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Impact of the Transition to IFRS on Improving the Quality of Ac- counting Earnings: An Applied Study on a Sample of Iraqi Banks

Abstract

Purpose: This study analyzes the impact of transitioning to International Financial Reporting Standards (IFRS) on the quality of accounting earnings (AEQ) in the banking sector, focusing on commercial banks listed on the Iraq Stock Exchange (ISE).

Study design/methodology/approach: Correlation analysis and a multivariate linear regression model (OLS) are employed.

Sample and data: The study uses a panel dataset of 12 commercial banks listed and registered with the Central Bank of Iraq over a 12-year period—six years before and six years after the mandatory adoption of IFRS in 2016—yielding a total of 144 bank-year observations.

Results: Using accruals quality (measured by Jones' modified optional accruals) as a proxy for accounting earnings quality, the findings indicate that IFRS adoption significantly reduced earnings management practices ($\beta = -0.078, p < 0.05$), confirming its positive effect on accounting earnings quality.

Originality/value: This study contributes to the literature by examining IFRS adoption in an emerging economy context and underscores the need for continued regulatory reforms in Iraq to support effective implementation.

Research limitations/implications: The findings show that the IFRS implementation led to a reduction in discretionary accruals, thereby enhancing AEQ. Consequently, IFRS adoption can serve as a valuable tool for boosting investor confidence and improving investment decision-making. The study also highlights the essential role of regulatory authorities in ensuring successful implementation, which supports the sustainability of the financial system.

Keywords: IFRS, Accounting Earnings Quality (AEQ), Iraqi Banking Sector, Agency Theory, Institutional Theory.

JEL classification: M41

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الملخص

أثر التحول إلى المعايير الدولية لإعداد التقارير المالية في تحسين جودة الأرباح المحاسبية: دراسة تطبيقية على عينة من المصارف العراقية

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هدف الدراسة: تهدف هذه الدراسة إلى تحليل أثر التحول إلى معايير التقارير المالية الدولية على تحسين جودة الأرباح المحاسبية في القطاع المصرفي، من خلال التركيز على البنوك التجارية المدرجة في سوق العراق للأوراق المالية.

تصميم/ منهجية/ طريقة الدراسة: استُخدم تحليل الارتباط ونموذج الانحدار الخطي متعدد المتغيرات.

عينة الدراسة وبياناتها: استُعين بمجموعة بيانات لوحية لـ 12 بنكاً تجارياً مدرجاً ومسجلاً لدى البنك المركزي العراقي على مدى 12 عاماً، تغطي ست سنوات قبل التطبيق الإلزامي لمعايير التقارير المالية الدولية وبعده، لعام 2016 بإجمالي 144 ملاحظة (البنك - السنة).

نتائج الدراسة: باستخدام جودة الاستحقاقات (التي قيست من خلال الاستحقاقات الاختيارية المعدلة لجونز) مثلاً لجودة الأرباح المحاسبية، كشفت النتائج أن تبني المعايير الدولية لإعداد التقارير المالية أدى إلى تقليل ممارسات إدارة الأرباح بحجم كبير ($\beta = -0.078, p < 0.05$)، ما يؤكد دورها في تحسين جودة الأرباح المحاسبية.

أصالة الدراسة: تُسهم هذه الدراسة في إثراء الدراسات من خلال تطبيقها على الاقتصادات الناشئة، وتُعزز الحاجة إلى المزيد من الإصلاحات التنظيمية في العراق لدعم اعتماد المعايير الدولية لإعداد التقارير المالية.

حدود الدراسة وتطبيقاتها: كشفت نتائج الدراسة أن تطبيق المعايير الدولية لإعداد التقارير المالية، قد أدى إلى الانخفاض في الاستحقاقات التقديرية، ما يحسّن جودة الاستثمار؛ ونتيجةً لذلك يُمكن أن يكون اعتماد المعايير الدولية لإعداد التقارير المالية أداةً فعّالة لتعزيز ثقة المستثمرين وتحسين جودة قرارات الاستثمار، كما تُؤكد الدراسة على الدور المحوري للسلطات التنظيمية في ضمان التطبيق الناجح لهذه المعايير ما يُسهم في استدامة النظام المالي.

الكلمات المفتاحية: المعايير الدولية لإعداد التقارير المالية، جودة الأرباح المحاسبية، القطاع المصرفي العراقي، نظرية الوكالة، نظرية المؤسسة.

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Introduction

Recent decades have witnessed rapid and continuous changes in various fields, including the global accounting environment, with a remarkable transition towards the adoption of IFRS. This shift aims to harmonize financial markets and enhance transparency. The transition to IFRS seeks to improve the quality of financial reports and ensure their reliability, especially since these reports are prepared using a unified accounting language across different countries. IFRS is issued by the International Accounting Standards Board, which aims to establish uniform principles for financial reporting globally, thereby increasing disclosure and transparency (Ergun & Öztürk, 2013; Kamath & Desai, 2014; Sunder, 2016)—particularly in emerging markets that face significant challenges in this area (Oubahou et al., 2025). Among the main aspects affected by the adoption of IFRS, AEQ stands out as a key measure for understanding the effectiveness of these standards in reducing earnings management, as earnings. Earnings quality reflects the extent to which financial earnings provide a true picture of a company's reality and its ability to sustain operations in the future, making it a critical element of financial reporting (Mohamed, 2017).

Discretionary accruals are one of the major means of reflecting earnings management, as they indicate management's intervention in estimating earnings to influence financial results (Dechow & Dichev, 2002). In the absence of clear standards, discretionary accruals may distort the AEQ and reduce investor confidence in financial statements. Therefore, it becomes necessary to study the impact of IFRS adoption on reducing these accruals and improving AEQ. This study addresses that need by focusing on commercial banks listed on the Iraq Stock Exchange as a case study.

In this context, the study aims to examine the impact of IFRS conversion on improving AEQ in a sample of Iraqi commercial banks during the period from 2010 to 2021, covering six years before and six years after the mandatory adoption of IFRS in 2016. This study attempts to understand how IFRS adoption affects the level of discretionary accruals, using the modified Jones model as the primary measurement tool for AEQ. A theoretical framework combining agency theory and institutional theory is employed. The study also seeks to provide new insights into the institutional factors that may influence the effectiveness of these standards in emerging markets.

The importance of the study stems from several aspects: First, it focuses on a vital banking sector that plays a key role in the Iraqi economy. Second, it ad-

dresses a topic that is underexplored in local studies compared to international research, thereby contributing to the understanding of IFRS impacts across different organizational environments (Viana et al., 2022).

Our analysis is based on a dataset of 144 observations (bank*year) from 12 banks over the period 2010 to 2021. This study examines how IFRS adoption enhances the quality of financial information. Conclusions are drawn from correlation analysis and Ordinary Least Squares (OLS) regression. This research highlights the practical importance of IFRS adoption in shaping earnings management behavior. Policymakers and financial institutions should work to ensure proper application of IFRS to guarantee good quality financial information.

The remainder of the article is organized as follows. The first part presents a review of the relevant literature, including key theories such as agency theory and institutional theory, and introduces the study's hypothesis. The next part outlines the data and methodology, including the study design, research sample, and variable measurement. This is followed by a presentation and discussion of the results in relation to the study's objectives and existing literature. The article concludes with key insights and recommendations for commercial banks and supervisory authorities to enhance the application of international standards.

Literature Review and Theoretical Basis

This section describes the empirical studies that support the study's arguments, along with the theoretical foundation combining agency and institutional theory to examine the relationship between IFRS adoption and AEQ for commercial banks listed on the Iraq Stock Exchange, which is considered an emerging market.

Background on Iraq's Banking Sector

The Iraqi banking sector is a critical pillar of the Iraqi economy, functioning as a major tool for achieving economic stability. It represents the largest financial sector in the economy, accounting for most liquidity. Furthermore, it is the most prominent sector investing in the stock market and serves as a conduit for transmitting monetary policy, which has a substantial impact on economic growth rates, inflation control, and, ultimately, monetary and exchange rate stability. The banking sector underwent substantial reforms following the 2003 economic and political changes, most notably, the passage of legislation granting the central bank authority to execute and develop monetary policy, as well as the freedom to choose quantitative tools, thereby increasing its independence.

According to Central Bank Law No. 56 of 2004, the Bank's main objectives are to combat inflation and strengthen the value of the Iraqi dinar. Under the supervision of the Central Bank, the banking sector played an important role in achieving economic stability by addressing high inflation rates, stabilizing the exchange rate, maintaining stable interest rates, and ultimately increasing economic growth. As such, the Central Bank of Iraq plays a vital regulatory and supervisory role. In 2016, it mandated a shift from local accounting regulations and the Unified Accounting System for Banks to the adoption and implementation of International Financial Reporting Standards (IFRS) (Kateb, 2024).

Theoretical Basis

Agency Theory: Jensen and Meckling (1976) introduced agency theory, which identifies agency problems in listed companies—particularly the conflict arising from the separation between ownership and management. This separation can lead to a conflict of interest between managers and owners, giving managers who own a small share of the company an incentive to manage profits by manipulating discretionary accruals. It can also result in conflicts between controlling and non-controlling shareholders, potentially strengthening the position of executives and increasing incentives to manage earnings (Viana et al., 2022). The implementation of high-quality standards such as IFRS helps reduce these conflicts by restricting accounting choices (Kateb, 2024) and increasing the transparency of financial reporting (Viana et al., 2022).

Institutional Theory: Institutional theory has been widely applied in management literature (e.g., Campbell, 2007; Kolk et al., 2008), and is increasingly used in accounting research, particularly to understand how institutional environments affect global and organizational structures. Institutional theory explains how settings such as laws, norms, and values influence the behavior of organizations and individuals. It is considered an effective tool for evaluating the processes that shape social and economic systems and how actors respond to institutional forces. Scott (2001) developed a useful framework for examining how higher-level environments influence lower-level organizations. The theory operates across three levels of analysis:

- *Global and social institutions:* Where rules and standards are developed to guide what is acceptable and legitimate.
- *Governance structures and organizational fields:* Including industrial sectors and professions (e.g., banking and accountancy).

- *Individual organizations*: Which operate within these frameworks and are subject to institutional pressures.

The theory suggests that all actors seek legitimacy within their institutional environment, leading to isomorphism—where organizations adopt similar structures or practices due to three primary types of pressure (Scott, 2001):

- *Coercive pressures*: Arising from resource dependence or the need to comply with international standards (e.g., those set by the World Bank and IMF).
- *Mimetic pressures*: Involving imitation of successful or legitimate organizations (Judge et al., 2010), such as trading partners or neighboring countries.
- *Normative pressures*: Reflecting collective ideals and attitudes that influence behavior within institutions (e.g., professional specialization and education) (Judge et al., 2010).

In the context of IFRS implementation, institutional theory helps explain how coercive, mimetic, and normative pressures influence governments' decisions to adopt or reject these standards. The adoption of IFRS in Iraq reflects coercive regulatory pressure, as it was mandated by the Central Bank of Iraq—aligning with the theory's proposition that organizations seek legitimacy by conforming to authoritative institutions.

Empirical Literature Review and Hypotheses Development

Several accounting and finance studies have examined the impact of IFRS adoption on Accounting Earnings Quality (AEQ). These studies reveal three distinct trends in their findings:

The First Trend: Several studies (Al-Shattarat, 2021; Kateb, 2024; Leung, 2015; Pathirana & Jubb, 2018; Rahman et al., 2019) conducted in diverse accounting environments consistently report a positive relationship between IFRS adoption and improved AEQ. Leung (2015) indicated that this positive effect results from narrowing the alternatives for accounting manipulations when applying IFRS, which reduces management's discretion, thereby decreasing earnings management practices and improving AEQ. Moreover, Rahman et al. (2019) found that adopting IFRS improved the accuracy of financial experts' projections of future profitability. As a result, these studies have demonstrated the expected positive outcomes of adopting IFRS for AEQ. Similarly, Kateb (2024) highlighted that the transition of Gulf Cooperation Council (GCC) enterprises to IFRS significantly reduced the reporting lag

(RL) and increased financial report clarity, particularly for firms with high amounts of discretionary accruals (DACC). This finding underscores the importance of aligning earnings management practices with international standards to increase investor trust and reduce the risk of noncompliance in the GCC corporate environment.

The Second Trend: Presents conflicting findings from other studies (Abdul-Baki & Haniffa, 2020; Cameran et al., 2014; Capkun et al., 2016; Rathke et al., 2016), which argue that the adoption of IFRS has a negative influence on the quality of accounting earnings. This might be due to the complicated structure of IFRS, which provides management with greater flexibility in using professional judgment to interpret accounting treatments in ways that align with each company's specific circumstances. Such flexibility can lead to an increase in opportunistic earnings management practices. Capkun et al. (2016), in their analysis of 29 countries, found that the flexibility offered by IFRS modifications in 2005 led to an increase in earnings management practices, which had a negative effect on AEQ. This finding contradicts the expected positive impact of IFRS implementation on AEQ.

While the Third Trend presents findings from several research studies (Al Faran, 2024; Campa & Donnelly, 2016; Watrin et al., 2012) that suggest no significant impact of adopting IFRS on improving AEQ. However, this influence is dependent on the efficacy of the implementation methods (Masum & Parker, 2020; Watrin et al., 2012). It can also be attributed to the influence of institutional factors, which are difficult to generalize at the international level.

Furthermore, Campa and Donnelly (2016) found that the evidence about the impact of implementing IFRS on AEQ in the European Union is ambiguous, with outcomes differing by country. Differences in the nature of the implementation contexts in which European enterprises operate are one possible explanation for the variability in outcomes. In addition, Mohamed's (2017) study found no significant association between IFRS implementation and a decline in accrual-based earnings management, as evaluated by the Modified Jones Model (1991). As a result, IFRS implementation had no effect on AEQ. Other studies have indicated that the influence of implementing IFRS on AEQ differs depending on the legal and regulatory context, as well as several other factors (Viana et al., 2022).

It is evident from the previous studies that the field of applicability varies greatly. Furthermore, the findings of these studies were discordant in terms of the influence of IFRS adoption on AEQ. The results indicated that the effect might be positive, negative, or nonexistent. This discrepancy can be linked to whether

the choice to implement IFRS was voluntary or mandatory, and it may also rely on several other factors, such as the metrics used to measure AEQ, the company's operating characteristics, and the time periods studied. Based on this variation in findings, the hypothesis was developed as follows to test it in the Iraqi environment—one of the emerging economies that adopted IFRS in 2016—with the goal of confirming the measurement outcomes between the research variables:

H1: The transition to IFRS reduces discretionary accruals and thereby improves AEQ in Iraqi banks.

Moreover, the study highlighted that several previous studies (Amer et al., 2024; Den Besten et al., 2015; Duh et al., 2020; Kamran & Shah, 2014; Rathke et al., 2016) have indicated that IFRS adoption is not the only factor influencing AEQ. Instead, there are several other variables that influence AEQ, and their significance should not be underestimated. Some of these variables include firm size, leverage, return on assets, audit firm size, revenue growth, operating cash flows, changes in liabilities, non-discretionary accruals, and ownership concentration. Firm size, return on assets, and leverage—together with non-discretionary accruals—are among the most researched variables in studies examining the relationship between IFRS adoption and AEQ improvement. Therefore, these variables were treated as control variables influencing AEQ, which is the dependent variable in this study.

Research Design

The current study is an explanatory study, quantitatively designed to examine the effect of the IFRS transition, in addition to other control variables, on improving AEQ, with the aim of suggesting ways to enhance AEQ within the Iraqi environment.

Data and Sample

Secondary data were extracted from the annual financial reports of listed Iraqi commercial banks, which were selected due to the sector's commitment to applying IFRS. The Central Bank of Iraq mandated that banks prepare their financial reports according to IFRS as of 2016, replacing the Unified Accounting System. These data were converted into a panel dataset, which provides an effective tool for studying changes over time, as it allows for variation in parameter estimates and enables the use of relatively simple econometric techniques (Bond, 2002). The sample was selected based on the following criteria:

- The bank's shares must be listed for trading throughout the study period.

- Complete data must be available for the variables under study.
- The bank must have issued full annual financial reports regularly for 12 years, divided into the period before IFRS adoption (2010-2015) and the subsequent period (2016-2021).

Therefore, after applying the mentioned criteria and excluding Islamic banks from the study—due to the distinct nature of their financial operations compared to conventional banks—the final sample was determined. Islamic banks use a financial transaction system based on profit-and-loss sharing rather than interest, which has led to the implementation of specialized accounting standards (such as Islamic accounting standards) that may not fully comply with IFRS. This disparity hampers the comparison of profit quality between Islamic and conventional banks using the same methodology. Accordingly, data from 12 commercial banks, totaling 144 observations, were extracted to test the study hypothesis. The study variables were analyzed using the multiple linear regression technique, specifically Ordinary Least Squares (OLS).

Measuring Variables

Measuring Accounting Earnings Quality (Dependent Variable)

Measuring AEQ is one of the most important topics in accounting and finance literature. Many studies have indicated that earnings quality is highly dependent on the measurement of accruals, which represent the differences between actual cash flows and reported earnings. According to several studies (Den Besten et al., 2015; Leung, 2015; Liu et al., 2011; Sun et al., 2011), earnings quality is measured by focusing on discretionary accruals as a key indicator.

Discretionary accruals refer to the portion of the financial reporting process that can be manipulated by management, making it a sensitive criterion for assessing earnings quality. In this study, the Modified Jones Model¹ developed by Kothari et al. (2005), based on the original model by Jones (1991), is used. This model is considered one of the most popular for separating accruals into discretionary and non-discretionary components. It does so by estimating the relationship between accruals, revenues, deferred collections, and other operational variables.

¹ The modified Jones model presented by Kothari et al. (2005) is an improvement over the original model because it considers changes in receivables ($\Delta REC_{i,t}$), which helps reduce the bias caused by changes in credit policies or delays in revenue collection. In addition, the model relies on inflation-adjusted data, making it more suitable for analyzing companies operating in changing economic environments.

Measurement of IFRS (Independent Variable)

This variable is measured using a binary method, taking the value 1 when IFRS is applied and 0 otherwise. (Den Besten et al., 2015).

Measurement of Control Variables

To test the study's hypothesis and isolate the impact of IFRS adoption, several control variables are included to account for their expected influence on operating cash flows relative to total assets, helping to eliminate differences in company sizes. These include: non-discretionary accruals (natural) (NDAC), Firm Size (FSize), Leverage (LEV), Return on Assets (ROA). (Table 1)

Table 1
Summary of Variables

Variable	Measurement Techniques
	Dependent Variable
DA	<p>This is measured using the modified Jones model (1991).</p> $TA_{i,t}/A_{i,t-1} = \alpha_1[1/A_{i,t-1}] + \alpha_2[(\Delta REV_{i,t} - \Delta REC_{i,t})/A_{i,t-1}] + \alpha_3[PPE_{i,t}/A_{i,t-1}] + \mu_{i,t} \quad (1)$ <p>$TA_{i,t}$ represents the total accruals for company i in year t and is calculated by subtracting net income before extraordinary items from operating cash flows. And the formula:</p> $TA_{i,t} = NI_{i,t} - CFO_{i,t} \quad (2)$ <p>$A_{i,t-1}$ represents the total assets of company i at the end of year $t-1$. It is used as a denominator to standardize other variables, making values comparable across companies of different sizes.</p> <p>$\Delta REV_{i,t}$ represents the change in revenues for company i between year t and the previous year $t-1$.</p> <p>$\Delta REC_{i,t}$ represents the change in receivables for company i between year t and the previous year $t-1$.</p> <p>$PPE_{i,t}$ refers to the value of property, plant, and equipment for company i in year t. It reflects investment in fixed assets, which is an important component of the model as it affects natural accruals.</p> <p>α_1 to α_3 are regression coefficients.</p> <p>$\mu_{i,t}$ is the random error term that captures other unexplained factors not included in the model.</p> <p>The company's non-discretionary accruals are calculated using the estimated coefficients from Equation (1). To determine discretionary accruals, they are calculated by subtracting the non-discretionary accruals from the total accruals:</p> $DA_{i,t} = TA_{i,t}/A_{i,t-1} - [\alpha_1(1/A_{i,t-1}) + \alpha_2((\Delta REV_{i,t} - \Delta REC_{i,t})/A_{i,t-1}) + \alpha_3(PPE_{i,t}/A_{i,t-1})] \quad (3)$

Cont. Table 1
Summary of Variables

Variable	Measurement Techniques
Independent Variable	
IFRS	This is measured using a binary value method, taking the value 1 when IFRS is applied and 0 otherwise.
Control Variables	
NDAC	This refers to asset and liability accounts with accounting flexibility that affect operating cash flow values. NDAC is calculated using the estimated coefficients from Equation (1) of the Modified Jones Model (Kothari et al., 2005): $NDAC_{i,t} = \alpha_1(1/A_{i,t-1}) + \alpha_2((\Delta REV_{i,t} - \Delta REC_{i,t})/A_{i,t-1}) + \alpha_3(PPE_{i,t}/A_{i,t-1}) \quad (4)$
FSize	Expressed as the natural logarithm of total assets at the end of the year. This variable helps explain IFRS adoption, as larger firms may be more inclined to adopt IFRS mandatorily and move away from reliance on Generally Accepted Accounting Principles (GAAP), which allow greater flexibility in accounting policies and may impact firm values.
LEV	Expressed as total liabilities divided by total assets at the end of the year. The debt ratio is used as a control variable in explaining IFRS transition, as firms with high indebtedness may exhibit lower earnings quality and greater potential for opportunistic earnings management.
ROA	Calculated by dividing net income (after taxes) by total assets at the end of the year.

Empirical Models

In this study, the Modified Jones Model (1991), developed by (Kothari et al., 2005), was used to measure the effect of the transition to IFRS as an independent variable on improving AEQ as a dependent variable. The study also included several control variables to adjust the relationship between the independent and dependent variables. The following model was adopted to test the hypothesis:

$$DA_{i,t} = a_0 + a_1 * IFRS + a_2 * Lev + a_3 * FSize + a_4 * ROA + a_5 * NDAC + \mathcal{E}_{it}$$

Where:

$DA_{i,t}$ represents discretionary accruals, defined in Equation (3), and serves as the basis for measuring AEQ. (a_0) is the constant term in the regression equation. (a_1) is the regression coefficient for IFRS. (a_2 to a_5) are the regression coefficients for the control variables. (\mathcal{E}_{it}) is the random error term.

Descriptive Statistics

Table 2 presents the descriptive statistics for the variables used in this study, based on a sample of 144 observations. These statistics indicate notable differences between the periods before and after IFRS adoption. DA appeared higher before IFRS adoption, with an average of (0.1996784), compared to (0.1774002) after adoption. This reduction may reflect IFRS's role in limiting the management's ability to engage in earnings manipulation, thereby enhancing AEQ. Banks in the post-IFRS period also showed a decrease in leverage (Lev), with the average falling from (0.6302013) to (0.5702012), suggesting reduced reliance on debt financing due to improved risk management-another factor contributing to better AEQ. Meanwhile, both ROA and NDAC averages increased, and the average bank size (FSize) after IFRS adoption reached (27.18296), compared to (26.58296) in the pre-adoption period. This indicates that the total assets of commercial banks improved following the implementation of IFRS standards.

Table 2
Descriptive Statistics (Pre-IFRS) and (Post-IFRS)

Variable	Before Applying IFRS (2010-2015)				After Applying IFRS (2016-2021)			
	Mean	Std. Dev.	Min	Max	Mean	Std. Dev.	Min	Max
DA	0.1996784	0.0476091	0.1127295	0.2566725	0.1774002	0.0468426	0.0927295	0.2363115
LEV	0.6302013	0.1415566	0.362578	0.876399	0.5702012	0.1415566	0.302578	0.816399
Fsize	26.58296	0.6245306	25.66041	27.9978	27.18296	0.6245306	26.26041	28.5978
ROA	0.0241298	0.0132204	-0.0009308	0.0570157	0.0541298	0.0132204	0.0290692	0.0870157
NDAC	0.03669	0.22162	-0.34164	0.34776	0.04178	0.17833	-0.24595	0.40858

It is important to note that these descriptive statistics related to the averages indicate the potential impact of IFRS adoption on improving AEQ during both the pre- and post-adoption periods. However, they are not conclusive, since the standard deviations appear to move in parallel with the averages, suggesting that further analysis is required. The Pearson correlation matrix highlights the importance of the relationships between variables, particularly in explaining the effect of IFRS adoption on AEQ. Table 3 presents the Pearson correlation matrix for DA as the dependent variable and all other independent variables. The results show that all variables have statistically significant positive or negative relationships with DA. Specifically, IFRS adoption shows a negative relationship with DA and

LEV, while it exhibits a statistically significant positive relationship with (Fsize), (ROA), and (NDAC).

There is a strong positive relationship between LEV and Fsize, as larger companies are often more capable of borrowing due to their market position and reliability. Lev also shows a positive relationship with NDAC, but a negative relationship with ROA. Fsize demonstrates a strong and statistically significant positive relationship with ROA, as large firms tend to have economic and operational advantages that enhance profitability. It also shows a positive relationship with NDAC. In contrast, there is no statistically significant relationship between ROA and NDAC.

Table 3
Pearson Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) DA	1.000					
(2) IFRS	-0.245*** (0.003)	1.000				
(3) LEV	0.177** (0.033)	-0.209** (0.012)	1.000			
(4) Fsize	-0.281* (0.071)	0.435*** (0.000)	0.540*** (0.000)	1.000		
(5) ROA	-0.292*** (0.000)	0.572*** (0.000)	-0.276*** (0.001)	0.445*** (0.000)	1.000	
(6) NDAC	-0.207** (0.013)	0.122** (0.044)	0.302*** (0.000)	0.146* (0.081)	0.055 (0.516)	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 4
Ordinary Least Square Regression Result

Variable	DA							
	Coef.	Significance of Regression Coefficients			Multicollinearity Test		Normality (Shapiro-Wilk)	
		t-value	p-value	Sig	VIF	Tolerance	z	Prob > z
IFRS	-0.078	-2.96	0.000	***	2.488	0.402		
LEV	0.068	6.94	0.050	**	3.278	0.305	0.816	0.207
ROA	-0.14	-6.79	0.000	***	3.154	0.317	0.834	0.202
Fsize	0.06	1.54	0.125	NS	3.506	0.285	1.114	0.133
NDAC	-0.372	-5.00	0.000	***	1.217	0.821	-0.774	0.781
Constant	1.607	7.54	0.000	***				
Mean VIF					2.729			
R ²		0.364						
Adjusted R ²		0.3162						
Prob > F		0.000						
Durbin-Watson		1.88						
Breusch- Pagan		0.1098						

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Source: Output from STATA

Empirical Results and Discussion

The fixed effects model was applied to estimate the regression between the dependent and independent variables. The study used the Hausman test to examine the suitability of the fixed effects model for regression analysis. The fixed effects model helps eliminate issues of heteroscedasticity and cross-sectional dependencies. The hypothesis was tested using the predicted coefficients of the model. In addition, several statistical tests were performed to ensure that the basic assumptions of the Ordinary Least Squares (OLS) regression model were satisfied.

We used the necessary statistical tests to ensure the econometric rigor of our regression model. The Variance Inflation Factor (VIF) was used to identify sig-

nificant linear correlations between the independent variables. All VIF values were less than 5, indicating no significant concern with multicollinearity. The Breusch-Pagan test was employed to assess homoscedasticity (constant variance) in the residuals. There was no evidence of heteroscedasticity, as the p -value was 0.1098, which is greater than 0.05. The Durbin-Watson test was then performed to detect autocorrelation in the residuals. The DW value was 1.88, which is close to 2, indicating the absence of autocorrelation. Finally, the Shapiro-Wilk test was used to assess whether the continuous variables followed a normal distribution. The results showed that the p -values for the continuous variables were greater than 0.05, indicating normality. However, since the IFRS variable is a dummy variable with a constant value, it does not need to satisfy the normality assumption.

Table 4 presents the regression results, which aim to determine the effect of the IFRS transition on improving AEQ, as measured by DA, along with other control variables. This was conducted using OLS multiple regression analysis of DA on IFRS, ROA, LEV, F-Size, and NDAC.

From the regression analysis, the impact coefficient of IFRS adoption ($\beta = -0.078$, $p < 0.05$) indicates that IFRS adoption reduced discretionary accruals by 7.8%, reflecting a significant improvement in AEQ. In other words, the mandatory IFRS adoption policy reduced earnings management practices. Conversely, banks in the pre-IFRS adoption period exhibited higher discretionary accruals, indicating a greater likelihood of opportunistic earnings management behavior. This finding supports agency theory, which focuses on the relationship between managers and owners, where each party pursues its own interests. In the absence of adequate financial disclosure, managers may use tools such as discretionary accruals to manage earnings in ways that serve their personal interests, thereby increasing agency costs and straining the relationship with owners. When IFRS is adopted, these standards reduce opportunities for earnings manipulation by imposing a more transparent and rigorous accounting framework, thereby lowering agency costs. Transparent and reliable financial reporting enhances investor and creditor confidence in accounting data, reducing the need for additional monitoring mechanisms. This trend not only improves the relationship between owners and managers but also enhances capital market efficiency by lowering financing costs and increasing market stability. It also aligns with institutional theory, which suggests that banks seek organizational legitimacy by complying with international standards. These findings are consistent with those of (Liu et al., 2011; Sellami & Fakhfakh, 2013).

The findings also show that firm size does not significantly affect the use of discretionary accruals. This can be explained through agency theory and organizational resource theory. It suggests that both small and large firms may face similar levels of managerial pressure or opportunities for earnings manipulation. Researchers have argued that the most important factors influencing earnings quality are ownership structure and audit quality, rather than firm size alone. Afza and Rashid (2014), focusing on emerging markets, found that small and large firms may face similar economic and regulatory pressures, making firm size an insignificant factor in earnings quality. Kamalluarifin et al. (2020) emphasized that ownership structure and governance have a greater impact on DA than firm size.

The results of the study also showed a statistically significant negative relationship between DA and ROA. This means that firms with strong financial performance, as reflected by ROA after adopting IFRS, do not tend to increase accruals, thus reporting higher-quality profits and reducing the scope for dividend management practices. This is because well-performing firms do not need to manipulate earnings to improve their image in front of investors. Instead, they use the quality of earnings to send positive signals to the market. This finding is in line with studies by (Nguyen et al., 2021; Shah & Wan, 2024).

The existence of a positive relationship between LEV and DA implies that firms with high levels of debt tend to increase discretionary accruals. This may be due to market pressure to achieve certain financial results to meet creditors' requirements, which can lead to increased opportunistic earnings management behavior. This is confirmed by Kamran and Shah (2014), who found that firms with higher leverage manage their earnings. Masruroh and Apollo (2023) also indicated that LEV negatively affects the quality of earnings.

Finally, it was reported that the NDAC coefficient was (-0.372) and statistically significant (p -value = 0.000), meaning that an increase in NDAC leads to a decrease in DA by 37.2%. This result indicates a strong inverse relationship between NDAC and DA.

The increase in NDAC after the adoption of IFRS reflects the response of Iraqi banks to external institutional pressures—particularly from the Central Bank of Iraq—to increase disclosure. This supports institutional theory, as confirmed by the study of Vianna et al. (2023).

Ball and Shivakumar (2006) confirmed that NDAC reflects the firm's operating environment and that firms with high levels of non-discretionary accruals

are less likely to manipulate earnings. Dechow and Dichev (2002) suggested that NDAC is a reliable indicator of earnings quality.

Summary and Conclusion

This study, which aimed to examine the improvement of AEQ within the Iraqi banking sector, provided evidence that discretionary accruals—the basis for measuring AEQ—were lower in the post-IFRS adoption period compared to the pre-adoption period. This indicates that IFRS adoption significantly reduced discretionary accruals, thereby reducing earnings management practices and improving the quality of accounting earnings "AEQ" in banks. Therefore, the study concludes that the transition to IFRS is effective in improving AEQ.

For practitioners and financial institutions, these findings underscore the importance of IFRS application in enhancing AEQ. Boards of directors, audit committees, and financial managers should recognize that accounting standards significantly influence AEQ. Investors and analysts should also consider accounting standards when evaluating financial statements. Furthermore, full compliance with IFRS by commercial banks can boost investor confidence and improve the quality of investment decisions. Although the transition to IFRS has proven effective in reducing discretionary accruals and limiting earning manipulation, the process has been gradual. Some smaller banks still record higher DA than larger banks after IFRS adoption, often due to a lack of training. Therefore, the study recommends strengthening the role of the Central Bank of Iraq in monitoring IFRS application and training bank personnel on international standards.

Despite these practical implications, the study faces limitations, including the challenge of generalizing the results, as only commercial banks were analyzed. Future studies should consider expanding the sample to include other economic sectors. Additionally, researchers should explore alternative measures of AEQ, such as income smoothing, profit continuity, and predictive power, rather than relying solely on discretionary accruals. Future research should also account for exceptional circumstances—such as the COVID-19 pandemic—when examining financial phenomena related to AEQ and earnings management and considering the inclusion of other relevant variables.

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