
The Choice of Accounting Standards under Competing Tax and External Reporting Preferences

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- Choice between K2 and K3
 - K2 close to tax accounting
 - K3 close to IFRS for SMEs
 - Choice under K3 on whether to capitalise [what exactly?]
 - Differs from IFRS for SMEs which requires such expenditure to be expensed
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A very useful paper

- Interesting setting that allows for empirical testing of hypotheses
 - Comparison of empirical evidence with survey evidence
 - Evidence about reporting choices for private firms
 - Evidence about influence of the IFRS for SMEs
 - Evidence about firms' choices on capitalisation of IGIA
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Choice between K2 and K3—findings

- Empirical results
 - Positive correlation with K3 choice
 - Presence of IGIAS in prior years
 - Low tax burden and use of profit periodization allocations
 - Proxies for shareholder reporting demands
 - But observable characteristics explain the K3 choice for only about 50% of firms
 - Survey results
 - 37% identified long-term planning considerations as driver of K3 choice
 - some identified specific accounting requirements
 - IGIA reporting 13%
 - Deferred tax 10%
 - PPE components 9%
 - Lease accounting 5%
 - 63% said auditors initiated choice of K3, 39% said they don't remember what drove the decision
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Choice between K2 and K3—questions

- Did previous accounting drive the choice?
 - Wide range of choices in previous accounting. Did firms simply choose which of K2 or K3 most closely aligned with existing practice?
 - Higher than expected choice of K3 (14% compared to 5% expected), any thoughts on why?
 - What other factors might drive the choice?
 - What influences the auditors, who seem to play an important role?
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Choice for K3 adopters on capitalisation—findings

- Capitalisation brings forward the timing of tax payments
 - Nonetheless, 45 (or 41 or 33?) of 586 K3 adopters choose to capitalise
 - More likely to engage in M&A activity
 - Less likely to have a high tax burden
 - May be trying to avoid reporting losses?
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Choice for K3 adopters on capitalisation—questions

- Why does K3 allow capitalisation when IFRS for SMEs does not?
 - Does previous accounting drive this choice?
 - What does drive the choice?
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