

AFAANZ 2021/22 Round 2 Research Grant Report

(1) Name, Position, Contact Details for each applicant

Name: Jerry Chen
Position: Lecturer of Financial Accounting, Department of Accounting and Finance,
The University of Auckland
Email: chen.jerry@auckland.ac.nz

(2) Project title

The impact of IFRS 15 on financial reporting quality: Evidence from a quasi-natural experiment from China

(3) Updated Project Summary (500 words) including any variations between the project undertaken and the original application

Original project summary

In May 2014, the International Accounting Standards Board (IASB), jointly with the Financial Accounting Standards Board (FASB), issued a new converged revenue recognition standard - International Financial Reporting Standard (IFRS) 15, Revenue from Contracts with Customers. Despite the IASB's expectation of IFRS 15 to improve the quality and usefulness of reported revenues compared with previous standards, managers are likely to exercise a high degree of judgment and estimates when applying the new standard, adding uncertainty to the intended effect of IFRS 15. To empirically explore this issue, we employ a quasi-natural experiment from China. In line with IFRS 15, the Chinese Ministry of Finance issued the New Accounting Standards for Business Enterprises (CAS) 14, Revenue, in July 2017. The new CAS 14 takes effect from 1 January 2018 for companies listed both at home and abroad and 1 January 2020 for solely domestic listed companies. The staggered implementation of the new CAS 14 allows a difference-in-differences (DID) design.

The original application aimed to explore the impact of IFRS 15 on financial reporting quality. However, as the project progressed, I broadened my analysis to investigate two economic consequences of IFRS 15: (1) the quality of revenue and earnings, and (2) the value relevance of revenue and earnings. This led to the creation of two working papers based on my findings, which I will briefly summarize below.

Working Paper #1

Our empirical analysis shows no impact of the new CAS 14 on revenue quality. In contrast, adopters (treatment firms) use more real earnings management to manage earnings, and their earnings become less persistent than non-adopters (control firms) after the new CAS 14. Further analysis provides evidence that treatment firms time the expense recognition during the pre-intervention period, and that treatment firms suspected of opportunistic use of earnings management use more revenue accruals than others after the new CAS 14. Our findings, which suggest that IFRS 15 might have had unintended negative consequences, are of interest to both standard setters and financial statement users to assess the impact of IFRS 15 on financial reporting quality.

Working Paper #2

We find treatment firms' revenue and earnings become more relevant and informative than control firms after the new CAS 14. We also find that revenue disclosures in the financial statement footnotes under the new CAS 14 enhance the relevance and informativeness of revenue and earnings. Our findings are consistent with the IASB's expectation of IFRS 15 to improve the usefulness of revenue information compared with previous standards.

(4) Funds Granted

A\$4800 (NZ\$5,021)

(5) Detailed Report on Expenditure of Funds against Budget Items, with variations explained

The funds were spent as budgeted, with personnel spending amounting to NZ\$4,060 (which includes the wages of one research assistant) and research-related expenditures totaling NZ\$961 (covering journal editorial and submission fees). For a detailed breakdown of the expenditure, please refer to the appendix. Please note that the research-related expenditures of NZ\$961 have not yet been recorded in the accounts as of the drafting of this report.

(6) Outcomes, for example, working papers, presentations and publications (give full details, including abstracts)

I have submitted Working Paper #1 for presentation at the 2023 AAA Annual Meeting.

I am in the final stages of completing Working Paper #2

Please refer to the earlier section of this report for abstracts of Working Papers #1 and #2.

(7) Future Intentions for this Project (give full details)

I intend to submit Working Paper #1 for publication in Contemporary Accounting Research and submit Working Paper #2 for publication in the Journal of Business Finance & Accounting.

(8) Summary of Outcomes and Benefits

The grant has met my expectations and enabled me to achieve my intended goals. The financial assistance provided for the research assistant was particularly helpful in initiating this project.

Appendix

Reporting Faculty Code: BUSEC | PI Name: Jerry Chen | PI UPI: wche978

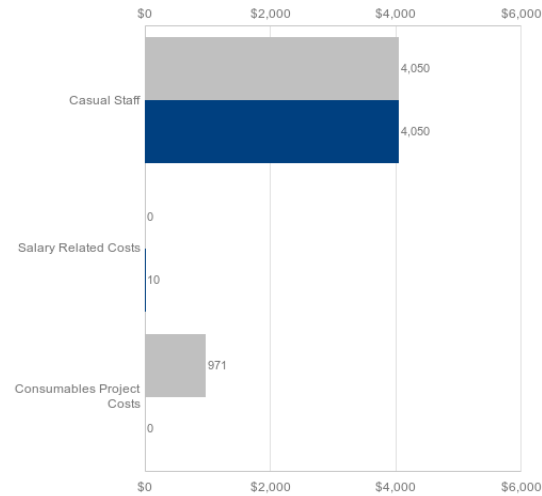
Contract ID	Start Date	End Date	Financial Close Date	Contract Award	Other Revenue	Revenue To Date	Spent To Date	PO and Travel (non-PO) Commitment	Salary Commitment	Scholarship Commitment	Overheads Commitment	Left To Spend	Unspent Funds Returned Ind
3725784	01/02/2022	31/01/2023	30/04/2023	\$5,021	\$0	\$5,021	\$4,060	\$0	\$0	\$0	\$0	\$961	N

[PO and Travel Commitments Detailed Report](#)
[Transactions Detailed Report](#)

Budget vs Actual

Expense Budget vs Actual & Commitments Left To Spend

* Note amounts shown in graph below are for budgets and actuals only.



Personnel Cost

Personnel View GL Accounts View

Employee Name	Salary Actual Paid	Salary Commitment	Cost to Project
Yongfei Xie	\$5,324	\$0	\$5,324
Salary Adjustment Journals	-\$108	\$0	-\$108

Superannuation, ACC and allowances are included. Includes payroll data up to: 23/03/2023

Deliverables, Milestones and Risk Deliverables Milestones Underspend/Overspend

Deliverables

Deliverable Name	Description	Due Date	Forecast Date	Completed Date	Status	RAG Status	To be submitted with Invoice	Overdue Ind
COVID-19 Impact	COVID-19 Impact on Funded Research: This contract deliverable will be utilised for the on-going analysis and reporting of the impacts of COVID-19 on funded research	31/01/2023	31/01/2023		Scheduled	Green - As Planned	No	Y