COMPLIANCE WITH THE ACCOUNTING FOR GOODWILL IN TRANSITIONAL ECONOMIES: A CASE OF RUSSIA AND KAZAKHSTAN

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Contents

List of Tables

List of Figures

ATTESTATION OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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Abstract

This study aims to provide findings indicating trends in the level of compliance with the goodwill accounting by firms in Russia and Kazakhstan. Also the present paper seeks to establish whether there was a difference in the level of compliance between Russian and Kazakhstan firms. This study also intends to identify firm-specific factors that are associated with the level of compliance by firms in these countries.

IFRS-compliant financial reports of 37 Russian and 17 Kazakhstan companies which disclosed the existence of goodwill were investigated. The level of compliance was measured by comparing actual disclosures made by firms with those required by IAS 36.

The results indicate a generally improving trend in the level of compliance by Russian and Kazakhstan firms. However, findings suggest the existence of an unwillingness to comply with IAS 36 requirements by managers in those countries. Also the results show a higher level of compliance by Russian firms compared to that of Kazakhstan companies which may be attributed to contrasting approaches to IFRS adoption in Russia and Kazakhstan. Research findings provide evidence of a positive association of the level of compliance by Russian firms with firm goodwill intensity. The level of compliance by Kazakhstan firms appears to be positively associated with firm size.

The research suggests a lack of compliance enforcement in Russia and Kazakhstan. Policy makers in Russia may consider firm goodwill intensity and policy makers in Kazakhstan firm size factors when addressing problem of non-compliance. The difference in the level of compliance between Russian and Kazakhstan firms may add to the discussion concerning pros and cons of different strategies of IFRS adoption and as such may be useful for transitional countries considering the adoption of IFRS.

Chapter one

Introduction

1.1 Implementation of IAS[1] 36 in a context of transitional economies

The objective of IAS 36 Impairment of Assets is to ensure that assets are reflected in financial reports at a value that does not exceed their recoverable amount. In order to determine the recoverable amounts of assets the standard requires extenisve application of a fair value concept (Wiecek & Young, 2010). The fair value concept is commonly regarded as having roots in the Anglo-Saxon accounting model. Aisbitt (2001) and Kirk (2001) note that countries such as the UK, Australia and New Zealand are traditionally associated with this concept which implies substantial exercise of judgement when preparing financial reports. The transitional economies such as Russian and Kazakhstan originate from the communist economic model in which the concept of 'Fair Value' was completely alien (Ichizli & Zacchea, 2000). In Soviet accounting, assets were valued at historical cost and rare revaluations were performed under control of the state (Paraszczak, 1978). During the communist era Russian and Kazakhstan accountants were in an environment where there was neither a need for 'true and fair view" concept, nor transparent financial reporting and compulsory external reporting (Ichizli & Zacchea, 2000; Nobes & Parker, 2004). Accounting was used primarily to monitor the execution of economic plans imposed on enterprises. Bailey (1995) remarked that the figure of profit was a residual amount left after the compilation of accounting records carrying little economic significance. As commercial considerations were unimportant, the analysis of performance was focused on output and the use of resources and labor productivity. In the light of the above it could be conjectured that the implementation/adoption of IAS 36 would have been challenging to accountants in Russia and Kazakhstan. Literature (see Jermakowicz, 2004; Nobes & Parker, 2004; Wines, Dagwell, & Windsor, 2007) suggests that compliance with IFRS was found to be difficult for most economies due to:

[1]International Accounting Standards (IASs) were issued by the predecessor body of the International Accounting Standards Board (IASB). These standards are international financial reporting standards that were adopted by IASB when it took over in 2001 and as such they form part of the body of IFRS requirements (IASB, 2011c)

a) The cost involved in the transition;
b) The time required;
c) The paradigm shift required in the fundamental ideologies of nations.

Indeed, even in an advanced economy such as the US there are huge costs involved in managers training and adaptation of infrastructure in transition to IFRS. The Securities and Exchange Commission (SEC) expects that the average US corporation is going to spend about $32 million in costs associated with IFRS adoption (Dyno, 2008). Another difficulty for managers is the complexity of IFRS. There was considerable support for the view that IFRS reporting is complicated and its requirements are time consuming to implement (Pawsey, 2010; UNCTAD, 2008). This study suggests that IAS 36 presents a good case in point concerning compliance with IFRS. In fact the standard was perceived as one of the most complex and difficult standards to implement by 75% of the accountants surveyed in Belgium (Jermakowicz, 2004). Due to its complexity, IAS 36 requires substantial time to carry out a complex impairment testing thereby incurring greater costs. It is possible that firms may deviate from required practices due to the time and cost involved (McGreachin, 1997; Rockness, Rockness, & Ivancevich, 2001). A research by Larson & Street (2004) indicated that particular problems with compliance were experienced in countries with underdeveloped market environments such as Bulgaria, Poland and Romania. As IFRS constantly makes reference to fair value, recoverable value and value in use concepts it requires accountants to shift from a 'historical cost' method of asset valuation to 'fair value' approach (Lopater, 2003). However, managers in those Eastern European countries were unfamiliar with the concept of fair value embedded in IAS 36 and therefore it was difficult for them to implement and comply with the standard's requirements.

These factors appear also to have adversely impacted the level of compliance with international accounting standards in Russia and Kazakhstan. Tyrrall, Woodward & Rakhimbekova (2007) observed a lack of transparency in financial reports of Kazakhstan companies which prevented many firms from being listed on Kazakhstan Stock Exchange. McGee & Preobragenskaya (2005) argue that the Anglo-Saxon accounting mind-set has not yet made its way into the Russian business scene. A rather undeveloped capital market does not provide significant incentives for poorly compliant entities to enhance the quality of financial reports.

Having observed some concerns associated with compliance with IFRS it can be noted that the matter of compliance with IFRS may be critical for transitional countries attempting to attract foreign investments to accomplish economic reforms. Shedrov & Sevastyanova (1998) note that compliance with IFRS is perceived as being protection of high quality information and value. Foreign investors require IFRS-compliant financial reports because they understand them and can be confident about transparency of reported information. Consequently, IFRS brings benefit to Russia and Kazakhstan by building relations with foreign investors and facilitating the inflow of foreign direct investments (FDI) (Alam & Banerji, 2000; Shedrov & Sevastyanova, 1998).

However benefits of IFRS may be reduced substantially if the standards are not complied with. Ball (2006) noted that poor compliance due to the inconsistent application of the standards results in low comparability of financial reports, increases information costs and risks for investors and consequently negatively impacts international capital flow.

Several studies provide evidence of deviations from IAS 36 requirements in various countries (Bepari, Rahman, & Mollik, 2011; Carlin & Finch, 2010b; Carlin, Finch, & Khairi, 2010; Carlin, Finch, & Laili, 2009; Carlin, Finch, & Tran, 2010). The findings indicate that firms in Australia, Hong Kong, Malaysia and Singapore exhibited an inadequate level of compliance with disclosures concerning cash-generating units (CGU), discount and growth rates. These findings were found to be consistent across countries under research. The authors considered a number of factors that may explain the low compliance rates observed in the studies. These include: misinterpretation of materiality rules, difficulties in exercising judgment when undertaking activities prescribed by the standard, incompetence or unwillingness to yield to the rules within the reporting framework.

It can be noted that all these studies focused on the economies with established market infrastructures and strong accounting professions. For this reason it was of research interest to examine compliance with IAS 36 in a context of transitional economies that have a very short history of market institutions. An overview of the accounting development in Russia and Kazakhstan is now presented.

1.2 Accounting development in Russia

Since the collapse of the Soviet Union in 1991 Russia has been undertaking reforms to abandon command economic principles and transit to a market oriented model. In July 1991 the Russian Parliament passed the Law which provided the foundation for a privatisation program. The Law initiated the sale of state-owned enterpises to the public (Joskow, Schmalensee, Tsukanova, & Shleifer, 1994). In January 1992 the President's decree released prices from the government control (Berkowitz, DeJong, & Husted, 1998). Vasiliev (2001) pointed out that by 1994 the first phase of structural change in the Russian business framework was completed. Some attributes of a market economy emerged. The appearance of a stock exchange and institutional investors in 1995 facilitated further market development. Russia entered the International Organization of Securities Commissions and was included in international credit ratings (Vasiliev, 2001). By this time significant attention was also given to reforms in accounting. The Russian government launched in 1998 the "Program for the Reformation of Accounting in accordance with International Accounting Standards" to convert soviet accounting standards to conform with international practices (McGee & Preobragenskaya, 2004). In line with this Program the Russian Ministry of Finance developed Russian Accounting Standards (RAS) which were designed to correspond to IFRS as much as possible (Bogdan & Cristea, 2008). McGee & Preobragenskaya (2004) noted that RAS significantly changed accounting practices in Russia. Most important innovations included:

- The focus in accounting practices was shifted from technical procedures to financial statements and disclosure of information;
- Some terms that were common in IFRS but unknown to Russian accountants were introduced; cases in point are "materiality", "contingency" and "provisions";
- For the first time in Russian accounting history tax and financial accounting reports were separated;
- Concepts of 'substance over form' and 'fair value' were introduced.

As a result RASs were significantly aligned with IFRS; however a number of differences still existed. Table 1 below presents an overview of primary differences.

Table 1 Difference between IFRS and RAS

IFRS	RAS	Difference
IAS 29	No equivalent	RAS do not require inflation to be taken into account when preparing financial reports
IAS 36	PBU 14/2007	Under PBU 14/2007 goodwill is amortized over 20 years on a straight-line basis
IAS 12	No equivalent	RAS do not have concept of deferred tax liability
IAS 7	PBU 4/9	There is no concept of cash equivalents
IFRS 8	PBU12/2000	IFRS 8 is applied to entities whose debt or equity instruments are traded in stock exchanges; PBU 12/2000 is applied to all entities
IAS 17	The instruction of the Ministry of Finance of 17/02/1997	Capitalization of finance leases is allowed but not mandatory
IAS 37	PBU 8/01	PBU 8/01 does not require discounting of the provisions
IAS 8	PBU 1/98	PBU 1/98 does not have a concept of fundamental error
IAS 18	PBU 9/99	PBU 9/99 does not explain treatment for exchange of goods or services that are similar in nature and value
IAS 24	PBU 11/2000	PBU 11/2000 requires less disclosure for related parties
IAS 27	Methodological recommendations on consolidated financial reporting of 30/12/96	Under Methodological recommendations on consolidated financial reporting of 30/12/96 a subsidiary (bank) may not be included in consolidated financial reports if group's business is different from that of the subsidiary.

Source: Sosnauskene (2008)

Note that PBU is an abbreviation of "Polozhenie po Buhgalterskomu Uchetu" which is the Russian translation of "Accounting Standard".

As evident from Table 1, IAS 36 is very different from PBU 14/2007. Under PBU 14/2007 goodwill is not subject to an impairment test; goodwill is amortized on a straight-line basis over 20 years (Deloitte, 2011a).

McGee & Preobragenskaya (2005) noted that unlike Kazakhstan that fully adopted IFRS in 2006, Russia opted for a 'gradual approach' in adopting international standards. At present IFRS is not adopted in its entirety in the country. All entities are obligated to prepare financial reports under RAS. However, a voluntary preparation of IFRS-compliant reporting is permitted in addition to mandatory RAS-compliant financial reports (Deloitte, 2011c).

There are a number of considerations that seem to have advocated in favor of a gradual approach of IFRS adoption in Russia. In 2004, the Russian Corporate Governance Roundtable Task Force on Implementing IFRS organised by Organization for Economic Cooperation and Development (OECD) recommended a gradual adoption of IFRS. The sheer size of the Russian economy did not allow an accelerated implementation of international standards. It is unrealistic to expect full compliance with IFRS in a large country that recently started economic and accounting reforms ("The Russian Corporate Governance Roundtable," 2004). The gradual approach was also supported by Richard Gregson, PricewaterhouseCoopers Partner in Moscow, the head of the Accounting Reform project. He noted that the attempt to introduce IFRS at once would most likely lead to chaos in the Russian accounting community ("IFRS perspectives in Russia: another stage of reforms," 2008). Dmitriy Vaynshteyn a partner of Ernst & Young in Moscow suggested that the main problem which slowed down IFRS adoption in Russia was a lack of qualified personnel (Vaynshteyn, 2009). Russian accountants were trained under an old accounting system which did not require managers' professional judgment. It would take time to acquire such skills (Bagaeva, 2010). Another difficulty was that the IFRS implementation requires significant financial resources. There was a view that a gradual adoption would allow spreading implementation costs over a longer period thus reducing financial stress on the companies (Vaynshteyn, 2009). McGee & Preobragenskaya (2005) suggested that a selection in favor of a gradual strategy can also be attributed to the fact that the local security market was in a developing stage and demand for IFRS reporting has only started to increase recently.

The present study notes that currently there is some evidence of the increasing role of IFRS in Russia. According to a survey by the audit firm Baker Tilly the number of firms voluntarily preparing IFRS-compliant reports is on the rise. In 2009, out of 200 firms surveyed 47% prepared an extra set of financial reports under IFRS rules. By 2011 this proportion grew to 61% ("Baker Tilly," 2011). Although McGee & Preobragenskaya (2005) argue that the slow IFRS adoption results in unproductive use of resources, as

firms involved in international business and wish to prepare financial reports under IFRS rules, have to produce two sets of financial reports i.e. under RAS and IFRS rules incurring significant costs, these companies have incentives to accept this burden because IFRS-compliant reporting is demanded by overseas investors and creditors. Essentially IFRS serves as a means to facilitate access for Russian firms to loans from Western financial institutions and to raising money from offshore capital markets (McGee & Preobragenskaya, 2005). Economic statistics show an increasing integration of Russian economy into global business and trade which can also be a driver of the rising demand of IFRS. For example, FDI inflow into Russia grew from $ 2.7 billion in 2000 to $ 72.8 billion in 2008; exports from $ 114.6 billion in 2000 to $ 522.9 billion in 2008; and imports from $ 61.1 billion in 2000 to $ 368.2 in 2008 (Tarr & Volchkova, 2010). At the time of writing this paper Russia was finalizing negotiations to enter the World Trade Organization. Their admission is expected to be completed by the middle of 2012 (Gurkov & Ostaptschuk, 2011).

The above discussion indicates that there were trade-offs between slow and more urgent strategies of IFRS adoption. While a conservative approach prevailed in Russia, in Kazakhstan a radical strategy led to full IFRS adoption in 2006. The next section provides an insight into accounting development in Kazakhstan.

1.3 Accounting development in Kazakhstan

Kazakhstan is a country that gained its independence in 1991 after the collapse of the Soviet Union. Its disintegration led to the demise of central planning which resulted in an output fall and increase of poverty. The enterprises that were cut off from suppliers and markets of other Soviet Republics were affected most severely. The damage to the Kazak economy as a whole was large because half of the output in 1989 was produced by the industries under federal jurisdiction (DeMelo, Denizer, & Gelb, 1996; Pomfret, 2007; Myant & Drahokoupil, 2008). The lowest point in Gross Domestic Product (GDP) in Kazakhstan was reached in 1995 which was below the 1989 level by 39% (Myant & Drahokoupil, 2008). In 1996, the economy slowly began to grow. In order to reverse the downward trend in the economy the government opted for a fast track transition to a market-based economy, an approach that some analysts labeled as ‘shock therapy ‘or ‘big bang’ approach (Havrylyshyn, 2001; Irnazarov, 2009). Market

reforms brought about an economic recovery in Kazakhstan. A substantial depreciation of currency facilitated exports which together with oil prices going up from $10 per barrel in 1998 to over $60 per barrel in 2005 was the source of the economic boom. In 2000 the country managed to repay its debts to the International Monetary Fund (Iwasaki, 2003; Pomfret, 2007; Irnazarov, 2009). The important stages of the reform included the following:

Table 2 Market reforms in Kazakhstan

1993	Act on Securities Trading	Provided legal framework for securities trading
1993	Banking Act	Established a system of state and private banks
1994	Mass privatization and price liberalization	Privatization of state assets and release of prices from state control
1994	Permission for profits repatriation	Stimulated FDI
1995	Introduction of full currency convertibility	Stimulated FDI and International Trade
1995	Abolition of export and import licenses	Facilitated International Trade
1996	Adoption of new accounting standards (KAS)	Narrowed the gap between domestic accounting standards and IFRS
1997	Law on State Support for Direct Investment	Attracted FDI
1997	Stock exchange trading began	Invited investors to local capital market
1998	Launch of a support programme for small business	Stimulated development of small business
2001	New Tax Code	Provided tax incentives for overseas inventors

Source: Irnazarov (2009)

In the course of reforms in the financial sector, Kazakhstan Accounting Standards (KAS) were developed. These standards were used by all business entities prior to adopting IFRS in 2006. KAS were designed on IFRS basis; however a number of differences existed in some areas. Table 3 below presents information on the differences between IFRS and KAS.

Table 3 Difference between IFRS and KAS

IFRS/IAS	KAS	Difference
1	1,2	KAS does not mandate comparative information to be provided
4	6	KAS does not give definition to depreciable assets
7	4	KAS does not recognize cash equivalents
8	3	KAS does not provide guidance for the initial adoption of an accounting standard
12	11	KAS does not recognize deferred tax assets and deferred liabilities
16	6	KAS does not incorporate a concept of fair value
17	17	No guidance is provided for classification of finance and operating leases
21	9	KAS does not account for the effect of changes in foreign exchange rates on the financial statements of foreign operations
23		No equivalent in KAS
32		No equivalent in KAS
36		No equivalent in KAS
37		No equivalent in KAS
	20	No equivalent in IFRS for natural resource extraction

Source: ("Euroasian Corporate Governance Roundtable," 2001)

As evident from Table 3 IAS 36 does not have an equivalent in KAS. Under KAS goodwill is not subject to an impairment test; goodwill is amortized on a straight-line basis over a fixed period of time ("Euroasian Corporate Governance Roundtable," 2001).

As mentioned earlier, Kazakhstan fully adopted IFRS in 2006. One interpretation as to why the rapid IFRS adoption strategy was selected is that it was a political decision to accelerate the integration into the global economy (Tyrrall, Woodward, & Rakhimbekova, 2007). On March 1 2006 in his address to the nation the President of Kazakhstan named the integration into the world economy a top priority for economic development (Gielen et al., 2007). The IFRS adoption was considered an important component in enhancing competitiveness of local firms. IFRS-based financial reports were meant to reduce costs of borrowings for Kazakhstan firms when taking loans from offshore financial institutions (Gielen et al., 2007). Another reason was that Kazakhstan

had large oil and gas reserves which ranked second among Commonwealth of Independent States (CIS) after Russia. According to US Energy Information Administration, the country plans to become one of the top oil exporters in the world by 2020 ("US Energy Information Administration ", 2010). Alam & Banerji (2000) suggested that the need to attract FDI to exploit mineral resources may have resulted in an accelerated pace of reforms and high international orientation of Kazakhstan. It appears that IFRS were rapidly introduced with an aim to produce financial reports that would satisfy the information needs of foreign investors. Notably Kazakhstan is regarded by investors as one of the most attractive countries amongst the CIS. It is ranked third after Russia and the Ukraine in terms of FDI inflow (Khoich & Madiyarova, 2011). According to the National Bank of Kazakhstan FDI inflow grew from $6,619 billion in 2005 to $18,076 billion in 2010 (*FDI statistics*, 2011).

It can be noted that prior to IFRS adoption in 2006 the existing Kazakhstan accounting standards had significant deviations from rules prescribed by IFRS. This factor coupled with the accounting legacy inherited from the Soviet era may suggest the rapid adoption of IFRS to be problematic in the country. Tyrrall et al (2007) noted that domination of Soviet accounting system in the recent history of Kazakhstan created significant difficulties to IFRS implementation in the country. As in other post-soviet countries, there was a lack of skilled managers. Kazakhstan accountants were unfamiliar with the concept of fair value which is a critical element in terms of compliance with IFRS. The authors observed a lack of professional judgment on the part of local managers. Given that IAS 36 requires extensive exercise of judgment, this factor has a potential to negatively affect the level of compliance with the standard. Other challenges related to compliance manifest themselves as difficulties with the costs of personnel training, changes in accounting software platforms and a strong need for qualified consulting services (Tyrrall et al., 2007).

Another consideration that casts doubts on the early shift to IFRS is that although the private sector in Kazakhstan was developing, there was a relatively small number of large listed companies. In 2006 there were approximately 100 firms listed on Kazakhstan Stock Exchange (KASE) which accounted for only 10% of private sector firms in the country. Also the government had significant stock holdings in the large companies. The output of state-owned enterprises in 2004 accounted for about 30% of GDP (Tyrrall et al., 2007). The capital market was thin creating low demand for as well as supply of high quality transparent financial reports. Tyrrall et al.(2007) suggested

that under these conditions IFRS relevance to Kazakhstan may be low for firms that operate domestically. However, along with firms whose motivation in IFRS was high e.g. foreign-owned firms and firms that borrow or raise funds overseas, all other listed companies in Kazakhstan were required to prepare financial statements under IFRS since 2006.

The above discussion provides background information on issues associated with compliance with IAS 36 and accounting development in Russia and Kazakhstan. The next section presents motivation for this research and sets out research questions.

1.4 Rationale for the study

1.4.1 Motivation for research

Transitional economies are unique as they are unlike those in the Anglo-Saxon world are required to adopt paradigms which are completely alien to them. The true impact of transformation into market-based economies can therefore be objectively viewed in those cases.

It appears that no studies were conducted on the level of compliance with IAS 36 in transitional economies. For this reason it is of research interest to examine the level of compliance with IAS 36 in Russia and Kazakhstan and to analyze the difficulties encountered in its implementation. This study also intends to provide useful information for policy makers in Russia and Kazakhstan. The findings on the association (if any) of the level of compliance with firm-specific factors would help regulators identify areas requiring greater attention.

It also appears that there have been no studies that conducted a comparative research on compliance with IAS 36 between transitional economies. Since Russia chose a gradual approach while Kazakhstan employed a rapid strategy, this accounting setting provides a unique opportunity to investigate the level of compliance in a context of very similar post-communist countries that were divergent in their strategies to IFRS adoption. The findings would show whether there was a difference in the level of compliance between firms in Russia and Kazakhstan. This difference may be a product of dissimilar approaches to IFRS adoption and as such can be of interest to other transitional countries that consider adoption of IFRS.

The broader questions that arise here include:

- How successful have they been in adapting to the changes/outcomes required by the rest of the world community?
- When faced with the inevitable need for change, how should such transitional economies strategize? Rapid introduction or gradual approach?
- What firm-specific factors would impact the adoption?

In order to address these issues the present study formulated research questions which are now presented.

1.4.2 Research questions

The present study's research questions are as follows:

1. Was there a change in the level of compliance with the disclosure requirements of IAS 36 for goodwill impairment testing by Russian and Kazakhstan firms over 2007-2008-2009?
2. Was there a difference in the level of compliance with the disclosure requirements of IAS 36 for goodwill impairment testing between Russian and Kazakhstan firms in 2007-2008-2009?
3. Was there an association of the level of compliance with the disclosure requirements of IAS 36 for goodwill impairment testing by Russian and Kazakhstan firms with firm- specific factors over 2007-2008-2009?

1.4.3 Contribution to the literature on compliance with IAS 36

This study intends to contribute to the literature on compliance with IAS 36 by filling the following gaps: first, an extensive research did not find any studies that investigated compliance with IAS 36 in transitional economies. Therefore the present paper intends to contribute by conducting a research in post-communist economies such as Russian and Kazakhstan. Second, this study did not find any papers that compared the level of compliance with IAS 36 between countries. The present paper intends to contribute by comparing the level of compliance by Russian firms with that of Kazakhstan companies. Third, previous research by Carlin & Finch (2010), Carlin et al., (2009),

Carlin, Finch & Tran (2010) and Carlin, Finch & Khairi (2010) used an evaluative method to assess the level of compliance with IAS 36. The present paper found only two working papers (see Massoudi, Izan, & Tarca, 2010; Bepari, Rahman, & Mollik, 2011) that conducted empirical investigations on compliance with IAS 36. This study notes that Massoudi et al (2010) and Bepari et al.(2011) oversimplified the measurement of the level of compliance by firms. For this reason the present paper intends to contribute by refining methodology for measuring the level of compliance with IAS 36. The test of appropriateness of discount rates introduced in this paper when computing total compliance scores for firms would enable a more granular assessment of the level of compliance. Consequently, this research would be more rigorous than the previous attempts. The detailed explanation of the proposed refinement is presented in the methodology section.

The rest of the paper is structured as follows: Chapter 2 presents literature review and hypothesis development; Chapter 3 provides a description of the research sample and methodology; Chapter 4 presents the results and discussion and Chapter 5 concludes the paper.

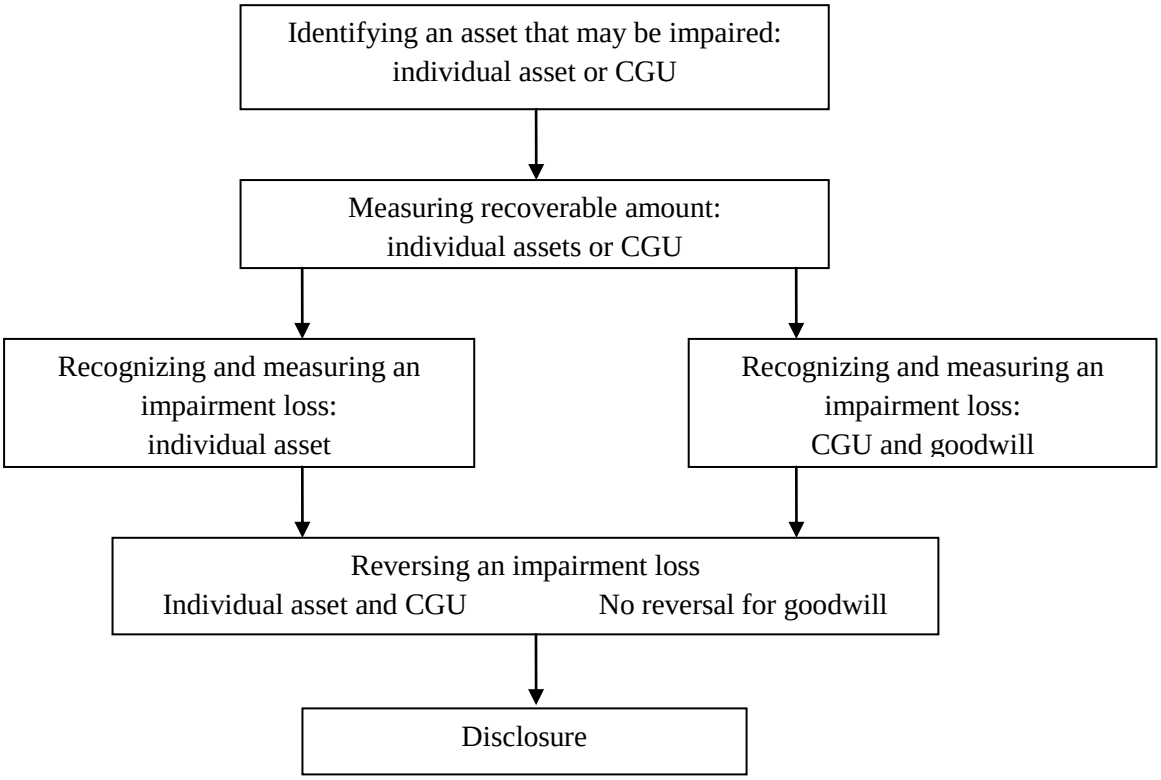
Chapter two

Literature review

2.1 Overview of IAS 36 Impairment of Assets

IAS 36 was issued by the International Accounting Standards Committee in 1998. When the International Accounting Standards Board took over in 2001, it resolved that the standard would continue to be applicable with future amendments (IASB, 2011c). Before IAS 36 was introduced goodwill was amortized over a period of its useful life. Amortization was normally on a straight-line basis (Deloitte, 2011b) . According to IFRS 3 Business Combinations goodwill is an asset which represents future economic benefits that arise from other assets acquired in a business combination that cannot be individually identified and separately recognized (IASB, 2011b). Goodwill is recognized when there is *the excess of the cost of acquisition over the investor's share of the fair value of the recognized identifiable assets and liabilities* (Deegan & Samkin, 2006,p 974). In other words, goodwill is an asset, the value of which is represented by the excess of the purchase price over the fair value of the net assets acquired. The impairment of goodwill is regulated by IAS 36. Wiecek & Young (2010) explain that goodwill impairment test is required in line with the principle that assets should be reflected at value which is not greater than the amount an entity can recover from assets' use or sale. This principle is based on a true and fair view concept which requires fair presentation of the financial position. The flow chart below presents a sequence of impairment testing for a Cash-Generating Unit (CGU) and goodwill.

Figure 1 Impairment testing for CGU and Goodwill



Wiecek & Young (2010, p. 151)

It should be noted that this study focuses exclusively on impairment testing for goodwill and therefore impairment of assets other than goodwill is not reviewed. In order to establish whether goodwill is impaired the standard requires goodwill to be assigned to CGU(s) which is expected to benefit from the synergies of the business combination. IAS 36 states that a *cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.* Since it is not always possible to identify an individual asset to which goodwill should be assigned, managers are required to exercise their judgment to determine the lowest aggregation of assets that generate independent cash inflows. In doing so managers must identify CGUs at the lowest level at which goodwill is monitored by management for internal purposes.

An asset is considered impaired if its carrying amount exceeds its recoverable amount. If an asset is impaired an impairment loss should be recognized. The recoverable amount of the asset is the higher of its fair value less costs to sell and value in use.

According to IFRS 3, fair value of assets is the amount for which an asset could be exchanged in the market between knowledgeable parties. Consequently, fair value less costs to sell of an asset should be based on a price at which an asset is traded in an active market. If an asset is not traded in an active market, then fair value less costs to sell should reflect the best estimate of an amount that an entity could obtain from the sale of an asset in an arm's length transaction between knowledgeable, willing parties. IAS 36 defines value in use as the present value of the future cash flows expected to be derived from the use of an asset or cash-generating unit. The estimation of future cash flows should reflect time value of money; therefore appropriate discount rate(s) should be applied. The forecasted cash flow projections should be based on most recent budgets; growth rates applied to cash flows beyond the budgeted periods should reflect average industry growth rates.

Arguably, goodwill impairment testing mandates complex procedures to be performed. The testing information needs to be disclosed so that the users of financial reports could understand how the managers arrived at reported accounting numbers. These disclosures include:

1. A description of CGU(s). This disclosure is important as it provides information on business prospects of CGUs to which goodwill relates.
2. The carrying amount of goodwill allocated to CGU(s). This information allows tracing allocated goodwill to specific CGU(s).
3. A method selected to determine a recoverable amount of CGU (fair value less costs to sell or value in use). The choice of method defines further disclosure to be made.
4. If selected method is fair value less costs to sell, a description of key assumptions used in the determination of fair value less costs to sell.
5. If selected method is value in use, the growth and discount rate(s) applied to projected cash flows and a description of key assumptions used to estimate future cash flows. The disclosure of assumptions for growth and discount rates is required to enable an independent assessment of the robustness of goodwill impairment testing.

Source: (IASB, 2011a)

2.2 Commentaries on introduction of IAS 36

Prior to the introduction of IAS 36 the previous capitalization and amortization accounting treatment of goodwill faced significant opposition. Guler (2007) argued that goodwill may not decrease regularly and systematically and therefore the requirement to amortize a fixed amount of goodwill annually appears to be questionable. Ravlic (2003) pointed out that amortization on a straight-line basis over a certain period of time has no economic logic and as such does not contain any value for users of financial statements.

IAS 36 was introduced with the aim to achieve a truthful reflection of asset value in financial reports. Under a new regime goodwill is required to be tested annually for impairment. If an amount that can be recovered from the sale or use of the asset is less than its carrying value, impairment loss should be recognized. Wines, Dagwell, & Windsor (2007) noted that the new goodwill impairment testing regime is more closely aligned with an actual assessment of asset value than an arbitrary 'cost less amortization' method. Financial Accounting Standard Board (FASB) put forward an argument that SFAS 142 (Statement of Financial Accounting Standards, analogue of IAS 36 but in the United States) would lead to a better reflection of underlying economics of the acquired assets in the financial statements (FASB, 2001).

However, some commentaries indicated that IAS 36 introduced a potential for creative accounting. In fact, IAS 36 requires subjective evaluations of future cash flows and therefore is subject to a substantial degree of discretion (Ball, 2006; Wines et al., 2007). Watts (2003) noted that leeway available in calculating assets value in use may be used by managers to delay or advance impairment write-offs. In fact, asset recoverable amount against which the carrying amount is benchmarked can be manipulated by applying arbitrary discount and growth rates to future cash flows. Previous research provided some empirical evidence indicating that managers exercised available discretion opportunistically. An overview of empirical research is now presented.

2.3 Empirical studies on various issues regarding IAS 36

Beatty & Weber (2006) investigated the association between impairment write-offs of firms and earnings based incentives. The authors argued that it was more costly for managers to take impairment write-off decisions if they were affected by these

incentives. The results of regression analysis showed that bonus and debt contracting considerations were the factors that accelerated or delayed impairment losses recognition. Guler (2007) examined the relationship between managers' incentives and their decisions to make goodwill impairment write-offs. The author hypothesized that reported goodwill write-offs negatively associated with managers' bonus incentives and in-the-money stock options (options that can be converted to cash). The study revealed that goodwill impairment losses were less likely to be recognized if managers had significant holdings in in-the-money stock options and bonus incentives. These findings are consistent with Agency Theory that predicts that managers are likely to use the discretion available in accounting choices in a manner that increases their personal wealth (Jensen & Meckling, 1976). Godfrey & Koh (2009) investigated if there was a relationship between goodwill write-offs and firms' investment opportunities. More specifically they hypothesized that higher investment opportunities would result in smaller impairment write-offs. The findings indicated that the increase in investment opportunities was associated with smaller impairment charges. It appears that managers manipulated SFAS 142 opportunistically. Lapointe (2006) investigated whether the introduction of goodwill impairment test resulted in better reflection of its economic value in the balance sheet. An investigation of financial reports of firms in Canada revealed results that were consistent with that of Beatty & Weber (2006), Guler (2007) and Godfrey & Koh (2009) in a sense that managers choices were affected by managerial incentives. Unlike previous research which focused on income smoothing issues Lapointe (2006) examined accounting choices in a context of equity recognition. The findings showed that firms record higher impairment losses if they had lower than target return on assets and return on equity ratios. Ramanna (2008) examined whether unverifiable discretion inherent in IAS 36 is used opportunistically and if so what firm characteristics increase the likelihood of discretion to be used in that manner. The research used data on lobbying efforts of firms that pressed the adoption of SFAS 142. It was assumed that firms motivated by the discretion potential of SFAS 142 were likely to lobby in favor of a new standard. As SFAS 142 requires allocation of goodwill across business units and this allocation is arbitrary the author used business segments as proxy to measure the extent of opportunism. It was hypothesized that the discretion is greater for firms that have larger and more numerous business units since they are more flexible in goodwill allocation. The author found evidence that firms with numerous business segments and higher market-to-book ratios and higher ratios of assets without observable market values were more likely to exercise discretion. Verriest &

Gaeremynck (2009) examined the determinants of impairment write-offs. Unlike Ramanna (2008) these authors focused on influence of corporate governance quality and ownership structure on impairment decisions. The prediction that a higher number of independent directors on the board and the separation of chairman and chief executive officer would lead to a higher probability of impairment losses was supported. It appears that managers were likely to engage in impairment write-offs if the number of independent directors was large. Also Verriest & Gaeremynck (2009) found that company size has a positive association with decisions to impair.

Another stream of research, focused on the usefulness of goodwill disclosures and goodwill numbers. A number of studies revealed that the goodwill numbers seem to be influential indicators of firms' future profitability. Hirschey & Richardson (2002) investigated market value effects of goodwill write-offs announcements. The information value of goodwill numbers appeared to be significant. The researchers hypothesized that decisions to make impairment write-offs would lead to a change in the assessments of firms' earning potential. The findings revealed that the effect of the revelation of impairment losses was negative and material at about 2-3 percent of firms' share price. Vichitsarawong (2008) tested whether there is an association of goodwill impairment with the efficiency of firms. Several financial ratios were used to measure the efficiency of firms in the year when goodwill impairment had taken place. The regression analysis showed goodwill impairment signaled a decrease in relative efficiency of firms, thus confirming the usefulness of goodwill impairment numbers in reflecting underlying economics of firms. Li, Shroff, Venkataraman, & Zhang (2010) examined how meaningful is the information provided by the impairment. The research question was addressed by investigating whether there is a correlation between impairment losses and subsequent performance of companies. The findings showed that impairment losses are negatively associated with revenue and profit in subsequent years which is consistent with results of Vichitsarawong (2008). It appears that goodwill impairment is a powerful predictor of the deterioration of firms' future profitability. In fact it is reasonable to assume that goodwill impairment may stem from managers' inability to capitalize potential benefits of previous acquisitions with resulting negative consequences to firms' earnings.

It can be noted that studies reviewed above did not examine whether compliance with IAS 36 was followed in countries researched. It appears that researchers assumed that preparers of financial reports complied with the standard's requirements (Carlin &

Finch, 2009). However, as evident from several studies that investigated compliance with IAS 36, this assumption may not necessarily hold. An overview of these papers is presented below.

2.4 Research on compliance with IAS 36

The question of compliance with goodwill impairment disclosure requirements as prescribed by IAS 36 was investigated in Australia (Carlin & Finch, 2010b) , Malaysia (Carlin et al., 2009) Hong Kong (Carlin, Finch, & Tran, 2010) and Singapore (Carlin, Finch, & Khairi, 2010). The methodology employed in all four studies was similar. The authors compared disclosures made by firms with those required by IAS 36 (see list of disclosures in section 2.1). Table 4 below presents their findings.

Table 4 Previous research findings on compliance with IAS 36

Research question	Country	Findings
Does total goodwill reconcile with goodwill allocated to CGUs?	Malaysia	42% of firms non-compliant
	Australia	14% in 2006; 10% in 2007 non-compliant
	Singapore	43% in 2005; 29% in 2006; 26% in 2007
	Hong Kong	24% of firms non-compliant
Is disclosure of CGUs provided?	Malaysia	42% non-compliant
	Australia	8 % in 2006 & 2007 non-compliant
	Singapore	39% in 2005; 23% in 2006, 17% in 2007
	Hong Kong	20% non-compliant
Is the method to estimate recoverable amount of CGUs disclosed?	Malaysia	25% of firms non-compliant
	Australia	6% in 2006; 8% in 2007 non-compliant
	Singapore	33% in 2005;15% in 2006; 13% in 2007
	Hong Kong	6% non-compliant
Is disclosure of discount rates provided?	Malaysia	39% non-compliant
	Australia	15% in 2006; 13% in 2007 non-compliant
	Singapore	6% in 2005; 10% in 2006; 8% in 2007
	Hong Kong	12% non-compliant
Is disclosure of growth rates provided?	Malaysia	61% non-compliant
	Singapore	59% in 2005; 56% in 2006; 55% in 2007
	Hong Kong	67% non-compliant

It can be noted that the results are strikingly consistent across the countries researched. For example, a significant number of firms in all four countries failed to provide

information to allow reconciliation of goodwill allocated to CGUs with total reported goodwill. A large proportion of firms did not disclose CGUs defined for the purpose of impairment testing. A basic requirement to disclose the method used to estimate recoverable amount of CGUs was not met by a substantial number of firms in Malaysia and Singapore. Poor compliance with requirements to disclose discount and growth rates was exhibited by firms in countries investigated. As evident from Table 4 approximately over 60% of firms in Hong Kong, Malaysia and Singapore failed to disclose growth rates.

Carlin et al.(2009), Carlin & Finch (2010b), Carlin, Finch, & Khairi (2010) and Carlin, Finch, & Tran (2010) suggested that deviations from disclosure requirements can be explained by difficulties experienced by firms due to the complexity of the accounting standard. An alternative explanation was that non-compliance was a product of opportunistic behavior on the part of managers. This suggestion is supported by a tendency to define larger rather than smaller CGUs which leads to a lower likelihood of impairment losses. In fact, firms with highly profitable CGUs can avoid impairment losses by including in those units the assets which might otherwise be identified as required impairment write-downs (Lonergan, 2010). For example, if an asset which generates greater cash flows is combined with an asset which generates insufficient cash flows, then the overall cash flow of the CGU would mask the actual impairment loss of the latter asset. Similarly, unwillingness to disclose discount and growth rates may be associated with managers' desire to manipulate impairment charges (Carlin & Finch, 2010b).

It can be noted that above discussed studies on compliance with IAS 36 used an evaluative method of analysis. The present paper found only two studies that employed statistical tests to document changes in the level of compliance over time or to investigate the effect of firm-specific factors on compliance with IAS 36. Massoudi et al (2010) and Bepari et al. (2011) constructed scores to measure the level of firm compliance. Research by Massoudi et al.(2010) revealed that the level of compliance with IAS 36 by firms in Australia and the UK was associated with the type of auditor, ownership concentration and type of industry. Bepari et al. (2011) provided evidence that the level of compliance by firms in Australia increased over 2006-2009. The authors also found that the level of compliance was associated with the type of industry, goodwill intensity, firms' profitability and type of auditor. As mentioned earlier in

section 1.4.3 the methodology developed by Massoudi et al. (2010) and Bepari et al. (2011) oversimplified the measurement of firm compliance. For this reason the present paper introduced a refinement of methodology which is explained in Chapter 3.

2.5 Hypothesis development

2.5.1 Examination of the level of compliance by Russian and Kazakhstan firms over 2007-2009.

Compliance with a complex standard such as IAS 36 can be reasonably assumed to improve over time with managers and accountants gaining familiarity. Hence longitudinal measures of compliance provide greater insights in comparison with snap-shot analyses. An extensive research found only one paper that investigated longitudinal changes in compliance with IAS 36. Bepari et al. (2011) found that the level of compliance of Australian firms in 2008-2009 was higher than that in 2006-2007. The authors suggested that during the global financial crisis (2008-2009 were considered the crisis period) managers were more motivated to provide transparent reporting than during pre-crisis period (2006-2007). Having considered that, this study suggests that in a context of transitional economies personnel training efforts may have positively influenced the transparency of accounting information. It is possible that in Russia and Kazakhstan compliance with a difficult standard such as IAS 36 improved over the years as accountants gained experience. The standard null hypothesis in such situations is to hypothesize that there is no difference between the levels of compliance over the consecutive years. Rejecting the null hypothesis would permit the acceptance of the alternative that there exists a difference in compliance levels. Using the Wilcoxon Signed Rank test, the movement of the direction of change (positive/negative) can be inferred.

> *Hypotheses 1a;1b;1c: the level of compliance with IAS 36 disclosure requirements for goodwill impairment testing by firms in Russia has not changed over 2007-2008;2008-2009; 2007-2009;*

Hypotheses 1d; 1e; 1f: the level of compliance with IAS 36 disclosure requirements for goodwill impairment testing by firms in Kazakhstan has not changed over 2007-2008;2008-2009;2007-2009.

2.5.2 Comparison of the level of compliance by Russian firms with the level of compliance by Kazakhstan firms over 2007-2009.

Several studies have investigated compliance with IAS 36 in Australia, Hong Kong, Malaysia and Singapore (Bepari et al., 2011; Carlin & Finch, 2010b; Carlin, Finch, & Khairi, 2010; Carlin et al., 2009; Carlin, Finch, & Tran, 2010). However, the authors did not compare the level of compliance among those countries. This study finds that accounting settings in Russia and Kazakhstan provide an opportunity to compare the level of compliance in contexts of (a) transitional economies (b) divergent approaches to IFRS adoption. While Russia chose a gradual adoption approach, Kazakhstan opted for a rapid strategy and adopted IFRS in 2006. Tyrrall et al. (2007) indicate that the capital market in Kazakhstan is in a developing stage which provides a basis to believe that the need for complex international standards is high for firms who raise or borrow money on overseas markets. The number of these firms may be limited. However under a compulsory IFRS regime all listed firms are required to be compliant with IFRS rules including companies with a domestic focus. This factor may suggest a considerable variation in the level of compliance among Kazakhstan firms.

On the other hand, under voluntary IFRS reporting in Russia, firms are not obligated to prepare IFRS-compliant reports in addition to mandatory RAS-compliant financial reports. It can be assumed that firms preparing an extra set of financial reports i.e. reports under IFRS rules should be doing so motivated by extraneous factors. Therefore the level of compliance by Russian firms that willingly prepare IFRS-compliant reports is likely to be higher than the level of compliance by Kazakhstan firms. However, the mandatory adoption of IFRS in Kazakhstan raises the possibility for greater compliance.

Hypotheses 2a; 2b; 2c: the levels of compliance with IAS 36 disclosure requirements for goodwill impairment testing by Russian firms is the same as the levels of compliance with IAS 36 disclosure requirements for goodwill impairment testing by Kazakhstan firms in each of the years 2007; 2008;2009.

2.5.3 Examination of the association of the level of compliance by firms in Russia and Kazakhstan with firm-specific factors.

Several studies on compliance with IFRS indicated that the level of compliance by firms in various countries was associated with firm characteristics. For example, Owusu-Ansah (2005) found that the level of compliance with IFRS by New Zealand firms was related to firm size and profitability; a study by Naser, Alkhatib, & Karbhari (2002) revealed an association of the level of compliance by Jordan firms with firm leverage ratio ; Bepari et al (2011) found that the level of compliance by Australian firms was related to goodwill intensity. The present study suggests that an examination of the association of the level of compliance with firm-specific factors would shed light on accounting choices made by managers of Russian and Kazakhstan firms. On that account, this study examined the association of the level of compliance by Russian and Kazakhstan firms with firm size, leverage ratio, profitability and goodwill intensity.

2.5.3.1 Examination of the association of the level of compliance by firms in Russia and Kazakhstan with firm goodwill intensity over 2007-2009.

IAS 36 prescribes a number of disclosures for goodwill impairment testing. Bepari et al (2011) suggested that the level of compliance with IAS 36 disclosure requirements can be associated with goodwill intensity which is measured as a percentage of goodwill to total assets. The authors assumed that firms with larger proportions of goodwill were more motivated to rigorously test goodwill and disclose testing information than firms with smaller proportions of goodwill. Bepari et al (2011) found that the level of compliance by Australian firms was associated with goodwill intensity. Although such association was significant during the global financial crisis period, was not during the pre-crisis period. The present paper seeks to identify whether a similar position exists in Russia and Kazakhstan. The present study hence proposes the following hypotheses:

> *Hypotheses 3a; 3b; 3c: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Russian firms with firm goodwill intensity in 2007;2008;2009;*

Hypotheses 3d; 3e; 3f: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Kazakhstan firms with firm goodwill intensity in 2007; 2008; 2009

2.5.3.2 Examination of the association of the level of compliance by firms in Russia and Kazakhstan with firm size over 2007-2009.

Previous research findings regarding the association of the level of compliance with firm size revealed mixed results. Findings by Ballas & Tzovas (2010) on Greek firms and Owusu-Ansah (2005) on New Zealand firms support the notion that the level of compliance is higher for large firms as they are more resourceful and are more pressured to do so by external forces. Street & Gray (2002) however, did not find firm size to be associated with the level of compliance by firms drawn from 32 countries. Bepari et al (2011) on the other hand, found that firm size was related to the compliance level by Australian firms but only when the industry variables were not controlled. Given that recent evidence supports the notion that the level of compliance is positively influenced by firm-size, this study expects a similar relationship to hold for Russia and Kazakhstan as well. Such expectation is not unreasonable given that large firms in Russia and Kazakhstan are more capable in hiring skilled personnel and engaging services of the Big-4 audit firms. Also, larger firms are more likely to raise or borrow money from overseas than smaller ones which further strengthens the possibility of higher level of compliance by those firms. Hence, it could be deduced that larger firms may exhibit a higher level of compliance than smaller ones. Consequently, this study expects:

Hypotheses43a; 4 b; 4c: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Russian firms with firm size in 2007;2008;2009;

Hypotheses 4d; 4 e; 4f: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Kazakhstan firms with firm size in 2007;2008;2009;

2.5.3.3 Examination of the association of the level of compliance by firms in Russia and Kazakhstan with firm leverage ratio over 2007-2009.

Jensen & Meckling (1976) argue that the level of transparency is positively affected by the leverage ratio. They assert that monitoring costs are higher for firms with a large volume of debt and therefore these firms have incentives to reduce these costs. For this reason highly leveraged firms are likely to exhibit a higher level of compliance than firms with lower leverage ratios. However, empirical studies reveal mixed results. Bepari et al (2011) and Alsaeed (2006) found no significant association of firm leverage ratio with the level of compliance by Australian and Saudi Arabian firms. Malone, Fries, & Jones (1993) and Naser, Alkhatib, & Karbhar (2002) on the other hand indicated that the leverage ratio is positively related to the level of compliance by firms listed on the US stock exchange and firms in Jordan . With regard to Russia and Kazakhstan firms in both countries, involved in this research chose to produce IFRS-compliant reports partly to satisfy the transparency requirements imposed by foreign lenders. This factor provides a ground to expect that highly leveraged firms would be more compliant than firms with a lower leverage ratio.

> *Hypotheses 5a; 5 b; 5c: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Russian firms with firm leverage ratio in 2007;2008;2009;*

> *Hypotheses 5d; 5e; 5f: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Kazakhstan firms with firm leverage ratio in 2007; 2008; 2009.*

2.5.3.4 Examination of the association of the level of compliance by firms in Russia and Kazakhstan with firm profitability over 2007-2009.

Inchausti (1997) suggests that more profitable firms have incentives to signal 'good news' and therefore they provide more transparent reporting than firms with 'bad news'. Empirical studies by Owusu-Ansah (2005) and Bepari et al (2011) provide evidence that firm profitability was positively associated with the level of compliance by New Zealand and Australian firms. However, Wallace, Naser, & Mora (1994) and Dumontier & Raffournier (1998) observed no association of profitability with the level

of compliance by Spanish and Swiss firms. This study suggests that more profitable firms in Russia and Kazakhstan were more motivated to exhibit greater transparency as they had incentives to communicate a favorable message. Therefore more profitable firms were likely to produce a higher level of compliance than less profitable ones. On that account this study expects:

> *Hypotheses 6a; 6 b; 6c: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Russian firms with firm profitability in 2007; 2008; 2009;*

> *Hypotheses 6d; 6 e; 6f: there is a positive association of the level of compliance with the disclosure requirements for goodwill impairment testing by Kazakhstan firms with firm profitability in 2007; 2008; 2009.*

In summary, the testing of hypotheses developed by this study would enable establishing whether increasing familiarity with IAS 36 resulted in positive changes in the level of compliance by Russian and Kazakhstan firms over time; and whether firm-specific factors such as goodwill intensity, firm size, leverage ratio and profitability had relationships with the level of compliance by firms. The comparison between the levels of compliance by Russian and Kazakhstan firms will also provide evidence of the impact of contrasting approaches to IFRS adoption. The next chapter explains data collection and research design employed to address research hypotheses.

Chapter three

Data collection and research design

3.1 Sample

In order to address the research questions this study used financial reports prepared by firms in Russia and Kazakhstan. The use of secondary data such as annual reports yields benefits of being free from a researcher's subjectivity (Bryman & Bell, 2007). The research sample was formed with reference to the following considerations: First, Russian and Kazakhstan firms had to be listed on the Russian Trading System Stock Exchange (RTS) and Kazakhstan Stock Exchange (KASE) respectively. Second, goodwill had to be a component of the asset base in each year over 2007, 2008 and 2009. Third, financial reports had to be prepared under IFRS rules.

The choice of the research period was based on following considerations. In Kazakhstan IFRS became mandatory in 2006. In Russia IFRS-compliant financial reporting is optional and is not prohibited in addition to RAS-compliant reporting (PWC, 2011). Since this study's intention was to compare the level of compliance between the countries, the same period was selected for both Russian and Kazakhstan firms. The first year of IFRS adoption in Kazakhstan may not be representative due to the difficulties of the first year implementation; hence year 2006 was excluded from the research period. Year 2010 was also omitted because a number of financial reports were unavailable at the time of research. For these reasons years 2007, 2008 and 2009 were included into the research period.

Annual financial reports of listed companies in Russia and Kazakhstan are required to be published in the mass media. This study downloaded financial reports from the RTS, KASE and companies' websites. Upon screening the financial reports of Russian and Kazakhstan firms over 2007-2009 the total number of firms meeting the above mentioned criteria was 37 and 17 respectively. The details of the screening are provided in Table 5 below.

Table 5 Selection of Russian and Kazakhstan firms

	RTS	KASE
Total number of firms listed on stock exchange as at 1/01/2009	227	96
Minus firms whose reports were unavailable	22	4
Minus firms that did not prepare reports under IFRS	72	0
Minus firms that did not have goodwill in each year over 2007-2009	96	75
Total number of firms included into research sample	37	17

Source: (KASE, 2011; RTS, 2011)

The sample comprises 111 and 51 firm-year observations over the period of three years for Russian and Kazakhstan firms respectively. Firms in the research sample were separated into sectors in line with their business activities. A classification system by Dow Jones and the Financial Times Stock Exchange (FTSE) was employed for this purpose (*Industry classification benchmark*).

An overview of Russian firms with an asset and goodwill base set out by industry sectors is presented in Table 6 below. Out of 37 selected companies 27 reported in Russian currency Ruble, 8 companies in US dollars and 2 firms in Euros. The items in US dollars and Euros were converted into Rubles at the exchange rate that existed at the end of 2007, 2008 and 2009. A list of Russian firms and reported currency is presented in Appendix 1.

Table 6 Analysis of goodwill as a proportion of total assets of Russian firms by industry sectors (goodwill intensity)

		Billion Rubles								
	#	Total Assets			Total Goodwill			GW as % of TA		
	firms	2007	2008	2009	2007	2008	2009	2007	2008	2009
Oil&Gas	1	6,792.6	7,168.6	8,363.2	87.8	118.3	140.2	1.3	1.7	1.7
Basic materials	8	1,663.3	1,743.1	1,749.5	99.5	48.1	48.4	6.0	2.8	2.8
Industrials	6	439.1	625.2	582.2	27.3	41.0	40.4	6.2	6.6	6.9
Consumer Goods	5	157.1	204.0	195.5	14.2	16.4	16.5	9.0	8.0	8.5
Health Care	2	57.7	63.0	71.7	4.4	5.0	5.1	7.7	8.0	7.2
Consumer Serv	3	41.6	46.4	51.4	2.5	2.8	6.1	6.1	6.1	12.0
Telecom	8	310.2	324.7	315.0	5.4	4.4	4.4	1.7	1.4	1.4
Utilities	1	29.2	90.1	106.2	0.0	1.4	1.2	0.0	1.6	1.1
Financials	3	7,577.1	10,880.2	11,132.5	17.3	12.1	12.9	0.2	0.1	0.1
Total	**37**	**17,067.7**	**21,145.3**	**22,567.2**	**258.5**	**249.5**	**275.4**	**1.5**	**1.2**	**1.2**
Average per firm		**461.3**	**571.5**	**609.9**	**7.0**	**6.7**	**7.4**	**1.5**	**1.2**	**1.2**

Abbreviation: GW stands for Goodwill. TA stands for Total Assets.

Source: Annual reports of Russian firms

An overview of Kazakhstan firms with values of assets and goodwill analyzed by industry sectors is presented in Table 7 below. Out of 17 companies fifteen (15) reported in Kazakhstan currency Tenge, two (2) companies in US dollars (KazMys and Eurasian Natural Resources Corp). The items in US dollars were converted into Tenge at the exchange rate that existed at the end of each financial year. A list of Kazakhstan firms and reported currency is presented in Appendix 2.

Table 7 Analysis of goodwill as a proportion of total assets of Kazakhstan firms by industry sectors (goodwill intensity)

		Billion Tenge								
	#	Total Assets			Total Goodwill			GW as % of TA		
	firms	2007	2008	2009	2007	2008	2009	2007	2008	2009
Gas & Oil	2	8,380.2	11,579.5	16,187.5	74.4	59.6	400.3	0.9	0.5	2.5
Basic materials	4	1,953.1	2,624.6	2,998.0	54.4	127.9	101.2	2.8	4.9	3.4
Industrials	1	37.4	48.3	37.1	0.3	0.3	0.3	0.8	0.6	0.8
Consum Goods	4	98.7	134.0	245.3	0.4	0.4	0.1	0.4	0.3	0.1
Utilities	2	140.4	152.9	200.0	2.9	4.1	4.1	2.1	2.7	2.1
Financials	4	7,687.9	6,490.8	6,595.6	43.3	43.0	7.5	0.6	0.7	0.1
Total	**17**	**18,297.7**	**21,030.0**	**26,263.5**	**175.6**	**235.4**	**513.5**	**1.0**	**1.1**	**2.0**

Abbreviation: GW stands for Goodwill. TA stands for Total Assets.

Source: Annual reports of Kazakhstan firms

The exchange rates of Kazakhstan Tenge to Russian Ruble were:

Table 8 Exchange rates of Kazakhstan Tenge to Russian Ruble

31 December 2007	100 Tenge	20.35 Ruble
31 December 2008	100 Tenge	24.32 Ruble
31 December 2009	100 Tenge	20.39 Ruble

Source: (*Official exchange rate*, 2011)

For the purpose of comparison data of Kazakhstan firms was converted into Russian Rubles. Table 9 below presents the data:

Table 9 Analysis of goodwill as proportion of total assets of Kazakhstan firms by industry sectors (converted into Ruble)

		Billion Ruble								
	#	Total Assets			Total Goodwill			GW as % of TA		
	firms	2007	2008	2009	2007	2008	2009	2007	2008	2009
Gas & Oil	2	1,705.4	2,816.1	3,300.6	15.1	14.5	81.6	0.9	0.5	2.5
Basic materials	4	397.5	638.3	611.3	11.1	31.1	20.6	2.8	4.9	3.4
Industrials	1	7.6	11.7	7.6	0.1	0.1	0.1	0.8	0.6	0.8
Consum Goods	4	20.1	32.6	50.0	0.1	0.1	0.0	0.4	0.3	0.1
Utilities	2	28.6	37.2	40.8	0.6	1.0	0.8	2.1	2.7	2.1
Financials	4	1,564.5	1,578.6	1,344.9	8.8	10.5	1.5	0.6	0.7	0.1
Total	**17**	**3,723.6**	**5,114.5**	**5,355.1**	**35.7**	**57.2**	**104.7**	**1.0**	**1.1**	**2.0**
Average per firm		**219.0**	**300.9**	**315.0**	**2.1**	**3.4**	**6.2**	**1.0**	**1.1**	**2.0**

The data from Tables 6-9 show that the average ratio of goodwill to total assets of Kazakhstan firms rose from 1% in 2007 to 2% in 2009, while the average ratio of Russian firms declined from 1.5% in 2007 to 1.2% in 2009. However, it can be noted that the range in goodwill intensity among Russian firms was greater than that among Kazakhstan firms. For example, the lowest goodwill intensity of Russian firms was 0.03% (utilities firms in 2007) and the greatest was 12% (consumer services firms in 2009), while the lowest goodwill intensity of Kazakhstan firms was 0.11% (financial firms in 2009) and the greatest was 4.9% (basic material firms in 2008).

Tables 6-9 show that the average absolute value of goodwill of a Russian firm was larger than that of a Kazakhstan firm in each year over 2007-2009. It can also be noted that the average absolute value of assets of a Russian firm was larger than that of a Kazakhstan firm in each year over the research period. Inferring from the empirical evidence available in extant literature, this study expects to find the level of compliance of Russian firms to be higher than that of Kazakhstan firms due to the magnitude of goodwill intensity and size.

3.2 Research design

3.2.1 Measure of the level of compliance with IAS 36 (dependent variable)

To investigate the level of compliance and to build a basis for comparison over the years and between the countries a compliance score was computed for each company

for each of the year of 2007-2009. Items required by IAS 36 to be disclosed for goodwill impairment testing were coded to calculate the compliance scores. The method consistent with Bepari et al. (2011), used the following categories for coding:

1. **Disclosure of CGUs defined for the purpose of impairment testing**. If disclosed this item was coded 1; if not disclosed 0.
2. **Compliance with the requirement that goodwill allocated to CGUs can be reconciled with total goodwill on the balance sheet**. This item was coded 1 if compliant; 0 if non-compliant.
3. **Disclosure of the method to estimate the recoverable amount of CGUs**. This item was coded 1 if disclosed; if not disclosed 0.
4. **Disclosure of growth rates applied to projected cash flows of CGUs**. If growth rate(s) was disclosed this item was coded 1; if not disclosed 0.
5. **Disclosure of discount rates applied to projected cash flows of CGUs**. If discount rate(s) was disclosed this item was coded 1; if not disclosed 0.

Unlike research by Bepari et al. (2011) which did not account for variation in quality of discount rates among firms that disclosed discount rates, this study does so. Firms that used discount rate(s) greater than those independently derived using Capital Asset Pricing Model (CAPM) (see development of independent discount rates, section 3.2.1.1) are assigned an extra 1(one). Carlin & Finch (2010a) note that IAS 36 places great emphasis on discounted cash flow (DCF) as the basis to estimate asset recoverable amount. In DCF analysis, an asset's recoverable amount is obtained by discounting the forecasted future cash flows by appropriate rates to arrive at their present value equivalents. IAS 36 para 59 states that *if the recoverable amount of an asset is less than its carrying amount, the carrying amount should be reduced to its recoverable amount. That reduction is an impairment loss* (IASB, 2011a). Evidently, discount rates are a key element in determining whether impairment loss is recognized. If inappropriately low discount rates are applied to projected future cash flows, then it leads to a lesser likelihood of impairment charges being recognized or to amounts of impairment losses being smaller than real ones. Given the importance of discount rates, the measure of their appropriateness was included in the calculation of compliance scores.

6. **Appropriateness of disclosed discount rates applied to projected cash flows of CGUs**. If discount rates were greater than those independently derived using CAPM, this item was coded 1; if discount rates were smaller than those derived from CAPM this item was coded 0.

The next section explains the method used in determining the appropriateness of discount rates for the present study.

3.2.1.1 Development of independent discount rates

In order to benchmark the appropriateness of discount rates, this study used the Capital Asset Pricing Model. The discount rates derived from CAPM were used as a benchmark against those disclosed by firms in Russia and Kazakhstan. Carlin & Finch (2010, p.789) suggest that "*The use of CAPM is the preferred method to estimate an appropriate discount rate as it represents the current market assessment and the risks specific to the CGU asset".* To generate independent discount rates the following formulas were used:

$$R_{jRus} = \left[R_{mRus} - R_{fRus}\right] * \beta_{jRus} + R_{fRus} \quad (1)$$

$$R_{jKaz} = \left[R_{mKaz} - R_{fKaz}\right] * \beta_{jKaz} + R_{fKaz} \quad (2)$$

Where R_{jRus} and R_{jKaz} are expected rates of returns for Russia and Kazakhstan respectively;

$\left[R_{mRus} - R_{fRus}\right]$ and $\left[R_{mKaz} - R_{fKaz}\right]$ are market risk premiums for Russia and Kazakhstan which equal to 7.76% over 2007-2009. Teplova (2005) noted that in transitional economies such as Russian and Kazakhstan capital markets emerged during the 1990's; consequently the period of observation was not sufficiently long to compute a reliable estimate for expected rate of return. For this reason it is recommended using an estimate obtained from developed economies with long periods of observations (Teplova, 2005). This study used a rate of 7.76 which represents the market risk premium computed by Ibbotson Associates for the US market (Gray, 2001).

This approach and the value of the expected rate of return for markets in Russia and Kazakhstan was supported by Sinadskiy (2003). β_{jRus} and β_{jKaz} equal 1 for markets in Russia and Kazakhstan. This study notes that it was impossible to identify individual beta for each firm in Russia and Kazakhstan as markets in these countries did not provide sufficient data to calculate credible estimates of risks specific to a firm. Ruzhanskaya (2005) also observed that the Russian capital marker had little history and was subject to high volatility in recent years which makes any calculation of firm-specific beta to be impracticable. For the same reasons industry beta were unavailable and therefore this study used country beta to generate discount rates. R_{fRus} is the average interest rate of Government bonds in Russia (4.8%, 5.9% and 8.6% for 2007, 2008 and 2009 respectively) (*Рынок государственных ценных бумаг*, 2011a) and and R_{fKaz} is the average interest rate of Government bonds in Kazakhstan (5.5%, 5.8% and 6.7% for 2007, 2008 and 2009 respectively) (*Рынок государственных ценных бумаг*, 2011b). R_{jRus} for Russian market were 12.56 for 2007; 13.66 for 2008 and 16.36 for 2009. R_{jKaz} for Kazakhstan market were 13.26 for 2007; 13.56 for 2008 and 14.46 for 2009.

3.2.1.2 Computation of total compliance score

The total compliance score for a firm represents the sum of items that were disclosed. It should be noted IAS 36 allows using either 'value in use' or 'fair value less costs to sell' to determine the assets recoverable amount. If a firm selects the latter method then the *best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction (IASB, 2011a)*. In this case, a firm may not use discount and growth rates when estimating asset recoverable amount. In order not to penalize firms using fair value less cost to sell method, each score was scaled by dividing a total score of each firm by the number of applicable categories. The formula below illustrates this:

$$CS_{yt} = \frac{\sum A_{yt}}{\sum B_{yt}} \qquad (3)$$

Where CS_{yt} is a total scaled compliance score for firm *y* in year *t*; $\sum A_{yt}$ is a total of disclosed items by firm *y* in year *t*; and $\sum B_{yt}$ is total of applicable categories for firm *y* in year *t*. This method is consistent with Bepari et al. (2011). An example below illustrates the calculation of the total scaled score for Russian firm Alrosa in 2009.

Table 10 Calculation of a total scaled compliance score (for Russian firm Alrosa for the year 2009)

Category	**Score**
Disclosure of CGUs defined for the purpose of impairment testing	1
Compliance with the requirement that goodwill allocated to CGUs be reconciled with total goodwill on the balance sheet	1
Disclosure of the method to estimate the recoverable amount of CGUs	1
Disclosure of growth rates applied to projected cash flows of CGUs	0
Disclosure of discount rates applied to projected cash flows of CGUs	1
Appropriateness of disclosed discount rates applied to projected cash flows of CGUs.	1
Total compliance score	**5**
Number of applicable categories	6
Total scaled compliance score (Total compliance score/ Number of applicable categories)	**0.83**

3.2.2 Measure of corporate factors (independent variables)

To examine the association of the level of compliance with corporate characteristics four firm-specific independent variables were identified. They are goodwill intensity, size, leverage and profitability.

Goodwill intensity GI_{yt} for firm *y* in year *t* is calculated as a ratio of goodwill $GW_{yt}$of firm *y* in year *t* to total assets $TA_{yt}$for firm *y* in year *t* as prescribed by Bepari et al (2011).

$$GI_{yt} = \frac{GW_{yt}}{TA_{yt}} \qquad (4)$$

Size for firm *y* in year *t* is calculated as absolute value of total assets for firm *y* in year *t* as supported by Ballas & Tzovas (2010); Morris, Voronina, & Gray (2006);

$$Size_{yt} = TA_{yt} \qquad (5)$$

Leverage L_{yt} for firm *y* in year *t* is calculated as a ratio of total liabilities TL_{yt} of firm *y* in year *t* to total assets TA_{yt} for firm *y* in year *t* as supported by Malone, Fries, & Jones (1993) and Naser, Alkhatib, & Karbhar (2002)

$$L_{yt} = \frac{TL_{yt}}{TA_{yt}} \qquad (6)$$

Profitability P_{yt} for firm *y* in year *t* is calculated as a ratio of net profit NP_{yt} of firm *y* in year *t* to total assets TA_{yt} for firm *y* in year *t* as supported by Owusu-Ansah (2005) and Camfferman & Cooke (2002);

$$P_{yt} = \frac{NP_{yt}}{TA_{yt}} \qquad (7)$$

3.2.3 Method to identify whether there was a change in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009 (research question one).

- **Was there a change in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009?**

This study used IBM SPSS Statistics 20 software to address research questions. In order to examine the differences in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009 the present study employs non-parametric Wilcoxon test. Ho (2006) notes that this test is appropriate when there is a violation of the normality assumption. Coakes & Steed (2003) recommend using Shapiro-Wilks test to check normality of data distribution when the sample size is less than one hundred. Given that size for Russian and Kazakhstan samples is less than one hundred, Shapiro-Wilks test was employed to assess the normality of sampling distributions. Descriptive statistics for Russian and Kazakhstan samples and Shapiro-Wilks test results are presented below.

Table 11 Descriptive statistics of compliance scores for Russian and Kazakhstan firms

	Number	Mean	Standard deviation	Min	Max
Russian firms compliance score 2007	37	0.5714	0.3855	0	1
Russian firms compliance score 2008	37	0.77	0.2609	0	1
Russian firms compliance score 2009	37	0.6841	0.2652	0	1
Kazakhstan firms compliance score 2007	17	0.3876	0.3086	0	1
Kazakhstan firms compliance score 2008	17	0.5082	0.3303	0	1
Kazakhstan firms compliance score 2009	17	0.6253	0.3261	0	1

Descriptive statistics show that that the mean of compliance scores for Russian and Kazakhstan firms increased from 2007 to 2009. It can be noted that while mean of Russian firms compliance scores increased in 2008 and declined in 2009, mean of Kazakhstan firms was steadily rising over 2007-2009. This may indicate that Russian firms' compliance was more volatile than compliance by Kazakhstan firms over the research period. Also, standard deviations for Russian firms show that the distribution of compliance scores was less clustered in 2007 compared to 2008-2009. The spread of distribution of compliance scores by Kazakhstan firms remained relatively stable over 2007-2009.

Table 12 Shapiro-Wilks test results for Russian and Kazakhstan firms

		P value
Russian firms compliance score	2007	0.000***
Russian firms compliance score	2008	0.000***
Russian firms compliance score	2009	0.001***
Kazakhstan firms compliance score	2007	0.017**
Kazakhstan firms compliance score	2008	0.048**
Kazakhstan firms compliance score	2009	0.009***

*Denotes significance at 10 percent level; ** significance at 5 percent level; *** significance at 1 percent level

A Shapiro- Wilks test revealed that p values of distributions of compliance scores for Russian and Kazakhstan firms over 2007-2008-2009 are less than 0.05 and hence significant. Therefore, it can be concluded that these distributions are not normal. This study also used a visual approach to assess the normality of sampling. The histograms (see Appendix 3) also indicated non-normality of sampling distributions for Russian and

Kazakhstan firms over 2007-2008-2009. Since normality assumption was not met, non-parametric Wilcoxon Signed Rank test was employed to assess whether there was a change in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009.

3.2.4 Method to identify whether there was a difference in the level of compliance between Russian and Kazakhstan firms during 2007-2008-2009 (research question two)

- **Was there a difference in the level of compliance between Russian and Kazakhstan firms during 2007-2008-2009?**

In order to examine the differences in the level of compliance between Russian and Kazakhstan firms over 2007-2008-2009 the present study employs non-parametric Mann-Whitney U test. Hart (2001) suggests that this test as an alternative to t test when the data distribution is not normal. This consideration is important because (as shown above) distributions in both samples are not normal. Also Ho (2006) notes that Mann-Whitney U test is appropriate for two independent samples where the measurement of data is ordinal. As data in the research sample satisfies the above mentioned criteria, Mann-Whitney U test was employed to address research question two.

3.2.5 Method to identify whether there was an association of the level of compliance by Russian and Kazakhstan firms with firm-specific factors in 2007-2008-2009 (research question three).

- **Was there an association of the level of compliance by Russian and Kazakhstan firms with firm specific factors in 2007-2008-2009?**

The present study uses Spearman Rank Order Correlation Coefficient (Spearman's *rho*) to examine whether there was an association of the level of compliance with firm-specific factors such as firm size, profitability, goodwill intensity and leverage. Spearman's *rho* indicates the strength and the direction of the association between two variables. Bryman & Cramer (2001) noted that Pearson Product Moment Correlation

Coefficient (Pearson's *r*) is strongly affected by non-linearity of data. Spearman's *rho* however allows reducing this distortion by ranking the scores and applying formula to the ranks rather than to the actual values of scores. Therefore, Spearman's *rho* can be used to measure monotonic relationships. In order to check whether linearity assumption was met this study used a visual approach. The scatter plots (see Appendix 4) indicated a non-linear relationship of the level of compliance with firm size, profitability, goodwill intensity and leverage ratio for Russian and Kazakhstan firms in each year over 2007-2008-2009. For this reason non-parametric Spearman Rank Order Correlation Coefficient was employed to address research question three. Descriptive statistics for four firm-specific variables for Russian and Kazakhstan firms are presented below.

Table 13 Descriptive statistics for Russian firm-specific variables

	Number	Mean	Standard deviation	Min	Max
Russian firm GW intensity 2007	37	0.0458	0.07192	0	0.38
Russian firm GW intensity 2008	37	0.0413	0.06339	0	0.34
Russian firm GW intensity 2009	37	0.0419	0.06327	0	0.29
Russian firm size 2007	37	461.22	1,383.72	1.36	6,792.56
Russian firm size 2008	37	571.44	1,663.10	2.54	7,168.57
Russian firm size 2009	37	609.84	1,832.50	2.69	8,363.22
Russian firm leverage 2007	37	0.5389	0.17933	0.24	0.9
Russian firm leverage 2008	37	0.6295	0.27227	0.23	1.7
Russian firm leverage 2009	37	0.6403	0.43296	0.2	2.84
Russian firm profitability 2007	37	0.0765	0.06469	-0.03	0.21
Russian firm profitability 2008	37	-0.0019	0.32598	-1.81	0.35
Russian firm profitability 2009	37	0.0424	0.15468	-0.65	0.39

Note: Russian firm size expressed in billion Ruble

Abbreviation: GW stands for Goodwill.

Table 14 Descriptive statistics for Kazakhstan firm-specific variables

	Number	Mean	Standard deviation	Min	Max
Kazakhstan firm GW intensity 2007	17	0.0235	0.03856	0	0.15
Kazakhstan firm GW intensity 2008	17	0.0147	0.01875	0	0.06
Kazakhstan firm GW intensity 2009	17	0.0312	0.07889	0	0.33
Kazakhstan firm size 2007	17	1,102.18	1,614.32	1.73	5,113.29
Kazakhstan firm size 2008	17	1,280.67	2,084.61	1.64	7,672.85
Kazakhstan firm size 2009	17	1,548.84	2,815.36	1.66	11,061.57
Kazakhstan firm leverage 2007	17	0.5747	0.26024	0.07	0.9
Kazakhstan firm leverage 2008	17	0.5906	0.29078	0.17	1.34
Kazakhstan firm leverage 2009	17	0.6665	0.37378	0.17	1.86
Kazakhstan firm profitability 2007	17	0.0547	0.04849	0	0.19
Kazakhstan firm profitability 2008	17	-0.0035	0.18858	-0.54	0.27
Kazakhstan firm profitability 2009	17	-0.0376	0.1523	-0.58	0.11

Note: Kazakhstan firm size in billion Tenge;

Abbreviation: GW stands for Goodwill.

Standard deviations show that dispersion of Russian firms' goodwill intensity variable was greater than that of Kazakhstan firms. In light of evidence provided by Bepari et al (2011) it is possible that there exists a relationship of Russian firm goodwill intensity with the level of compliance. Also, the increasing trends in firm size over three years in both countries may indicate that the level of change in compliance over the period may have an association with firm size. Descriptive statistics show that the means of profitability in both countries are volatile. In Russia the mean decreased from positive in 2007 to negative in 2008 and back to positive in 2009. In Kazakhstan profitability variable changed from positive in 2007 to negative in 2008-2009. The mean of leverage variable increased for Russian and Kazakhstan firms over 2007-2009. It appears that firms in these countries were steadily increasing their borrowings.

Chapter four

Results and Discussion

4.1 Discussion on the changes in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009 (research question one)

The purpose of the research question one (1) was to determine whether there was a change in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009. Table 15 provides results of statistical tests.

Table 15 Wilcoxon Signed Rank test results on the statistical significance of the changes in the level of compliance by Russian and Kazakhstan firms over 2007-2008-2009

Compared periods	# of positive ranks	# of negative ranks	p value
Russian scores 2008-Russian scores 2007	16	4	0.004***
Russian scores 2009-Russian scores 2008	2	12	0.003***
Russian scores 2009-Russian scores 2007	14	9	0.071*
Kazakhstan scores 2008-Kazakhstan scores 2007	6	2	0.158
Kazakhstan scores 2009-Kazakhstan scores 2008	4	1	0.078*
Kazakhstan scores 2009-Kazakhstan scores 2007	10	1	0.026**

*Denotes significance at 10 percent level; ** significance at 5 percent level; *** significance at 1 percent level

stands for "number"

The results of Wilcoxon Signed Rank test show that p values are statistically significant for Russian firms in 2007-2008 and 2008-2009 at 1 percent level of significance; and marginally significant in 2007-2009 at 10 percent level of significance. Therefore this study rejects null hypothesis and accepts the alternative that there was a difference in the level of compliance by Russian firms in 2007-2008; 2008-2009 and 2007-2009. The number of positive and negative ranks shows that the level of compliance by Russian firms increased in 2007-2008; decreased in 2008-2009 and increased in 2007-2009.

The results of Wilcoxon Signed Rank test show that p value is not statistically significant for Kazakhstan firms in 2007-2008; marginally significant in 2008-2009 at 10 percent level of significance and statistically significant in 2007-2009 at 5 percent level of significance. Therefore this study accepts null hypothesis for 2007-2008 and concludes that there was not a difference in the level of compliance by Kazakhstan

firms in 2007-2008. However, this study rejects null hypotheses for 2008-2009 and for 2007-2009 thereby accepts the alternative that there was a difference in the level of compliance in 2008-2009 and in 2007-2009. The number of positive and negative ranks shows that the level of compliance by Kazakhstan firms increased in 2008-2009 and in 2007-2009.

The results suggest that in Russia and Kazakhstan the trend in compliance with IAS 36 over the longer time horizon was positive. In both countries the level of compliance increased over 2007-2009. These findings are consistent with those by Bepari et al. (2011) who found a positive trend in the level of compliance by firms in Australia. An improvement in compliance over time was also observed by exploratory studies by Carlin & Finch (2010b) in Australia and by Carlin, Finch, & Khairi (2010) in Singapore.

It can be argued that the difficulties associated with the implementation of a new accounting standard were increasingly addressed as managers were gaining expertise over time. However, it does not explain a decline in compliance that occurred between 2008 and 2009 in Russia. In order to investigate this issue an insight into Russian firms' compliance with disclosure requirements for growth and discount rates is needed. Tables 16-18 present information on disclosure of growth and discount rates by firms in Russia.

Table 16 Russian firms' compliance with the requirement to disclose growth rates

Disclosure of growth rates								
# of compliant firms			# of non-compliant firms			% of compliant firms		
2007	2008	2009	2007	2008	2009	2007	2008	2009
19	24	21	18	13	16	51.4	64.9	56.8

Table 17 Russian firms' compliance with the requirement to disclose discount rates

Disclosure of discount rates								
# of compliant firms			# of non-compliant firms			% of compliant firms		
2007	2008	2009	2007	2008	2009	2007	2008	2009
24	33	29	13	4	8	64.9	89.2	78.4

Table 18 Appropriateness of disclosed discount rates by Russian firms

# of firms with discount rates higher than independent rates			# of firms with discount rates lower than independent rates			Percentage of firms with rates higher than independent rates		
2007	2008	2009	2007	2008	2009	2007	2008	2009
16	28	16	8	5	13	43.2	75.7	43.2

An analysis of compliance scores shows that the percentage of Russian firms that were compliant with the requirement to disclose growth rates declined by 8.1% (64.9% - 56.8%) from 2008 to 2009. The percentage of firms that were compliant with the requirement to disclose discount rates declined by 10.8% (89.2% - 78.4) from 2008 to 2009. The percentage of Russian firms that used discount rates greater than those independently generated ones dropped by 32.5% (75.7% - 43.2%) from 2008 to 2009. It is worth noting that interest rates for the Government bonds increased by 2.7% in 2009 (see chapter 3.2.1.1). However the examination of annual reports of Russian firms showed that the change was not accounted for by 21 firms out of 37 in the calculation of discount rates applied to future cash flows. One interpretation is that it was a lack of qualified accountants that led to the increase of market interest rates being overlooked. But this explanation may be less persuasive given that Russian firms which prepare IFRS-compliant reporting are well-resourced companies whose reports were audited by the Big-4 audit firms. In light of this another interpretation may be preferred pointing to the existence of patches of resistance on the part of managers in Russia and Kazakhstan. It is possible that managers revised their estimates to achieve desirable outcomes. This inference is consistent with findings by Carlin & Finch (2010b), Carlin et al. (2009), Carlin, Finch, & Khairi (2010) and Carlin, Finch, & Tran (2010) who found poor level of compliance in various countries. For example, 39% of Malaysian firms did not disclose discount rates (Carlin et al., 2009); 55% and 67% of firms in Singapore and Hong Kong respectively were not compliant with a requirement to disclose growth rates (Carlin, Finch, & Khairi, 2010; Carlin, Finch, & Tran, 2010). It appears that some Russian managers were reluctant to comply and used substantial discretion available in IAS 36 opportunistically. Previous research (Ball, 2006; Wines et al., 2007) argued that evaluation of future cash flows (which requires estimation of discount and growth rates) is subject to sizeable uncertainty and therefore accounting numbers may be manipulated.

Signs of an unwillingness to disclose growth and discount rates and use appropriate discount rates were also observed among firms in Kazakhstan which may provide

insights into the possible reasons for the level of compliance by Kazakhstan firms between the years 2007-2008. Tables 19-21 present information on Kazakhstan firms' compliance with disclosures of growth and discount rates.

Table 19 Kazakhstan firms compliance with the requirement to disclose growth rates

# of compliant firms			# of non-compliant firms			% of compliant firms		
2007	2008	2009	2007	2008	2009	2007	2008	2009
2	1	4	15	16	13	11.8	5.9	23.5

Table 20 Kazakhstan firms compliance with the requirement to disclose discount rates

# of compliant firms			# of non-compliant firms			% of compliant firms		
2007	2008	2009	2007	2008	2009	2007	2008	2009
7	8	11	10	9	6	41.2	47.1	64.7

Table 21 Appropriateness of disclosed discount rates by Kazakhstan firms

# of firms with discount rates higher than independent rates			# of firms with discount rates lower than independent rates			Percentage of firms with rates higher than independent rates		
2007	2008	2009	2007	2008	2009	2007	2008	2009
3	6	9	4	2	2	17.6	35.3	52.9

It can be noted that the level of compliance with disclosure of growth and discount rates by Kazakhstan firms improved over 2007-2009. However, the percentage of compliant firms remained somewhat low by 2009. For example, only 23.5% of Kazakhstan firms disclosed growth rates, 64.7% disclosed discount rates and 52.9% used discount rates that were greater than appropriate ones in 2009. These obvious breaches of explicitly prescribed IAS 36 requirements may suggest that although the level of compliance was improving, the signs of resistance to comply can be observed in accounting practices of Kazakhstan firms.

It is worth noting that 35 out of 37 and 13 out of 17 firms in Russia and Kazakhstan respectively were audited by the Big-4 audit firms. However, careful study of the annual reports of the companies in both countries over the period evaluation found that none of the Russian and Kazakhstan firms that did not comply with IAS 36 disclosure requirements received any sort of audit qualification during 2007-2009. This is consistent with findings in Australia where obvious breaches of IAS 36 did not result in formal statements by audit firms (Carlin & Finch, 2010b). In light of the above it

appears that there is a lack of monitoring and enforcement of the transparency of financial reporting on the part of regulators in Russia and Kazakhstan which seems to partly explain the lower level of compliance for 2008-2009 in Russia and 2007-2008 in Kazakhstan.

In summary, the findings above indicate that the overall level of compliance by Russian and Kazakhstan firms has improved over 2007-2009. However, the proportion of firms that exhibited a high level of compliance was somewhat low in both countries. It appears that unwillingness to comply was present in accounting choices made by Russian and Kazakhstan managers. This is consistent with findings by previous research that revealed non-compliance patterns in various countries (Carlin & Finch, 2010b; Carlin, Finch, & Khairi, 2010; Carlin et al., 2009; Carlin, Finch, & Tran, 2010). Such a state of compliance may suggest inefficient enforcement of transparency of financial reporting in Russia and Kazakhstan.

4.2 Discussion on the differences in the level of compliance between Russian and Kazakhstan firms over 2007-2008-2009 (research question two)

The purpose of this research question was to determine whether there was a difference in the level of compliance between Russian and Kazakhstan firms over 2007-2008-2009. Table 22 presents results of statistical tests.

Table 22 Mann-Whitney U test results on the statistical significance of the difference in the level of compliance between Russian and Kazakhstan firms over 2007-2008-2009

Pairs	Mean rank Russia	Mean rank Kazakhstan	p value
Russian firms 2007-Kazakhstan firms 2007	30.35	21.29	0.045**
Russian firms 2008-Kazakhstan firms 2008	31.51	18.76	0.005***
Russian firms 2009- Kazakhstan firms 2009	28.12	26.15	0.66

*Denotes significance at 10 percent level; ** significance at 5 percent level; *** significance at 1 percent level

The results of Mann-Whitney U test show that p values are statistically significant for 2007 at 5 percent level and 2008 at 1 percent level, but not significant for 2009.

Therefore this study rejects null hypothesis and accepts the alternative that there was a difference in the level of compliance between Russian and Kazakhstan firms in 2007 and 2008. However, this study does not reject null hypothesis for 2009 and concludes that there was not a difference in the level of compliance between Russian and Kazakhstan firms in 2009. The average rank of Russian firms was higher than that of Kazakhstan firms in 2007 and 2008 which indicates that the level of compliance by Russian firms tended to be higher than that of Kazakhstan firms in those years. Since this difference was found in two out of three years it can be argued that Russian firms tend to exhibit a higher level of compliance than Kazakhstan firms.

The present study suggests that the difference in the level of compliance between Russian and Kazakhstan firms can be explained by divergent approaches to IFRS adoption. It appears that voluntary approach to IFRS-compliant reporting in Russia may have produced a higher level of compliance compared to the one under mandatory IFRS regime in Kazakhstan. Tyrrall et al. (2007) noted that in Kazakhstan, the demand for high quality IFRS-compliant reporting was high from firms that raise or borrow money on overseas markets. The authors observed that the number of these firms awaiting such funds however was limited in the country. However, under compulsory IFRS regime all publicly listed firms were obligated to prepare financial reports under IFRS rules. Given the insufficiently developed capital market in Kazakhstan (Tyrrall et al., 2007) it is difficult to expect a high level of compliance from firms who operate domestically and do not raise or borrow money in overseas markets. This factor appears to have affected the overall level of compliance by Kazakhstan firms. It can be noted that the capital market in Russia was also in the developing stage (McGee & Preobragenskaya, 2005). However, since IFRS reporting was optional in the country, firms that voluntarily prepared IFRS compliant reports had incentives to do so and therefore their financial statements were more likely to be compliant with IFRS rules. Given these considerations it is reasonable to suggest that the difference in the level of compliance between firms in Russia and Kazakhstan can be accredited to the different IFRS reporting regimes in these countries. Another factor that appears to contribute to the difference in the level of compliance in favor of Russian firms is that the majority of Russian firms had, on average, higher goodwill intensity compared to Kazakhstan firms. A study by Bepari et al. (2011) revealed that Australian firms with higher goodwill intensity tended to show a greater level of compliance with IAS 36. It is possible that

higher goodwill intensity of Russian firms motivated managers to rigorously test goodwill for impairment and consequently provide more transparent disclosure.

4.3 Discussion on the association of the level of compliance by Russian and Kazakhstan firms with firm-specific factors over 2007-2008-2009 (research question three)

The purpose of the research question three (3) was to determine whether there was an association of the level of compliance by Russian and Kazakhstan firms with firm-specific factors in 2007-2008-2009. A Spearman Rank Order Correlation Coefficient was employed to address this question. The value and sign of Spearman rho would indicate the strength and direction of the association. p value would be used to identify statistical significance of the association.The tables below present results of statistical tests.

Table 23 Correlation of the level of compliance by Russian firms with firm-specific factors

Russian firms	GI	Size	Leverage	Profitability
2007 Spearman rho	0.429 (0.008***)	-0.163 (0.334)	-0.271 (0.105)	0.395 (0.016**)
2008 Spearman rho	0.327 (0.048**)	-0.129 (0.445)	-0.080 (0.637)	-0.049 (0.774)
2009 Spearman rho	0.426 (0.009***)	-0.091 (0.592)	0.126 (0.459)	-0.191 (0.258)

Note: GI stands for Goodwill Intensity; numbers in parenthesis represent p values.

*Denotes significance at 10 percent level; ** significance at 5 percent level; *** significance at 1 percent level

Table 24 Correlation of the level of compliance by Kazakhstan firms with firm-specific factors

Kazakhstan firms	GI	Size	Leverage	Profitability
2007 Spearman rho	-0.140 (0.593)	0.439 (0.078*)	0.270 (0.295)	-0.199 (0.443)
2008 Spearman rho	0.150 (0.565)	0.266 (0.302)	0.327 (0.201)	-0.173 (0.506)
2009 Spearman rho	-0.200 (0.441)	0.572 (0.016**)	0.213 (0.411)	0.130 (0.620)

Note: GI stands for Goodwill Intensity; numbers in parenthesis represent p values.

*Denotes significance at 10 percent level; ** significance at 5 percent level; *** significance at 1 percent level

4.3.1 Association of the level of compliance by Russian and Kazakhstan firms with firm goodwill intensity over 2007-2008-2009.

A Spearman Rank Order Correlation Coefficient did not reveal a statistically significant association of the level of compliance by Kazakhstan firms with goodwill intensity in 2007 (p=0.593), 2008 (p=0.565) and in 2009 (p=0.441). However, the test showed existence of statistically significant positive association of the level of compliance by Russian firms with goodwill intensity in 2007 (p=0.008), 2008 (p=0.048) and in 2009 (p=0.009). The values and signs of Spearman rho indicate that the strength of the associations was moderate and directions were positive in each year of 2007-2009 for Russian firms. It can be noted that Bepari et al., (2011) found that during the global financial crisis period the association of the level of compliance by Australian firms with firm goodwill intensity was significant, though significance was not confirmed during the pre-crisis period. Having considered this, the present study notes that results of the tests suggest that goodwill intensity may be a factor that affects Russian managers' motivation in rigorous testing of goodwill and disclosure of testing information.

However, the level of compliance by Kazakhstan firms did not relate to firm goodwill intensity. As mentioned in the data collection section the variation of goodwill intensity among Kazakhstan firms was somewhat insignificant. This may explain why the level of compliance by Kazakhstan firms was not associated with firm goodwill intensity.

4.3.2 Association of the level of compliance by Russian and Kazakhstan firms with firm size over 2007-2008-2009.

A Spearman Rank Order Correlation Coefficient did not identify a statistically significant association of the level of compliance by firms in Russia with firm size in 2007 (p=0.334); 2008 (p=0.445) and in 2009 (p=0.592). However, tests revealed that this association was marginally positively significant in 2007 (p=0.078), not significant in 2008 (p=0.302) and positively significant in 2009 (p=0.016) for firms in Kazakhstan. Consequently, the findings confirmed that the increase in the level of compliance by Kazakhstan firms was positively associated with the increase in firm size in 2007 and 2009. The values and signs of Spearman rho indicate that the strength of the associations for Kazakhstan firms in 2007 and 2009 was moderate and direction of the association was positive in those years.

The statistical tests show that in two out of three years the level of compliance by Kazakhstan firms was associated with firm size which indicates that the firm size maybe an influential factor on the level of compliance of Kazakhstan firms.

4.3.3 Association of the level of compliance by Russian and Kazakhstan firms with firm leverage ratio over 2007-2008-2009.

Test results reported in Tables 23-24 reveal that the association of the level of compliance by Russian firms with firm leverage ratio was not statistically significant in 2007 (p=0.105); 2008 (p=0.637) and 2009 (p=0.459). Also, this association was not significant for Kazakhstan firms in 2007 (p=0.295); 2008 (p=0.201) and 2009 (p=0.411). Consequently, it can be concluded that there was no association of the level of compliance by Russian and Kazakhstan firms with firm leverage ratio over 2007-2008-2009. The results do not support the prediction that highly leveraged firms would be more compliant than firms with a lower leverage ratio. It appears that the purported increase in monitoring of highly leveraged firms was not perceived as significant by Russian and Kazakhstan managers and therefore had little influence on the level of compliance. Particularly it is evident in accounting practices of Russian firms where Spearman rho indicated negative direction in two out of three years.

4.3.4 Association of the level of compliance by Russian and Kazakhstan firms with firm profitability over 2007-2008-2009.

Tests results reveal a statistically significant positive association of the level of compliance by Russian firms with firm profitability in 2007 (p=0.016). However, the association of the level of compliance with firm profitability in 2008 (p=0.774) and 2009 (p=0.258) was not statistically significant for Russian firms. This association was not significant for Kazakhstan firms in 2007 (p=0.443), 2008 (p=0.506) and 2009 (p=0.62). It can be concluded that results do not generally support a prediction that more profitable firms would be more compliant than less profitable ones. In fact, a statistically significant association of the level of compliance with firm profitability was found only in one year out of three for Russian firms and in none of the years for Kazakhstan firms. It is possible that previous accounting system where tax rules had links with financial accounting (McGee & Preobragenskaya, 2005) influenced accounting behavior of Russian and Kazakhstan managers. Morris et al. (2006) noted that the view remained among managers in Russia that the state was a primary user of accounting information. Perhaps, the risk of potential tax consequences may explain why the association of the level of compliance by Russian and Kazakhstan firms with firm profitability was insignificant. The signs of Spearman rho indirectly support this suggestion; in both countries in two out of three years the signs were negative.

Chapter five

Conclusion

This paper investigated whether the level of compliance by Russian and Kazakhstan firms changed over 2007-2008-2009; and whether there was a difference in the level of compliance between Russian and Kazakhstan firms over the same period. The present study also examined the association of the level of compliance by firms in Russia and Kazakhstan with firm-specific factors over 2007-2008-2009. A Wilcoxon signed rank test was employed to assess the changes in the compliance level over the research period; a Mann-Whitney U test was used to determine statistical significance of the difference in the level of compliance between firms in Russia and Kazakhstan. A Spearman Rank Order Correlation Coefficient was employed to examine the association of the level of compliance by Russian and Kazakhstan firms with firm-specific factors.

This study provides evidence that the level of compliance with IAS 36 increased over 2007-2009 in Russia and Kazakhstan. However, despite the fact that the level of compliance with IAS 36 improved over time, the signs of resistance to comply were observed in countries researched. Particularly non-compliance patterns were evident in disclosure of growth and discount rates. These deviations from required practices indicate a lack of enforcement on the part of regulators in these countries. The above results are consistent with findings by previous research in Australia, Hong Kong, Malaysia and Singapore (Bepari et al., 2011; Carlin & Finch, 2010b; Carlin, Finch, & Khairi, 2010; Carlin et al., 2009; Carlin, Finch, & Tran, 2010).

The present study also identified a difference in the level of compliance between Russian and Kazakhstan firms in two out of three years. It appears that the higher level of compliance by Russian firms compared to the level of compliance by Kazakhstan firms may be attributed to contrasting approaches to IFRS adoption. While Russia opted for a gradual adoption strategy, Kazakhstan chose a rapid approach to the adoption of international accounting standards.

Examination of the association of the level of compliance by Russian and Kazakhstan firms with firm-specific factors revealed a positive association of the level of compliance by Russian firms with goodwill intensity in each year of 2007-2009. Also this study provided evidence that the level of compliance by Kazakhstan firms was

positively associated with firm size in two out of the three years. The tests results did not reveal significant associations of the level of compliance by Russian and Kazakhstan firms with leverage and profitability in each year of the 2007-2009 except the year 2007 in which the level of compliance by Russian firms was significantly associated with firm size.

The present study's findings have several implications. First, the paper provides evidence that the level of compliance with IAS 36 in Russia and Kazakhstan improved over time. However, the study's findings indicate the existence of a partial compliance problem which may require greater attention of policy makers in Russia and Kazakhstan. Second, this study's findings on the association of the level of compliance with firm-specific factors can be helpful for regulators in addressing the problem of non-compliance. For example, regulators in Russia may give more scrutiny to firms with lower goodwill intensity and policy makers in Kazakhstan may consider the impact of firm size factor on the level of compliance. Third, the findings show that in a context of transitional economies a gradual approach to the adoption of IFRS in Russia appears to have produced a higher level of compliance, as compared to the compliance level under a rapid approach of IFRS adoption in Kazakhstan. This result provides food for thought for policy makers in other transitional countries that consider adoption of IFRS. Fourth, the present study extended the methodology by refining the measurement of firms' compliance scores. The appropriateness of discount rates was incorporated into the calculation of a total compliance score for a firm. This allowed a more granular assessment of the level of compliance with IAS 36. The scholars and analysts may find it useful when empirically investigating compliance with IAS 36.

The present study has several limitations. First, since IFRS were adopted in Kazakhstan in 2006 the research period is relatively short - covering only three years. Evidently, an examination of a longer period would allow making more robust conclusions. Future research may be interested in investigating compliance with IAS 36 over an extended period. Second, this study examined the association of the level of compliance with only four firm-specific variables. It may be fruitful to test the association of the level of compliance with a wider range of firm-specific factors. Third, the sample size of this research was relatively small. It is possible that the number of firms with goodwill in their asset base would increase in Russia and Kazakhstan over time. A research with a larger sample would provide an opportunity to increase statistical power of tests and achieve more conclusive results.

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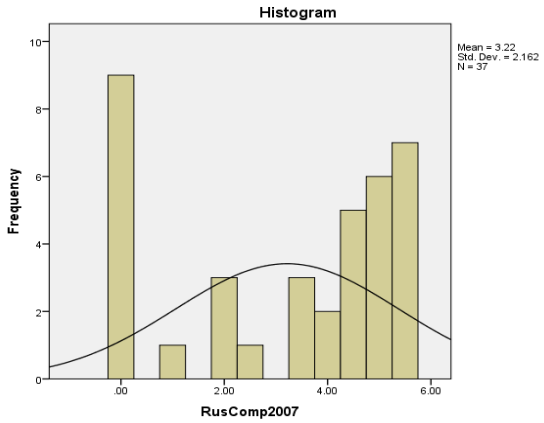
Appendix 1 List of Russian firms and reported currency

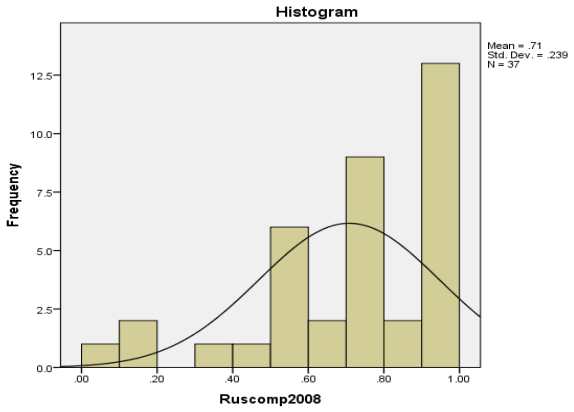
	Firm	Reported currency
1	Gasprom	Ruble
2	VSMPO	US Dollar
3	Akron	Ruble
4	Kuzbass Fuel	Ruble
5	Norilsk Nikel	US Dollar
6	SeverStal	US Dollar
7	UralKali	Ruble
8	ALROSA	Ruble
9	Dorogobuzh	Ruble
10	Chel Pipe	Ruble
11	Novoros,Mor,Port	US Dollar
12	OPIN	US Dollar
13	TMK	US Dollar
14	LSR	Ruble
15	Far eastern shippin	US Dollar
16	Baltika	Euro
17	RAZGULAY	Ruble
18	Rusgrain	Ruble
19	Sollers	Ruble
20	Kalina	Ruble
21	Pharmstandard	Ruble
22	Protek	Ruble
23	Dixi Group	Ruble
24	Kopeyka	Ruble
25	RosInter	Ruble
26	RBS	Ruble
27	Volga Telecom	Ruble
28	Sibir Telecom	Ruble
29	SEvZap Telecom	Ruble
30	Rostelecom	Ruble
31	Armada	Ruble
32	CenterTelecom	Ruble
33	DalSvyaz Tel	Ruble
34	RAO UES	Euro
35	Bank URalSib	Ruble
36	VTB	US Dollar
37	Sberbank	Ruble

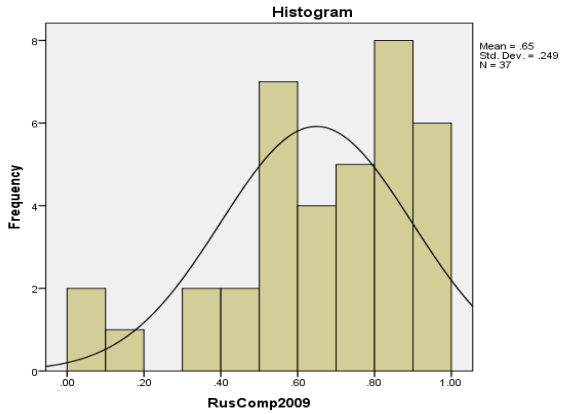
Appendix 2 List of Kazakhstan firms and reported currency

	Firm	Reported currency
1	KazMunayGas	US Dollar
2	Fond Samruk	Tenge
3	KazakMys	Tenge
4	EURASIAN N R C	US Dollar
5	KazKagazi	Tenge
6	SAT & Company	Tenge
7	Aeroport Almati	Tenge
8	RG Brands	Tenge
9	Prodcontract Corp	Tenge
10	Tema Co	Tenge
11	Resmi Group	Tenge
12	PavlodarEnergo	Tenge
13	CA Topl-Energ comp	Tenge
14	BTA Bank	Tenge
15	Astana Nedvizh	Tenge
16	KazCommerceBank	Tenge
17	Narod Sberbank	Tenge

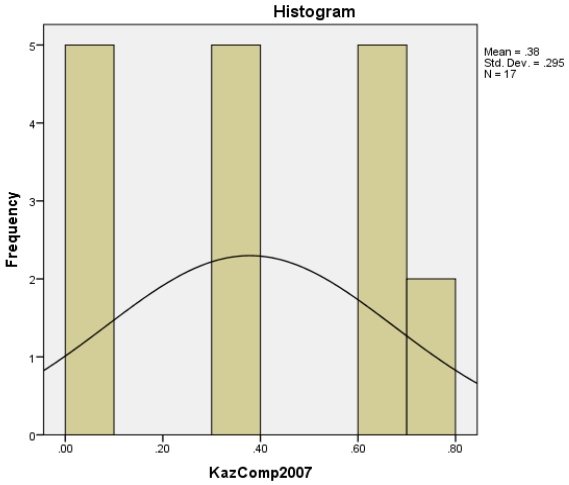
Appendix 3 Histograms of Russian firms compliance scores for 2007-2009

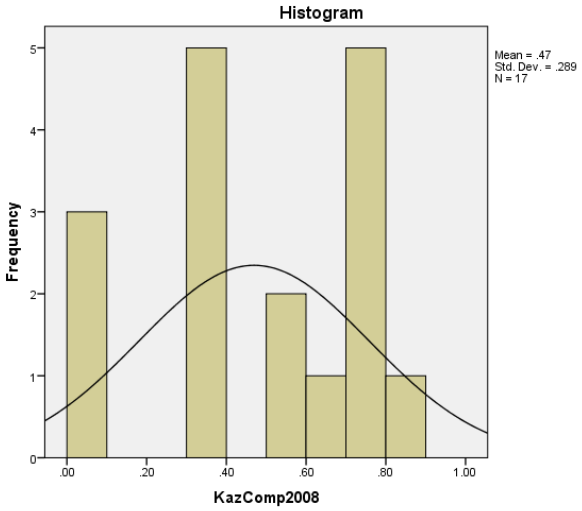


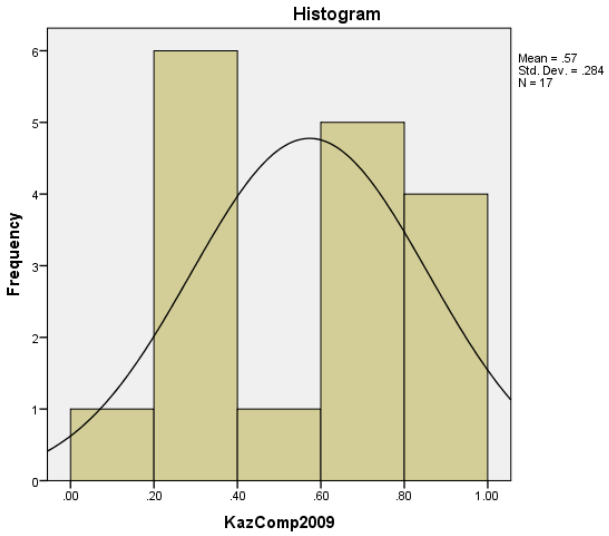




Appendix 4 Histograms of Kazakhstan firms compliance scores for 2007-2009

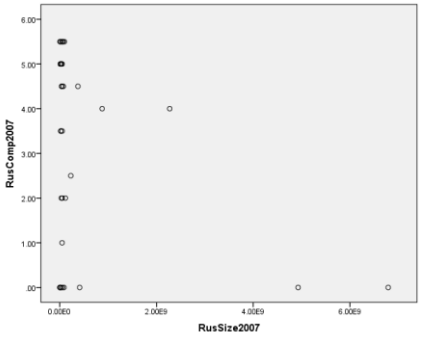


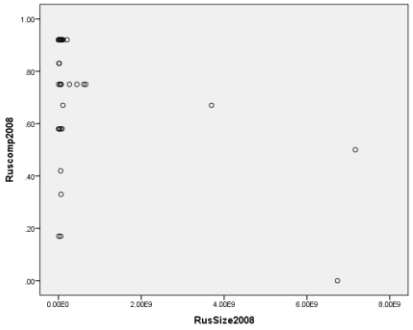


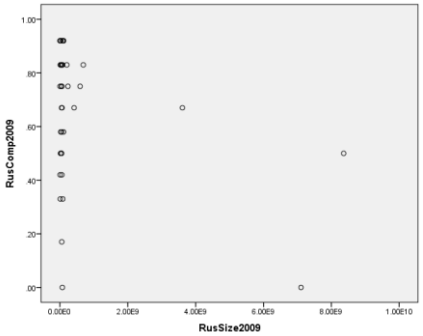


Appendix 5 Scatter plots for the association of the level of compliance by Russian and Kazakhstan firms with firm-specific factors

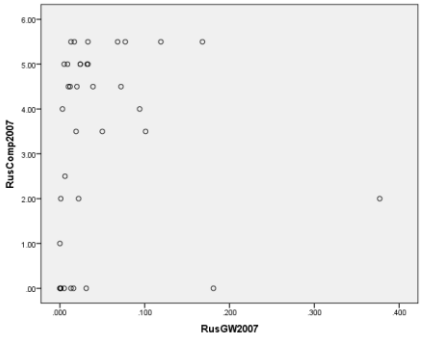
1. Scatter plots for the association of Russian firms compliance scores with firm size for 2007-2009

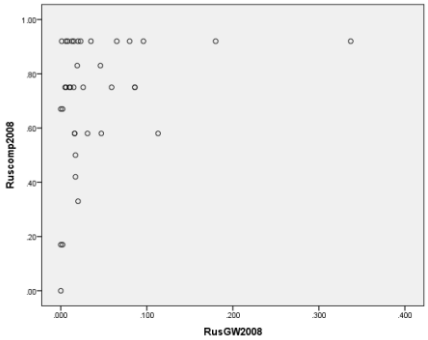


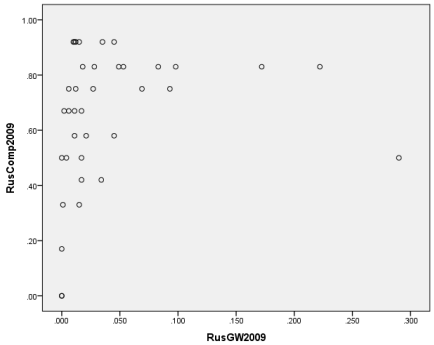




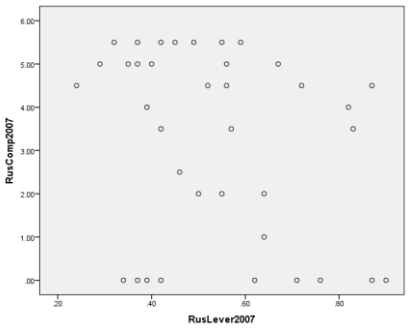
2. Scatter plots for the association of Russian firms compliance scores with firm goodwill intensity for 2007-2009

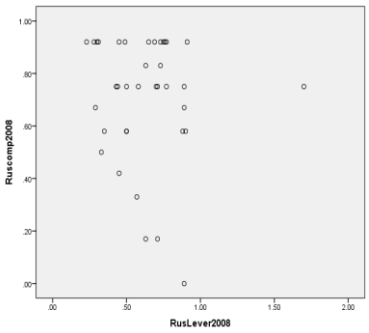


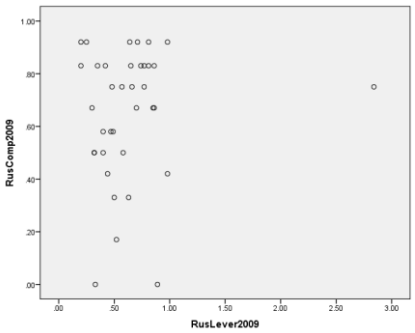




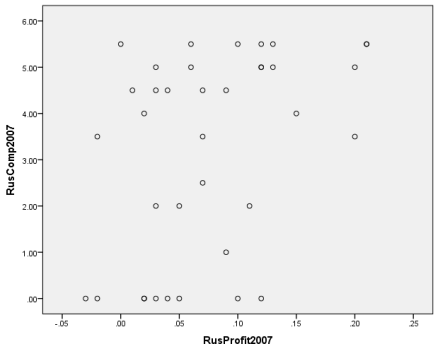
3. Scatter plots for the association of Russian firms compliance scores with firm leverage for 2007-2009

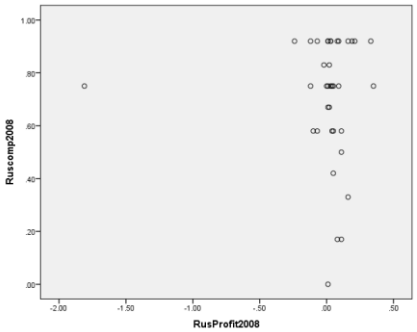


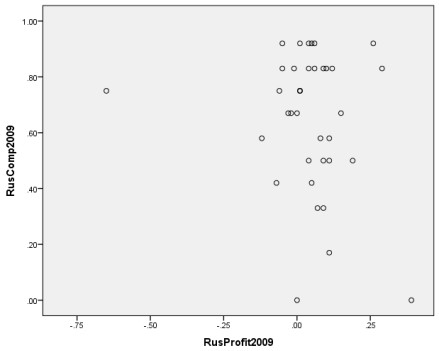




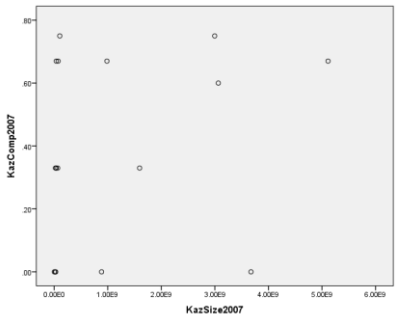
4. Scatter plots for the association of Russian firms compliance scores with firm profitability for 2007-2009

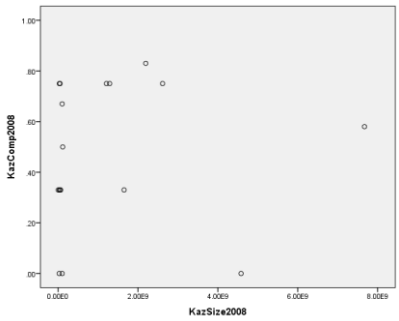


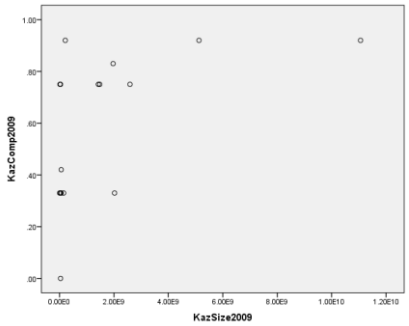




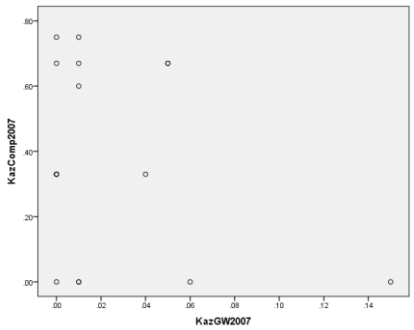
5. Scatter plots for the association of Kazakhstan firms compliance scores with firm size for 2007-2009

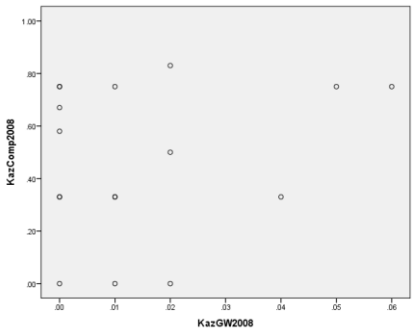


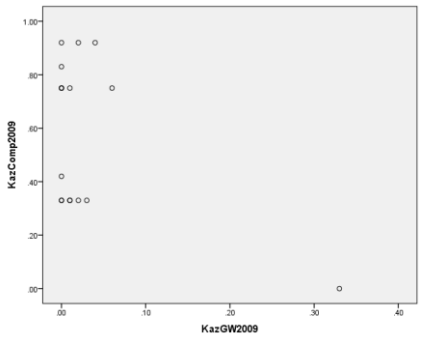




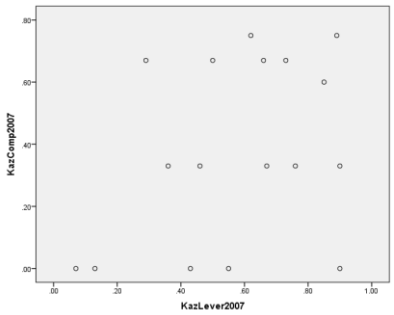
6. Scatter plots for the association of Kazakhstan firms compliance scores with firm goodwill intensity for 2007-2009

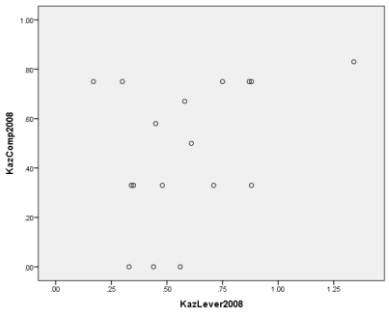


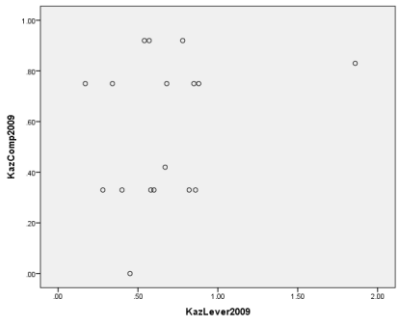




7. Scatter plots for the association of Kazakhstan firms compliance scores with firm leverage for 2007-2009







8. Scatter plots for the association of Kazakhstan firms compliance scores with firm profitability for 2007-2009