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Tripartite Relationship: Adoption of IFRS, Accounting Conservatism and Cost of Debt

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ABSTRACT

The objective of this research work is to study the impact of the adoption of International Financial Reporting Standard (IFRS) on accounting conservatism in relation to the cost of debt. In order to carry out this research, we have chosen French context, which is particular in the sense that the status of accounting under the French vision is different from the Anglo-Saxon vision. Indeed, according to the French view accounting, accounting is a means of rendering accounts whereas according to the Anglo-Saxon logic, accounting is a strategic means of decision-making. The sample selected is the companies belonging to the SBF (Société des bourses françaises : French stock exchange company) 120 index monitored over two periods, the period of pre-adoption of IFRS and a period of post-adoption of IFRS. After empirical analysis, we have not noticed that the adoption of IFRS has led to an increase in accounting conservatism for companies with a high cost of debt. The results do not confirm the results of Chan *et al.* (2015).

1. INTRODUCTION

Noting that no company is immune to financial scandals and that the quality of accounting information differs greatly from one economic entity to another, we wanted to focus this research work on the consequences of the mandatory adoption of IFRS on the quality of accounting information. As pointed out by Gaio (2011), the concept of quality of accounting information has a significant advantage, being a multidimensional concept, so we decided to focus our research on the relationship between the cost of debt, the adoption of IFRS and accounting conservatism. It should be noted that this relationship is particularly interesting to study in the sense that we are going to see if the financial situation of a company has an impact on its degree of prudence or conservatism in accounting,following a change in accounting standards, i.e. the transition to IFRS. Furthermore, IFRS have been recognised by a large majority as being of "high quality" standards, the application of which should theoretically lead to the production of better quality accounting information. Indeed, many researchers have found that IFRSs are high quality standards. We can cite Amidu *et al.* (2016) and Odoemelam *et al.* (2019), who have noted a positive relationship between the transition to IFRS and the quality of financial information.

To judge the quality of accounting information, IFRS represent an important factor in the conditioning of quality. But this factor alone cannot ensure quality accounting information because other factors such as the legal framework, the means of governance put in place, the environment in the broadest sense of the term, the transparency and the level of competence of the persons in charge of IFRS implementation must be considered.

It should be noted that our comments are nuanced because, since we are always aiming to transcribe the international economic reality as it is, we felt it relevant to refer to the recent research by Benkraiem *et al.* (2021), where these researchers have assessed the adoption of IFRS after a period of 10 years. Paradoxically, the quality of earnings has declined and these researchers justified their results by the fact that it is the use of fair value that has increased the volatility of earnings. This result is relevant to analyze in the sense that it proves that what is valid in period P in a region or a country may not be valid in period P+1 because, for example, the efforts deployed have decreased, which leads to a deterioration in the quality of the accounting information.

In order to take full advantage of the significant benefits of IFRS, the company must first be aware of the primary importance of adopting IFRS and then rigorously apply these standards. To do this, the company must train its staff, thus mobilizing the necessary funds for a rigorous and strict application of its standards that lead in the long term to accounting information that is totally reliable, understandable, relevant and verifiable. In this respect, we can refer to the research of Key and Kim (2020) who stated in the context of South Korea that the notable advantages of IFRS are explained by the firm and strict commitment to a fair and rigorous application of IFRS. The "let it go let it go" principle can never lead to quality accounting information presented in accordance with IFRS. In fact, these researchers have used different dimensions of quality to test the effect of IFRS, these dimensions being earnings management and accounting conservatism.

In the current global context, all sectors have been weakened by the COVID- 19 pandemic. Therefore, this research is set as an objective to prove to companies that have not yet adopted the IFRS either by lack of conviction or lack of financial resources. Such companies must develop all their potential to adopt these international accounting standards, it is through this transition to the IFRS that companies who want to benefit from more financial resources will be able to present themselves to lenders with accurate and regular financial statements. Thus, companies that have a high cost of debt will benefit from a lower cost of debt after the transition to IFRS.

This research addresses a topical issue because it is of interest to a large number of stakeholders. Therefore, the central question of our research is presented in this way:

What is the impact of the change in accounting standards on accounting conservatism for companies with a high cost of debt?

In order to address this question, this paper is presented as follows:

In the first section, a relevant and rigorous review of the accounting literature on the tripartite relationship between debt costs, accounting conservatism and the adoption of IFRS is presented. The second section presents the methodology adopted, study results and the conclusions of the study.

1.1 State of the art of the tripartite relationship among cost of debt, accounting conservatism and adoption of IFRSs:

Quiry and Le Fur (2004) point out the important role of accounting and argue:

> *"Whether we like it or not, accounting is the main source of information about a company and its performance; this situation is not going to change any time soon. To despise accounting in the way that some people would like to do is ridiculous. The financier, i.e. an individual concerned with valuation and reasoning in terms of risk and profitability, seeks through the accounts to assess the results, their recurrence, their level of risk; to understand the company's capacity to generate cash flow; to determine the real level of debt and to assess the profitability of the company".*

Based on the remarks of Quiry and Le Fur (2004), it is clear that the role played by accounting is primordial in the contemporary economy. Moreover, with the emergence of IFRS "high quality" standards, the role of accounting information is being revalued and many researchers have taken an interest in the quality of accounting information.

In this regard, we can cite the research of Mensah (2020) in the Ghanaian context who conducted research to determine the effect before and after the transition to IFRS and on the quality of accounting information, specifically on the quality of financial reports. The sample selected was composed of Ghanaian manufacturing companies listed on the stock exchange.The study period extending from 2001 to 2006 for the pre-IFRS period and for the post-IFRS period from 2007 to 2014. Following the use of a fixed-effect regression and the ordinary least squares method, this researcher noted a clear improvement in the quality of accounting information following the transition to international accounting standards. In fact, it should be noted that this improvement in the quality of accounting information boosts investor confidence.

Indeed, without disclosure of quality accounting information, the economic reality is not faithfully transcribed. Investors will be misled and financiers who base their reasoning on disclosed accounting information will quantify the risk in an inefficient and ineffective way because the "raw material" provided, i.e. the disclosed accounting output, is of poor quality. Martinez Ferrero (2014) has defined the quality of accounting information as "as the faithfulness of the information conveyed by the financial reporting process" According to this researcher, the quality of accounting information is understood as the faithfulness of the information conveyed through the financial reporting process.

According to Platikanova and Perramon (2012), information is considered to be of quality if it offers users the opportunity to distinguish the differences and similarities between two economic phenomena.Ewert and Wagenholf (2013) argue that quality of accounting information is necessarily based on relevance, absence of earnings of management and comparability.

Indeed, as Yahya *et al.* (2016) pointed out, international accounting standards derive their usefulness from the fact that they will enable companies, regardless of the geographical space they occupy, to provide intelligible, relevant and comparable information. These standards ensure a common international accounting language which facilitates exchanges between the various stakeholders.

As part of our research, we are going to assess the quality of accounting information and more specifically the effect of the adoption of IFRS on the conservative accounting practices of companies with high debt costs.

In the international context, Moscarielo *et al.* (2014) analysed the effect of the adoption of IFRS on the cost of debt of companies from two countries with different institutional characteristics, namely the United Kingdom and Italy. After empirical validation, the researchers noted the following results: in the United Kingdom, a common law country characterised by a strict and rigorous application of laws, no change was observed because national accounting standards are basically close to international accounting standards; in Italy, a code law country, the transition to IFRS has increased the importance given to accounting information in estimating the cost of debt. What we can learn from this research is that the effect of the adoption of IFRS strongly depends on the institutional characteristics of the countries in which IFRS are applied.

In the European context, Cameran and Campa (2020) have examined the relationship between the impact of the transition to international accounting standards on the quality of accounting information, with a particular focus on the cost of debt. Thus, after empirical validation, these researchers validated the idea defended by a large number of academics as well as researchers that the IFRS are standards militating in favor of quality accounting information, it is thanks to this quality accounting information that these researchers noticed a decrease in the cost of debt.

Still in the same context, Chan *et al.* (2015), referring to a sample of 23,225 firms/years monitored over the period 2002-2007, analysed the tripartite relationship: accounting conservatism, cost of debt, adoption of IFRS. It should be stressed that according to these researchers, companies with a high cost of debt are the most conservative companies for three reasons. Firstly, as a result of the mandatory transition to IFRS, the capital market may be more sensitive to accounting data. Secondly, the transition to IFRS may lead investors to refer to annual reports more than before. Thirdly,the researchers stated that following the transition to IFRS, companies with high debt levels may be under great pressure to adopt prudent accounting practices.

In the international context, Kaint *et al.* (2021) conducted a comparative analysis between Norwegian accounting standards and international accounting standards. The aim was to assess the quality of financial reporting under both Norwegian GAAP and International Accounting Standards. After empirical validation, Kaint *et al.* (2021) validated the widely held hypothesis that IFRS are high quality standards that provide many benefits to their users, including a much higher level of transparency than local accounting standards. Thus, Kaint et *al*. (2021) concluded their research by stating that IFRS are more informative standards than Norwegian accounting standards and that they are better at predicting potential bankruptcies.

Continuing this line of reasoning, we can relate these findings to the concept of cost of debt. Where cost of debt is the rate of return required by capital providers to finance the firm's liabilities. In the case where an economic entity wishes to avoid any risk of accounting manipulation it will be favorable to the adoption of IFRS and therefore it will apply scrupulously its international accounting standards. When the latter is short of equity in this case it will turn to the lenders who will be reassured because they will have true and regular financial statements and therefore they will agree to finance the company at lower cost. Thus, by referring to the positive accounting theory initiated by Watts and Zinmerman (1978), we can anticipate the accounting practices of companies that have adopted IFRS.

In another context, in the Latin American context, De Moura et *al.* (2020) conducted research to assess the long-term impact of the transition to IFRS on the cost of capital and the cost of debt. With reference to economic entities in Latin American countries such as Chile, Argentina, Peru, Mexico and Brazil, these researchers recognised the beneficial contribution of IFRS as they noted a decrease in the cost of equity capital but in particular a decrease in the cost of debt.

Therefore, following a careful review of the accounting literature and having noted that the relationship between the adoption of IFRS, accounting conservatism and the cost of debt has aroused the interest of many researchers, we will formulate the following research hypothesis.

Research hypothesis: There is positive relationship between the cost of debt and accounting conservatism during the post adoption of IFRS.

2. RESEARCH METHODOLOGY

2.1 Description of the Sample

Before we describe model and test hypothesis, the sample selection is explained first. We have chosen to refer to the French context, more precisely to the SBF 120 companies. This group of companies has the particularity of translating in the most transparent way possible the situation of the French financial market and the French accounting system has different specificities from the Anglo-Saxon accounting system. The study covers the period from 2002 to 2012, 2005 being a historic year in the history of standard-setting in the sense that during this year, the accounting standard-setter imposed the mandatory adoption of IFRS for all listed companies that are members of the European Union.

2.2 Presentation of the Model Used

In order to test the research hypothesis, similar approach as used by Chan *et al.* (2015) is applied in this research.

$CSCORE =$

$$\delta_0 + \delta_1 POST_{it-1} + \delta_2 COD_{it-1} + \delta_3 MAN_{it} + \delta_4 (POST_{it-1} \times COD_{it-1}) + \delta_5 (POST_{it-1} \times MAN_i) + \delta_6 (COD_{it} \times MAN_{it}) \times \delta_7 (POST_{it-1} \times COD_{it-1} \times MAN_i) + \delta_8 IntCov_{it-1} + \delta_9 ROA_{it-1} + \delta_{10} \partial)(Earn)_{it-1} + \delta_{11} LOSS_{it-1} + \delta_{12} AQ_{it-1} + \delta_{13} BETA_{it-1} + \delta_{14} GROWTH_{it-1} + \delta_{15} Interest_{it-1} + \tau_t + \beta_{it} + \varepsilon_{it}$$

Presentation of Variables

CSCORE

Accounting conservatism based on asymmetric recognition between gains and losses is assessed through the model of Khan and Watts (2009). Note that the contribution of this model is that accounting conservatism is explained by specific variables of economic entities.

POST

Numerous research studies have established a parallel between conservative accounting and the adoption of IFRS. Indeed, IFRS have the reputation of mitigating informational asymmetry in order to better respond to the informational needs of investors. There is therefore a negative correlation between the mandatory adoption of IFRS and informational asymmetry.

Regarding the relationship between the level of accounting conservatism and the adoption of IFRS, the international accounting standard-setter defends the idea of neutral accounting information, which is a kind of sounding board for economic reality, so the relationship between accounting conservatism and the adoption of IFRS is a negative one.

Research by Piot *et al.* (2010), Ahmed *et al.* (2013) and André *et al.* (2014) has empirically demonstrated the negative effect of IFRS on accounting conservatism. According to the model of Khan and Watts (2009) accounting conservatism is partly explained by the POST variable.

COD

This variable measures the cost of debt, which is the minimum rate of return required by lenders, as IFRS is generally considered to be better appreciated by lenders than local accounting standards because IFRS are so-called "high quality" standards (Daske *et al.*, 2006)) that advocate for more relevant information. Indeed, a lot of empirical research has shown that donors are more flexible with economic entities using IFRS than those using local accounting standards.

MAN

This variable is a dichotomous variable, which can take two values; 1 if the company did not adopt IFRS until 2005, 0 otherwise. Indeed, according to the model of Chan *et al.* (2015), the fact that a company has not adopted IFRS until the regulatory date could partly explain the evolution of conservative accounting. Generally, companies that have not adopted IFRS display information with a high level of informational asymmetry, which is the product of different frictions in the market.

QA

All accounting writings dealing with manipulation by managers are based on a desire to measure the earnings of management, which is how the concept of discretionary accruals developed. In accordance with Cormier and Magnan (1996), discretionary accruals represent a group of expenses and income that are recorded in the income statement and whose "outcome" has not yet been "finalised". Discretionary accruals offer managers the opportunity to link expenses to income not on the basis of receipts and disbursements but rather on the basis of the date of occurrence of the transactions.

In order to determine discretionary accruals we will therefore refer to the model of Dechow *et al.* (1995) which is a modified approach of Jones (1991). Jones (1991) was a pioneer in presenting a model for calculating accruals, since, according to Jones (1991), accruals are based on two economic determinants: total fixed assets and total income.

In the model of Dechow *et al.* (1995) the fluctuation in turnover is adjusted to the fluctuation in accounts receivable.

It should be noted that this type of accrual is called discretionary accruals because it is set at the discretion of the manager.

Discretionary accruals are relevant proxies to evaluate the earnings of management while non-discretionary accruals are accruals that are unavoidably imposed on managers. It should be noted that in our model we are interested in discretionary accruals.

Indeed, according to the model developed by Chan *et al.* (2015), the accounting conservatism of an economic entity is conditioned in part by the presence or absence of earnings management. The higher the level of informational asymmetry, the more managers will have the possibility to take advantage of their discretionary areas in order to play the "numbers game" and present investors with results that best meet their expectations. Thus, the higher the level of accruals, the higher the level of accounting conservatism will be (low).

ROA

This ratio provides information on the use of assets made by the company to generate a certain level of profitability. According to the model of Chan *et al.* (2015), the "return on asset" ratio is an explanatory variable of conservative accounting. The existence of a negative correlation between conservative accounting and this ratio proves that, having reached a certain level of performance, economic entities prefer aggressive accounting rather than prudent accounting and always with the aim of achieving higher profitability than before.

Loss

Generally an economic entity, which records two consecutive years of losses, will opt for more conservative accounting than a profitable company. Being already in a vulnerable situation, the loss-making economic entity has to show total transparency towards lenders in order to increase its chances of obtaining the loan.

Earn

This variable refers to the standard deviation of net income before taking into account extraordinary, and therefore non-recurring, elements over a period of five years. In fact, if the net result is positive, i.e. the income exceeds the expenses, the company is considered to be profitable and therefore the level of conservatism will increase. A profitable company will be better able to recognize its losses than a loss-making company that is forced to recognize losses will send a signal to investors and therefore, to a greater extent, to the financial market that the company is financially unstable, which may lead them to disinvest, i.e. to withdraw their funds from the company in question.

Growth

The percentage change in sales is an explanatory variable for accounting conservatism in accordance with the model developed by Chan *et al.* (2015). Indeed, the more profitable an economic entity is, the more transparent it will be financially, so that an economic entity with a high level of sales will have a greater incentive to prevent its probable losses than an economic entity with low levels of sales over the period. Thus, what we can retain is that there is a positive correlation between the degree of conservatism and the level of sales for a business with many sales.

Beta

The volatility coefficient is an indicator that makes it possible to evaluate the amplitude of fluctuations in the price of a financial asset. It should be noted that the higher the volatility of a security is, the more funds can be raised in this asset. Thus, the remuneration will be higher for risky assets. According to the model of Chan *et al.* (2015), the volatility coefficient is an explanatory variable for accounting conservatism. According to the accounting literature, the higher the volatility of a security, the higher the degree of conservatism will be because when the company is aware that the financial assets it holds are risky, it prefers to opt for rapid anticipation of losses to allow all stakeholders to act quickly before hand, thus avoiding considerable losses.

Descriptive statistics on the variables used in this paper are presented in table 2.

2.3 Analysis of results

In order to test the hypothesis, we used the double différence method based on the regression presented above. The confirmation of the hypothesis dependson the coefficient δ_7 which informs us about the additional recognition of losses for the so-called mandatory IFRS adopters as the cost of debt increases. A positive and significant value of this coefficient therefore, is a proof that 'there is a positive correlation between accounting conservatism and the cost of debt for the so-called mandatory IFRS adopters, i.e. a high level of debt leads to a high level of accounting conservatism, companies that are not financially autonomous must opt for so-called conservative accounting or conservative. As Chan *et al.*(2015) have pointed out, thatin order to validate our hypothesis, the δ_7 coefficient must be positively significant.

But before proceeding with the different regressions,we first present the descriptive statistics in order to describe the trend of the variables. Secondly we present the correlation matrix, a matrix which is used to determine the strength of the link between the variables and finally, we analyse the different regressions.

Table 1
Measures of variables in the Chan *et al.* model (2015)

Type of variables	*Measured Effect*	*Acronym*	*Measure*	*Searchers*
Independent	Dichotomous variable that equals 1 if the adoption of IFRS took place between 2005 and 2007 .0 otherwise P	*POST*	Conditional value 0 or 1	Turki and *al.* (2016)
Independent	Cost of debt	*COD*	Interest charges / interest- bearing debt	Chan *et al.*(2015)
Independent	Adoption or not of IFRS	MAN_t	Binary variable; 1 if the economic entity has not adopted IFRS 0 otherwise	
Independent	Proxy variable of the interest coverage it measures the weight of the debts for the company	*IntCov*	Operating profit/interest expense	Chan *et al.* (2015)
Independent	Efficiency of the economic entity using its resources	*ROA*	Net income / total assets	Chan *et al.*(2015); Mérino *et al.* (2014) et Persakis and Iatridis (2016)
Independent	Net income before taking into account non-recurring events	(*Earn*)	Standard deviation of net income before the occurrence of extraordinary events over the last five years.	Chan *et al.*(2015)
Independent	Losses recorded by the economic entity	$LOSS_{it-1}$	Dichotomous variable equal to 1 if the enterprise records two consecutive years of losses, 0 otherwise.	Chan et *al* (2015) Turki and *al.* (2016)
Independent	Earnings management presence Absolute value of discretionary accruals which constitute relevant	*AQ*	The model of Dechow *et al* (1995) $AT_{it}/Asset_{t-1} = \alpha(1/Asset_{t-1})+$ $\beta_1(\Delta CA_{i,t}+$	Khotari and *al*(2005) Mc Nichols (1988) Dechow et Dichev (2000)

contd. table 1

Type of variables	*Measured Effect*	*Acronym*	*Measure*	*Searchers*
	proxies to evaluate the so-called opportunistic management practised by managers ...		$\Delta CRC_{i,t}/Asset_{t-1})+\beta_2(FAsset)+\varepsilon_{it}$ (1) AT_{it} : Total Accruals $Asset_{t-1})$: All assets at one year before the transaction $\Delta CA_{i,t}$: Difference between all sales at date t and those at date t–1 $-\Delta CRC_{i,t}$: Difference between receivables relating to the customer account between date t and date t– $FAsset_{i,t}$: All fixed assets at date t The purpose of this first equation is to determine the parameters of model 1 which are: αs, βs, δs After estimating the parameters of model 1 we incorporate these parameters into the following equation. $AND_{i,t}=\alpha(1/Asset_{t-1}) + \beta_1(\Delta CA_{i,t} - \Delta CRC_{i,t})/Asset_{t-1})\ \beta_2 (FAsset_{i,t}) / Assets_{t-1}) + \varepsilon_{it}$ (2) $AND_{i,t}$: Non-discretionary accruals $AD_{it} = AT_{i,t} - AND_{i,t}$. AD_{it} : discretionary accruals $AT_{i,t}$: Total Accruals	Dechow *et al.* (1995)
Independent	Beta coefficient in the financial asset valuation model over the last five years	*BETA*	$BETA=cov(r_p, r_m)/Var(r_m)$	Chan *et al* (2015), Merino *et al.* (2014), Iatridis and Persakis (2016)
Independent	Economic growth	*GROWTH*	Percentage of annual change in turnover	Chan *et al* (2015)

Table 2
Descriptive statistics related to our research hypothesis

Variables	*Mean*	*Standard deviation*	*25%*	*50%*	*75%*
Cscore	0.247	0.724	-0.274	0.152	0.682
COD	0.019	0.197	0.0000142	0.0015	0.007
IntCov	0.275	1.117	0.000302	0.017	0.220
ROA	5.361	14.840	1.037	3.231	6.829
$\delta(Earn)$	0.0095	0.0755	0	$4.92*10^{-6}$	0.00058
LOSS	0.052	0.222	0	0	0
AQ	0.054	0.157	0.0000567	0.010	0.143
BETA	0.768	0.183	0.66	0.73	0.81
GROWTH	6.536	27.316	-1.269	3.831	11.944

In table 2,we notice that French companies presenton an average of 0.247, referring to the degree of conservatism in accounting.

Indeed, the variable relating to the growth rate is the variable with the highest average, in fact the average of this variable is equal to 6,536. On the other hand, referring to the article by Chan and *al*. (2015), we note that the variable relating to the ROA ratio has the highest average, in fact this variable is equal to 11,223.

As for the lowest average is that relating to the Earn variable, in fact the average of this variable is 0.0095.

After analysing the mean of these variables we will look at the standard deviation, which is a measure of dispersion.

In fact the highest standard deviation is the one related to the variable GROWTH, so we can say that it is a homogeneous series. In fact the standard deviation for this variable is equal to 27.316

The lowest standard deviation is for the variable Earn, which has a standard deviation of 0.0755 and is therefore a heterogeneous series.

After having studied the descriptive statistics we will focus on the correlation matrix relating to these variables.

Table 3
Correlation matrix for variables in the Chan *et al.* model (2015)

Variable	*CScore*	*COD*	*IntCov*	*ROA*	*EARN*	*LOSS*	*AQ*	*BETA*	*GROWTH*
Cscore	1.000								
COD	-0.1197	1.000							
IntCov	0.0404	-0.0485	1.000						
ROA	-0.1825	0.0466	0.0331	1.000					
	0.5909	-0.0555	-0.1239	-0.0197	1.000				
LOSS	-0.0827	0.0087	-0.0637	-0.2581	0.0152	1.000			
AQ	-0.601	0.0162	0.0769	0.0879	-0.6322	0.0189	1.000		
BETA	0.2785	0.0370	0.0026	0.0076	0.3374	-0.0296	-0.3570	1.000	
GROWTH	-0.0625	-0.0497	-0.0260	0.0131	-0.0467	-0.0555	0.153	-0.0405	1.000

Table 3 shows that there is a negative correlation between CScore and the QA variable. In fact the correlation coefficient is equal to -0.6014, so we can state that there is an inversely proportional relationship between accounting conservatism and the degree of informational asymmetry. This relationship is not consistent with that of Chan and *al* (2015) who noted the existence of a positive correlation between the level of accruals and accounting conservatism.

Still referring to the correlation matrix we notice that there is a negative correlation between the variable to be explained CScore and the variable Loss. Indeed the correlation coefficient is -0.0827. These results imply that these two variables are uncorrelated because the correlation coefficient is less than 0.5. Indeed the more financially vulnerable a company is, the more it must prove its good faith to its creditors and lenders by disclosing the probable losses at the first signs.

Concerning the relationship between the CScore variable and IntCov, we note that these variables are not correlated with each other because the correlation coefficient is less than 0.5, in fact this coefficient is 0.0404. This result is not in line with that of Chan and *al.* (2015) who noted the existence of positive reality between these two variables. In fact, according to our study, the higher the financial charges borne by companies, the more they opt for prudent or risk-averse accounting.

We note through our correlation matrix that there is a weak negative correlation between the variable CScore and the variable relating to the ROA ratio, because the correlation coefficient is equal to -0.1825, it is therefore less than 0.5, which proves that these two variables are uncorrelated. Our result regarding the study of the relationship between these two variables is similar to that of Chan and *al.* (2015) who stated that the better the performance of companies, in other words the higher the ROA, the less conservative they are in their accounting.

Concerning the relationship between the CScore variable and the BETA variable, we find that there is a negative correlation between these two variables, with a correlation coefficient equal to 0.2785. Paradoxically, we notice that the riskier the company, the more risky it is, the more it opts for prudent accounting and risk aversion, which does not agree with the result of Chan and *al*. (2015), where these researchers stated that the more risky the companies are, the less conservative they are.

Finally, regarding the relationship between the variable relating to growth opportunities (GROWTH) and the one relating to the degree of conservatism in accounting (CScore), we note that the correlation coefficient relating to these two variables has a negative sign, it is -0.0625. We can therefore affirm that these two variables are not correlated with each other and we can justify this inversely proportional relationship between these two variables by the fact that the more growth opportunities a company has, the more it will be able to adopt a risk-taking behaviour with the aim of achieving ever higher profitability.

Results

Table 4
Different regressions of the Chan et al. model (2015)

	Regression 1		*Regression 2*	
Intercept	*Coeff*	*T stat*	*Coeff*	*T stat*
POST	-0.204	-0.45	-0.124	0.108
COD	-0.035	-0.07	0.377	0.461
MAN	0.0010	0.000	-0.073	
POST*COD	0.159	0.745	-0.500	0.380
POST*MAN	0.044	0.277	0.3890	0.515
COD*MAN	-0.169	0.948	-0.140	0.605
POST*COD*MAN	-0.144	0.650	0.270	0.939
IntCov			-0.142	0.252
ROA			-0.673	0.002
(Earn)			0.0259	0.013
LOSS			-0.10473	0.114
AQ			-0.008359	0.000
BETA			-0.14022	0.086
GROWTH			0.002	0.673
INTEREST			0.00429	0.678
Country effect	Non		Oui	
Industry effect	Non		Oui	
Obs	640		551	
Adj R^2	0.4486		0.6054	

Before starting the analysis of the results, it is relevant to specify why we have carried out three regressions, since the purpose of the three regressions is to see what factors determine the level of accounting conservatism of economic entities.

In the first column, we did not take into account the characteristics of the companies nor the variables of an external nature such as the national interest rate (INTEREST), the growth opportunities (GROWTH).

The second column refers to the regression which takes into account the following elements: characteristics of the economic entities, global interest rates and the effect of the industry.

In the light of the results we have achieved, we note that the POST coefficient is negative but not significant at the 5% threshold, as this coefficient is -0.204. The adoption of IFRS in 2005 has therefore led to a decrease in the level of accounting conservatism.

The POST*MAN product is notably insignificant but presents a positive sign, in fact this coefficient is 0.0044.

As for the MAN variable, we note that this variable is a significant variable at the 5% threshold, as the coefficient for this variable is -0.001. We can therefore, state that there is a negative correlation between the mandatory adoption of IFRS and the level of conservatism in accounting.

The coefficient relating to the POST*COD product shows a positive sign, in fact the coefficient is equal to 0.159. Thus, for companies that adopted IFRS from 2005 onwards and that have a high cost of debt, the coefficient shows a high level of accounting conservatism.

Finally, concerning the coefficient relating to the POST*COD*MAN product, this coefficient is negative but not significant because P>|z| is 0.650 which is higher than the 5% threshold.

So in the light of the results we have achieved at the end of this first regression, the fact that a company has a high cost of debt does not mean that it will opt for prudent accounting or risk averse accounting, whether it is for companies that have anticipated the adoption of IFRS or those that have waited until the legal date to adopt IFRS.

Our result for this first regression is therefore, not in line with the results of Chan et *al.* (2015) nor in line with the results of Nikolaev (2010) and Zhang (2008) who stated that conservative accounting is a relevant way to reduce the cost of debt**.**We can explain our result by the fact that the selected sample may be composed of non-conservative companies, or that the application of IFRS has not been as rigorous**.**

Referring to the regression which takes into account all variables we notice that the only significant variables are: MAN, ROA, Earn and AQ.

In fact, the coefficient for the Man variable is equal to 0.073, which is significant at the 5% threshold, so what we can say is that there is an inversely proportional relationship between the MAN variable and the C score variable. For companies that have adopted IFRS at the regulatory date, these companies opt for aggressive and not prudent accounting.

Regarding the coefficient relating to the ROA ratio, we note that this coefficient is significant because P>||z| is 0.002. This coefficient has a negative sign and is therefore worth -0.673. Thus, the better a company performs, the less it will opt for prudent accounting. Indeed, referring to the article by Chan and *al.* (2015), we note that this result is not in line with that of Chan and *al*.(2015) because these researchers found that the coefficient relating to the ROA ratio is positive but not significant.

Concerning the Earn variable, the coefficient relating to this variable is 0.0259 and is significant at the 5% threshold, so the more a company is profitable, the more conservative it will be.

Finally, we note that the coefficient relative to the variable AQ is negative and significant at the 5% threshold. In fact, this coefficient is -0.00083. Thus, the more the level of informational asymmetry increases, the more the level of accounting conservatism decreases.

As for the volatility coefficient, which refers to the beta coefficient, we note that there is a negative and significant relationship between the variable BETA and CScore. Indeed the coefficient is -0.140 and it is significant at the 10% threshold because P>||z| is less than 10%. Therefore, the more the level of volatility increases, the less the companies opt for prudent accounting or risk aversion.

In short, the results we have obtained do not confirm the research hypothesis which suggests that the higher the cost of debt, the more risk-averse a company is to opt for conservative accounting, because in the first regression the coefficient relating to the product POST*COD*MAN has a negative sign but is not significant, In other words, we can affirm that there is an inversely proportional relationship between accounting conservatism and the cost of debt, both for companies that have adopted IFRS at the regulatory date and those that have anticipated the adoption of IFRS, but this result is not significant.

In the second regression, which takes into account both microeconomic and macroeconomic variables, we found that the coefficient for the POST*COD*MAN product shows a positive sign but is not significant, so what we can say is that comparing our results with those of Chan and *al.* (2015), we find, as these researchers do, a positive correlation between accounting conservatism and the cost of debt for both companies that adopted IFRS in 2005 and those that adopted IFRS before the regulatory date, but the problem with our results is that the coefficient certainly shows a positive sign but is not significant, so we cannot confirm the research hypothesis.

CONCLUSION

The evolution of the literature dealing with the quality of accounting information is due to the exponential increase in the practice of earnings management, which has led to numerous financial scandals. Indeed, earnings management was defined in 1989 by Shipper as "the intervention of the manager in the financial information process to appropriate personal gains".In other words, the opportunistic manager will use his discretionary space to maximize his own usefulness to the detriment of those of the managers. Indeed, many internationally renowned companies that were the emblem of transparency have unexpectedly gone bankrupt. Since these various financial scandals, the environment, which is characterised by instability at all levels, has given way to an environment where the main players are suspicious of the accounting information disclosed. Investors no longer consider the accounting information disclosed as naturally high quality information. Investors now ask themselves the ultimate question as to whether the accounting information conveyed through a company's mandatory documents constitutes information that faithfully and reliably relates the economic reality.

Thus, in order to restore the shaken confidence of investors, savers and the general public, one of the regulations developed by the international accounting standard-setter is the introduction of a common accounting language to restore financial security in transactions. IFRS are standards developed by the IASB, the executive committee in charge of developing high-quality accounting standards. Indeed, in accordance with the Anglo-Saxon conception of accounting, accounting is not a tool for rendering accounts but an effective means for the first recipient of accounting information to have at his disposal quality accounting information to enable him to make the best decisions regarding the mobilization of these funds. Thus, IFRS are accounting standards and therefore the characteristics act in favour of accounting information that does not present a high level of asymmetry of information. In fact, according to the latest conceptual framework published by the IASB, accounting information conveyed through financial statements must meet the following attributes: relevance, financial. Information is considered relevant if it has the ability to influence the investor's decision-making power, loyalty, and faithful information is information that reflects economic reality in the true sense of the term. It should be mentionned that the following characteristics: relevance and comparability represent essential qualitative characteristics for the international accounting standard-setter. In addition to these attributes, the international accounting standard-setter has stated in its conceptual framework that accounting information must in particular meet the following attributes: comparability, information is comparable when it offers the recipients the opportunity to easily identify the points of convergence as well as the points of divergence between two economic facts, verifiability, information is verifiable when it allows the recipients of accounting information to have reliable information. Finally, accounting information must meet the criteria of timeliness and comprehensibility.

Therefore, given that these international accounting standards offer quality accounting information, many companies have decided to adopt these international accounting standards either voluntarily or legally.

In reviewing work around the world on the impact of IFRS adoption on information quality, we found considerable heterogeneity in the results. In some contexts, IFRS adoption has led to an improvement in the quality of accounting information, such as the work of Garcia et *al.* (2017). They found that the transition to IFRS led to an increase in the relevance of information after the transition to IFRS. In particular, we can cite the research of Houque et *al*. (2016), who noted a decrease in the level of accruals, evidence of an improvement in the quality of accounting information.

We can refer in particular to the research of Hassan (2021) which apprehended the concept of the accounting conservatism in two stages .Initially it analyzed the impact of the strategy of company on the level of accounting conservatism then it analyzed the impact of the accounting conservatism on the level of investment. After empirical validation this researcher found a positive relation between these 3 elements: accounting conservatism, strategy of company and level of investment. It emerges from this research that the aspect of conservatism plays a central role in the level of investment especially nowadays where the socio-economic climate is characterized by continuous turbulence, and it is by providing a conservative accounting information that the company can hope to benefit from a low cost of debt because the donors have more confidence in the companies that refer to the international accounting language.

In other contexts, researchers have noted that the transition to IFRS has paradoxically led to a deterioration in the quality of accounting information. Patro and Gupta (2014) have remarked that the transition to IFRS has led to an increase in the cost of capital, and Cang et *al.* (2014) have argued that the transition to IFRS has led to an increase in the practice of earnings management or “numbers games”.

So what we have seen is that the beneficial contribution of IFRS has not been seen in some contexts because apart from the adoption of IFRS. Firstly, at the macroeconomic level companies need to apply IFRS in countries with strong institutions for rigorous enforcement of law .Secondly, at the microeconomic level companies that have adopted IFRS need to combine both tangible and intangible resources to ensure the disclosure of quality accounting information. Indeed, as Daske and *al*.(2006) have pointed out, there are two types of adopters: "serious adopters" who are serious because they make every effort to ultimately produce quality accounting information, and "label adopters" who adopt IFRS from a purely theoretical perspective. Adopting IFRS is not enough to affirm that the accounting information meets the quality criteria.

Since we observed a great deal of heterogeneity in the results when studying the association between IFRS adoption and the quality of accounting information, we decided to focus our article on the tripartite relationship between IFRS adoption, the cost of debt and accounting conservatism. It is worth noting that this relationship is highly topical, especially with the COVID-19 pandemicthat has taken the world by storm. This pandemic has led to many problems: liquidity shortages, unemployment increasingly high, restructuring problems, layoffs and it is in such a context that the International Organization of Securities Commissions in May 20, 2020 has stated that in the current context companies must provide transparent accounting information, investors who by their privileged status must have at their disposal all the information necessary to make the most optimal investment choice. The international economic slowdown is making investors more and more skeptical, so companies must opt for a cautious behavior to face the inevitable risk and in case they need to finance their liabilities, by presenting accounting information with all the necessary qualitative characteristics.

Indeed, after empirical analysis, we find that the transition to international accounting standards did not lead to an increase in the level of prudence of firms with a high cost of debt. We can explain this result by the fact that during the period studied, the international context was quite stable and therefore, the sample of firms that we have chosen can be composed of non-conservative firms.

For future researchers, based on the principle that accounting must reflect economic reality, they can carry out a similar study, but by choosing the period covering the beginning of the COVID -19 pandemic, they will surely obtain different results because the characteristics of the environment condition the choices of the company.

Like any research work, this research work has been confronted with certain limitations:

— Difficulty in taking a position on the meaning of the relationship between the adoption of IFRS and the cost of debt because the work that has been done on this subject is very heterogeneous

- — the model used is a complex model where some variables are themselves calculated using another model (for example, the variable relating to the quality of the accruals)
- — Our study period includes a transition year, i.e. 2005, which may alter our results.

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