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EFFECTIVENESS OF ACCOUNTING STANDARDS ON CORPORATE FINANCIAL REPORTING IN JORDAN

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ABSTRACT:

Globalization has removed the geographical boundaries and made the world a global village. The activities of companies and investors are not limited to geographical boundaries. Funds move across borders of many countries and if companies report as per the rules prescribed by the local regulatory bodies, investors would have to study the accounting standards across various countries before investing. The economic differences within each country may hamper comparison between countries with huge economic differences. Therefore, it is essential to harmonize the accounting system and the financial reporting in a uniform way to have a single language of financial reporting which can give consistent comparability across countries. Hence, International Accounting Standards were developed by the International Accounting Standards Board (IASB) which operates under the oversight of the IFRS Foundation. The present research has been undertaken to examine the impact of International Accounting Standards' adoption on the performance of Arab East Investment Company in Jordan. Linear regression has been used as the statistical tool for analysis. Reliability, materiality transparency, accuracy, and qualitative information are used as the proxy variables of financial reporting. The research highlighted that there is a significant impact of International Accounting Standards' adoption on the financial reporting of Arab East Investment Company.

KEYWORDS:

International Accounting Standards (IAS), finance, reporting, regression.

INTRODUCTION:

International Accounting Standards or International Financial Reporting Standards (IFRS) are the guidelines which provide direction and guidance on how business organizations in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting (Dumontier & Raffournier, 2008). Failure on the part of the firm to apply the requirements of IFRS would result in inconsistencies, lack of accountability and transparency, distortion in financial reports, which in turn results into poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users (Zeghal, Chtourou, and Sellami, 2011). This is because the preparation and presentation of financial statements will be bereft of objectivity, reliability, credibility and comparability, and thus results in fraudulent business practices which lead to business failure (Padrtova and Vochozka, 2011). However, adopting a single global accounting language will ensure relevance, completeness, understandability, reliability, timeliness, neutrality, verifiability, consistency, comparability and transparency of financial statements and bring a qualitative change in the accounting information reports (Lantto and Shalstrom, 2009). It will strengthen the confidence and empower the investors and other users of accounting information around the world. These standards serve the public interest by fostering trust, growth, and long-term financial stability in the global economy (Joshi and Ramadhan, 2002). Nevertheless, the European Union compelled the listed companies in Europe to adopt IAS for consolidated financial statements in the year 2002. More than 8,000 companies across 30 countries, including UK, New Zealand, Philippines, France, Spain, Germany, Australia, Hong Kong, and Singapore adopted IAS/IFRS in the year 2005. However, Japan and USA are the major exceptions as they still require their entities to prepare financial statements as per their national accounting standards (Jeanjean and Stolowy, 2008).

Review of Literature:

Al-Dalaien, B.O.A. & Alnawaiseh, A.A.K. (2017) examined the effect of International Financial Reporting Standards (IFRS) adoption on the performance of Jordan Telecom Company. Simple linear regression was used for analysis. The research revealed that there is no improvement in liquidity, profitability, leverage, investment activities, sales, after the adoption of IFRS in Jordan Telecom Company. However, the company has not found any change in debt to capital ratio and interest coverage ratio. *Kabir et al. (2010)* evaluated the impact of IFRS adoption on accounts and earning's quality of selected companies of New Zealand. The research revealed that total assets, total liabilities and net profit figures were higher in the financial statements prepared on the guidelines of IFRS. Moreover, IFRS-based adjustments increased goodwill, other intangible assets, and investment property amounts whereas these adjustments caused decreases in employee benefits and share-based payments. *Callao et al. (2007)* highlighted the impact of IFRS harmonization on the financial statements and their comparability in IBEX-35 companies in Spain. The research found that total liabilities, long-term liabilities, cash and cash equivalents and shareholder's equity were affected significantly by the transition to IFRS. *Hung & Subramanyam (2007)* analyzed the impact of IFRS adoption on value relevance and financial reports and found that book value (net income) plays a greater (lesser) valuation role under IFRS than under local GAAP. The researchers discovered that while the IFRS adjustments to book value were generally valued relevant, the adjustments to income were generally valued irrelevant. Agca & Aktas (2007) examined the results of financial ratios prepared in accordance with IFRS and the financial statements prepared according to the local regulations to measure the differences. They found that some selected variables were statistically significant. *Harris & Muller (1999)* find out the market valuation of earnings and the book values of financial statements in accordance with IFRS and US-GAAP. It has been found that IFRS earnings per share amounts were highly associated with prices per share than US-GAAP earnings per share amounts. However, US-GAAP-based values were found to be more associated with values of securities than IFRS-based values.

Objectives of the study:

a) To discuss the concept of International Accounting Standards (IAS).
b) To investigate the impact of International Accounting Standards adoption on the financial reporting of Arab East Company.
c) To highlight challenges before the companies regarding adoption of IAS.
d) To suggest remedial measures to the companies in Jordan regarding the implementation of IAS.

Hypotheses of the study:

H_{01}: The adoption of International Accounting Standards does not improve reliability in Arab East Investment.

H_{a1}: The adoption of International Accounting Standards improves reliability in Arab East Investment.

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H_{02}: The adoption of International Accounting Standards does not improve materiality in Arab East Investment.

H_{a2}: The adoption of International Accounting Standards improves materiality in Arab East Investment.

H_{03}: The adoption of International Accounting Standards does not improve transparency in Arab East Investment.

H_{a3}: The adoption of International Accounting Standards improves transparency in Arab East Investment.

H_{04}: The adoption of International Accounting Standards does not improve accuracy in Arab East Investment.

H_{a4}: The adoption of International Accounting Standards improves accuracy in Arab East Investment.

H_{05}: The adoption of International Accounting Standards does not improve qualitative information in Arab East Investment.

H_{a5}: The adoption of International Accounting Standards improves qualitative information in Arab East Investment.

Methodology

Relevant data is collected through primary and secondary sources by administering a questionnaire to the employees working in Arab East Investment Company. In addition, published information from the annual reports of the company was also collected. One hundred fifty questionnaires were distributed to the employees in which 124 questionnaires were returned. Hence, the research is based on 124 fully answered questionnaire and annual reports of the company. Published annual reports were extensively studied. However, the impact of International Accounting Standards' (IAS) adoption on the financial reporting of Arab East Company has been investigated with the application of linear regression. IAS is the independent variable whereas financial reporting is the dependent variable. Reliability, materiality transparency, accuracy, and qualitative information are used as the proxy variables of financial reporting.

Hypotheses Testing:

H_{01}: The adoption of International Accounting Standards (IAS) does not improve reliability in Arab East Investment.

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H_{a1}: The adoption of International Accounting Standards (IAS) improves reliability in Arab East Investment.

Regression analysis is used to examine the impact of IAS on the reliability (one of the variable of financial reporting) of Arab East Investment. The null hypothesis is that there is no improvement in reliability after the adoption of IAS and the alternate states that there is an improvement in reliability after the adoption of IAS. Reliability is the dependent variable whereas IAS is taken as the independent variable.

Table 1: Regression Analysis of IAS and Reliability

Model-1	R	Adjusted R^2	B	t value	SE	P Value
	0.846	0.715	0.597	12.451	1.0574	0.000

R: Pearson Correlation; B: Unstandardized Coefficient; SE: Standard Error

Source: Output of SPSS_20 version

Table 1 shows the results of linear regression. The value of adjusted R square is 0.715. It means 71.5 percent variation in reliability is explained by IAS and the rest of the variation ($1-R^2$) is an unexplained variation. The value of unstandardized beta coefficient is 0.597 which means that one unit change in IAS brings 0.597 units change in reliability of Arab East Investment. The p value is 0.000 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is a significant improvement in reliability (one of the component of financial reporting) of Arab East Investment company after the adoption of IAS.

H_{02}: The adoption of International Accounting Standards (IAS) does not improve materiality in Arab East Investment.

H_{a2}: The adoption of International Accounting Standards (IAS) improves materiality in Arab East Investment.

Regression analysis is used to examine the impact of IAS on materiality (one of the variable of financial reporting) of Arab East Investment. The null hypothesis is that there is no improvement in materiality after the adoption of IAS and the alternate states that there is an improvement in materiality after the adoption of IAS. Materiality is the dependent variable whereas IAS is taken as the independent variable.

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Table 2: Regression Analysis of IAS and Materiality

Model-2	R	Adjusted R^2	B	t value	SE	P Value
	0.804	0.646	0.548	-5.634	1.2245	0.001

R: Pearson Correlation; B: Unstandardized Coefficient; SE: Standard Error

Source: Output of SPSS_20 version

Table 2 shows the results of linear regression. The value of adjusted R square is 0.646. It means 64.6 percent variation in materiality is explained by IAS and the rest of the variation ($1-R^2$) is an unexplained variation. The value of unstandardized beta coefficient is 0.548 which means that one unit change in IAS brings 0.548 units change in the materiality of Arab East Investment. The p value is 0.001 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is a significant improvement in materiality (one of the variable of financial reporting) of Arab East Investment after the adoption of IAS.

H_{03}: The adoption of International Accounting Standards (IAS) does not improve transparency in Arab East Investment.

H_{a3}: The adoption of International Accounting Standards (IAS) improves transparency in Arab East Investment.

Regression analysis is used to examine the impact of IAS on transparency (one of the variable of financial reporting) of Arab East Investment. The null hypothesis is that there is no improvement in transparency after the adoption of IAS and the alternate states that there is an improvement in transparency after the adoption of IAS. Transparency is the dependent variable whereas IAS is taken as the independent variable.

Table 3: Regression Analysis of IAS and Transparency

Model-3	R	Adjusted R^2	B	t value	SE	P Value
	0.799	0.638	0.446	16.904	1.0089	0.0055

R: Pearson Correlation; B: Unstandardized Coefficient; SE: Standard Error

Source: Output of SPSS_20 version

Table 3 shows the results of linear regression. The value of adjusted R square is 0.638. It means 63.8 percent variation in transparency is explained by IAS and the rest of the variation ($1-R^2$) is an unexplained variation. The value of unstandardized beta coefficient is 0.446 which means that one unit change in IAS brings 0.446 units change in transparency of Arab East Investment. The p value is 0.0055 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is a significant improvement in transparency (one of the variable of financial reporting) of Arab East Investment after the adoption of IAS.

H_{04}: The adoption of International Accounting Standards (IAS) does not improve accuracy in Arab East Investment.

H_{a4}: The adoption of International Accounting Standards (IAS) improves accuracy in Arab East Investment.

Regression analysis is used to examine the impact of IAS on accuracy (one of the variable of financial reporting) of Arab East Investment. The null hypothesis is that there is no improvement in accuracy after the adoption of IAS and the alternate states that there is an improvement in accuracy after the adoption of IAS. Accuracy is the dependent variable whereas IAS is taken as the independent variable.

Table 4: Regression Analysis of IAS and Accuracy

Model-4	R	Adjusted R^2	B	t value	SE	P Value
	0.891	0.793	0.611	-9.653	2.0044	0.0091

R: Pearson Correlation; B: Unstandardized Coefficient; SE: Standard Error

Source: Output of SPSS_20 version

Table 4 shows the results of linear regression. The value of adjusted R square is 0.793. It means 79.3 percent variation in accuracy is explained by IAS and the rest of the variation ($1-R^2$) is an unexplained variation. The value of unstandardized beta coefficient is 0.611 which means that one unit change in IAS brings 0.611 units change in accuracy of Arab East Investment. The p value is 0.0091 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is a significant improvement in accuracy (one of the variables of financial reporting) of Arab East Investment after the adoption of IAS.

H_{05}: The adoption of International Accounting Standards (IAS) does not improve qualitative information in Arab East Investment.

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H_{a5}: The adoption of International Accounting Standards (IAS) improves qualitative information in Arab East Investment.

Regression analysis is used to examine the impact of IAS on qualitative information (one of the variable of financial reporting) of Arab East Investment. The null hypothesis is that there is no improvement in qualitative information after the adoption of IAS and the alternate states that there is an improvement in qualitative information after the adoption of IAS. Qualitative information is the dependent variable whereas IAS is taken as the independent variable.

Table 5: Regression Analysis of IAS and Qualitative information

Model-5	R	Adjusted R^2	B	t value	SE	P Value
	0.911	0.829	0.702	-3.669	1.894	0.002

R: Pearson Correlation; B: Unstandardized Coefficient; SE: Standard Error

Source: Output of SPSS_20 version

Table 5 shows the results of linear regression. The value of adjusted R square is 0.829. It means 82.9 percent variation in qualitative information is explained by IAS and the rest of the variation ($1-R^2$) is an unexplained variation. The value of the unstandardized beta coefficient is 0.702 which means that one unit change in IAS brings 0.702 units change in the qualitative information of Arab East Investment. The p value is 0.002 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a there is a significant improvement in qualitative information (one of the variable of financial reporting) of Arab East Investment after the adoption of IAS.

Table 6: Shows the results of Hypotheses Tested

No	HYPOTHESES	Results
1	The adoption of IAS does not improve reliability in Arab East Investment.	Rejected
2	The adoption of IAS does not improve materiality in Arab East Investment.	Rejected
3	The adoption of IAS does not improve transparency in Arab East Investment.	Rejected
4	The adoption of IAS does not improve accuracy in Arab East Investment.	Rejected
5	The adoption of IAS does not improve qualitative information in Arab East Investment.	Rejected

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CONCLUSION:

International Financial Reporting Standards (IFRS) are the body of prescriptive rules and guidelines which provide guidance on proper record keeping, transparency, uniformity, understandability, reliability, reliability, timeliness, neutrality, verifiability and comparability of financial statements and enhancing public confidence in financial reporting in a globalized world. International Accounting Standards (IAS) have gained momentum all around the globe. It has become an important topic for global investors, professional bodies, government etc who use financial information. The goal of IAS Foundation is to develop a single set of global financial reporting standards that bring transparency, accountability, comparability, efficiency, and quality of financial reporting, to financial markets around the world. Their importance to financial reporting practice cannot be over emphasized. Members of the international community are interested in financial reports that have been prepared on the basis of IAS since it helps in attracting foreign direct investments. Besides, it brings improvement in accounting quality and comparability which in turn contributes to a generally transparent firm information environment and better accounting practice. In the present research, an attempt has been made to explore the effect of International Accounting Standards (IAS) adoption on the performance of Arab East Investment Company with the application of linear regression. The results revealed that there is a significant impact of International Accounting Standards' adoption on the financial reporting of Arab East Investment Company.

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