-structured interviews were selected because the information provided by closed-ended survey questions can be limited. Therefore, to explore more deeply and obtain greater insight into the usefulness of IFRS reports in the bank decision-making, the researcher conducted these interviews to discover new information, if any, as well as to support the findings obtained from the closed-ended questions.

3.3 Subjects

The population of a study is the set or collection of the factors or elements about which the researchers aim to draw the conclusion and implications in accordance with the research findings. As the research at hand is aimed at evaluating the usefulness of IFRS financial reports, the population of this study are bankers in the country leading full adoption of IFRS in organisations—namely, Australia. Since the IFRS was mandated in 2005, there has been a legal requirement for all listed companies and entities in Australia to ensure full compliance with the IFRS in their financial reports (McGregor, 2012). According to the Australian Stock Exchange (2015), more than 2,200 companies in Australia are listed entities. As such, Australia offers a suitable population for this study in the context of IFRS financial reporting.

Sampling is a very important aspect of data collection with the selected research method, as it is not possible to collect data from the entire population under consideration (Neuman, 2005). The two major sampling methods are probability sampling and non-probability sampling. Non-probability sampling was chosen to obtain general findings and purposive sampling was chosen to obtain specific findings. Given the aim of this survey is to collect data about the use of IFRS financial reports, only those participants who are aware of IFRS and use financial reports for decision-making are suitable for the sample.

In a similar vein, Australian commercial banks were targeted, because the largest segment of their loans are issued to listed entities (Austrade, 2011). Commercial banks dealing with corporate loans also concentrate more on accounting information which the entities develop on the basis of the full IFRS. Therefore, the commercial banks are appropriate institutions for this study.

There are various commercial banks in Australia, including domestic banks, international banks and foreign subsidiary banks. The four largest banks were selected from a complete list. According to Relbanks' (2016) report, the four largest commercial banks in Australia, in order of their total assets for 2015 are: the National Australia Bank (NAB), the Commonwealth Bank of Australia (CBA), The Australia and New Zealand Banking Group Limited (ANZ) and the Westpac Banking Corporation (Westpac).

Purposive sampling was used to select lending officers from within these banks to participate in both the survey and the semi-structured interviews. Fifty respondents were selected to complete the survey and semi-structured interviews were held with three respondents.

3.4 Development of the research instruments and procedures

3.4.1 The survey

The survey comprises two main sections. The first section queries demographic data about the lending officers, such as gender, age, level of formal education, qualifications, and years of experience, to develop a profile of the respondents. It also asks participants to specify their level of familiarity with Australia's specific implementation of IFRS (AIFRS) on a five-point Likert scale, where 1 denotes 'not familiar' and 5 denotes 'very familiar'.

The second section comprises four main questions and value judgements on 56 IFRS disclosure items and 8 from the amendments. Questions (1) and (2) were designed to evaluate the importance loan officers place on several sources of information when assessing a loan application from a listed entity. Questions (3) and (4) assess the loan officers' views on the usefulness of several asset and liability accounting measures when making a lending decision. All four questions required the loan officers to provide their judgements on a five-point Likert scale. Gassen and Schwedler's (2010) survey, which investigates the decision usefulness of diverse accounting measures for investors' decisions, was used to develop the questions.

The survey then asks respondents to evaluate the usefulness of 64 disclosure items in their decision-making, again using a five-point Likert scale, where 1 denotes 'not useful' and 5 denotes 'extremely useful'. Table 1 shows the surveyed standards. Each is perceived to be relevant to decision-making about lending, and were drawn from the recent amendments in the IFRS/IAS 1 *Presentation of Financial Statements* (IASB, 2016).

Table 1: Categories of disclosure items in the survey

Group	**Number of accounting information items**
Statement of financial position (balance sheet)	18
Sub-items in the statement of financial position or the notes	7
Statement of comprehensive income and income statement	14
Statement of changes in equity and retained earnings	4
Statement of cash flows	9
Notes to the financial statements	4
IFRS amendments	8
Total	**64**

The survey was distributed by Qualtrics (http://www.qualtrics.com/), an online company that recruits survey participants. Qualtrics gathered the desired sample pool using screening questions like: “Do you work at a commercial bank?”, “Do you authorise commercial loans?”, and “Have you made any loan evaluations/approval decisions based on the financial statements prepared in compliance with AIFRS?”. Follow-up interviews were requested with survey respondents who indicated they were loan officers located in Sydney, and the data was collected in July 2016 over a one-month period. IBM’s SPSS software was used to analyse the data collected from the survey.

Validity of the Survey

It is very important to test the validity of a survey to determine whether it is powerful enough to generate the required results and outcomes (Jankowicz, 2005). For these purposes, Cronbach’s Alpha (Cronbach, 1951) was used to validate the survey and the consistency of the questions. All the 64 disclosure items reported a cronbach alpha of 0.975.

3.4.2 The semi-structured interviews

Three semi-structured interviews were conducted with the loan officers from three of the biggest commercial banks in Australia. Each interview was between a half-hour and one hour in length. Audio recordings were taken and NVivo 10 was used to transcribe the audio files. To verify and assess the validity of the interviews, a copy of their transcript was to each participant.

These interviews have three major objectives. The first is to examine the loan officers’ perceptions of the usefulness of IFRS financial reports for making lending decisions. The second is to evaluate the importance of IFRS accounting information to determine whether it increases the reliability of an organisation’s financial reports, and the third is to obtain the respondents’ views on the appropriateness of the information and its measurements for making lending decisions. The use of semi-structured questions was intended to provide further understanding and obtain new insights into the overall role of IFRS reports in lending decisions.

CHAPTER 4
RESULTS AND DISCUSSION

4.1 The survey

4.1.1 Demographic details of respondents

The survey was distributed among 50 commercial bank-lending officers. Of the 50 respondents, 58% are qualified members of the Financial Services Institute of Australasia, 36% are qualified members of the Australian Institute of Credit Management, 2% are qualified members of Institute of Cost Accountants of India, and 4% have no membership. Of the respondents, Seventy per cent (70%) hold a Masters degree, 14% hold a Graduate Diploma, and 16% hold a Graduate Certificate. In addition, 50% are qualified Chartered Accountants, 34% are qualified Certified Public Accountant (CPAs), and 16% are qualified Certified Managerial Accountants, demonstrating they hold relevant education, training and work experience in dealing with lending decisions for listed companies. Table 2 shows that: 32% of respondents are female and 68% are male; their mean age is 36 years. The participants had an average of 17 years in formal education. The average work experience of commercial lending is 8.5 years. The participants were asked to rate their overall familiarity with the Australian equivalents of IFRS for listed companies on a five-point Likert scale, where 1 denoted 'not familiar' and 5 denoted 'very familiar', and the mean value is 4.3 which indicated that the participants were familiar with IFRS.

Table 2: Demographic data of the respondents

Demographic Data	Loan officers (Sydney, Australia)
Sample size	100
Responses	80
Usable responses	50
Usable response rate	62.5%
Mean of Age of Respondents	36
Average number of years of formal education	17 years
Average work experience in commercial lending	8.5 years
Average level of familiarity with the AIFRS for listed companies	4.3
Male	68%
Female	32%

4.1.2 The decision-making process of lending companies

Questions (1) and (2) of the survey were designed to collect the lending officers' views about their lending practices and the usefulness of various types of accounting information used to evaluate loan requests by listed companies.

In Question (1), the participants were given four statements that describe four different practices for evaluating a listed company's loan request. The participants were asked to rate whether the statements correctly described their practice on a five-point Likert scale, where 1 denotes 'strongly disagree' and 5 denotes 'strongly agree'. Mean responses for the four different statement are reported in Table 3. In general, the mean values reveal that the statement with the highest agreement, with a mean of 4.38, is "My lending decision is based on first-hand information and impression of management quality" followed by "My lending decision is based on accounting information of the company", with a mean of 4.32. "My method of analysis differs according to the respective client/company" shows a mean response of 4.14 and "My lending decision is based on non-accounting information of the company" shows the least agreement with a mean of 3.98.

Table 3: Bank-lending officers' approach to evaluating the loan applications of listed companies

Variable	n	Mean	SD
My lending decision is based on first-hand information and impression of management quality	50	4.38	0.697
My lending decision is based on accounting information of the company	50	4.32	0.683
My method of analysis differs according to the respective client/company	50	4.14	0.833
My lending decision is based on non-accounting information of the company	50	3.98	0.983

The general conclusion derived from this result is that commercial bank-lending officers based their lending decisions on first-hand information and their impressions of management quality, which is consistent with the findings from Gassen & Schwedler (2010), and that they assign substantial weight to the financial accounting information provided. These results are similar to previous studies about the usefulness of accounting information for lenders (Govindarajan, 1980; Kadous, Koonce, & Thayer, 2012; Maria, 2014; Palea, 2013; Kuchta & Sukpen, 2014; Zager & Zager, 2006), which helps to better understand the items that are recognised as useful to lending officers in commercial banks.

Question (2) was designed to solicit the respondents' overall opinions on the usefulness of 15 different sources of information when evaluating a loan application, including seven IFRS items from the company's financial statements. Each item was scored on a five-point Likert scale where 1 denotes ‘not useful’ and 5 denotes ‘extremely useful’. Table 4 reports the mean responses.

Table 4: Lending officers’ opinions on the usefulness of information sources

Variable	n	Mean	SD
General information about the client and business	50	4.48	0.646
Income statement	50	4.40	0.639
Balance sheet	50	4.34	0.593
Cash flow statement	50	4.40	0.670
Statement of changes in equity and income & retained earnings	50	4.28	0.671
Statement of accounting policies	50	4.26	0.828
Related party disclosures	50	4.18	0.919
Notes to the annual financial statements	50	4.20	0.670
Business plan	50	4.54	0.579
Business credit report	50	4.36	0.749
Income tax returns	50	4.40	0.728
Bank statements	50	4.38	0.725
Collateral documents	50	4.24	0.797
List of guarantees proposed	50	4.14	0.833
Legal documents	50	4.54	0.613

From assessing the mean values of the given items in annual financial statements, the participants view the cash flow and income statements as equally the most useful source of accounting information in their decision-making, with a mean of 4.4. Balance sheets (mean = 4.34), the statement of changes in equity and income & retained earnings (mean = 4.28) and the statement of accounting policies (mean = 4.28) follow. Notes to the annual financial statements (mean = 4.2) and related party disclosures (mean = 4.18) are rated as the least useful. The participants also considered legal documents and business plans to be the most useful source of information that is not included in an annual financial statement, with a mean of 4.54. Income tax return (mean = 4.4), bank statements (mean = 4.38) business credit report (mean = 4.36) and collateral documents follow. The list of guarantees proposed were rated as the least useful with a mean of 4.14.

The overall conclusion derived from this result is that commercial bank-lending officers find the cash flow and income statements as the most useful source of accounting information when making lending decisions. This finding is consistent with Allen & Jane (2005) and Kuchta & Sukpen (2014), who suggest that cash flow and income statements are the key documents lending officers base their lending decisions on when they assess the credit worthiness of their clients. Lending officers find cash flow statements as the most useful source of accounting information because they need information related to cash flows, or future cash projections to determine whether their clients will be able to repay the loans (Lambert et al., 2007). The reason why lending officers find income statements to be another significantly useful source of accounting information when making lending decisions is that lending officers need information related to the profitability of firms, the volume of sales of an entity, and the expenses a firm incurs when running its operations (Kuchta & Sukpen, 2014).

4.1.3 Familiarity with and attitudes towards accounting measures

Questions (3) and (4) of the survey were designed to gain understanding of the lending officers' familiarity with different accounting measures, and their broad attitudes toward them when evaluating financial statements to make lending decisions.

Question (3) provides four different accounting measures and participants were required to specify whether they were familiar with each concept on a five-point Likert scale, where 1 denotes 'not familiar' and 5 denotes 'very familiar'. The mean values for the third question are reported in Table 5.

Table 5: Lending officers' familiarity with accounting measures

Measurement concept	n	Mean	SD
Historical cost	50	4.38	0.697
Fair value	50	4.36	0.663
Lower of cost or market value	50	4.30	0.707
Value in use	50	4.26	0.723

Ranked by levels of overall familiarity, historical costs were rated as the most familiar concept with a mean of 4.38, followed by fair value (mean = 4.36), and the lower of cost or market value (mean = 4.30). Value-in-use was rated as the least familiar concept with a mean of 4.26. The main finding is that loan officers are more familiar with historical costs than fair value.

Question (4) contains five statements to determine the participants' preferences for particular measurement concepts in asset and liability reporting. Three of the five statements seek their views on whether the assets and liabilities of each company have to be reported: (1) following the same measurement concept; (2) following different measurement concepts; or (3) by permitting companies to choose between alternative measurement concepts. The remaining two statements seek their preferences for historical cost or fair value measurements of assets and liabilities. Again, a five-point Likert scale applies, where 1 denotes 'strongly disagree' and 5 denotes 'strongly agree'. The mean values for Question (4) are reported in Table 6.

Table 6: Lending officers' preferences for accounting measures

Measurement concept	N	Mean	SD
All assets and liabilities should be reported following the same measurement concept	50	4.28	0.757
All assets and liabilities should be reported at fair value, with historical cost information presented in the notes	50	4.30	0.789
All assets and liabilities should be reported at historical cost, with fair value information presented in the notes	50	4.28	0.730
Assets and liabilities should be reported following different measurement concepts, with the relevant measurement concept depending on the nature of the asset or liability	50	4.26	0.723
Companies should be permitted to choose between alternative measurement concepts for different classes of assets and/or liabilities	50	4.32	0.741

The mean values for each statement reveal that loan officers consider that all assets and liabilities should be reported at fair value, with historical cost information presented in the notes (mean = 4.30). However, they show the highest level of agreement with the statement "Companies should be permitted to choose between alternative measurements concepts for different classes of assets and/or liabilities" with a mean of 4.32. Interestingly, they show the least preference for giving companies the freedom to choose an appropriate measurement concept depending on the nature of the asset or liability, with a mean of 4.26. A possible explanation is that giving freedom to choose among alternative measurements concepts would cause a decline in the reliability of the information (Masadah, Al-Omush, & Shiyyab, 2016).

These lending officers' preference for fair value accounting in the financial report with historical cost information presented in the notes is compatible with Florou & Kosi (2015). Their study demonstrates that the information needed by loan officers requires both fair value and historical cost value to be presented for the measurement concept to be relevant and reliable. Further explanation about which measurement concept is preferred by bank-lending officers is included in the results and discussion section of the semi-structured interviews in Section 4.2.2.

4.1.4 Perceptions of the usefulness of IFRS disclosure requirements

The first objective of the survey is to evaluate the perceptions of lending officers about the usefulness of 56 IFRS disclosure items in their lending decisions. The disclosure items are organised under six categories. Pearson's Chi-square 'goodness of fit test' was used to test each of the 56 items, and the results are used to summarise the usefulness of each item according to the survey participants. A Chi-square test was also used for each of the eight amended disclosure items, to meet the second objective of this study. In a Chi-square test, the closer the *p*-values are to 0, the larger are the Chi-square values, which indicates statistically significant differences among the participants perceived usefulness of each disclosure item as reported in Tables 7&8.

Benjamin & Stanga's (1977) method was used to analyse all 64 disclosure items. The Likert scale results were reassigned into three new categories to confirm the adequacy of the expected frequencies for computing the X^2 statistics as shown in Table 7.

Table 7: Reclassification of surveyed observations[a]

Surveyed value on Likert Scale	New value assigned
1-2	1 Not Useful
3	2 Neutral
4-5	3 Useful

Participants who circled 1 or 2 on the five-point Likert scale, where 1 denotes 'not useful' and 5 denotes 'extremely useful', were assigned with a value of 1 because they indicated that the disclosure items were not useful for making their lending decisions. Participants who circled 3 were assigned with a new value of 2 because they indicated that the disclosure items were neither useful nor not useful ('neutral') for making their lending decisions. Participants who circled 4 and 5 were assigned with a new value of 3, because they indicated that the disclosure items were useful for making their lending decisions. Frequency percentages of the perceived usefulness for all 64 disclosure items were also calculated.

Statements of financial position (balance sheets)

Disclosure items 1-18 concern statements of financial position (balance sheets). Table 8 shows the results from the Chi-square tests, and Table 9 shows the percentage of frequency distribution of the responses.

Table 8: Statements of financial position (balance sheets) (items 1-18) – perceived usefulness

Information Item		N	Chi-Square[a]	df	Asymp. Sig.	Mean	SD
1	Cash and cash equivalents	50	54.760	2	0.000***	2.80	.452
2	Trade and other receivables	50	47.320	2	0.000***	2.76	.476
3	Financial assets	50	35.280	1	0.000***	2.92	.274
4	Inventories	50	25.920	1	0.000***	2.86	.351
5	Property, plant and equipment measured at historical cost	50	54.760	2	0.000***	2.80	.452
6	Investment property carried at fair value through profit or loss	50	58.840	2	0.000***	2.82	.438
7	Intangible assets	50	50.920	2	0.000***	2.78	.465
8	Biological assets carried at cost less accumulated depreciation and impairment	50	37.960	2	0.000***	2.70	.505
9	Biological assets carried at fair value through profit or loss	50	43.960	2	0.000***	2.74	.487
10	Investments in associates carried at fair value through profit or loss	50	58.840	2	0.000***	2.82	.438
11	Investments in jointly controlled entities carried at fair value through profit or loss	50	25.920	1	0.000***	2.86	.351
12	Trade and other payables	50	32.000	1	0.000***	2.90	.303
13	Financial liabilities (except trade & other payables and provisions)	50	20.480	1	0.000***	2.82	.388
14	Liabilities and assets for current tax	50	25.920	1	0.000***	2.86	.351
15	Deferred tax liabilities and deferred tax assets	50	20.480	1	0.000***	2.82	.388
16	Provisions	50	42.880	2	0.000***	2.72	.536
17	Non-controlling interests, presented within equity separately from equity attributable to the owners of the parent	50	47.320	2	0.000***	2.76	.476
18	Equity attributable to the owners of the parent	50	67.720	2	0.000***	2.86	.405

****Significant at $p < 0.01$*

Table 9: Balance sheets (items 1-18) – frequency percentage of responses

	Frequency Percent																	
Scale[a]	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q7**	**Q8**	**Q9**	**Q10**	**Q11**	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**	**Q17**	**Q18**
1	2.0	2.0	0	0	2.0	2.0	2.0	2.0	2.0	2.0	0	0	0	0	0	4.0	2.0	2.0
2	16.0	20.0	8.0	14.0	16.0	14.0	18.0	26.0	22.0	14.0	14.0	10.0	18.0	14.0	18.0	20.0	20.0	10.0
3	82.0	78.0	92.0	86.0	82.0	84.0	80.0	72.0	76.0	84.0	86.0	90.0	82.0	86.0	82.0	76.0	78.0	88.0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The Chi-square test results show statistically significant differences among participants in the perceived usefulness of these 18 items. Most participants perceive the balance sheet items as useful. However, a few participants see the information as either not useful or neutral. Financial asset disclosure has a relatively high perceived usefulness (Q3: X^2 = 35.28, p = 0.000, 92% of participants), along with trade and other payables (Q12: X^2 = 32, p = 0.000, 90% of participants), and equity attributable to parent owners (Q18: X^2 = 67.72, p = 0.000, 88% of participants).

The following disclosure items were perceived to be equally useful as each other: inventory (Q4: $X^2 = 25.92$, p = 0.000, 86% of participants), investment in jointly controlled entities carried at fair value through profit or loss (Q11: $X^2 = 25.92$, p = 0.000, 86% of participants, and liability and assets for current tax (Q14): $X^2 = 25.92$, p = 0.000 (86% of participants). Disclosure items such as investments property carried at fair value through profit or loss (Q6: $X^2 = 58.84$, p = 0.000, 84% of participants) and investments in associates carried at fair value through profit or loss (Q10: $X^2 = 58.84$, p = 0.000, 84% of participants were perceived as equally useful by participants. The perceived usefulness of the following disclosure items was relatively equal among participants: cash and cash equivalents (Q1: $X^2 = 54.76$, p = 0.000, 82% of participants), property, plant and equipment measured at historical cost (Q5: $X^2 = 54.76$, p = 0.000, 82% of participants, financial liability, except trade & other payables and provisions (Q13: $X^2 = 20.48$, p = 0.000, 82% of participants and deferred tax liabilities and deferred tax assets (Q15: $X^2 = 20.48$, p = 0.000, 82% of participants. Disclosure items such as intangible assets (Q7) were regarded as useful by 80% of participants ($X^2 = 50.92$, p = 0.000). Furthermore, trade and other receivables (Q2) and non-controlling interests were perceived as equally useful by 78% of participants ($X^2 = 47.32$, p = 0.000). Disclosure items such as biological assets carried at fair value through profit or loss (Q9) and provisions (Q16) were perceived useful by 76% of participants ($X^2 = 43.96$, p = 0.000, $X^2 = 42.88$, p = 0.000) respectively. Biological assets carried at cost less accumulated depreciation and impairment (Q8: $X^2 = 37.96$, p = 0.000, 72% of participants) was perceived as the least useful item from the 18 balance sheet disclosure items.

Although some participants indicate that several balance sheet items were neutral or not useful, overall the results suggest that the majority of lending officers consider balance sheet disclosure items to be useful for their lending decisions. A logical explanation for the few that consider balance sheet disclosures to be neutral or not useful is that these items are not relevant to the sectors in which these officers operate.

The findings show that lenders perceive financial assets to be the most useful item in balance sheets, and biological assets carried at cost less accumulated depreciation and impairment as the least useful item. This is an important point, because the amendments to IFRS 16 & IAS 41 allow recognition and measurement only at fair value less cost to sell, affecting the asset side of statements of financial position(Deloitte, 2015). This is of little relevance to loan officers, and can be assumed as the reason for why lending officers find this disclosure item to be the least useful.

Disclosure items 19 to 25 concern the sub-classification of certain balance sheet items in the loan officers' decision-making process. Table 10 shows the results from the Chi-square tests and Table 11 shows the percentage of frequency distribution of the responses.

Table 10: Balance sheet sub-classifications (items 19-25) – perceived usefulness

Information Item		N	Chi-Square	df	Asymp. Sig.	Mean	SD
19	Property, plant and equipment in classifications appropriate to the entity	50	47.320	2	0.000***	2.76	.476
20	Trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed	50	23.120	1	0.000***	2.84	.370
21	Inventories, showing separately amounts of inventories: a) held for sale in the ordinary course of business b) in the process of production for such sale c) in the form of materials or supplies to be consumed in the production process or in the rendering of services	50	54.760	2	0.000***	2.80	.452
22	Trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals	50	15.680	1	0.000***	2.78	.418
23	Provisions for employee benefits and other provisions	50	50.080	2	0.000***	2.76	.517
24	Classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense	50	63.160	2	0.000***	2.84	.422
25	An entity with share capital, for each class of share capital: a) the number of shares authorised b) the number of shares issued and fully paid, and issued but not fully paid c) par value per share, or that the shares have no par value d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period e) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital f) shares in the entity held by the entity or by its subsidiaries or associates g) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts	50	35.280	1	0.000***	2.92	.274

****Significant at p < 0.01*

Table 11: Balance sheet sub-classifications (items 19-25) – frequency percentage of responses

Scale[a]	Frequency Percent						
	Q19	**Q20**	**Q21**	**Q22**	**Q23**	**Q24**	**Q25**
1	2	0	2	0	4	2	0
2	20	16	16	22	16	12	8
3	78	84	82	78	80	86	92
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The results from the Chi-square test show statistically significant differences between the participants' perception of usefulness for the seven disclosure items, with more loan officers perceiving these disclosure items as useful, than neutral or not useful.

The disclosure items considered to be useful for lending decisions are: share capital (Q25: X^2 = 35.28, p = 0.000, 92% of participants); followed by classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense (Q24: X^2 = 63.16, p = 0.000, 86% of participants); trade and other receivables (Q20: X^2 = 23.12, p = 0.000, 84% of participants); inventories (Q21: X^2 = 54.76, p = 0.000, 82% of participants); and provisions for employee benefits and other provisions (Q23: X^2 = 50.08, p = 0.000, 80% of participants). Trade and other payables (Q22: X^2 = 15.68, p = 0.000, 78% of respondents) and property, plant and equipment (Q19: X^2 = 47.32, p = 0.000, 78% of respondents) were perceived as useful by 78% of participants, which ranks them as the least useful disclosure item among the seven.

These results demonstrate that the majority of commercial bank-lending officers perceive the seven disclosure requirements of the balance sheet sub-classifications as useful, while few find these items to be neutral or not useful.

Income statements and statements of comprehensive income

Disclosure items 26 to 39 concern income statements and statements of comprehensive income. Table 12 shows the results from the Chi-square tests and Table 13 shows the percentage of frequency distribution of the responses.

Table 12: Income and comprehensive income statements (items 26-39) – perceived usefulness

Information Item		N	Chi-Square [a]	df	Asymp. Sig.	Mean	SD
26	Revenue	50	35.280	1	0.000***	2.92	.274
27	Finance costs	50	25.920	1	0.000***	2.86	.351
28	Share of the profit or loss of investments in associates	50	58.840	2	0.000***	2.82	.438
29	Share of the profit or loss of jointly controlled entities accounted for using the equity method	50	18.000	1	0.000***	2.80	.404
30	Tax expense	50	58.840	2	0.000***	2.82	.438
31	A single amount comprising the total of: a) the post-tax profit or loss of a discontinued operation, and b) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the net assets constituting the discontinued operation	50	54.760	2	0.000***	2.80	.452
32	Profit or loss	50	28.880	1	0.000***	2.88	.328
33	Each item of other comprehensive income classified by nature	50	18.000	1	0.000***	2.80	.404
34	Share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method	50	54.760	2	0.000***	2.80	.452
35	Total comprehensive income	50	28.880	1	0.000***	2.88	.328
36	Profit or loss for the period attributable to: non-controlling interest owners of the parent	50	58.240	2	0.000***	2.80	.495

Information Item		N	Chi-Square [a]	df	Asymp. Sig.	Mean	SD
37	Total comprehensive income for the period attributable to: a) non-controlling interest b) owners of the parent	50	50.920	2	0.000***	2.78	.465
38	An analysis of expenses using a classification based on the nature of expenses (e.g. depreciation, purchases of materials, transport costs, employee benefits and advertising costs) within the entity	50	20.480	1	0.000***	2.82	.388
39	An analysis of expenses using a classification based on the function of expenses (e.g. cost of sales, cost of distribution or administrative activities) within the entity	50	67.720	2	0.000***	2.86	.405

****Significant at p < 0.01*

Table 13: Income and comprehensive income statements (items 26-39) – frequency percentage of responses

Scale[a]	Frequency Percent													
	Q26	Q27	Q28	Q29	Q30	Q31	Q32	Q33	Q34	Q35	Q36	Q37	Q38	Q39
1	0	0	2	0	2	2	0	0	2	0	4	2	0	2
2	8	14	14	20	14	16	12	20	16	12	12	18	18	10
3	92	86	84	80	84	82	88	80	82	88	84	80	82	88
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The results from the Chi-square test demonstrate statistically significant different perceptions in the usefulness of these 14 disclosure items, with more participants perceiving them to be useful than neutral or not useful.

Revenues has the highest perceived usefulness (Q26: $X^2 = 35.28$, p = 0.000, 92% of participants). The following disclosure items are perceived by 88% of participants as equally useful in their lending decisions: profit and loss (Q32: $X^2 = 28.88$, p = 0.000), total comprehensive income (Q35): $X^2 = 28.88$, p = 0.000), and analysis of expenses using classification based on the function of expenses (Q39: $X^2 = 67.72$, p = 0.000). Finance costs (Q27: $X^2 = 25.92$, p = 0.000) are perceived as useful by 86% of the participants.

Disclosure items, such as share of the profit or loss of investments in associates (Q28: $X^2 = 58.84$, p = 0.000, tax expenses (Q30: $X^2 = 58.84$, p = 0.000), and profit or loss attributable to non-controlling interest and parent owners (Q36: $X^2 = 58.24$, p = 0.000) are regarded useful by 84% of participants. Discontinued operations (Q31: $X^2 = 54.76$, p = 0.000), other comprehensive income of associates and jointly controlled entities (Q34: $X^2 = 54.76$, p = 0.000), and analysis of expenses using classification based on the nature of expenses (Q38: $X^2 = 20.48$, p = 0.000) are equally useful to 82% of participants in their lending decisions. Furthermore, the disclosure items: share of profit or loss of jointly controlled entities accounted for using the equity method (Q29: X^2 = 18, p = 0.000, 80% of participants); other comprehensive income classified by nature (Q33: X^2 = 18, p = 0.000, 80% of participants); and total comprehensive income for the period attributable to non-controlling interest and owners of the parent (Q37: X^2 = 50.92, p = 0.000, 80% of participants), are regarded as the least useful item among the 14 disclosure items.

The results of the Chi-square tests indicate that the majority of loan officers perceive the 14 disclosure items in income statements and statements of comprehensive income as useful for their lending decisions.

Statements of changes in equity and retained earnings

Disclosure items 40 to 43 concern statements of change in equity. Table 14 shows the results from the Chi-square tests and Table 15 shows the percentage of frequency distribution of the responses.

Table 14: Statements of changes in equity and retained earnings (items 40-43) – perceived usefulness

Information Item		N	Chi-Square [a]	df	Asymp. Sig.	Mean	SD
40	Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests	50	20.480	1	0.000***	2.82	.388
41	For each component of equity, the effects of retrospective application or retrospective restatement recognised	50	58.840	2	0.000***	2.82	.438
42	For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from: a) profit or loss b) each item of other comprehensive income c) the amounts of investments by, and dividends and other distributions to, owners, showing separately issues of shares, treasury share transactions, dividends and other distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control	50	25.920	1	0.000***	2.86	.351
43	In the statement of income and retained earnings: a) retained earnings at the beginning of the reporting period b) dividends declared and paid or payable during the period c) restatements of retained earnings for corrections of prior period errors d) restatements of retained earnings for changes in accounting policy e) retained earnings at the end of the reporting period	50	32.000	1	0.000***	2.90	.303

****Significant at p < 0.01*

Table 15: Statements of changes in equity and retained earnings (items 40-43) – frequency percentage of responses

Scale[a]	Frequency Percent			
	Q40	Q41	Q42	Q43
1	0	2	0	0
2	18	14	14	10
3	82	84	86	90
Total	**100**	**100**	**100**	**100**

The results from the Chi-square test demonstrate statistically significant differences between participants in the perceived usefulness of these four disclosure items, with more participants perceiving them as useful, than neutral or not useful.

The disclosure items perceived as useful include: information about retained earnings at the beginning and end of the reporting period (Q43: X^2 = 32, p = 0.000, 90% of participants), followed by reconciliation between carrying amounts at the beginning and end of the period for each equity component (Q42: X^2 = 25.92, p = 0.000, 86% of participants), the effects of retrospective restatement recognised for each component of equity (Q41: X^2 = 58.84, p = 0.000, 84% of participants) and total comprehensive income for the period (Q40: X^2 = 20.48, p = 0.000, 82% of participants).

Cash flow statements

Disclosure items from 44 to 52 concern cash flow statements. Table 16 shows the results from the Chi-square tests and Table 17 shows the percentage of frequency distribution of the responses.

Table 16: Cash flow statements (items 44-52) – perceived usefulness

Information Item		N	Chi-Square[a]	df	Asymp. Sig.	Mean	SD
44	Cash flows for a reporting period classified by operating activities, investing activities and financing activities	50	63.160	2	0.000***	2.84	.422
45	Cash flows from operating activities using: the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows	50	13.520	1	0.000***	2.76	.431
46	Cash flows from operating activities using: the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed	50	58.840	2	0.000***	2.82	.438
47	Major classes of gross cash receipts and gross cash payments arising from investing activities	50	23.120	1	0.000***	2.84	.370

Information Item		N	Chi-Square[a]	df	Asymp. Sig.	Mean	SD
48	Major classes of gross cash receipts and gross cash payments arising from financing activities	50	47.320	2	0.000***	2.76	.476
49	Cash flows arising from transactions in a foreign currency	50	47.320	2	0.000***	2.76	.476
50	Cash flows from interest and dividends received and paid	50	25.920	1	0.000***	2.86	.351
51	Cash flows arising from income tax	50	18.000	1	0.000***	2.80	.404
52	The amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity (because of foreign exchange controls or legal restrictions, etc.)	50	54.040	2	0.000***	2.78	.507

****Significant at $p < 0.01$*

Table 17: Cash flow statements (items 44-52) – frequency percentage of responses

Scale[a]	Frequency Percent								
	Q44	Q45	Q46	Q47	Q48	Q49	Q50	Q51	Q52
1	2	0	2	0	2	2	0	0	4
2	12	24	14	16	20	20	14	20	14
3	86	76	84	84	78	78	86	80	82
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The results from the Chi-square test demonstrate statistically significant differences among the participants in the perceived usefulness of these nine disclosure items, with more participants perceiving them as useful, than neutral or not useful.

The results indicate that 86% of the participants perceive cash flows for a reporting period classified by operating, investing and financing activities (Q44: X^2 = 63.16, p = 0.000), and cash flows from interest and dividends received and paid (Q50: X^2 = 25.92, p = 0.000) as the most useful items in cash flow statements for their lending decisions.

The participants perceive the followings disclosure items pertaining to cash flows as equally useful: cash flows arising from operating activities direct method (Q46: X^2 = 58.84, p = 0.000, 84% of participants) and major classes of gross cash receipts and gross cash payments arising from investing activities (Q47: X^2 = 23.12, p = 0.000, 84% of participants). Disclosure items, such as the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity (Q52: X^2 = 54.04, p = 0.000, 82% of participants), followed by: cash flows arising from income tax (Q51: X^2 = 18, p = 0.000, 80% of participants); major classes of gross cash receipts and gross cash payments arising from financing activities (Q48: X^2 = 47.32, p = 0.000, 78% of participants); and cash flows arising from transactions in a foreign currency (Q49: X^2 = 47.32, p = 0.000, 78% of participants) are perceived as useful to their lending decisions. Cash flows from operating activities to be disclosed using the indirect method (Q45: $X^2 = 13.52$, p = 0.000, 76% of participants) is the least useful item.

According to the mean rankings for each response, the participants consider cash flow statements and income statements to the most useful sources of accounting information as represented in Table 4. However, the results from the Chi-square tests in Tables 12 and 16 are inconsistent with this finding. Participants allocated slightly higher weight to the disclosure items in the income statement – revenue (mean = 2.92) than the disclosure items about cash flows classified by operating, investing and financing activities (mean = 2.84). Furthermore, the test results also show that cash flows from operating activities using the indirect method is among the least useful items in lending officers decision-making process (Table 16). These results are inconsistent with the findings of Allen & Cote (2005), who indicate that cash flows arising from financing and investing activities are less important than cash flows arising from operating activities for lending decisions. However, the results also reveal that information on cash flows arising from operating activities when derived via the direct method is more important to the participants' lending decisions than when derived using the indirect method.

Notes to the financial statements

Disclosure items 53 to 56 concern the notes to financial statements. Table 18 shows the results from the Chi-square tests and Table 19 shows the percentage of frequency distribution.

Table 18: Notes to the financial statements (items 53-56) – perceived usefulness

Information Item		N	Chi-Square [a]	df	Asymp. Sig.	Mean	SD
53	A statement that the financial statements have been prepared in compliance with the AIFRS for Listed companies	50	82.840	2	0.000***	2.92	.340
54	A summary of significant accounting policies applied: a) the measurement basis (or bases) used in preparing the financial statements b) the other accounting policies used that are relevant to an understanding of the financial statements	50	54.040	2	0.000***	2.78	.507
55	The judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements	50	58.840	2	0.000***	2.82	.438
56	The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year	50	53.560	2	0.000***	2.76	.555

****Significant at p < 0.01*

Table 19: Notes to the financial statements (items 53-56) – frequency percentage of responses

Scale[a]	Frequency Percent			
	Q53	Q54	Q55	Q56
1	2	4	2	6
2	4	14	14	12
3	94	82	84	82
Total	**100**	**100**	**100**	**100**

The results from the Chi-square test demonstrate statistically significant differences between participants in perceiving usefulness of four disclosure items, with more participants perceiving them as useful, than neutral or not useful.

The results show that a statement indicating that the financial statements have been prepared in compliance with AIFRS for listed companies (Q53: $X^2 = 82.84$, $p = 0.000$) is perceived as the most useful item by 94% of participants, followed by the judgements that management has made in the process of applying accounting policies (Q55: $X^2 = 58.84$, $p = 0.000$, 84% of participants). For 82% of participants, the key assumptions made by the management (Q56: $X^2 = 53.56$, $p = 0.000$), and a summary of the significant accounting policies applied (Q54: $X^2 = 54.04$, $p = 0.000$) are equally useful.

Amendments to the IFRS

The second objective of this study is to assess the perceptions of lending officers on the usefulness of the subsequent amendments to the IFRS in their lending decisions. The amendments are organised into eight categories. Pearson's Chi-square 'goodness-of-fit test' is again applied to each of the eight categories. Disclosure items 57 to 64 concern these eight amendments. Table 20 shows the results from the Chi-square tests and Table 21 shows the percentage of frequency distribution of the responses.

Table 20: IFRS amendments (items 57-64) – perceived usefulness

No.	Information Item	N	Chi-Square [a]	df	Asymp. Sig.	Mean	SD
57	Information related to Equity Method in Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	50	54.040	2	0.000***	2.78	.507
58	Information related to IAS 16 Property, Plant and Equipment: Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment	50	50.920	2	0.000***	2.78	.465
59	Information related to IAS 38 Intangible Assets to introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate	50	46.360	2	0.000***	2.74	.527
60	Information related to IFRS 11 arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to: c) Apply all of the business combinations accounting principles	50	67.720	2	0.000***	2.86	.405
61	Information related to IAS 36 Impairment of Assets: Clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less	50	25.920	1	0.000***	2.86	.351
62	Information about Amendments to IFRS 10 Consolidated Financial Statements, Provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in e	50	46.360	2	0.000***	2.74	.527
63	Information about IFRS 12 Disclosure of Interests in Other Entities, An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12	50	25.920	1	0.000***	2.86	.351
64	Information related to IFRS 9 Financial Instruments on fair value	50	23.120	1	0.000***	2.84	.370

****Significant at $p < 0.01$*

Table 21: Amendments (items 57-64) – frequency percentage of responses

	Frequency Percent							
Scale [a]	**Q57**	**Q58**	**Q59**	**Q60**	**Q61**	**Q62**	**Q63**	**Q64**
1	4	2	4	2	0	4	0	0
2	14	18	18	10	14	18	14	16
3	82	80	78	88	86	78	86	84
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

The results from the Chi-square test demonstrate statistically significant differences among the participants in the perceived usefulness of these eight items, with more participants perceiving them as useful, than neutral or not useful.

The results show that 86% of participants perceive the amendments to IFRS 11 as the most useful of the eight (Q60: $X^2 = 67.72$, $p = 0.000$). Information related to IAS 36 impairment of assets (Q61: $X^2 = 25.92$, $p = 0.000$) and information about IFRS 12 disclosure of interests in other entities (Q63: $X^2 = 25.92$, $p = 0.000$) are perceived by 86% of participants as equally useful in their lending decisions. IFRS 9 financial instruments on fair value is perceived by 84% of participants as useful for their lending decisions (Q64: $X^2 = 23.12$, $p = 0.000$). Information items related to equity methods in separate financial statements (Q57: $X^2 = 54.04$, $p = 0.000$, 82% of participants) followed by information related to IAS 16 property, plant and equipment (Q58: $X^2 = 50.92$, $p = 0.000$, by 80% of participants) are also useful. Of the participants 78% perceive information related to IAS 38 intangible assets (Q59: $X^2 = 46.36$, $p = 0.000$) and IFRS 10 consolidated financial statements (Q62: $X^2 = 46.36$, $p = 0.000$) as equally useful. IAS 38 (Q59) and IAS 10 (Q62) are the least useful.

Overall, the results reveal that lending officers perceive all eight amendments to the IFRS as providing information useful to their lending decisions. The amendments to IFRS 11 are considered more useful than the others, suggesting that the new single classification for joint operations provides loan officers with useful information. A possible reason for why lending officers find this amendment to be the most useful is the elimination of the proportionate consolidation method, which increases accounting information comparability. This, in turn, leads to less effort for lending officers when analysing new customer (Catuogno, Napoli, Allini, D'Ambrosio, & Naples, 2015).

IAS 38 intangible assets and IFRS 10 consolidated financial statements are perceived as the least useful amendments. IAS 38 is intended for internal use, which makes it difficult for lending officers to evaluate its economic value and provides an explanation for its lack of usefulness (Ciftci & Zhou, 2016). IFRS 10, as described by Danjou (2013) & PricewaterhouseCoopers (2012), requires sophisticated analysis when used to inform lending decisions (as cited by Maroun & van Zijl, 2016), which may account for the participants' low score against this item.

Analysis of the quantitative data reveals that most of the disclosure items in the IFRS are perceived to be useful to lending officers in their decision-making processes. Thus, it can be concluded that the development of IFRS financial reports for listed companies related to the disclosure requirements, and the subsequent amendments to the IFRS are important to the information needs of bank-lending officers. Further clarifications about the usefulness of disclosure items were derived from the interviews.

This survey assesses both the usefulness of the disclosure items of full IFRS accounting information, and the usefulness of the subsequent amendments to the IFRS for lending decisions. Triangulation of the results from the survey with the data collected from the interviews provides broad understanding of the usefulness of the information provided by IFRS accounting information for lending officers.

4.2 The semi-structured interviews

4.2.1 Demographic details of the participants

Interviews were conducted with a representative from three of the four major commercial banks in Sydney, Australia. As reported in Table 22, all three participants are male with a mean age of 32.3 years. They average 17 years of formal education. Two of the three participants are qualified members of the Financial Services Institute of Australia (FINISA); two hold a Certificate in Banking & Finance; one holds a Chartered Institute of Management Accountants (CIMA) qualification; and two hold a Master degree in Finance (MF). The participants have an average of 10 years' work experience in commercial lending. Their profiles are reported in Table 22.

Table 22: Interviewees' profiles

	Certificate in Banking & Finance	Chartered Institute of Management Accountants	Master degree in Finance
No. of participants	2	1	2
Average working experience	10 years		
Average formal education	17 years		
Mean age of participants	32.3 years		

4.2.2

4.2.3 Perceptions on the role of accounting information and the IFRS

Financial statements

The loan officers view accounting information as critical to their lending decisions. They note that it is particularly through the financial statements that banks get a clear picture of the customer's ability to honour their credit obligations. Interestingly, they refer to such information as "a skeleton". The statements provide a skeleton upon which other items that inform lending decisions are built, meaning financial statements are considered a starting point for their decision-making process.

Financial statements prepared in compliance with the IFRS

All the three loan officers have similar familiarity with AIFRS, and confirmed that they make loan evaluations using financial statements prepared in compliance with AIFRS. A frequently recurring theme concerned the bank-specific rating systems that determine the loans issued by the bank. According to the participants, banks' lending decisions are guided by localised systems, irrespective of whether their customers comply with AIFRS.

The interviews also sought to determine the qualitative and quantitative aspects of financial statements that are useful in making lending decisions. One of the participants commented:

> *In my personal view, I feel like we lean towards more profit and loss at the end of the day, because that's what's going to be paying back our loans, but I think we inadvertently lean towards that, and in some cases, very, very rare, we might not need a balance sheet, but profit and loss is always integral to our decision.*

Studies have also shown that profitability and volumes of trade are viewed as the most important aspects of a financial report for the banks (Kuchta & Sukpen, 2014).

Questions about the time taken to evaluate financial statements brought different responses. For one participant, the exercise is swift, conducted in as little as half an hour. Another participant noted that the time taken is relative, and depends on the job title of the lending officer. The third interviewee commented that the time depends on the officer's familiarity with the customer.

All participants agree that financial statements prepared in compliance with AIFRS are helpful to their lending decisions. According to some critics of IFRS-adoption, the IFRS-compliant statements tend to yield an overload of information (Callao, Jarne, & Laínez, 2007; Jarva & Lantto, 2012; Morais & Curto, 2008). However, the participants refute this claim, suggesting they are open to receiving more information.

When questioned about whether complying with IFRS in financial statements improves their reliability, the feedback was generally positive but the interviewees noted that real value relevance cannot be accurately measured or estimated. They also argue that auditing plays a very important role in improving the quality, and particularly the reliability, of financial statements.

Empirical evidence on whether financial reports prepared in compliance with AIFRS helps to lower the borrower's cost of capital suggests a considerable reduction (Covrig et al., 2007; Beneish et al., 2012; Jeong-Bon et al., 2011). However, the participants' views contradict this evidence. Participant 1 asserts:

> *No because it comes back to – so certainly in the Australian environment – each of the major banks have their own crediting – what they'll call a credit engine, where they will be taking the data and putting that into that credit engine, and the credit engine will then rate the customer.*

These comments imply that the cost of capital is not affected by whether or not a borrower has financial statements that adhere to IFRS regulations in the Australian credit market.

Additionally, the level of satisfaction that lending officers have with general purpose financial statements prepared in compliance with IFRS were examined. The main apprehensions raised by participants concerns the general nature of these statements and that they look different from each other. Another participant notes that he is satisfied with the statements, but improvements need to be made to offer more dynamic information on reporting companies. The views of the participants are captured by the statement below:

> *But overall, I'm happy with where they – how it looks and what is presented – and it gives me sufficient information to make my decision, in most cases, and in cases where they don't, you just send the clarification form to the accountant directly or the client.*

These findings build on data that cites dissatisfaction with general purpose statements prepared in compliance with IFRS such as Lin (2015), Ball et al. (2015), Callao, Jarne, & Laínez (2007), and Morais & Curto (2008). Some scholars, like Devalle (2010) and Moscariello et al. (2014), find both positive and negative aspects in IFRS adoption, while others only see the positive

(Iatridis & Rouvolis, 2010; Horton & Serafeim, 2010). The differences are ascribed to different conditions that govern business operations in various countries and settings (Allen & Jane, 2005; Shima & Yang, 2012), but these differences create a gap of information that needs to be filled by further research.

Amendments to the IFRS

The other major objective of this study is to capture views on the usefulness of the recent amendments to the IFRS for lending officers.

Some participants did not expect the amendments to IAS 36 *Impairment of Assets* would have any significant impact on their lending decisions. Another participant, however, felt the amendment would have a significant impact, since it would change the approach to credit especially when dealing with customers with financial problems. The participant noted that, *"It's a good enhancement because, obviously, it helps improve the veracity of the numbers, but again, you know, it's still just a start point."*

The amendments to IFRS 10 *Consolidated Financial Statements*, were intended to deal with the persistent problem of the lack of a centralised accounting system that tracks all the investments of a firm (Grant Thornton LLP, 2012). The lending officers noted that they did not view the amendment as a major influence on their lending decisions, given that most statements are already consolidated.

The intention behind the amendments of IAS 28 *Investments in Associates and Joint Ventures* was to bring a new understanding of the different applications of the equity method to either associates or joint ventures (Deloitte, 2015b). Despite the importance of this standard, the participants seemed unaware of its existence. They assumed that the ignorance surrounding this standard implies its limited impact on lending decisions.

The amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* was anticipated to impact banks heavily because of the resulting complexity in the financial statements. It was projected that lending decisions would be duly affected since they would take longer to be processed and finalised (BDO network, 2012). According to one of the lending officers, the amendment that brought a new definition for joint operations would not affect the credit decision-making process given the framework the bank uses. One participant, however, noted that the amendment would be detrimental to the borrower, given the burden given to carry joint ventures of poor financial health. Such cases would see a decline in loan requests.

Amendments made in IFRS 12 *Disclosure of Interests in Other Entities* call for complete disclosure of the nature of all the entities associated with the firm (Deloitte, 2015d). The participants were divided in their perception of the effects of this amendment. One argued that the amendment would have very minimal effect on his lending decisions. Another, however, was of the view that the amendment contributed to the use of fair value, which according to him was most appropriate when making credit decisions.

The effects of amendments to IAS 16 *Clarification of Acceptable Methods of Depreciation and Amortisation* were projected to be relative, depending on the accounting approach taken (Mazboudi, 2012). The participants were divided in their perspective, with one foreseeing the amendments to cause no significant impact on credit decisions, and another noting that depreciation figures would be affected. This, in turn, would lead to a reduction in the value of PPE, which would significantly affect credit decisions.

With the changes of IFRS 9 *Financial Instruments* expected to be in effect from 2018, this standard is anticipated to influence lending decisions significantly, since banks will be more conservative in issuing loans against real estate (Irvine, 2015). The participants here agreed that the amendments to IFRS 9 *Financial Instruments* would have a major impact on lending decisions. One noted that the changes pushed towards a fair value approach, which was most beneficial to banks. All interviewees agreed that the changes would made it easier to develop a full picture of the borrowers, by indicating the true value of their financial instruments.

CHAPTER 5
CONCLUSIONS, LIMITATIONS AND FURTHER RESEARCH

5.1 Conclusions and implications

This study examined the use of IFRS financial statements and their influence on credit decisions. Australia was chosen for this research as its road towards IFRS started in 1996 and was mandated from 1 January 2005 (McGregor, 2012). There has been abundance of research on IFRS adoption, but a gap in knowledge exists concerning the relationship between the usefulness of a company's IFRS financial statements to a loan officers' decision to grant a loan.

To fill this void, decision-usefulness theory is applied to capture the usefulness of the financial information based on IFRS that companies in Australia provide to the users of financial statements, especially banks. Two primary objectives guide the overall study – determining whether bank-lending officers perceive the accounting disclosure and measurement requirements of the IFRS useful for making their lending decisions, and whether the lending officers perceive the subsequent amendments to the IFRS to be useful. The study employs a mixed methods approach to data collection, that is, a combination of quantitative data, collected through questionnaire surveys, and qualitative data, collected through semi-structured interviews.

The findings of this study show that commercial bank-lending officers consider financial accounting information to be imperative in making credit decisions because they are used to make assessments about the quality of the firm's management. Historical costs, as opposed to fair value, are most commonly used to make lending decisions, because fair value is not seen as being as reliable a measure. The loan officers' views on the disclosure requirements of the balance sheet are inconsistent. A few officers observed that some disclosure items are not relevant to their lending decisions. Of the 56 disclosure items assessed, related party disclosures were found to be the least useful because of the varied operating sectors of the loan applicants. The respondents were, however, in agreement that financial assets, especially the balance sheet, are essential aspects of their decision-making process.

Loan officers also perceive several other disclosure items to be critical to their decisions, including, the income statement, the statement of comprehensive income, and the statement of cash flow. Cash flow statements influence lending decisions the most profoundly, and a direct method of preparation is preferred. The quantitative data gathered in the exercise indicates that loan officers find the IFRS disclosure items for listed companies useful for making lending decisions.

This study finds that loan officers also view the subsequent amendments to the IFRS to be critical in making lending decisions. Using the Pearson's Chi-square 'goodness of fit test' for each of the eight amendments, the changes made to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* stands out as more useful than the others.

The study is built on empirical evidence that supports the application of decision usefulness theory as it applies to the users of financial statements. This is an observation that brings a banker's perspective about the changes made to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*. The insights from the findings indicate that loan officers use the accounting information provided by their clients to assess the potential risk a bank faces once the institution goes into joint operation with expected partner. This is in line with the observations made by Gassen & Schwedler (2010) about the conventional use of accounting information.

The study's theoretical contribution is important as it provides evidence about the usefulness of IFRS financial statements in the context of lenders. It is evident from the findings that IFRS adoption among Australian firms has had a considerable impact on the quality of financial reporting. The implication is that loan officers depend on their perceptions of the quality of management in making loan decisions, which are primarily based on the quality of the financial statements produced by the companies. Therefore, it is imperative for companies seeking bank credit to follow IFRS guidelines in financial reporting, since this study establishes that these disclosure requirements are crucial from the loan officers' point of view. In addition, aligning a company's financial statements to report historical costs makes it easier for loan officers to make their assessments and subsequent loan decisions.

The practical implications of the findings are also important in that they suggest that the IFRS based financial reports are crucial for the decision- making needs of loan officers and also that the IASB led amendments in IFRS are given prominence in the lending decisions. These findings clearly signify and add to the value of IFRS based financial reports for decision-making purposes. Finally, the insights gained have a wide applicability. The findings may apply not only to banks, but also to other institutions that provide credit services.

5.2 Limitations

In any form of scholarly inquisition, it is rare to find studies that are devoid of challenges and constraints. In this particular exercise, the researcher faced some challenges during the completion of the study goals. The first barrier came in the form of time. The survey questions were expansive and required a substantial amount of time to complete. The challenge was thus finding respondents willing to commit their time to the survey or avail themselves for interviews, which led to a small sample size. Hence, this studys' results may not be an accurate representation of the relationship between lending officers and their Australian customers

Additionally, some respondents were unwilling to disclose information that might negatively influence public perceptions of their bank, which would have implications on the findings.

5.3 Suggestions for future research

Through this study, some opportunities for further scholarly inquisition are suggested. It is important for the academic world to examine why there are differences in the emphasis placed on different types of financial statements to provide insight into which kind of statements make the most sense for various financial statement users. Additionally, from the present study, it became evident that loan officers valued certain disclosure requirements of financial statements more depending on the applicant's sector or industry; therefore, future enquiry may aim to determine the role that industry plays in determining the importance of disclosure requirements.

REFERENCES

Agnew, H. (2014). *IFRS accounting rules change forces banks to alter view of losses*. Retrieved June 1, 2016, from ft.com: http://www.ft.com/cms/s/0/50f7aea2-1291-11e4-93a5-00144feabdc0.html#axzz4AKskPAOT

Allen, M., & Cote, J. (2005). Creditors' use of operating cash flows: An experimental study. *Journal of Managerial Issues, 17*(2), 198-211.

APRA. (2005). *Adoption of International Financial Reporting Standards* . Australian Prudential Regulation Authority.

Aubert, F., & Grudnitski, G. (2011). The impact and importance of mandatory adoption of International Financial Reporting Standards in Europe. *Journal of International Financial Management and Accounting 22(1)*, 1-26.

Australian Stock Exchange (ASX). (2015). *Corporate overview*. Retrieved June 4, 2016, from http://www.asx.com.au/about/corporate-overview.htm

Australian Trade and Investment Commission (Austrade). (2011). *Australia's Banking Industry*. Retrieved June 4, 2016, from www.austrade.gov.au/ArticleDocuments/2792/Australias-BankingIndustry.pdf.aspx

Balcaen, S., & Ooghe, H. (2006). 35 Years of Studies on Business Failure: An Overview of the Classic Statistical Methodologies and their Related Problems. *The British Accounting Review 38(1)*, 63-93.

Ball, R. (2006). International Financial Reporting Standards (IFRS): Pros and cons for investors. *Accounting and Business Research*, 5-27.

Ball, R. (2008). Is financial reporting shaped by equity markets or by debt markets? An international study of timeliness and conservatism. *Review of Accounting Studies, 13(2)*, 168-205.

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

Barth, M., Landsman, W., Lang, M., & Williams, C. (2008). International accounting standards and accounting quality. *Journal of Accounting Research 46(3)*, 467-498.

Basford, W., & Leung , J. (2015). *Practical challenges of the new IFRS 9 impairment model for lenders.* Chartered Accountants Australia and New Zealand.

BDO network. (2012). Need to know IFRS 11 Joint Arrangements. BDO network.

Beaulieu, P. (1994). Commercial Lenders' Use of Accounting Information in Interaction with Source Credibility. *Contemporary Accounting Research 10(2)*, 557-585.

Beiske, B. (2007), Research Methods: Uses and Limitations of questionnaires, interviews and case studies, GRIN Verlag

Beneish, M. D., Billings, M., & Hodder, L. (2012). The Impact of Financial Reporting on Equity versus Debt Markets: Macroeconomic Evidence From Mandatory IFRS Adoption. *Working paper*. Indiana University.

Benjamin, J., & Stanga, K. (1977). Differences in disclosure needs of major users of financial statements. *Accounting and Business Research, 7*(27), 187-192.

Billings, B., & Morton, R. (2002). The relation between SFAS No. 95 cash flows from operations and credit risk. *Journal of Business Finance & Accounting, 29(5)*, 787-805.

Brochet, F., Jagolinzer, A., & Riedl, E. (2013). Mandatory IFRS Adoption and Financial Statement Comparability. . *Working Paper*. Harvard Business School.

Bryman, A., & Bell, E. (2015). *Business research methods:* Oxford University Press, USA.

Byard, D., Li, Y., & Yu, Y. (2011). The Effect of Mandatory IFRS Adoption on Financial Analysts' Information Environment. *Journal of Accounting Research 4(9)*, 69-96.

Callao, S., Jarne, J., & Laínez, J. (2007). Adoption of IFRS in Spain: effect on the comparability and relevance of financial reporting. *Journal of International Accounting, Auditing and Taxation 16(2)*, 148-178.

Catuogno, S., Napoli, V., Allini, A., D'Ambrosio, A., & Naples, V. (2015). Information perspective and determinants of proportionate consolidation in Italy. An ante IFRS 11 analysis. *RIVISTA DEI DOTTORI COMMERCIALISTI, 4*, 555-577.

Chan, A., Lee, E., Petaibanlue, J., & Tan, N. (2015). Mandatory adoption of IFRS and timely loss recognition across Europe: The effect of corporate finance incentives. *International Review of Financial Analysis 38*, 70-82.

Charitou, A., Louca, C., & Panayides, S. (2007). Cross-Listing, Bonding Hypothesis and Corporate Governance. *Journal of Business Finance & Accounting, 34*(7-8), 1281-1306.

Chen, T., Tang, Q., Jiang, Y., & Lin, Z. (2010). The role of International Financial Reporting Standards in accounting quality: Evidence from European Union. *Journal of International Financial Management and Accounting 21(3)*, 220-278.

Ciftci, M., & Zhou, N. (2016). Capitalizing R&D expenses versus disclosing intangible information. *Review of Quantitative Finance and Accounting, 46*(3), 661-689.

Covrig, V., Defond, M., & Hung, M. (2007). Home bias, foreign mutual fund holdings, and the voluntary adoption of international accounting standards. . *Journal of Accounting Research 45*, 41-70.

Crabtree, B. (1992), *Doing Qualitative Research,* Thousand Oaks CA: Sage Publications Inc.

Cronbach, L. J. (1951). Coefficient alpha and the internal structure of tests. *Psychometrika*, *16*(3), 297-334.

Danjou, P. (2013). *An Update on International Financial Reporting Standards (IFRSs)*. Retrived August 2, 2016, from ifrs.org: http://www.ifrs.org/Features/Documents/Mise-au-point-concernant-les-normes-IFRS-19-eng-February-2013.pdf

Danos, P. (1989). The Use of Accounting Information in Bank-lending Decisions. . *Accounting, Organizations and Society 14(3)*, 235-264.

Daske, H., & Gebhardt, G. (2006). International Financial Reporting Standards and experts' perceptions of disclosure quality. *Abacus 42(3)*, 461-498.

Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008). Mandatory IFRS Reporting around the World:. *Journal of Accounting Research 4(6)*, 1085-1142.

Deloitte. (2015a). *IAS 16 — Property, Plant and Equipment*. Retrieved June 1, 2016, from iasplus.com: http://www.iasplus.com/en-gb/standards/ias/ias16

Deloitte. (2015b). *IAS 28 — Investments in Associates and Joint Ventures (2011)*. Retrieved June 1, 2016, from iasplus.com: http://www.iasplus.com/en/standards/ias/ias28

Deloitte. (2015c). *IFRS 11 — Joint Arrangements*. Retrieved June 1, 2016, from iasplus.com: http://www.iasplus.com/en/standards/ifrs/ifrs11

Deloitte. (2015d). *IFRS 12 — Disclosure of Interests in Other Entities*. Retrieved June 1, 2016, from asplus.com: http://www.iasplus.com/en/standards/ifrs/ifrs12

Deloitte. (2016). *Effective dates of IFRSs and amendments*. Retrieved September 21, 2016, from iasplus.com: http://www.iasplus.com/en/standards/effective-dates/effective-ifrs

Devalle, A. (2010). Assessing the value relevance of accounting data after the introduction of IFRS in Europe. *Journal of International Financial Management & Accounting 21(2)*, 85-119.

Dhaliwal, D., Khurana, K., & Pereira, R. (2011). Firm disclosure policy and the choice between private and public debt. *Contemporary Accounting Research 28(1)*, 293-330.

Epstein, B. J. (2009). The Economic Effects of IFRS Adoption. *The CPA Journal, 79*(3), 26.

Ernst & Young Limited. (2013). An update for the CFO Second edition (May 2013) IFRS changes impacting the banking industry. Ernst & Young Limited.

Ewing, A., & Bhatia, M. (2009). *Corporate Debt to Surge in Sweden as Bank Credit Dries Up.* Retrieved June 2, 2016, from bloomberg.com: http://www.bloomberg.com/news/2012-01-19/corporate-debt-sales-to-surge-in-sweden-as-bank-credit-dries-up.html

Florou, A., & Kosi, U. (2015). Does mandatory IFRS adoption facilitate debt financing? *Accounting Studies 20*, 1407-1456.

Franco, G. D., Kothari, S., & Verdi, R. (2011). "The benefits of financial statement comparability.". *Journal of Accounting Research 49(4)*, 895-931.

Gassen, J., & Schwedler, K. (2010). The decision usefulness of financial accounting measurement concepts: Evidence from an online survey of professional investors and their advisors. *European Accounting Review, 19*(3), 495-509.

Goddard, W., & Melville, S. (2004), *Research Methodology: An Introduction, 2nd edition*, Blackwell Publishing.

Govindarajan, V. (1980). The objectives of financial statements: An empirical study of the use of cash flow and earnings by security analysts. *Accounting, Organizations and Society 5((4)*, 383-392.

Gornik-Tomaszewski, S., & Larson, R. K. (2014). New consolidation requirements under IFRS. *Review of Business*, *35*(1), 47.

Grant Thornton LLP. (2012). Adviser alert—Under control? A practical guide to IFRS 10 Consolidated Financial Statements . Grant Thornton LLP.

Grunert, J., Norden, L., & Weber, M. (2005). The Role of Non-Financial Factors in Internal Credit Ratings. *Journal of Banking and Finance 29*, 509-531.

Günther, T., & Grüning , M. (2000). Einsatz von Insolvenzprognoseverfahren bei der. *Die Betriebswirtschaft 60*, 39-59.

Hail, L. (2013). Financial reporting and firm valuation: relevance lost or relevance regained? *Accounting and Business Research 43(4)*, 329-358.

Haswell, S., & McKinnon, J. (2003). IASB Standards for Australia by 2005: Catapult or Trojan Horse? *Australian Accounting Review, 13*(29), 8-16.

Hodgdon, C., Tondkar, R., Harless, D., & Adhikari, A. (2008). Compliance with IFRS disclosure requirements and individual analysts' forecast errors. *Journal of International Accounting, Auditing and Taxation 1(7)*, 1-13.

Holthausen, W., & Watts, R. (2001). The relevance of the value-relevance literature for financial accounting standard setting. *Journal of Accounting and Economics 1(3)*, 3-75.

Horton, J., & Serafeim, G. (2010). Market reaction to and valuation of IFRS reconciliation adjustments: first evidence from the UK. *Review of Accounting Studies 15(4)*, 725-751.

IASB. (2010). *Conceptual Framework for Financial Reporting 2010.* Retrieved June 2, 2016, from iasplus.com: http://www.iasplus.com/en/standards/other/framework

IASB. (2015). *Conceptual Framework for Financial Reporting 2010* . Retrieved April 21st, 2016, from http://www.iasplus.com/en/standards/other/framework

IASB. (2016). *Access the unaccompanied Standards*. Retrieved June 4, 2016, from http://www.ifrs.org/IFRSs/Pages/IFRS.aspx

Iatridis, G., & Rouvolis, S. (2010). The post-adoption effects of the implementation of

International Financial Reporting Standard in Greece. *Journal of International Accounting, Auditing and Taxation 19(1)*, 55-65.

Irvine, J. (2015). *Concerns grow over IFRS 9 impact*. Retrieved June 1, 2016, from economia.icaew.com: http://economia.icaew.com/news/may-2015/concerns-grow-over-ifrs-9-impact

Jain, P. (2011). IFRS implementation in India: Opportunities and challenges.*World Journal of Social Sciences*, *1*(1), 125-136.

Jankowicz, A. (2005), *Business Research Projects,* London: Thomson Learning.

Jara, E. G., Ebrero, A., & Zapata, R. (2011). Effect of international financial reporting standards on financial information quality. *Journal of Financial Reporting and Accounting 9(2)*, 176-196.

Jarva, H., & Lantto, A. (2012). Information content of IFRS versus Domestic Accounting Standards: evidence from Finland. *The Finnish Journal of Business Economics 2*, 141-177.

Jeong-Bon, K., Tsui, J., & Yi, C. (2011). The voluntary adoption of International Financial Reporting Standards and loan contracting around the world. *Accounting Studies 16*, 779-811.

Jermacowicz, E., Kinsey, J., & Wulf, I. (2007). The value relevance of accounting income reported by DAX-30 German companies. *Journal of International Financial Management & Accounting 18(3)*, 151-191.

Johnson, R. B., & Onwuegbuzie, A. J. (2004). Mixed methodss research: A research paradigm whose time has come. *Educational Researcher*, *33*(7), 14-26.

Kadous, K., Koonce, L., & Thayer, J. (2012). "Do financial statement users judge relevance based on properties of reliability?." . *The Accounting Review 87(4)*, 1335-1356.

Kim, N. (2009). Financial Statements and Lending Decisions by Large Banks and Small Banks. *International Review of Business Research Papers 5(5)*, 346-354.

Kitindi, E., Magembe, B., & Sethibe, A. (2007). Lending Decision-making and Financial Information: The Usefulness of Corporate Annual Reports to Lenders in Botswana. *The international journal of applied Economics and Finance*, 1(2), pp.55-66.

Knott, S., Richardson, P., Rismanchi, K., & Sen, K. (2014). "Understanding the fair value of banks' loans." . *Bank of England Financial Stability Paper 31*. Bank of England.

Kosi, U., Pope, P., & Florou , A. (2010). Credit relevance and mandatory IFRS adoption. *Working Paper*. Lancaster University.

Kothari, C. R. (2004). *Research Methodology: Methods and techniques*. New Age International.

KPMG. (2014). Guide to annual financial statements- IFRS 12 supplement. KPMG.

Kuchta, D., & Sukpen, J. (2014). "The role of financial and management accounting in decision-making." . *Information Systems Architecture and Technology 99*.

Kvaal, E., & Nobes, C. (2012). IFRS policy changes and the continuation of national patterns of IFRS practice. *European accounting review*, *21*(2), 343-371.

Lagrange, B., Viger, C., Anandarajan, A., & de coopération Guy-Bernier, C. (2015). Contingency Reporting in the Post IFRS Regime: An Analysis of Perceptions and Reactions Of Canadian Loan Officers. *Cahier de recherche*, pp.1-18.

Lambert, R., Leuz, C., & Verrecchia, R. (2007). Accounting information, disclosure, and the cost of capita. *Journal of Accounting Research 45(2)*, 385-420.

Landsman, W., Maydew, E., & Thornock, J. (2012). The information content of annual earnings announcements and mandatory adoption of IFRS. *Journal of Accounting and Economics 5(3)*, 34-54.

Leftwich, R. (1983). Accounting Information in Private Markets: Evidence From Private Lending Agreements. *The Accounting Review 58(1)*, 23-42.

Lewin, K. (1939), 'Field theory and experiment in social psychology: Concepts and methods', *American journal of sociology*, 868-896.

Lin, S. (2015). The Effect of Financial Reporting on Bank Loan Contracting in Global Markets: Evidence from Mandatory IFRS Adoption. . *Journal of International Accounting Research 14(2)*, 83-87.

Lourenço, I. M. E. C., Branco, M. E. M. d. A., & Castelo, D. (2015). Main Consequences of IFRS Adoption: Analysis of Existing Literature and Suggestions for Further Research. *Revista Contabilidade & Finanças, 26*(68), 126-139.

Loyeung, A., Matolcsy, Z., Weber, J., & Wells, P. (2016). The cost of implementing new accounting standards: The case of IFRS adoption in Australia. *Australian Journal of Management*, 0312896216649015.

Mamdouh, N. (2015). The Potential Effect of the Implementation of the IFRS For Smes on the Credit Decision for Small Entities. *Proceedings of 30th International Business Research Conference.* International Business Research.

Maria, C. (2014). Borrowers' Accounting Information and Banks' Lending Decisions. *Job Market Paper.* Bocconi University.

Maroun, W., & van Zijl, W. (2016). Isomorphism and resistance in implementing IFRS 10 and IFRS 12. *The British Accounting Review, 48*(2), 220-239.

Masadah, W., Al—Omush, A., & Shiyyab, F. (2016). Fair Value Accounting Standard (IAS 39) Versus the Historical Costs Principle. *International Business Management, 10*(2), 123-128.

Maylor, H., & Blackman, K. (2005), *Research Business & Management,* Basingstoke, UK: Palgrave Macmillan.

Mazboudi, M. (2012). Accounting choices under IFRS and their effect on over-investment in capital expenditures. *PhD (Doctor of Philosophy) thesis*. University of Iowa.

McGregor, W. (2012). *In Defence of IFRS Financial Statements.* CPA Australia Ltd. Southbank Vic Australia: CPA Australia Ltd.

Morais, A., & Curto, J. (2008). Accounting quality and the adoption of IASB standards - Portuguese evidence. *Revista Contabilidade & Finance 19(48)*, 103-111.

Moscariello, N., Skerratt, L., & Pizzo, M. (2014). Mandatory IFRS adoption and the cost of debt in Italy and UK. *Accounting and Business Research, 44(1)*, 63-82.

Neuman, W. L. (2005), Social Research Methods. Qualitative and Quantitative Approaches, Allyn and Bacon.

Paananen, M., & Henghsiu , L. (2009). The development of accounting quality of IAS and IFRS over time: the case of Germany. *Journal of International Accounting Research 8(1)*, 31-55.

Palea, V. (2013). "IAS/IFRS and financial reporting quality: lessons from the European experience.". *China Journal of Accounting Research 6(4)*, 247-263.

Pawsey, N. L. (2008). Australian Preparer Perceptions Towards the Quality and Complexity of IFRS. Regional School of Business.

Pelissier, R. (2008), *Business Research Made Easy*, Juta & Co.

Previts, G., Bricker, R., & Young, S. (1994). A content analysis of sell-side financial analyst. *Accounting Horizons 8(2)*, 55-70.

Pricewaterhousecoopers. (2012). *A Practical guide to IFRS - Consolidated Financial Statements*. Retrived August 2, 2016, from https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CCgQFjAB&url=https%3A%2F%2Fpwcinform.pwc.com%2Finform2%2Fcontent%3Faction%3Dresource %26id%3D0000000585247049.pdf&ei=Am1QUMD0D8SShgeevYCIDg&usg=AFQjCNHQS8wlc Z_yr6i4W95IJaIh0ArBqQ&cad=rja

Relbanks. (2016). *Banks in Australia*. Retrieved June 4, 2016, from http://www.relbanks.com/oceania/australia

Shima, K. M., & Yang, D. (2012). Factors affecting the adoption of IFRS. *International Journal of Business 17(3)*, 276.

Snieder, R., & Larner, K. (2009), The Art of Being a Scientist: A Guide for Graduate Students and their Mentors, Cambridge University Press

Soderstrom, N., & Sun, K. (2007). "IFRS adoption and accounting quality: a review.".

European Accounting Review 16(4), 675-702.

Stanko, B., & Zeller, T. (2010). "The arrival of a new GAAP: International financial reporting standards.". *Journal of Business & Economics Research 8(10)*, 27.

Tucker, J., Misirlioglu, I., Gonis, E., & Yukselturk, O. (2012). *"The use of financial information by capital providers."*. Bristol: Centre for Global Finance University of the West of England.

Wolk, H., Dodd, J., & Rozycki, J. (2013). Accounting Theory: Conceptual issues in a political and economic environment. SAGE Publications.

Wu, J. S., & Zhang, I. (2014). The Adoption of Internationally Recognized Accounting Standards: Implications for the Credit Markets. *Journal of Accounting, Auditing & Finance, 29(2)*, 95-128.

Yin, R. K., (2013). *Case study research: Design and methods*. Sage publications.

Young, J. J. (2006). "Making up users" *Accounting, Organizations and Society 31(6)*, 579-600.

Zager, K., & Zager, L. (2006). "The role of financial information in decision-making process.". *Innovative Marketing 2(3)*, 35-40.

Zhang. (2008). The contracting benefits of accounting conservatism to lenders and borrowers. *Journal of Accounting and Economics 45(1)*, 27-54.

Appendixes: Appendix 1/ Survey questionnaire

Department of Accounting and Corporate Governance
Faculty of Business and Economics
Macquarie University NSW 2109
Phone: +61 2 9850 6137
Fax: +61 2 9850 8497
Email: parmod.chand@mq.edu.au

Participant Information Form

Decision Usefulness of IFRSs for Bank Lending Officers

Supervisors: Associate Professor Parmod Chand and Professor Lorne Cummings

You are invited to participate in a study which investigates the decision usefulness of Australian equivalents of International Financial Reporting Standards (AIFRSs). This study aims to examine the users' perception towards the decision usefulness of the financial statements prepared in compliance with AIFRSs.

The study is being conducted by Adel Alresheedi [Department of Accounting and Corporate Governance, Macquarie University, NSW, Australia, adel.alresheedi@students.mq.edu.au, Ph: (61) 450672772] to meet the requirements of Master of Research under the supervision of Associate Professor Parmod Chand [parmod.chand@mq.edu.au, Ph: (612) 9850 6137] and Professor Lorne Cummings [lorne.cummings@mq.edu.au, Ph: (612) 9850 8531] of the Department of Accounting and Corporate Governance, Macquarie University.

If you decide to participate, you will be asked to complete a questionnaire. The questionnaire has two parts. Part one collects demographic data about the respondents. Part two consists of accounting information extracted from the IFRSs and you are asked to provide your opinion on the usefulness of each of the information when making a loan decision. It will take approximately 30-35 minutes to complete the questionnaire.

As you participate in this study as an individual, you are not considered to be a representative of your work organization or institution. The information provided by you represents your personal views only and not the views of your workplace. No sensitive personal information will be collected. Any information or personal details gathered in this study are confidential, except as required by law. No individual will be identified in any publication of the results. Data will be analysed in aggregate form, held and accessed solely by the researchers (Associate Professor Parmod Chand, Professor Lorne Cummings and Adel Alresheedi) and will not be used for any other purpose. The results of this study will be incorporated into Adel Alresheedi's MRes thesis, which will be available at the Macquarie University Library for public access. A summary of the research results data can be made available to you on request by email to the researchers.

Participation in this survey is entirely voluntary. If you could complete the attached questionnaire, your time and co-operation will be greatly appreciated. If you do not wish to participate, simply do not return the questionnaire. Please note that completion and return of the questionnaire will be regarded as consent to use the information for research purposes.[1] To gain further insights, follow-up interviews will be carried out. This interview is expected to be 30-45 minutes in duration. Please indicate your willingness to participate in the follow-up interviews in the separate sheet enclosed.

Please answer all questions. Your response is very important for the research which will contribute to understanding the perceptions of users on the decision usefulness of AIFRS-based accounting information.

[1] The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics & Integrity (telephone [02] 9850 7854, email: ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

Section 1

YOUR PERSONAL PROFILE

Please respond to the following questions so that a profile for respondents can be developed.

1.	**Do you work at a commercial bank?** ☐ Yes ☐ No
2.	**Do you authorize commercial loans?** ☐ Yes ☐ No
3.	**Do you work in the Sydney, Australia area?** ☐ Yes ☐ No
4.	**Are you:** Male ☐ Female ☐
5.	**How old are you?** ☐ Under 20 years ☐ 20-24 ☐ 25-29 ☐ 30-34 ☐ 35-39 ☐ 40-49 ☐ 50-59 ☐ 60 or over
6.	**In total, how many years of formal education (primary, secondary and tertiary) did you complete?** ☐ Less than 15 years ☐ 15 years ☐ 16 years ☐ 17 years ☐ 18 years or over
7.	**Are you a member of:** The Financial Services Institute of Australasia (FINSIA)? ☐ **Are you a member of:** Australian Institute of Credit Management? ☐ ____________________ (Please state membership status) ________________ Other (please specify)
8.	**What level of qualification you have attained?** Graduate Certificate ☐ Graduate Diploma ☐ Master Degree ☐ Other ☐ (Please specify ____________________
9.	**Do you possess any professional accounting qualifications? Please specify (CA, CPA, CMA, etc)** ____________________
10.	**How large (in terms of qualified bank officers) is the organization in which you work?** ☐ 1-5 ☐ 6-20 ☐ 21-100 ☐ Over 100
11.	**How many years of experience do you have in making lending decisions?** _______ Years
12.	**Are you familiar with the Australian equivalent of International Financial Reporting Standards (AIFRSs)?** ☐ Very Unfamiliar ☐ Unfamiliar ☐ Not Sure ☐ Familiar ☐ Very Familiar
13.	**Have you made any loan evaluations/approval decisions based on the financial statements prepared in compliance with AIFRSs?** ☐ None ☐ Limited ☐ Some ☐ Many

Section 2

Assume that you are a lending officer considering a term loan application received from a new client which is a listed company. It prepares the financial statements in compliance with the Australian equivalent of International Financial Reporting Standards (AIFRS).

1. To what extent the following statements describe your analysis of the loan application for a listed company?

	Strongly Disagree				Strongly Agree
i. My lending decision is based on first-hand information and impression of management quality	1	2	3	4	5
ii. My lending decision is based on accounting information of the company	1	2	3	4	5
iii. My lending decision is based on non-accounting information of the company	1	2	3	4	5
iv. My method of analysis differs according to the respective client/company	1	2	3	4	5

Please list any other factor(s) that describe your analysis of the loan application for a listed company:

2. What sources of information do you use when making a term loan decision? Please assess the following sources in terms of the usefulness in making a term loan decision for a listed company.

	Not Useful				Extremely Useful
i. General information about the client and business	1	2	3	4	5
ii. Annual Financial Statements:					
a) Income Statement	1	2	3	4	5
b) Balance Sheet	1	2	3	4	5
c) Cash Flow Statement	1	2	3	4	5
d) Statement of Changes in Equity and Income & Retained Earnings	1	2	3	4	5
e) Statement of Accounting Policies	1	2	3	4	5
f) Related Party Disclosures	1	2	3	4	5
g) Notes to the Annual Financial Statements	1	2	3	4	5
iii. Business Plan	1	2	3	4	5
iv. Business Credit Report	1	2	3	4	5
v. Income Tax Returns	1	2	3	4	5
vi. Bank Statements	1	2	3	4	5
vii. Collateral Documents	1	2	3	4	5
viii. List of Guarantees Proposed	1	2	3	4	5
ix. Legal Documents	1	2	3	4	5

Please list any other sources of information you consider useful when making a term loan decision for a listed company:

3. Financial accounting uses different valuation concepts for measuring assets and liabilities.

Please indicate how familiar you are with the following measurement concepts.

Measurement Concept		Very Unfamiliar				Very Familiar
i.	Historical cost	1	2	3	4	5
ii.	**Lower of cost or Market value**	1	2	3	4	5
iii.	Value in use	1	2	3	4	5
iv.	**Fair value**	1	2	3	4	5

4. Please give your opinion on the following statements. Your assessments should be based on the usefulness of the measurement concepts of assets/liabilities when making a term loan decision for a listed company:

		Strongly Disagree				**Strongly Agree**
i.	All assets and liabilities should be reported following the same measurement concept	1	2	3	4	5
ii.	All assets and liabilities should be reported at fair value, with historical cost information presented in the notes	1	2	3	4	5
iii.	All assets and liabilities should be reported at historical cost, with fair value information presented in the notes	1	2	3	4	5
iv.	Assets and liabilities should be reported following different measurement concepts, with the relevant measurement concept depending on the nature of the according asset or liability	1	2	3	4	5
v.	Companies should be permitted to choose among alternative measurement concepts for different classes of assets and/or liabilities	1	2	3	4	5

5. The AIFRS requires the following presentations and disclosures to be included in financial statements and in the notes to the financial statements.

The following tables consist of a number of information items specified by AIFRS that you might need when making a typical term loan decision for a listed company.

You are required to evaluate each information item independently and circle the response that best represents your opinion on the usefulness of each of the information when making a lending decision.

a) Please indicate the extent to which the following information disclosed in the Statement of Financial Position (Balance Sheet) are useful when making a term loan decision:

Information Item	Not Useful				Extremely Useful
i. Cash and cash equivalents	1	2	3	4	5
ii. Trade and other receivables	1	2	3	4	5
iii. Financial assets	1	2	3	4	5
iv. Inventories	1	2	3	4	5
v. Property, plant and equipment measured at historical cost	1	2	3	4	5
vi. Investment property carried at fair value through profit or loss	1	2	3	4	5
vii. Intangible assets	1	2	3	4	5
viii. Biological assets carried at cost less accumulated depreciation and impairment	1	2	3	4	5
ix. Biological assets carried at fair value through profit or loss	1	2	3	4	5
x. Investments in associates carried at fair value through profit or loss	1	2	3	4	5
xi. Investments in jointly controlled entities carried at fair value through profit or loss	1	2	3	4	5
xii. Trade and other payables	1	2	3	4	5
xiii. Financial liabilities (except trade & other payables and provisions)	1	2	3	4	5
xiv. Liabilities and assets for current tax	1	2	3	4	5
xv. Deferred tax liabilities and deferred tax assets	1	2	3	4	5
xvi. Provisions	1	2	3	4	5
xvii. Non-controlling interests, presented within equity separately from equity attributable to the owners of the parent	1	2	3	4	5
xviii. Equity attributable to the owners of the parent	1	2	3	4	5

b) Please indicate the extent to which the <u>Sub-Classification</u> of the following items disclosed in the Statement of Financial Position (Balance Sheet) or in the Notes are useful when making a term loan decision:

	Information Item	Not Useful				Extremely Useful
i.	Property, plant and equipment in classifications appropriate to the entity	1	2	3	4	5
ii.	Trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed	1	2	3	4	5
iii.	Inventories, showing separately amounts of inventories: a) held for sale in the ordinary course of business b) in the process of production for such sale c) in the form of materials or supplies to be consumed in the production process or in the rendering of services	1	2	3	4	5
iv.	Trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals	1	2	3	4	5
v.	Provisions for employee benefits and other provisions	1	2	3	4	5
vi.	Classes of equity, such as paid-in capital, share premium, retained earnings and items of income and expense	1	2	3	4	5
vii.	An entity with share capital, for each class of share capital: a) the number of shares authorised b) the number of shares issued and fully paid, and issued but not fully paid c) par value per share, or that the shares have no par value d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period e) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital f) shares in the entity held by the entity or by its subsidiaries or associates g) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts	1	2	3	4	5

c) Please indicate the extent to which the following information disclosed in the Statement of Comprehensive Income (Income Statement) are useful when making a term loan decision:

Information Item	Not Useful				Extremely Useful
i. Revenue	1	2	3	4	5
ii. Finance costs	1	2	3	4	5
iii. Share of the profit or loss of investments in associates	1	2	3	4	5
iv. Share of the profit or loss of jointly controlled entities accounted for using the equity method	1	2	3	4	5
v. Tax expense	1	2	3	4	5
vi. A single amount comprising the total of: a) the post-tax profit or loss of a discontinued operation, and b) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the net assets constituting the discontinued operation	1	2	3	4	5
vii. Profit or loss	1	2	3	4	5
viii. Each item of other comprehensive income classified by nature	1	2	3	4	5
ix. Share of the other comprehensive income of associates and jointly controlled entities accounted for by the equity method	1	2	3	4	5
x. Total comprehensive income	1	2	3	4	5
xi. Profit or loss for the period attributable to: a) non-controlling interest b) owners of the parent	1	2	3	4	5
xii. Total comprehensive income for the period attributable to: a) non-controlling interest b) owners of the parent	1	2	3	4	5
xiii. An analysis of expenses using a classification based on the nature of expenses (e.g. depreciation, purchases of materials, transport costs, employee benefits and advertising costs) within the entity	1	2	3	4	5
xiv. An analysis of expenses using a classification based on the function of expenses (e.g. cost of sales, cost of distribution or administrative activities) within the entity	1	2	3	4	5

d) Please indicate the extent to which the following information disclosed in the Statement of Changes in Equity and Income & Retained Earnings are useful when making a term loan decision:

Information Item	Not Useful				Extremely Useful
i. Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests	1	2	3	4	5
ii. For each component of equity, the effects of retrospective application or retrospective restatement recognised	1	2	3	4	5
iii. For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from: a) profit or loss b) each item of other comprehensive income c) the amounts of investments by, and dividends and other distributions to, owners, showing separately issues of shares, treasury share transactions, dividends and other distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control	1	2	3	4	5
iv. In the statement of income and retained earnings: a) retained earnings at the beginning of the reporting period b) dividends declared and paid or payable during the period c) restatements of retained earnings for corrections of prior period errors d) restatements of retained earnings for changes in accounting policy e) retained earnings at the end of the reporting period	1	2	3	4	5

e) Please indicate the extent to which the following information disclosed in the Statement of Cash Flows are useful when making a term loan decision:

Information Item		Not Useful				Extremely Useful
i.	Cash flows for a reporting period classified by operating activities, investing activities and financing activities	1	2	3	4	5
ii.	Cash flows from operating activities using:					
	a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows	1	2	3	4	5
	b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed	1	2	3	4	5
iii.	Major classes of gross cash receipts and gross cash payments arising from investing activities	1	2	3	4	5
iv.	Major classes of gross cash receipts and gross cash payments arising from financing activities	1	2	3	4	5
v.	Cash flows arising from transactions in a foreign currency	1	2	3	4	5
vi.	Cash flows from interest and dividends received and paid	1	2	3	4	5
vii.	Cash flows arising from income tax	1	2	3	4	5
viii.	The amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity (because of foreign exchange controls or legal restrictions, etc.)	1	2	3	4	5

f) **Please indicate the extent to which the following information disclosed in the Notes to the Financial Statements are useful when making a term loan decision:**

Information Item	Not Useful				Extremely Useful
i. A statement that the financial statements have been prepared in compliance with the AIFRSs	1	2	3	4	5
ii. A summary of significant accounting policies applied: a) the measurement basis (or bases) used in preparing the financial statements b) the other accounting policies used that are relevant to an understanding of the financial statements	1	2	3	4	5
iii. The judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements	1	2	3	4	5
iv. The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year	1	2	3	4	5

g) Please indicate the extent to which the following information that is related to the latest AIFRSs or amendments are useful when making a term loan decision:

	Information Item	Not Useful				Extremely Useful
i.	Information related to Equity Method in Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1	2	3	4	5
ii.	Information related to IAS 16 Property, Plant and Equipment: Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment	1	2	3	4	5
iii.	Information related to IAS 38 Intangible Assets to introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate	1	2	3	4	5
iv.	Information related to IFRS 11 arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to: Apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11	1	2	3	4	5
v.	Information related to IAS 36 Impairment of Assets: Clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique	1	2	3	4	5
vi.	Information about Amendments to IFRS 10 Consolidated Financial Statements, Provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss	1	2	3	4	5
vii.	Information about IFRS 12 Disclosure of Interests in Other Entities, An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12	1	2	3	4	5
viii.	Information related to IFRS 9 Financial Instruments on fair value	1	2	3	4	5
	Please indicate any other recent amendments in AIFRS that you find useful in making your lending decisions					

Thank you for taking the time to complete this instrument. Your assistance is very much appreciated. If you have any further comments, please provide them in the space provided.

Please make sure that you have answered every question. Missing questions will mean that all of your responses cannot be used.

Adel Alresheedi
Department of Accounting and Corporate Governance
Faculty of Business and Economics
Macquarie University
NSW 2109
Australia

APPENDIX 2/ INTERVIEW GUIDE

Interview Guide
Name:
Date:
Location:
Time:
1. Interview Introduction
▪ Brief explanation of the interview process and response to interviewee's questions
▪ Participants will be reminded that the interview is recorded (if they agree)
2. Role of accounting information (Financial Statements)
▪ How familiar are you with AASBs/IFRSs?
▪ Have you made any loan evaluations/approval decisions based on the financial statements prepared in compliance with AASBs/IFRSs?
▪ What is the usefulness of accounting information (financial statements) on your lending decisions?
▪ What are the key quantitative/qualitative aspects that you use from the financial statements?
▪ How much time do you spend in evaluating financial statements?
3. Perceptions and use of financial statements prepared in compliance with AASBs/IFRSs.
▪ To what extent the accounting information contained in the financial statements (prepared in accordance with AASBs/IFRSs) helps you to make better lending decisions?
▪ Do you find any "information overload" in financial statements prepared in compliance with AASBs/IFRSs (i.e. they are not useful for your lending decisions)?
The International Accounting Standards Board (IASB) makes the following claim that: "An explicit and unreserved statement indicating that the company's financial statements have been prepared in compliance with IFRS would enhance the reliability of the financial information provided by the entity." ▪ To what extent this statement enhances the reliability of your lending decisions based on

AASBs/IFRSs?
▪ Do you think that the reliability of financial statements prepared in compliance with AASBs/IFRSs enhances when they are audited?
▪ Do you believe that complete financial reports prepared in compliance with AASBs /IFRSs helps to lower the borrower's cost of capital?
▪ Are you satisfied with the General Purpose Financial Statements (GPFSs) prepared in compliance with AASBs/IFRSs?
4. Perceptions on some of the recent changes to the AASBs/IFRSs
The new amendments of AASBs/IFRSs mandates some recognition or measurement requirements. To what extent these recent changes enhances your lending decisions based on AASBs/IFRSs? ▪ Recoverable Amount Disclosures for Non-Financial Assets: IAS 36 Impairment of Assets ▪ IFRS 10 Consolidated Financial Statements ▪ IAS 28 Investments in Associates and Joint Ventures ▪ IFRS 11 Accounting for Acquisitions of Interests in Joint Operations ▪ IFRS 12 Disclosure of Interests in Other Entities ▪ IAS 16 Property, Plant and Equipment: Amendments to IAS 16 – Clarification of Acceptable Methods of Depreciation and Amortisation ▪ IFRS 9 Financial Instruments
5. Conclusion of Interview
▪ Do you have any other concerns/comments other than what we have discussed on AASBs/IFRSs for listed companies? Please indicate.