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Harmonization of Accounting Practices Within, and Cross the Arab Middle Eastern Countries

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Dedication

بِسۡمِ ٱللَّهِ ٱلرَّحۡمَٰنِ ٱلرَّحِيمِ

(قل اعملوا فسيرى الله عملكم ورسوله والمؤمنون)

صدق الله العظيم

إلهي لا يطيب الليل إلا بشكرك ولا يطيب النهار إلى بطاعتك .. ولا تطيب اللحظات إلا بذكرك .. ولا تطيب الآخرة إلا بعفوك .. ولا تطيب الجنة إلا برؤيتك

إلى من جرع الكأس فارغاً ليسقيني قطرة حب

إلى من كلّت أنامله ليقدم لنا لحظة سعادة

إلى من حصد الأشواك عن دربي ليمهد لي طريق العلم

إلى القلب الكبير (والدي العزيز)

إلى من أرضعتني الحب والحنان

إلى رمز الحب وبلسم الشفاء

إلى القلب الناصع بالبياض (والدتي الحبيبة)

إلى القلوب الطاهرة الرقيقة والنفوس البريئة إلى رياحين حياتي (إخوتي)

إلى الأساتذة الكرام رفقاء دربنا

وإلى فلسطين الحبيبة

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الاقرار

أنا الموقعة أدناه، مقدمة الرسالة التي تحمل العنوان:

توافق الممارسات المحاسبية
في الدول العربية الشرق أوسطية وفيما بينها

Harmonization of Accounting Practices Within, and Cross the Arab Middle Eastern Countries

أقرّ بأن ما اشتملت عليه هذه الرسالة هي نتاج جهدي الخاص، باستثناء ما تمت الإشارة إليه حيثما ورد، وإن هذه الرسالة ككل، أو أي جزء منها لم يقدم من قبل لنيل أية درجة أو لقب علمي أو بحثي لدى أية مؤسسة تعليمية أو بحثية أخرى.

Declaration

The work provided in this thesis, unless otherwise referenced, is the researcher's own work, and has not been submitted elsewhere for any other degree or qualification.

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Harmonization of Accounting Practices Within, and Cross the Arab Middle Eastern Countries

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Abstract

The main objective of this study is to investigate the extent of harmonization for several accounting measurements in selected Middle Eastern countries. Based on a sample of 266 industrial companies from 8 Arab countries during 2016-2017, seven accounting measurements were observed to achieve the study objectives. Published financial statements where the resource of the needed data to compute the C-index for within country harmonization, and I-index for between countries harmonization and between different accounting standers adopters.

C-Index's results show that the majority of the industrial companies in the selected countries uses lower of cost or net realizable value which is lower for measuring inventories; cost model for measuring property, plant and equipment; straight line depreciation method for allocation of fixed asset's cost on their useful life; current exchange rate for translating foreign transactions. However, borrowing costs measurement, investment property valuation and inventory costing method had a low harmonization level and variety of measurement methods were used. With regard to the degree of harmonization between the Arab countries, the I-index ranged from a lower for inventory costing method to a higher for

measuring property, plant and equipment. The overall results indicate that in most cases, low harmonization degree may be attributed to choices permitted by a standard rather than differences between features of the adopted financial reporting systems. It is also suggested that the accounting harmonization will increase comparability, transparency and uniformity for published financial statements in the Middle Eastern countries.

Chapter One

Introduction & Background

1.1. Introduction

1.2. Study problem

1.3. Purpose of the study and Research Questions

1.4. The study importance

Chapter One

Introduction & Background

1.1. Introduction

Due to the growing internationalization of capital markets, the need to investigate the accounting differences nationally and internationally has increased. Globalization and technological innovations enhanced the integration of the capital markets around the world (Mrak, 2000). Accordingly, firm's fund raising, operations, and investments are no longer limited to their countries. Multinationallity of corporations has become as one of the present time attributes. Moreover, the global economy has witnessed an increased move towards international trade and foreign direct investment (FDI). These features illustrate the importance of the accounting comparability.

Shareholders and others use the financial statements to evaluate the company's performance and predict the future trend of their share prices. Therefore, there is a growing international tendency to ensure that the financial statements provide high quality financial information that is comparable, consistent and transparent in order to meet different user's needs (SEC, 2000). Furthermore, financial statements results cannot be evaluated by economic decision-makers in isolation; users need to compare different alternatives globally (Wang, 2011). In addition to analysis of individual companies' information, decisions require a comparative

analysis of competitor companies. Investors who are seeking to reduce the risks associated with investment opportunities will attempt to diversify their portfolios over several markets and several industry sectors. Also, companies need to assess whether they have selected the most proper trading partners, customers, and suppliers or deciding to open a subsidiary oversees. Analyzing each of these alternatives and assessing its performance and comparing it with competitors are essential today.

According to the International Accounting Standards Board (IASB), comparability is among the qualitative characteristics that ensure and enhance the usefulness of the financial information for different users. According to the IASB's framework, users should be able to compare the reported information of an entity through time. Accordingly, they can identify trends in the performance of the entity and its financial position. Users must also be able to rely on the financial statements to compare between different entities related to their performance, their financial position (IASB, conceptual framework, 2001).

The IASB is the successor of the International Accounting Standards Committee (IASC). The IASC was the first international standards-setting body which was established in 1973 to harmonize accounting practices around the world. At the beginning, the IASC issued several International Accounting Standards (IASs). According to studies (Evans & Taylor, 1982), these standards failed to achieve the promised comparability since they permitted the use of different choices. Therefore, the IASC launched

the comparability project and issued its framework (Basoglu & Goma, 2002). Then, it issued the core set of accounting standards that bring some promise of harmonization (Berton, 1999). These standards have been endorsed by the International Organization of Securities Commissions (IOSCO). Furthermore, the European Union (EU) jointed the efforts of the IASC in the nineties. In 2001, the EU required all the listed companies to use these standards when preparing their consolidated financial statements from the beginning of 2005.

Today the majority of countries permits or requires IFRS adoption for domestic listed companies (AICPA, 2019). In the Arab world, there has been rapid progress in the adoption of the IFRS to meet the high expectations of national, regional and international stakeholders. Stakeholders such as banks and investors are looking for reliable and comparable financial information. Therefore, financial statements prepared and audited using high quality standards are essential to increase transparency and comparability. They also support the continued growth of business and decrease the effect of diversification of the region's economy (Chitt, 2015).

While international accounting standers adoption is formally increasing in recent years, the practical harmonization is still questionable. According to Chen (2002), harmonization of accounting practices, is difficult to be achieved with cultural, legal, political and economic differences existing among countries. There is little evidence about whether

the formal harmonization of accounting standards (*de jure*) will lead to harmonized accounting practices (*de facto*), harmonized accounting measurements and comparable financial statements.

However, IFRS and other financial reporting frameworks are seeking to eliminate inconsistencies in accounting measurements, hoping that the amounts of the financial statements reflect items measured on the same basis, and therefore have a single interpretation (ICAEW, 2018). Several studies questions the availability of comparable financial statement's data, due to the differences in the settings of the countries adopt the same accounting standards which lead to inconsistent application of these standards.

This study addresses the harmonization issue and investigates the availability of comparable financial statements in the Arab Middle East countries. The study examines the financial statements of 266 industrial companies listed on the stock exchanges of eight selected Arab Middle Eastern countries during 2016-2017. It assesses the extent to which specific accounting measurement methods of industrial sector companies of Egypt, Saudi Arabia, Jordan, Oman, Kuwait, Qatar, UAE and Palestine are harmonized. This study carries out an analysis of accounting harmonization, using Van der Tas L (1988) indexes, for measuring the harmonization degree of the financial statements between companies in the same country, between the selected countries and between different accounting standers adopters.

This study will contribute to the literature in two ways. First, it provides an overview of the benefits and importance of harmonization with a description of accounting regulations adopted in the Middle East. Second, it measures the degree of harmonization for seven accounting measurements between selected Middle Eastern countries and within each country. The results will help in understanding the extent of harmonization of accounting practices in the listed companies. Also, it will uncover the practices used in the Middle East and practices that standards setters need to reevaluate the available measurement options to maintain comparable financial statements. This important topic has not been addressed by the previous studies in the Arab world; international and local investors need to understand the extent to which accounting practices are harmonized in the Middle East and accordingly, attaining their confidence in investing in this area.

1.2. Study problem

Different views on how comparability can be achieved exist. Beechy (1999) argues that accounting standardization enhances comparability only if the underlying circumstances affecting the firms are similar. Firms located in different countries have different business styles, and different underlying economic and political settings. Accordingly, they have different reporting objectives. Implementation of accounting standards is largely affected by local incentives, oversight and legal environment (Chen, sun, & wang, 2002). Ball (2006) suggests that accounting standards

themselves have a second order effect on the resulting accounting data. It might be true since IFRS is principle-based accounting standards. McLeay, Neal, & Tollington (1999), argue that the harmonization degree depends on using the same accounting method in the same circumstances and the same sectors, rather than forcing uniformity on all companies regardless of circumstances. Measurement implementation and harmonization are important topics and need to be investigated, especially in the Middle East countries which have a variety of political, economic and social incentives, that's why it may be impossible to attain full accounting harmonization.

Accounting practices are diverse in different areas of the world. Actually, the required financial statements, the definitions of the items of the financial statements, criteria used to recognize these items, and measurements of them may differ from one country to another or from one company to another. Consequently, harmonization of the financial results of different companies from different countries is very difficult even under the adoption of the same accounting standers. There will always be some differences in the way they are interpreted and applied by companies in different countries. This study addresses the extent of accounting harmonization in the Arab Middle Eastern countries. It investigates the harmonization degree of the accounting measurements used in these countries.

1.3. Purpose of the study and Research Questions

The financial statements represent a communication device used by accountants to provide users with information useful for decision-making. Usefulness of accounting information is determined by the availability of specific characteristics including comparability. It is widely argued that accounting is the result of its environment. Features of accounting systems are determined based on the existing circumstances. Thus, given the similar factors existing in the Arab countries such as culture from one hand, and differences in other factors such as economic development and politics from the other hand, it is questionable whether the accounting measurements are harmonized within and across these countries. Accordingly, this study addresses the accounting practice harmonization in eight selected Arab countries. It investigates the harmonization level for measurements used in the financial statements of the listed companies in these countries (within- country comparability), the harmonization between the countries (between-country comparability). Seven accounting measurement practices are considered to explore the harmonization extent for the two levels. Furthermore, since IFRSs seeks to achieve high comparability in the financial statements internationally, the study aims to examine whether the financial statements of the Arab countries that adopt the IFRSs are more harmonized compared with those that adopt other financial reporting frameworks. Precisely, the study questions are:

- Is there a difference in the accounting measurement between the Arab Middle Eastern countries, and if so, which measurement methods have significant differences?
- Is there a difference in the accounting measurement within each country, and if so, which measurement methods have significant differences?
- Are countries adopting IFRS have higher accounting measurement harmonization than countries adopting local standards?

1.4. The study importance

Turner (1983) argues that accounting harmonization would increase the comparability of the financial statements internationally. Comparability raises the reliability of the financial statements prepared abroad, and accordingly enhances the opportunity to attract international investment. Attracting foreign direct investment is a real objective for all countries, including the Arab countries in the globalization era. Achieving this objective requires the use of high quality accounting practices that lead to comparable financial information.

Due to the social, cultural, and economic differences (Barth, Mary, & Lang, 2008), companies in different capital markets, even under similar accounting standers, find themselves define, recognize and measure profit, assets, liabilities, equity, income and expenses differently (Qu & Zhang, 2008). Achieving the objectives of this study provides evidence about (1)

the reliability of the arguments state that countries with similar environmental factors have similar financial reporting frameworks, and (2) whether the adoption of IFRS increases the comparability of the financial statements. It is expected that the results of the study will benefit the policy makers and the standard setters in the Arab countries in a way that enhance the achievement of investment-attracting objectives. Furthermore, the results provide evidence from emerging economies about the success of the international efforts of the accounting convergence.

Accounting is essentially concerned with measurement; it influences assets valuation, profit, and user's decisions. Also, measures affect economic activities by affecting its incentives (ICAEW, 2018). If firms and countries use different accounting techniques even if the unambiguously was disclosed, lack of comparability will still exist (Ball, 2006). Therefore, measurement selection should not vary to reach the benefits of comparability of accounting information and increase user's confidence about the published financial statements. Most of the existing research on accounting harmonization focuses mainly on the developed countries; research on other geographic regions is very limited. This study provides a quantitative measure of the degree of accounting measurement harmonization within and cross eight Arab countries in the Middle East during 2016-2017. The results of the study will have important implications for international and local standard-setters, regulators, investors and creditors.

Chapter Two

Literature review and hypothesis development

2.1 Introduction

2.2. Literature review and the hypothesis development

Chapter Two

Literature review and hypothesis development

2.1 Introduction

Many studies have addressed the problems and current prospects of international harmonization. However, a lack of such studies in the Middle Eastern countries exists. International financial reporting standards aim to promote comparability between companies financial information, despite their country of origin through a more transparent financial reporting (Ball, 2006).

2.2. Literature review and the hypothesis development

The benefits of adopting international accounting standers assume full compliance with the requirements of these standers. The uniform application of the standards across different countries has been questioned given the institutional and cultural differences (Nobes, 2006). Several studies examined the harmonization of accounting practices by investigating whether companies from different countries adopt the same accounting standers since different accounting principles and standers directly affect comparability (Rueschhoff & Strupeck, 1998). Moreover, it is important to note that comparability may not be achieved even if the same accounting standards are used. Evans & Taylor (1982) investigated the impact of several IASs on the accounting policies of companies from France, Japan, the U.K., the U.S., and West Germany during 1975-1980.

The study results indicate that the International Accounting Standards Committee (IASC) had a little effect on harmonizing accounting practices. Similar results were found by Emenyonu & Gray (1992) in France, Germany, and the UK. According to Ali, Ahmed, & Henry (2006) who spotted non-compliance by companies in South Asian countries, the researcher suggested that the low harmonization levels were attributed to the flexibility in choosing treatments in some IFRSs polices. Inconsistent with the above studies, results of Rajhi (2014) show that listed French companies do not totally comply with the disclosure requirements of IFRS.

Chairas & Radianto (2001) explored the accounting harmonization in Singapore, Malaysia, Indonesia, Thailand, and Philippines. The findings indicate that most companies use the same valuation method. Furthermore, they found that most accounting standards of these countries comply or are moving to comply with IASs. In turn, Barth, Landsman, Lang & Williams (2012) found that comparability between non-U.S. companies that adopt IFRS and U.S. companies that adopt US GAAP is stronger in more recent years, this is attributed to the ongoing convergence between U.S. GAAP and IFRS. Aisbitt (2001) reported an increase in the harmonization level between 1981 and 1998 for the Nordic countries (Denmark, Finland, Sweden and Norway). Furthermore, France, Germany, Italy, Portugal and the UK demonstrate a high harmonization level in accounting practices for financial Instruments (IAS 39) during 2005 (Morais, 2008).

Many studies focused on the methodology of measuring accounting harmonization. De Franco & Kothari (2010) provided an output-based measure of comparability considering the relation between earnings and stock returns. The study argues that financial statements' comparability between two companies is calculated from the differences in predicted earnings given the same economic transactions. On the other hand, the indexes, such as I and C indexes, as well as H index were introduced by Van der Tas in 1988. These indexes are popularly used in the literature and recognized as an input-based comparability measurement. The H-index is used to measure national accounting harmonization, while the C-index is used to measure international accounting harmonization. Then, Archer, Delvaille & McLeay (1995) separated the C-index into two components to measure "within-country" and "between-country" harmonization. The resulting indexes were used to measure the level of harmony in specific treatments (goodwill and deferred taxation) for a sample of European companies and concluded that little progress in harmonization occurred between 1986/87 and 1990/91.

Rahman, Perera & Ganeshanandam (1996) measured harmonization degree between Australia and New Zealand. By using multiple-discriminating analysis, the study identified the requirements of disclosure and measurement that had achieved higher or lower degrees of harmonization between the two countries. The results show a higher level of harmony for measurement requirements, and a lower level of harmony for disclosure requirements. Also, Fontes, Rodrigues & Craig (2005)

proposed Jaccard's coefficient and Spearman's coefficient to measure the harmonization between any two sets of accounting standards. They used it to measure the harmonization degree between IFRS and the Portuguese Standards in three phases of accounting convergence by using Euclidian distances. Jaccard's coefficients and Spearman's coefficients provided further evidence of the progress achieved in converging the two sets of accounting standards.

While examining accounting harmonization, previous studies used different accounting measures. Herrmann and Thomas (1995) examined accounting harmonization in eight EU countries. The study indicates that a high level of harmonization exists for foreign currency translation of assets and liabilities, treatment of differences of foreign currency translation, and measurement of inventory. On the other hand, a low level of harmonization was observed for foreign currency translation of revenues and expenses, fixed asset valuation method, depreciation method, inventory costing method, research and development costs, and goodwill. Emenyonu & Gray (1993) evaluated the changes in the harmonization level for accounting measurement from 1971 to 1992 for listed companies in France, Germany, Japan, the UK and the US. According to the results, there are still significant differences between these countries for many accounting measurements.

Catuogno (2011) noticed that equity investment harmonization increased following the adoption of IFRS by Italian and Spanish listed

companies. In a study conducted by Miˇsur´akov´(2015), differences in the treatment of fixed assets valuation, depreciation and inventory costing were measured and compared with the results of Herrmann (1995) for the same countries and the same practices after 20 years. Their findings indicate an increase in harmony of the three observed areas. Diga (1996) explored the harmonization level of fifteen measurement methods in five Asian countries. The results indicate a relatively high degree of measurement harmonization for inventory, marketable securities, long-term investments, business combinations, consolidated financial statements, research and development expenditures and foreign currency translation rate. Halbouni (2006) used C-index to explore the harmonization level within Saudi Arabia industrial companies. The study results indicate no significant differences in the accounting practices for inventory valuation and costing, goodwill, research and development costs, amortization of research and development costs, fixed assets valuation, depreciation method, and investments in associates. However, significant differences were found in the accounting practices for amortization of goodwill and simple investments. Ahmed & Ali (2015) examined 370 non-financial listed companies from selected Asian countries for the financial years 1997-1998 and 2007-2008. Using Van der Tas (1988) I-index, the study reported that the degree of measurement harmonization has significantly increased over the tested period, but differences still exists. Azim (2007) reported a high level of harmonization between companies listed in Egypt and UAE stock

exchange. Most companies adopting accrual basis for accounting, valuing fixed assets on historical cost, and depreciate them on straight line method.

Previous studies used cross-sectional similarities in accounting measurement as evidence of harmonization which is used in this study. Most of the above mentioned studies proved that differences in some accounting measurements exist, even under the adoption of IFRS (Halbouni, 2006; Diga, 1996; Herrmann &Thomas, 1995; Ahmed & Ali, 2015; Ali, Ahmed, & Henry, 2006; Rajhi, 2014). However, no sufficient research between-countries harmonization has been conducted in the Middle East countries, which examine the choices made by such countries when issuing their financial statements. In the light of the above discussion, the following hypotheses are proposed:

H1: There are significant differences in the accounting measurements used by industrial listed companies in the Arab Middle Eastern countries.

H2: There are significant differences in the accounting measurements used within each Arab Middle Eastern country.

H3: IFRS adopters have a higher harmonization level than local standers adopters.

Chapter Three

Conceptual framework

3.1. Introduction

3.2 Financial statements concept and characteristics

3.3 Harmonization

3.4 International Financial Reporting Standards

3.5 Accounting diversity

Chapter Three

Conceptual framework

3.1. Introduction

The basic function of accounting is providing information useful for planning, controlling, investing and other important activities which are vital for any organization (Merchant, 1982). Given the globalization of the stock markets, the importance of comparability has been rising. Comparability is among the key qualities financial reporting must have. Accounting information is comparable if accounting standards and policies are implemented consistently from one period to another and from one firm to another (Hillman, Kochanek, & Norgaard, 1991). The rationality of decision-making is based on the comparability of the information (FASB, 1980). However, accounting systems adopted in different countries may show differences because of politics, economic system, legal system and taxation system (Chen, sun, & wang, 2002).

This chapter includes four main topics. The first topic deals with the financial statements concept and characteristics. The second describes the harmonization process and incentives for financial reporting harmonization. The third topic addresses IFRS adoption and potential benefits and Limitations for adopting these standers. Finally, the fourth section determines the reasons for differences in accounting practices.

3.2 Financial statements concept and characteristics

The main goal of the financial statements is providing accurate information related to the entity's financial position, performance and changes in financial position to make economic decisions (IFRS, 2010). Financial statements are important because economic decisions made by users require an evaluation of the ability of an entity to generate cash, assess the financial position and structure, liquidity and solvency, and ability to respond to changes in the environment it operates in.

Qualitative characteristics of financial information

Under the Conceptual Framework for Financial Reporting issued by the IASB, qualitative characteristics are the qualities required to make the accounting information useful for users. In order to achieve the objectives of the financial statements, Conceptual Framework requires two, main types of qualitative characteristics (IASB, 2008):

Fundamental qualitative characteristics

i. Relevance: information is relevant when it is capable to make differences in the decisions made by financial statement’s users. This capability is available when accounting information has a predictive and confirmatory value. This helps the users in evaluating the potential effects of past, present, and future transactions.

ii. Faithful representation: the accounting information must be faithfully representing the economic phenomena that it intends to represent. Faithful representation is reached when the depiction of an economic phenomenon is complete, neutral, and free from material error.

Enhancing qualitative characteristics

i. Comparability: Comparability improves the quality of accounting information; accounting information is comparable if accounting practices and policies are applied consistently. This helps users to observe similarities and differences between two sets of economic phenomena and compare alternatives.

ii. Timeliness: when there is a delay in the accounting information, it may lose its relevance. Management needs to weigh the relative virtues of timely reporting and the provision of reliable information.

iii. Verifiability: this quality provides assurance to users that faithful representation of the economic phenomena exists. Verifiability means that different, well-informed and independent observers will reach for the same results.

iv. Understandability: this characteristic helps users in comprehending and understanding the real meaning of the information. Understandability is improved when the information is classified, characterized and presented clearly and concisely.

3.3 Harmonization

Harmonization represents an important input for the globalization of financial markets. It facilitates comparison between financial, economic, and capital data. Furthermore, it improves economic and financial communication (Doni, Taplin, & Verona, 2016). Harmony reflects the level of compatibility between two or more subjects at a particular time (Tay, 1990). Harmonization is a process by which diversity of accounting practice is reduced. The ending result is a state of harmony in which all participants in the process cluster around one of the available methods. In addition, material harmonization refers to the harmony of the financial statements of different companies. Formal harmonization focuses on the harmonization of accounting standards, regulations or guidelines (Emenyonu & Adhikari, 1998). On the other hand, standardization is a process by which all participants agree to follow the same or very similar accounting practices. The ending result of standardization is a state of uniformity (Tay & Parker, 1990).

Incentives for financial reporting harmonization in economy

According to an earlier study by Yokarn in (1984), users are looking for financial statements that are internationally comparable. The increased international trade, the growth of multinational corporations, as well as the internationalization of the capital markets, significantly expanded the available investment opportunities internationally and increased the need for harmonized comparable financial statements (Callao, Ferrer, Jarne, & Lainez, 2009).

Harmonization of accounting standards has important advantages, such as cost savings for multinational companies, enhances comparability between financial reports prepared in different countries, the prevalence of high quality accounting standards, and cost saving of developing local accounting standards in countries with limited resources (Aitken & Islam, 1984).

Companies are looking for harmonized accounting practices to obtain finance form national and international investors with less financing cost. International economic activities, movement of capital between countries, international investment, and multinational companies are increasing at a very rapid rate (Basoglu & Goma, 2002). Also, international bond and equity offerings witnessed an increasing growth over the last decade. Companies must consider international alternatives by examining accurate comparable financial statements. Furthermore, harmonized accounting practices are important for business users such as banks and insurance companies. Credit rating agencies use the information on the financial statements in a scoring model. Preparing financial information in different ways would reduce the efficiency and effectiveness of these models (ICAEW, 2018).

Multinational companies are among the beneficiaries of accounting harmonization. The availability of harmonized accounting practices reduces the cost compared with dual reporting when preparing the consolidated financial statements. Moreover, accounting harmonization

improves comparability and communication between the parent and subsidiaries in different countries. It also enhances economic decisions made across different countries. Therefore, the IASB receives a widespread support from multinational companies for its efforts in harmonizing accounting standers and practices (Larson & Kenny, 1999).

National governments also benefit from accounting harmonization. Harmonization provides a basis for taxation and also for ensuring that companies show sufficient care for the resources used. Furthermore, it reduces the cost of setting and monitoring national accounting regulations. It also encourages the flow of foreign investment across national borders (Roberts, Weetman, & Gordon, 2005).

For investors, harmonization enhances the quality of the accounting information since it is the basis for decision making. Financial statements understandable by the users from different countries facilitate the relationship between investors and companies. Harmonization allows comparing the financial statements with those from prior periods or other companies. Users can analyze ratios easily and clarify the performance and position of one company relative to other companies and industry standards. However, different, inaccurate accounting measurements lead to vague meaning about elements of financial statement such as income and net assets.

3.4 International Financial Reporting Standards

The most important event of international harmonization is the issuance of the IAS/IFRS. Currently, economies rely widely on cross-border transactions and seek for obtaining international capital. Investors search for international investment opportunities. Companies raise funds or have international operations and subsidiaries in different countries. Previously, such cross-border activities were difficult and complicated because each country maintained its own accounting standards, which increased the cost and complexity for analyzing data. Furthermore, applying national accounting standards may result in amounts reported and calculated on a different basis. The uniformed application of international standards was a concern and remains so (IFRS, 2018).

Politicians and regulators around the world have always asked for the adoption of one set of high-quality accounting standards internationally (Norris, 2012). Accounting harmonization facilitates the trend of the globalization.

Potential benefits of IFRS adoption

IFRS are international accounting standards that enhance transparency, accountability and efficiency of the financial statements around the world. They increase the quality of the financial information, improve the quality of the decisions made by investors and other market participants, and reduce the information gap between the providers of

capital and the investors whom they have entrusted their money. These standers provide a source of globally comparable information (IFRS, 2018). Furthermore, the adoption of one set of accounting standers is less costly than developing, maintaining, and operating the complex institutional structure (Ball, 2016).

Limits of IFRS adoption

The underlying force behind the international accounting harmonization is the increased globalization of the markets in which the information on the financial statement is used. Cross-border transacting between markets increases the demand for harmonization in accounting language, reporting standards and practices (Ball, 2016), which create challenges to those foreign investors who are interested in investing in different countries. However, the fundamental limitation for a uniformed IFRS adoption is the implementation, beside the different chooses IFRS permit for some accounting measurement. Political and economic forces create the incentives for financial reporting differences and effect the implementation of the adopted practices. Also, local forces will continue to influence financial reporting practice. A complete global IFRS adoption by countries would not by itself imply uniformity of reporting around the countries. This means that formal adoption of uniform standards by countries does not lead to uniform reporting practice (Ball, 2016).

3.5 Accounting diversity

As mentioned by previous studies (Nobes C, 2006; Evans & Taylor, 1982; Rueschhoff & Strupeck, 1998), even under the adoption of international accounting standers, the harmonization is still not fully maintained. Accounting diversity refers to the differences between the characteristics of the accounting systems adopted in different countries. Most of the previous studies interpret international accounting differences as different alternatives used in different countries for the same accounting issues (Ding, Hope, Jeanjean & Stolowy, 2007). Abu Alia & Branson (2011) classified the following factors as the most important causes of differences in accounting practices:

A. Economic environment

The features of the accounting systems are affected by different economic or macro factors, such as privatization, economic openness, the stage of economic development and international trade (Spathis & Geograkopoulou, 2007). These factors determine the characteristics of the accounting information needed, which accordingly influence the characteristics of the financial reporting framework. The economic environment provides a structure that builds the information needs to be reported.

B. Political environment

Accounting systems are affected by the political environment. Roberts, Weetman, & Gordon (2005) believe that financial reporting is

affected by the political system because the involvement of the government in economic issues impacts the financial reporting framework used.

C. Legal system

There are two types of legal systems in the world: the common-law system and the code law system. The common-law system began in England and has been used mainly in English-speaking countries. This type has developed case by case; it prescribes general rules applied to all cases without specific details. Company law is kept to the minimum and detailed regulation is produced by the private standard setter. In code law system countries, laws include a wide set of detailed rules which attempt to give guidance for all situations. Such difference in legal system has a strong impact on accounting systems and the parties who regulate them. Some studies suggest that the level of compliance with IFRS is higher for companies under the common-law system, because IFRS are closer to accounting standards used in common-law countries, and the index of private and public enforcement is higher in the UK than in other European countries (La Porta, 1998).

D. Sources of finance

Providers of finance contribute in determining the features of the accounting systems. The difference in providers of finance (creditors/insiders) versus (equity/owners) is the key cause of international differences in financial reporting (Nobes & Parker, 1998). Firms in

different countries respond differently to the increased need for finance and adjust the financial statements to present understandable information for the intended users.

E. Culture

Individuals' practices and decisions related to the application of accounting standards are affected by culture. Setting and developing national accounting standards is influenced by cultural values the society possesses (Leonard, 2010). Based on the cultural dimensions developed by Hofstede, four accounting values are identified by Gray (1988). These are professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency. Gray argues that the characteristics of accounting systems are determined based on the four values. The first two values describe attitudes toward regulation and the level of control that is preferred. The third value is related to attitudes towards measurements, and the fourth value is concerned with attitudes towards disclosure.

F. Taxation

The tax environment has an important impact on the financial reporting framework. In some countries, tax authorities depend on the information in the financial statements to determine taxable income. In the UK, the US and the Netherlands the link between taxes and accounting is

much weaker because separate accounts are filed for tax purposes (Jindrichovska, 2004).

G. Business environment

The business environment has a substantial impact on the accounting. Firms' characteristics such as size, industry sector, and legal form affect the required accounting information and the necessary characteristics of the accounting systems. Also, the importance of capital markets in business environment affects accounting regulation and the enforcement of practices. The pressure for changes in accounting practices appears to come from the capital markets (Perumpral, 2009).

H. International environment

Financial reporting is affected by the international environment, especially in developing countries (Abu Alia & Branson, 2011). Financial reporting frameworks used in developing countries are influenced by the west through western multinational companies, aid and loans from the developed nations and the influence of local professional associations (Baydoun, 1995). Also, international accounting organizations play an important role in developing accounting internationally and enhance accounting harmonization.

Chapter Four

Research Methodology

4.1 Methodology and Sample

4.2 Overview of the economy and Financial Reporting frameworks in the Arab Middle Eastern counties selected

4.3 Data and selected measurements

4.4 Research Design

4.5 Data Procession

Chapter Four

Research Methodology

This chapter is devoted to explain the methodology employed by the study, sample, accounting measurements selected, a detailed demonstration of the indexes used in this study, and data procession which illustrates the process of collecting and calculating the indexes for the selected accounting measurement.

4.1 Sample of the study

The Middle East consists of fifteen countries; two countries (Iran and Turkey) are not Arab countries. The study, which focuses on the Arab Middle Eastern countries was conducted only on eight countries, including Jordan, Egypt, Saudi Arabia, Oman, Kuwait, Qatar, UAE and Palestine. However, the rest of the Arab Middle Eastern countries were excluded due to (1) the unavailability of stock exchanges (Yemen), (2) the limitation of obtaining sufficient data related to Iraqi companies, (3) the limited number of industrial companies listed on the stock exchanges (Lebanon, Bahrain and Syria), (4) and the specific characteristics for companies listed on the stock exchanges (Dubai).

4.2 Overview of the economy and Financial Reporting Frameworks in the Arab Middle Eastern counties selected.

Internationally, there are two main general accounting frameworks for preparing and presenting financial statements, the IFRS and the local Generally Accepted Accounting Principles (GAAP). IFRS is a result of growing international transactions and trade, and countries are progressively replacing there national accounting standard with international ones (OBG, 2017). However, some countries still follow their own accounting standers. This section presents the accounting standers adopted in the selected Arab Middle Eastern countries and which countries still follow local accounting standers.

Jordan: Jordan is an emerging market. Its economy grew at an annual rate of 8% in 1999 until 2008. However, the growth rate declined to 2.3% in 2019 after the Arab Spring events in 2011(Index Economic of freedom, 2019), and its GDP is $41.869 billion (The Heritage, 2019). Jordan has witnessed an increasing public debt, poverty, and unemployment because of the increase of the population, which has not been accompanied by sufficient economic growth. All companies registered under the laws are required to prepare annual audited financial statements in accordance with internationally recognized accounting and auditing principles. According to the Jordanian Securities Commission Law No.23 (1997), all companies subject to JSC's supervision are required to follow International Financial Reporting Standards (IFRS).

Egypt: The aggregated value of exports and imports of Egypt is equal to 44.8 percent of GDP (The Heritage, 2019). Moreover, foreign investments in many sectors are widely restricted. Under the Corporate Law No.159 (1981), all companies in Egypt listed or unlisted must prepare financial statements in accordance with Egyptian Accounting Standards, and audited by a CPA. Egyptian Accounting Standards (EAS) are developed by a local standard-setter called the Standards Committee of the Egyptian Society of Accountants and Auditors, which is headed by the Minister of Investment.

Saudi Arabia: Saudi Arabia has one of the top twenty economies in the world which depends essentially on oil exportation (MCI, 2019). In fact, it is the largest exporter of petroleum in the world (Workman, 2018), and Its total worth is US$34.4 trillion (Anthony, 2019). Banks and insurance companies listed on the Saudi Stock Exchange are required to prepare their financial statements using IFRS. Other listed and unlisted companies are required to adopt accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). This organization was established in 1992 and operates under the supervision of the Ministry of Commerce.

Oman: The economy of Oman witnessed a significant improvement in 1999 because of the mid-year upturn in oil prices. Oman's GDP has expanded continuously in the past 50 years; current GDP equals $186.6 billion (The Heritage, 2019). According to the Capital Market Authority of Oman, all Omanis companies are required to prepare their financial

statements following the International Financial Reporting Standards (IFRS).

Kuwait: Kuwait is a small petroleum-based economy. According to the World Bank (2015), Kuwait is the fourth richest country in the world per capita, and its GDP reached $291.5 billion (The Heritage, 2019). In 1990, the Kuwait Ministry of Commerce issued Ministerial Resolution No. 18, which requires all companies and institutions, listed or unlisted, to prepare their financial statements in accordance with IFRS.

Qatar: With a GDP of $340.6 billion, Qatar is one of the richest economies, according to the World Bank (2015). Given the absence of national accounting standards, companies in Qatar are obliged to adopt IFRS when preparing their financial statements.

UAE: Abu Dhabi is the capital of the United Arab Emirates, the rapid development of this country coupled with the oil and gas reserves and production transformed the city into a large and advanced metropolis. UAE economy remains extremely reliant on petroleum, its GDP $407.52 billion in 2017 based on International Monetary Fund and expanded 0.80 percent from the previous year (Trading Economics, 2019). Currently, UAE requires its banks to adopt IFRS, as well as companies listed on the UAE's new stock exchange, the Dubai International Foreign Exchange (DIFX) (Irvine & Lucas, 2006). Since 2003, all companies listed on Abu Dhabi Securities Exchange (ADX) are required to publish IFRS financial

statements. Companies in UAE other than Dubai are listed on the ADX. However, IFRS is not required for unlisted companies other than banks.

Palestine: The pattern of economic activity in Palestine is unusual. Palestinian economy operates in an environment affected by different internal and external risks and challenges. The GDP figure in 2017 was $14,498 million, a huge decline in GDP in Gaza was observed by 8%, while the GDP in the West Bank increased by 2.3% in 2018 compared to 2017. The preliminary estimates indicated a decline in GDP growth in Palestine during 2018 to reach 0.7% compared to 3% in 2017 (PCBS, 2019). Palestine Securities Exchange (PSE) required all listed companies to prepare their financial statements in accordance with IFRS.

4.3 Data and selected measurements

Methods of seven accounting measurements were obtained from the notes of the company's financial statements. The study includes all industrial companies listed on the selected country's stock exchanges during 2016-2017, which are the most recent data available when the study started. Following prior studies (De Franco et *al*, 2011; Yip and Young, 2012; Van der Tas, 1988), other sectors were excluded since they have specific reporting practices and specific regulatory requirements. Accordingly, the distortion caused by industry differences would be reduced. However, some industrial companies did not publish their financial statements during 2016-2017 and accordingly were excluded. The study hypotheses are tested based on information presented in the annual

reports of 266 industrial listed companies from eight Arab countries as the following:

Table (1): Sample of the study

Country	Number of companies
Mascat Stock Exchange (Oman)	34 companies
Kuwait Stock Exchange	20 companies
Saudi Stock Exchange	56 companies
Egypt Stock Exchange	81 companies
Palestine Exchange	13 companies
Amman Stock Exchange (Jordan)	42 companies
Qatar Exchange	9 companies
Abu Dhabi Securities Exchange	11 companies

4.4 Research Design

Initially, Herfindahl index (H index) was developed by Van der Tas (1992) to measure the harmonization degree for one country. It is the square of relative frequencies of each alternative accounting method for a specific sort of transaction used by an entity, and calculated as the following:

$$H = \sum_{i=1}^{n} p_i^2$$

Where n is the number of alternative accounting methods and p_i is the frequency of method i.

The H index is the probability that two randomly selected companies use similar accounting method. However, H index can be applied only when companies use one alternative accounting method (Mustata & Matis, 2010). Moreover, it measures the harmonization level for one country in one period; international comparison is not possible.

Then, Van der Tas developed two levels of H index: C index and I index. With regard to C index, it measures accounting harmonization on a national level. This Index is used when a company's accounting information can be measured using several alternative methods for a particular accounting practice. It measures the accounting harmonization level between the companies depending on the number of pairs of companies that follow the same accounting methods. This index ranges from 0 to 1, it increases when the same accounting method is used by more companies. In order to calculate the C index, the number of compatible pairs of companies is compared with the total number of pairs of companies. The financial statements of two companies are compatible if both companies apply the same accounting method. The pairs report compared with the maximum total number of possible pairs in the following way:

$$C = \frac{\sum (n_i x (n_i - 1))}{(Nx(N-1))}$$

Where: N is the number of the alternatives of accounting methods, n is the number of sampled financial reporting and at the number of entities applying the t accounting method.

To facilitate the measurement of international harmonization, two conditions must be met. First, the harmonization measurement must be calculated primarily for every country. Second, international accounting harmonization exists when two or more countries follow the same accounting practices while preparing financial statements. The level of international harmonization shows the degree to which companies in specific countries use the same accounting practices compared to companies in other countries. The I-index incorporates differences in accounting practices of different countries. This index is calculated by multiplying across countries the proportion of companies applying a specific accounting method and then adding the overall alternative measurements. The correction factor in the exponent is used when more than two countries are examined. The I-index doesn't indicate the statistical significance of harmonization, but it is a scale to evaluate the harmonization level for comparative purposes (Herrmann & Thomas, 1995). The I-index formula is shown below:

$$I = [\sum_{m=1}^{M}(\prod_{n=1}^{N} P_{mn})]^{\frac{1}{(N-1)}}$$

Where: m is the alternative accounting method, n number of countries, P_{mn} relative frequency of the utilization of method m in country n.

The I-index ranges from 0 to 1. A value of 0.5, for example, means that only 50% of the pairs of measured companies are comparable. The possible sensitivity increases as the number of observed countries

increases. To control this sensitivity, Morris & Parker (1999) proposed the adjusted I index. In the case that all companies in a specific country choose one of the available alternative methods, the proportions are recorded as 0.99 for the unanimous method instead of 1, and 0.01 for the non-practiced method instead of 0. This method was used because of its simplicity. Moreover, measuring practices separately gives more accurate results since it measures the degree of material measurement harmonization for each sort of transaction accounted in the financial statements, whereas measuring comparability aggregated for all types of transactions gives only aggregate results, making it difficult to draw policy and conclusions (Canibano, 2000).

Benchmark: Based on the Van der Tas (1988) harmonization measurement, the degree of harmonization is considered high if the index is 80% or more, medium if the index between 60% and 79%, and low if it is less than 60% following (Ahmed & Ali, 2015).

4.5 Data Procession

In this study, the collected data is converted to numbers and used for the statistical analysis to calculate the indexes. Secondary data was collected from various sources including annual reports of the companies, articles in journals, several electronic databases, internet sources and books.

First, every annual report is examined to record the used methods for all individual practices of the selected companies. Then, the number of firms using each alternative for every country are counted and reported in a table for computing C index and I index. This methodology was followed by many studies (Chairas & Radianto, 2001; Archer, Delvaille & McLeay, 1995; Catuogno, 2011; Halbouni, 2006; Ahmed & Ali, 2015). Also, disclosure of the practices from the notes section were examined to make sure that companies from different countries provide full and understandable disclosure for the methods used. Given that a specific accounting method required either by national or international standards may not be followed by all companies, this study considers measurement practices harmonization rather than formal harmonization. These measurement methods are selected given their important effect on profit and asset valuation. Further, they are considered important to most companies, and are widely implemented by all industrial companies. Moreover, most companies disclose sufficient information about these measurements.

Following Radebaugh & Gray (1997), the selected accounting measurement methods are:

1. Measuring inventory

Since inventories normally are the largest item in the current asset of the entity, harmonized suitable measurement of inventories is essential to insure accuracy and comparability in the published financial statements.

Under IAS 2, inventories consist of three types. The first type is finished goods which represent assets held for sale in the ordinary market. Second is work in process, which refers to assets in the production process. Finally, the third type is raw materials which are used for producing finished goods. If inventory is measured inaccurately, inaccurate expenses and assets would be reported, and accordingly, inaccurate decisions could be made. IAS 2 requires accountants to measure inventories at lower of cost and net realizable value (NRV). Net realizable value is the expected selling price of the inventories in the ordinary course of business, deducted from the estimated cost of completion and other costs necessary to make the sale. However, there are circumstances in which IFRS allows the inventory to be recorded at its NRV or fair value, irrespective of its cost, such as agricultural products (Bragg, 2018).

In this study, three accounting measurements for inventory were considered: lower of cost or net realizable value, cost, and “other” for companies following any accounting measurement other than Lower of cost or NRV and cost. The selected measurements are based on the methods required or allowed by the national and international accounting standards adopted by the countries covered in this study. However, several companies in the industrial sector measure inventory at cost or NRV, except raw materials, which are measured at cost, that’s why “Lower of cost or NRV except raw material” category was added. “Not disclosed” was also counted for measurements used, but the method was not disclosed,

and “not applicable” for companies that didn’t use the accounting measurements tested.

2. Inventory costing method

Different inventory costing methods affects the bottom line and other elements of the financial statements. There are four methods for valuing the cost of inventory: 1) the specific identification method, this method track the specific cost of individual items of inventory; First in First out (FIFO) method; Last in first out (LIFO) method; and The weighted average method. Most businesses use the FIFO method because it gives an accurate result of inventory cost (Bragg, 2018). While IFRSs prohibit the use of LIFO, US companies operate under the generally accepted accounting principles (GAAP) are allowed to use this method (ROSS, 2019).

For this study, three accounting measurements were counted: FIFO, W/A and mixed methods used. The measurements chosen are based on the methods allowed by national and international accounting standards followed in the selected countries. “Not disclosed” was also counted for measurements used, but the method was not disclosed, and “not applicable” for companies that do not use the accounting measurements considered by the study.

3. Borrowing costs

The previous treatment of recognizing borrowing costs as an expense has been changed. Currently, IAS 23 requires capitalization of borrowing

costs related to the acquiring or producing a qualifying asset. These assets require a substantial period to get ready for use or sale. Other Borrowing costs are treated as expenses in the income statement. Borrowing costs may include interest expense, finance charges, and also the differences of exchange of foreign currency borrowings as they are regarded as an adjustment to interest costs.

For this study, two accounting measurement methods were counted. While the first requires expensing all borrowing costs, the second method requires capitalizing these costs when they are attributable to the acquiring or producing a qualifying asset. “Not disclosed” was also counted for measurements used, but the method was not disclosed, and “not applicable” for companies that do not use the accounting measurements tested.

4. Property, plant and equipment

IAS 16, Property, plant and equipment addresses the accounting treatment of the tangible assets acquired, not for resale, but for use by the firm or for rent. The economic benefits of these assets are expected to flow in more than one period. According to IAS 16, cost model is used to measure items of property, plant and equipment at the initial recognition. Then, it is allowed to continue using the cost or the revaluation method (fair value).

The above mentioned accounting methods were counted in this study. Cost model and revaluation model are addressed since they are

allowed by national and international accounting standers adopted by the selected countries. “Not disclosed” was also counted for measurements used, but the method was not disclosed, and “not applicable” for companies that didn’t use the accounting measurements tested.

5. Depreciation

As it relates to the property, plant and equipment items, depreciation are also considered by IAS 16. According to the standard, depreciation is the allocation of the depreciable cost of an asset over its useful life. Depreciable cost is the cost of an asset less its residual value. There are different types of depreciation methods. The most popular depreciation methods are: Straight-line method, declining balance method, and units of production method.

Four accounting methods were counted by this study. Straight-line method, declining balance method, units of production, mixed methods and “other” for companies following any other depreciation method. The measurements chosen are based on the methods allowed by national and international accounting standers adopted by the selected countries. “Not disclosed” was also counted for measurements used, but the method was not disclosed, and “not applicable” for companies that didn’t use the accounting measurements tested.

6. Foreign currency translation rate

Foreign currency transactions are required to be translated to the entity's functional currency in accordance with FASB Accounting Standards Codification (ASC) 830-20. Functional currency is defined by the U.S. GAAP topic 830 (Foreign Currency Matters), and the IAS 21 (The Effects of Changes in Foreign Exchange Rates), as "the currency of the primary economic environment in which an entity operates". This is accomplished by using the exchange rate on the date in which the transaction is recognized. ASC 830 includes some guidance related to exchange rates that should be used. However, it is allowed to rely on judgment if the particular exchange rate is not appropriate. Some companies included in the study use weighted-average exchange rate for foreign currency translation.

For this study, three translation rates were counted: current exchange rate, average rate, and "other" for companies use any rates other than current and average rate. The measurements chosen are based on the methods allowed by national and international accounting standers adopted by the selected countries. "Not disclosed" was also counted for measurements used, but the method was not disclosed, and "not applicable" for companies that didn't use the accounting measurements tested.

7. Investment property

Investment property is a land or building acquired with the purpose of earning a capital or periodic return on the investment (CHEN, 2018). Similar to property, plant and equipment, investment properties are measured at cost at the initial recognition. For subsequent measurements, companies may choose between cost model and fair value model.

For this study, the two accounting methods were counted: cost model and fair value model. The measurements chosen are based on the methods allowed by national and international accounting standers adopted by the selected countries. “Not disclosed” was also counted for measurements used, but the method was not disclosed, and “not applicable” for companies that didn’t use the accounting measurements tested.

Chapter Five

Data Analyzing and Outcomes

5.1 National accounting harmonization

5.2 International accounting harmonization

5.3 Comparison between international accounting standers and local accounting standers adopters

5.4 Results analyzing

5.5 Summary and Conclusion

Chapter Five

Data Analyzing and Outcomes

This chapter consists of five sections. In the first section, the results of the national accounting harmonization are presented. The second section is devoted to the results of accounting harmonization between countries. The third section addresses a comparison between international accounting standers adopters and local accounting standers adopters. The fourth section review the results analyze. Finally, the summary, conclusion and recommendations are presented in the last section.

In order to calculate the indexes, the selected accounting measurements were identified and obtained from annual reports of the companies included in the study. These accounting measurements are related to fixed assets, inventory, foreign currency translation, investment property and borrowing costs.

5.1 National accounting harmonization

C-index, which measure national accounting harmonization was calculated and presented in the next section, each country has an index for each accounting issue.

- ✓ **Measuring inventory**

Table (1) presents the test results of the harmonization level for inventory valuation method in the selected Middle Eastern countries and

the different measurements used for valuing inventory. The C-index measures the degree of harmonization for each selected country, the computed index for Qatar, Kuwait and Oman indicate that full harmonization for inventory measurement exists, and all the companies in these countries adopt the same accounting method. The results also show that a high harmonization level is observed in Saudi Arabia (86.49%) and UAE (81.82%). In contrast, Egypt and Jordan had a medium harmonization level (72.87% & 65.97% respectively), while Palestine has the lowest harmonization level for inventory Measurement. As shown in the table below, the majority of the selected Middle Eastern countries use lower of cost or net realizable value during 2016-2017. Also, some companies valuate their raw material at cost while others valuate raw material at lower of cost or NRV. Herrmann and Thomas (1995) in the EU countries, Diga (1996) in Asia and Halbouni (2006) in Saudi Arabia reached similar results, and high harmonization level for measuring inventories were observed in these countries. Most companies use lower of cost or net realizable value because this measurement reflects the current value of inventory listed on the accounts. Net realizable value is an appropriate approximation of fair value because it is an excellent estimate of both the costs and benefits of owning the inventory.

Table (2): Harmonization of inventory Measurement

Accounting method	Jordan	Egypt	Saudi Arabia	Oman	Kuwait	Qatar	UAE	Palestine	TOTAL
Lower of cost or NRV	34	69	52	34	20	9	10	10	**238**
Cost	1	2	0	0	0	0	0	0	**3**
Other	2	5	0	0	0	0	0	1	**8**
Not disclosed	1	2	0	0	0	0	1	1	**5**
Not applicable	0	0	0	0	0	0	0	0	**0**
Lower of cost or NRV except raw material at cost	4	3	4	0	0	0	0	1	**12**
C-Index	0.65970	0.72871	0.86494	1	1	1	0.81818	0.57692	**266**

- ✓ **Inventory costing method**

Table (3) presents the test results of the harmonization level for inventory costing method in the selected Arab Middle Eastern countries. The computed C-index for UAE had the highest harmonization level for this category (81.82%), while Oman had a medium harmonization level (61.68%). All other countries had low harmonization level as presented in the table below. The same results are found by several studies (Herrmann & Thomas, 1995; Miˇsur´akov´, 2015; Halbouni, 2006). The low level of harmonization in inventory costing method may be explained by the different categories of inventories (raw material, work in process goods and finished goods) measured by different costing methods, which is allowed by the standards. Also, different types of industrial companies choose costing methods suitable for its operating nature. However, the majority of the selected Middle Eastern countries use the weighted average costing method during 2016-2017.

Table (3): Harmonization of inventory costing method

Accounting method	Jordan	Egypt	Saudi Arabia	Oman	Kuwait	Qatar	UAE	Palestine	**Total**
FIFO	8	4	1	0	2	1	0	4	**20**
W/A	20	44	40	26	13	7	10	3	**163**
Mix	13	28	14	7	3	1	0	5	**71**
Not applicable	0	0	0	0	0	0	0	0	**0**
Not disclosed	1	5	1	1	2	0	1	1	**12**
C-Index	0.34379	0.41358	0.56623	0.61676	0.43684	0.58333	0.81818	0.24359	**266**

- ✓ **Borrowing costs**

Table (4) presents the test results of the harmonization level for borrowing costs practices in the selected Middle Eastern countries and the different measurements used for measuring borrowing costs. The computed C-index indicates that full harmonization for borrowing cost measurement exists in Qatar, and high harmonization level is observed in UAE (81.82%). Kuwait and Saudi Arabia had a medium harmonization level (66.32% & 71.26%, respectively), while Palestine, Oman, Egypt and Jordan had low harmonization level (46.97%, 54.90%, 57.58% and 54.47% respectively). As shown in the table below, there is a low level of harmonization concerning borrowing cost measurement during 2016-2017. The default accounting treatment is that borrowing costs are expensed in the period in which they were incurred. The other available treatment is that borrowing costs related to the acquisition, production, and construction of a qualifying asset should be treated as part of the relevant asset's costs. However, some companies in some countries expense these costs even if it is a qualifying asset due to its simplicity and the non-existence of a "qualifying asset" in some companies.

Table (4): Harmonization of borrowing costs measurements

Accounting method	Jordan	Egypt	Saudi Arabia	Oman	Kuwait	Qatar	UAE	Palestine	**Total**
Expensed	28	18	9	11	4	0	1	5	**76**
Capitalized	14	55	44	23	16	9	10	7	**178**
Not applicable	0	5	3	0	0	0	0	1	**9**
Not disclosed	0	3	0	0	0	0	0	0	**3**
C-Index	0.54472	0.57579	0.71263	0.54902	0.66316	1	0.81818	0.46970	**266**

- ✓ **Property, plant and equipment:**

Table (5) presents the test results of the harmonization level for property, plant and equipment measurement after the initial recognition in the selected Middle Eastern countries, and the different measurements used for valuing fixed assets. Full harmonization is observed in all the selected countries except Egypt, which means that these countries use cost model for valuing PPE. However, Egypt's C-index was (95.12%) which is also considered high. As shown in the table below, the majority of the selected Middle Eastern countries use cost model for valuing PPE during 2016-2017. Similar results were reached by Miˇsur´akov´ (2015) in the EU countries, Halbouni (2006) in Saudi Arabia, and Abdel-Azim (2007) in Egypt and UAE. The revaluation model depends mainly on the judgment of the management, which make cost model method more objective and easier to apply.

Table (5): Harmonization of property, plant and equipment measurement

Accounting method	Jordan	Egypt	Saudi Arabia	Oman	Kuwait	Qatar	UAE	Palestine	**Total**
Cost model	42	79	56	34	20	9	11	13	**264**
Revaluation model	0	2	0	0	0	0	0	0	**2**
Not applicable	0	0	0	0	0	0	0	0	**0**
Not disclosed	0	0	0	0	0	0	0	0	**0**
C-Index	1	0.95124	1	1	1	1	1	1	**266**

- ✓ **Depreciation**

Table (6) presents the test results of the harmonization level for the depreciation method in the selected Middle Eastern countries and the different measurement used. The results indicate that all industrial companies in Jordan, Kuwait and Qatar use the straight line method for depreciating fixed assets (full harmonization). Other countries had a high harmonization level as the C-index was between 94% and 84%, except UAE, which had low harmonization level for depreciation method (56.36%). As shown in the table below, the majority of the selected Middle Eastern countries uses the straight line depreciation method during 2016-2017 because this method is the easiest, straightforward and it is suitable for assets that operate uniformly and consistently over the life of the item.

Table (6): Harmonization of Depreciation method

Accounting method	Jordan	Egypt	Saudi Arabia	Oman	Kuwait	Qatar	UAE	Palestine	**Total**
Straight line	42	78	54	33	20	9	8	12	**256**
Declining	0	1	1	0	0	0	0	0	**2**
Units of production	0	0	1	0	0	0	0	0	**1**
Mix	0	2	0	1	0	0	0	1	**4**
Other	0	0	0	0	0	0	3	0	**3**
Not applicable	0	0	0	0	0	0	0	0	**0**
Not disclosed	0	0	0	0	0	0	0	0	**0**
C-Index	1	0.92716	0.92922	0.94118	1	1	0.56364	0.84616	**266**

- ✓ **Foreign currency translation rate**

Table (7) presents the test results of the harmonization level for foreign currency exchange rate in the selected Middle Eastern countries and the different rates used. The results indicate that all industrial companies listed in Oman, Kuwait, Qatar, UAE and Palestine use current exchange rate to translate foreign transaction (full harmonization). All other countries had a high level of harmonization; however, Egypt had the lowest C-index for this Category (83.82%), and most companies that doesn't use current exchange rate use fixed rate. As shown in the table below, the majority of the selected Middle Eastern countries used current exchange rate during 2016-2017, because its accurate and international standers prefer this exchange rate. However, similar results were reached by Herrmann and Thomas (1995) in the EU countries and Diga (1996) in Asia.

Table (7): Harmonization of Foreign currency translation rate

Accounting method	Jordan	Egypt	Saudi Arabia	Oman	Kuwait	Qatar	UAE	Palestine	**Total**
Current exchange rate	40	74	54	34	20	9	9	13	**253**
Average rate	0	0	1	0	0	0	0	0	**1**
Other	0	6	0	0	0	0	0	0	**6**
Not Applicable	1	0	0	0	0	0	2	0	**3**
Not disclosed	1	1	1	0	0	0	0	0	**3**
C-Index	0.95122	0.83827	0.92922	1	1	1	1	1	**266**

- ✓ **Investment property**

Table (8) presents the results test of the harmonization level for investment property valuation method after the initial recognition in the selected Middle East countries and the different methods used. The computed index for Egypt had a full harmonization level and all the companies in this country use cost model for investment property valuation. Jordan had a medium harmonization level (71.43%), while Palestine, Oman, Qatar, Kuwait, Saudi Arabia and UAE had a low harmonization level (40%, 46.67%, 39.99%, 56.36%, 51.52% and 40% respectively). There is a low harmonization level concerning the investment property valuation method during 2016-2017 and Qatar had the lowest level. Some companies choose cost model because it may be less complicated compared to fair value model, other companies choose fair value model because it provides accurate value of the investment property measured.

Table (8): Harmonization of investment property valuation method

Accounting method	Jordan	Egypt	Saudi Arabia	Oman	Kuwait	Qatar	UAE	Palestine	**Total**
Cost model	6	4	8	2	8	3	2	3	**36**
Fair value model	1	0	4	4	3	2	3	3	**20**
Not Applicable	35	77	44	28	9	4	6	7	**210**
Not disclosed	0	0	0	0	0	0	0	0	**0**
C-Index	0.71429	1	0.51516	0.46667	0.56363	0.39999	0.4	0.4	**266**

5.2 International accounting harmonization

National harmonization is not enough today with the globalization of capital markets around the world, where companies are searching for capital outside their countries and investors are trying to diversify their investments internationally.

The I-index measures the degree of international accounting harmonization in the selected countries. Table 8 shows the international accounting harmonization; the index ranged from a low of 45.2% for inventory costing method to a high of 98.5% for property, plant and equipment valuation. Also, high harmonization level is observed in foreign currency translation rate, depreciation method and inventory measurement, and significant differences level in investment property valuation method and borrowing costs valuation. This indicates that for some accounting issues, it is hard to compare financial accounting information accurately due to the different accounting treatment and measurements adopted by different countries.

Table (9): International accounting harmonization

Accounting Methods	I-index (Between countries harmonization)
Measuring inventory	**0.80324**
Inventory costing method	**0.45238**
Borrowing costs	**0.56560**
property, plant and equipment valuation	**0.98502**
Depreciation method	**0.92637**
Foreign currency translation rate	**0.92578**
Investment property	**0.53247**

5.3 Comparison between international accounting standers adopters and local accounting standers adopters

Accounting standards are the main driver of the quality of financial statements. However, adopted standers differ across countries; some countries adopt international accounting standers, while other countries still adopt national accounting standers build and developed locally. Many studies examined the harmonization degree of specific accounting practices through determining the similarity between accounting standards used by companies in different countries, since differences in accounting standards have a direct effect on comparability (Rueschhoff & Strupeck, 1998). However, the uniform application of the same accounting standards across different countries has been questioned given the various institutional and cultural influences (Nobes, 2006). This raises the question if accounting standards should be harmonized to increase the harmonization level of

accounting measurement and practices and consequently increase comparability.

Among the selected Arab Middle Eastern countries, Jordan, Oman, Kuwait, Qatar, UAE and Palestine adopt international accounting standers (IFRS). On the other hand, Egypt and Saudi Arabia adopt local accounting standards. The I-index measures the degree of accounting harmonization in countries adopting international accounting standards, and countries adopting local accounting standers. As Table 9 shows, for measuring inventories, property, plant and equipment valuation, and foreign currency translation rate, IFRS adopters had a higher harmonization level for these accounting practices than local accounting standers adopters. While inventory costing method, borrowing costs treatment, depreciation method and investment property valuation method, local accounting standers adopters had higher I-index. This indicates that even under that adoption of similar international standers, differences in the accounting treatments and measurements still exists. Also, the reason for some low harmonization level in some accounting issues is not the adopting of local accounting standers in some countries. It may be due to the flexibility and different measurements chooses allowed by the IFRS as well as local accounting standers. These results may question the capability of achieving international harmonization through the adoption of the IFRSs in their current form, or that the standards adopted by Egypt and Saudi Arabia are developed based on the IFRSs, as low and high harmonization levels are

very similar for the same accounting measurements in both accounting standers.

Table (10): International accounting standers and local accounting standers adopter's harmonization level

Accounting methods	I-index For IFRS Adopters	I-index For Local Standers Adopters
Measuring inventory	0.82389	0.78285
Inventory costing method	0.43689	0.46930
Borrowing costs	0.51563	0.55872
Property, plant and equipment valuation	1	0.97102
Depreciation method	0.92418	0.92830
Foreign currency translation rate	0.98413	0.87420
Investment property	0.50770	0.60

5.4 Results analyzing

The main objective of this study is to investigate the harmonization of seven accounting measures extracted from the financial statements published in Jordan, Egypt, Saudi Arabia, Oman, Kuwait, Qatar, UAE and Palestine. Industrial companies were chosen during 2016-2017, since they operate within the same industry, as it has been argued that companies operating in similar circumstances are expected to have harmonized accounting measurements and maintain full comparability owning to the fact that industry type has a very important effect on the accounting policy choice (Jaafar, 2007).

The results of the statistical test for the harmonization of accounting measurements are presented as the following:

For within-country harmony, the C Index results show a high harmonization level (80 per cent or more) for:

- ✓ Inventory valuation method in Kuwait, Oman, Saudi Arabia, Qatar and UAE
- ✓ Inventory costing method in UAE
- ✓ Borrowing costs in Qatar and UAE
- ✓ property, plant and equipment valuation and Foreign currency exchange rate in all selected countries
- ✓ Depreciation method in Kuwait, Oman, Saudi Arabia, Qatar, Jordan, Palestine and Egypt
- ✓ Investment property in Egypt

Medium harmonization level (between 60 and 80 per cent) for:

- ✓ Inventory valuation method in Jordan and Egypt
- ✓ Inventory costing method in Oman
- ✓ Borrowing costs in Saudi Arabia and Kuwait
- ✓ Investment property in Jordan

While a low level (less than 60 per cent) is found in:

- ✓ Inventory valuation method in Palestine

- ✓ Inventory costing method in Jordan, Egypt, Saudi Arabia, Kuwait, Qatar and Palestine
- ✓ Borrowing costs in Jordan, Egypt, Oman and Palestine
- ✓ Depreciation method in UAE
- ✓ Investment property in Oman, Kuwait, Qatar, Palestine, Saudi-Arabia and UAE

On the international harmonization level, Table 8 shows a high level of international accounting harmonization in inventory valuation, property, plant and equipment valuation, depreciation method and foreign currency translation. The table also shows a low level of international accounting harmonization in inventory costing method, borrowing costs and investment property. The significant low level in these areas may be explained by the preparers of the financial statements preferring different accounting methods for their own benefits. Also, it can be explained by the availability of several alternative methods allowed in national accounting regulations and international accounting standards.

After analyzing the results, the first hypothesis of the study is accepted since there are differences in the accounting measurements used by industrial listed companies in the Arab Middle Eastern countries. The second hypothesis of the study is also accepted since there are differences in the accounting measurements used within each Arab Middle Eastern country. However, the third hypothesis of this study is rejected. IFRS

adopters do not have a higher harmonization level than local standers adopters for all the accounting issue selected. These results provide evidence from the Middle East that question the efforts of the IASB to achieve accounting harmonization.

5.5 Conclusion and Recommendations

It is argued that harmonization of accounting measurements is essential to reach the international accounting harmonization. Accounting harmonization improves the quality of financial statements. Practitioners have been assessing if harmonization of accounting standards globally and adopting IFRS has increased accounting harmonization measurement and disclosure.

While it is important to investigate whether accounting harmonization is evident around the world, only a few studies investigated the harmonization issue in the Middle East. 266 industrial listed companies were examined to investigate the extent of harmonization within each country, between countries, and between different standers adopters using seven accounting measurements. Following prior studies, C-index and I-index developed by Van der Tas (1988) were used to test the level of accounting harmonization nationally and internationally.

The study contributes to the existing literature that addresses the success of the IASB harmonization efforts in the world. The results show an overall high level of harmonization for inventory valuation, property,

plant and equipment measurement, depreciation method and foreign currency translation. While a low level of accounting harmonization is observed for inventory costing method, Borrowing costs and Investment property. In consistence with Ali, Ahmed, & Henry (2006), this may be explained by the flexibility that exists within IAS and national accounting standers, and standers setters should consider reducing alternative measurement options available since these accounting practices have an important impact on asset and profit measurement. Differences in the measurements used have important implications for international financial statement analysis. Given the low degree of harmony for some accounting issues, financial statements analysts need to make adjustments for differences relating measurement practices. Standers setters also need to focus on decreasing the available options for inventory costing method and investment property, since these two measures had the lowest I-index.

Egypt and Saudi Arabia use national accounting standers. However, the results indicate that for many accounting measurements, the degree of harmony observed for Egypt's industrial companies was lower than in the other countries. Although these standards are developed in line with IFRS, national accounting standards setting bodies in these countries should provide more efforts to achieve IASB’s global harmonization program. However, the findings of this study help standards-setters to identify the accounting measurement that has a low harmonization level, and decrease the available options for these methods to maintain comparable financial statements nationally and internationally, and

therefore, increase the flow of investment by the national and international investors. Also, it is important to understand the variety of financial reporting practices and methods that exist globally to evaluate the extent of the financial statements comparability and help users make accurate decisions.

Harmonization is a target the IFRS is trying to achieve. When a new accounting standard is adopted, there is a potential effect on the level of harmonization among countries. Studies about this topic would help in assessing the impact of national and international accounting initiatives and sharpen understanding of the fluctuations in the level of harmonization over time.

Recommendations

In the light of the study findings and conclusions, the recommendation are the following:

1- Standers setters should reduce accounting measurement options available since these accounting practices have an important impact on comparability of the financial statements.

2- Local accounting standards setters and regulators in the Middle Eastern countries should provide more efforts to keep up with the IASB’s global harmonization program, and force harmonized accounting measurements for similar practices to enhance

comparability and transparency of the accounting information presented.

3- Because of the low degree of harmony for some accounting issues, financial statements analysts and investors need to make some adjustments for differences related to measurement practices, so accurate economic decisions can be made.

4- Harmonization will not only increase the efficiency of countries' financial statements, but it will also help to expand international globalization. Further research should investigate further differences and other accounting measurements in other countries, especially in the Arab world.

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جامعة النجاح الوطنية
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دانة باسل عزت هودلي

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2019

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د. معز أبو عليا

الملخص

الهدف الرئيسي من هذه الدراسة هو قياس مدى توافق استخدام عدة ممارسات محاسبية في دول عربية مختارة من الشرق الأوسط. بناءً على عينة من 266 شركة صناعية مدرجة في ثمانية دول عربية في 2016–2017، تم دراسة سبعة ممارسات محاسبية لتحقيق أهداف الدراسة. استخدام مؤشر C-Index لقياس مدى توافق الممارسات المحاسبية المتبعة في كل دولة، و مؤشر I–Index لقياس مدى توافق الممارسات المحاسبية المتبعة بين الدول. تشير النتائج التي تم التوصل إليها إلى أن غالبية الشركات المدرجة في الدول المختارة تستخدم التكلفة أو صافي قيمة البيعية أيهما اقل في تقييم المخزون؛ نموذج التكلفة لقياس الممتلكات والآلات والمعدات؛ القسط الثابت لاستهلاك الاصول الثابتة؛ سعر الصرف في تاريخ العمليات لترجمة المعاملات الأجنبية. بينما معالجة تكاليف الاقتراض، تقييم الاستثمارات العقارية و تكلفة المخزون قد أظهرت اختلافات واضحة في طرق المتبعة بين الشركات. فيما يتعلق بدرجة التوافق بين الدول العربية، تكلفة المخزون هو الأقل توافق بين دول الدراسة، وهناك اختلافات كبيرة في الطرق المستخدمة في قياسها، بينما تقييم الممتلكات والآلات والمعدات كان الأعلى توافقا. قد تعزى درجة المواءمة المنخفضة في بعض الممارسات المحاسبية إلى الاختيارات المسموح بها ضمن المعايير المحاسبية المحلية والدولية. إن استخدام ممارسات محاسبية متماثلة سيزيد من شفافية، دقة و قابلية مقارنة القوائم المالية في دول الشرق الأوسط.